

TEXAS HOMEBUYER'S RESOURCE GUIDE

Your Complete Roadmap to Homeownership

Throughout Texas — rooted in Kerrville, San Antonio & the Texas Hill Country

Created by:

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2026 Edition — Updated with Chapter 6: Why Rates Change Every Day

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FOREWORD: WHY I CREATED THIS GUIDE

Buying a home in Texas can feel overwhelming—especially with higher property taxes, changing loan guidelines, insurance costs, and all the moving parts between shopping, financing, inspections, and closing. I created this Texas Homebuyer's Resource Guide to give you a clear, step-by-step roadmap so you can make confident decisions without surprises.

As your local Coast2Coast Mortgage advisor — licensed throughout Texas, I see the same questions come up again and again: How much home can I really afford? What credit score do I need? How much cash should I budget for closing? How do property taxes and insurance affect my monthly payment?

This guide answers those questions in the order you'll face them, so you can plan ahead, avoid common mistakes, and stay in control throughout the process.

— Chet Hearn, Senior Mortgage Advisor

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CHAPTER 1: GETTING STARTED WITH YOUR HOME PURCHASE

Before you start shopping for homes, it's crucial to understand where you stand financially and what you can afford. This chapter will help you assess your readiness and create a realistic budget.

Step 1: Assess Your Financial Readiness

Calculate your monthly income, existing debts, and available savings. Lenders typically use a debt-to-income ratio (DTI) of 43-45% as a maximum threshold. Although FHA, VA, and some conventional loan options will accept up to 50% on a case-by-case basis.

Key Financial Metrics to Review:

- Monthly gross income (before taxes)
- Current monthly debt payments (credit cards, car loans, student loans)
- Available cash for down payment and closing costs
- Emergency fund (lenders like to see 2-3 months reserves)

Step 2: Check Your Credit Score

Your credit score significantly impacts your mortgage rate and loan options. Here's what you need:

- 740+: Best rates and terms available
- 680-739: Good rates, most programs available
- 620-679: Conventional loans still available, slightly higher rates
- 580-619: FHA loans available
- 500-579: FHA with 10% down payment

Step 3: Determine Your Budget - Understanding Debt-to-Income Ratio (DTI)

Your Debt-to-Income ratio is one of the most important factors lenders use to determine how much home you can afford. DTI is calculated by dividing your total monthly debt payments by your gross monthly income. This includes your proposed house payment (mortgage, taxes, and insurance) plus all other monthly debt obligations such as car loans, credit cards, student loans, and personal loans.

DTI Formula = (Total Monthly Debt Payments + Proposed Housing Payment) ÷ Gross Monthly Income = Ratio

What Lenders Expect

Most loan programs require a DTI ratio of 40-43% maximum, though some may allow up to 50%. However, staying under 43% is your target for the best loan terms and financial flexibility.

The 28/36 Rule: A Valuable Benchmark

Lenders still use the 28/36 rule as a benchmark to assess borrower risk, but it is no longer an absolute requirement for all loans. It acts as a guide, with many lenders offering flexibility for higher debt-to-income (DTI) ratios based on credit score, down payment, and overall financial health.

Key Details on the 28/36 Rule

- The Rule: Your total monthly housing payment (principal, interest, taxes, insurance) should not exceed 28% of your gross monthly income (front-end ratio).
- Total debt payments (including the mortgage, credit cards, and car loans) should not exceed 36% of gross income (back-end ratio).
- Current Application: While 28/36 is a standard, modern conventional loans often permit higher back-end ratios (sometimes up to 43% or 50% through automated underwriting).
- Flexibility: Lenders may approve higher ratios if you have strong credit, a large down payment, or significant cash reserves.
- Why it Still Matters: Even if not strictly enforced, it remains a valuable tool to prevent taking on too much debt, especially in high-interest or high-cost housing markets.

Example: If your gross monthly income is \$6,000

- Maximum housing payment (28%): \$1,680/month
- Maximum total debt (36%): \$2,160/month
- Your DTI calculation: $(\$1,680 \text{ housing} + \$480 \text{ other debts}) \div \$6,000 = 36\%$

In summary, the 28/36 rule is still a standard guideline for financial health. While lenders frequently allow for higher ratios, staying within these parameters ensures you have room in your budget for other expenses and savings while maintaining strong financial stability.

Texas-Specific Considerations

- Property taxes are higher than most states (average 1.6-1.8% of home value annually)
- No state income tax means more take-home pay

- Homestead exemption can reduce property tax burden
- Hill Country properties may have well and septic requirements
- HOA fees vary widely by community

Want a Personalized DTI & Budget Review?

Talk to Chet - Free Consultation → Send me your estimated income and monthly debts, and I'll help you estimate a comfortable payment range and compare loan options.

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CHAPTER 2: UNDERSTANDING YOUR CREDIT SCORE

Your credit score is one of the most important factors in getting approved for a mortgage and determining your interest rate. Understanding how it works can save you thousands of dollars.

A credit report is a record of your credit history. It includes information about whether you pay your bills on time and how much you owe to creditors. Your credit score can change, depending on how your credit history changes. It's a good idea to check your credit report to make sure the information it contains is accurate. If you find mistakes in your credit report, you have a right to dispute any inaccurate information.

What Makes Up Your Credit Score

Your FICO score (most commonly used by mortgage lenders) is based on:

- Payment History (35%): Have you paid bills on time?
- Credit Utilization (30%): How much of your available credit are you using?
- Length of Credit History (15%): How long have you had credit?
- New Credit (10%): Recent credit inquiries and new accounts
- Credit Mix (10%): Variety of credit types (cards, loans, etc.)

How to Improve Your Score

- Pay all bills on time (Set up automatic payments)
- Reduce credit card balances below 30% of limits
- Don't close old credit cards (hurts credit history length)
- Dispute any errors on your credit report
- Avoid opening new credit accounts before applying for mortgage

Quick Score Boost Strategies

30-Day Plan:

- Pay down credit card balances to below 10% utilization
- Become an authorized user on a family member's old, well-maintained card
- Request credit limit increases (don't use the extra credit)

60-Day Plan:

- Pay off any collections under \$500
- Set up automatic payments for all bills

- Get a free credit report from AnnualCreditReport.com and dispute errors

Want to Improve Your Credit Score Fast?

Get Our Free Credit Score Advantage Plan → A free, proprietary ScoreAdvantage Review may help identify credit factors holding your score back (soft pull only). We'll show you exactly how to boost your score in 30-60 days.

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CHAPTER 3: SAVING FOR YOUR DOWN PAYMENT

One of the biggest obstacles to homeownership is saving for a down payment. The good news? You probably need less than you think.

How Much Do You Really Need?

On a \$300,000 home:

- FHA Loan: 3.5% = \$10,500
- Conventional First-Time Buyer: 3% = \$9,000
- VA Loan (Veterans): 0% = \$0
- USDA Loan (Rural Areas): 0% = \$0

Don't forget closing costs: typically, 2-5% of purchase price (another \$6,000-\$15,000 on a \$300,000 home). Many buyers use seller concessions and/or Texas down payment assistance to reduce the cash needed at closing. See Chapter 16.

Down Payment Saving Strategies

1. Automate Your Savings

Set up automatic transfers from checking to a dedicated savings account on payday. Start with \$200-500/month if possible.

2. Use the 50/30/20 Budget Rule

- 50% needs (housing, food, utilities)
- 30% wants (dining out, entertainment)
- 20% savings/debt (your down payment fund)

3. Cut One Major Expense

Example: Reduce dining out from \$400/month to \$150 = \$250/month saved. Over 2 years = \$6,000.

4. Deposit Windfalls

Tax refunds, bonuses, gifts - put at least 50% toward your down payment fund.

Texas Down Payment Assistance Programs

- My First Texas Home: Up to 5% of the mortgage amount for down payment and closing costs.

- Texas State Affordable Housing Corporation (TSAHC): Grants and low-interest loans
- Local city programs: Many Texas cities offer additional assistance
- Ask your lender about current programs - they change frequently

Need Help With Down Payment?

Explore Down Payment Assistance Options → Schedule a Call to Discuss Your Options

→ Email Chet: chet@chethearn.com

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CHAPTER 4: HOW MUCH HOME CAN I AFFORD

This is one of the most important topics to determine. Coast2Coast Mortgage offers a home affordability calculator to help you estimate how much house you can afford based on your income, debts, down payment, and other financial factors. It then personalizes price ranges and monthly payment breakdowns to help you plan your home.

Calculator Features:

- Home price ranges based on your finances
- Monthly payment breakdown
- Debt-to-income ratio analysis
- Down payment calculations
- Advanced Setting

What You'll Need:

- Income - Annual or monthly
- Debts - Monthly debt payments
- Housing - Estimated down payment amount
- Credit score range
- Property tax estimate - If you do not know the local tax rate, use an estimate of 1.5-2% of the taxable property value, less the homestead exemption if you plan to claim it. Example: property purchase price \$300,000 - \$140,000 homestead exemption = \$160,000 taxable value x .018 = \$2,880. Enter the taxable value and the estimated rate in the calculator. Homestead exemption is discussed in more detail in Chapter 15.
- Homeowners Insurance estimate - If you do not have a current quote, use .5-.6% of property value. Homeowners insurance is discussed in more detail in Chapter 13.

Coast2Coast Mortgage offers a home affordability calculator to help: Determine your home-buying budget: How much home can I afford? Determine your mortgage qualifications: What's My Home Buying Power?

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CHAPTER 5: LOAN PROGRAMS COMPARISON

Down Payment Assistance May Be Available

Many FHA and some conventional loan programs in Texas can be paired with down payment assistance grants or forgivable second liens, depending on income, location, and eligibility.

Down payment assistance is not a loan program by itself — it works alongside an FHA or conventional mortgage to reduce your upfront cash needed to buy a home.

See the Down Payment Assistance Programs chapter for details.

Choosing the right loan program is crucial. Here's a detailed comparison of the four main types:

Quick Loan Programs Comparison

Feature	FHA	Conventional	VA	USDA
Min Down Payment	3.5%	3.5%	0%	0%
Credit Score	580+	620+	580+	640+
Mortgage Insurance	Life of loan	Removable at 20%	None	Yes
Loan Limit (2026)	\$541,287	\$832,750	\$832,750	Varies
Best For	Low credit	Good credit	Veterans	Rural areas

FHA Loans

BEST FOR: First-time buyers, lower credit scores, smaller down payments

Pros:

- Only 3.5% down with 580+ credit score
- Credit scores as low as 500 accepted (with 10% down)
- More flexible debt-to-income ratios
- Easier to qualify after bankruptcy/foreclosure

Cons:

- Mortgage insurance for life of loan (or 11 years with 10%+ down)

- Lower loan limits (\$541,287 in most Texas counties)
- Property must meet FHA standards
- Upfront mortgage insurance premium (1.75% of loan)

Real Example:

- \$280,000 home in Kerrville
- 3.5% down (\$9,800)
- 620 credit score
- Monthly payment: P&I + mortgage insurance

Estimate FHA Loan Payment Calculator

Conventional Loans

BEST FOR: Good credit, 3-5% minimum down payment.

Pros:

- PMI removable at 20% equity
- Higher loan limits (\$832,750)
- Lower rates with excellent credit
- More property types accepted

Cons:

- Typically requires 620+ credit score
- Stricter debt-to-income requirements
- PMI required with less than 20% down
- Longer waiting periods after financial hardship

Real Example:

- \$350,000 home in San Antonio
- 10% down (\$35,000)
- 720 credit score
- Monthly payment: P&I + mortgage insurance until 20% equity

Estimate Conventional Loan Payment Calculator

VA Loans

BEST FOR: Veterans, active military, eligible spouses

Pros:

- 0% down payment

- No mortgage insurance
- Competitive interest rates
- Easier credit requirements
- Seller can pay closing costs

Cons:

- Must meet military service requirements
- VA funding fee (2.15% first-time use, waived for disabled veterans)
- Property must be primary residence

Estimate VA Loan Payment Calculator

USDA Loans

BEST FOR: Rural and suburban areas, moderate income buyers

Pros:

- 0% down payment
- Low mortgage insurance
- Competitive rates

Cons:

- Property must be in an eligible area
- Income limits apply
- Longer processing times

Texas USDA Areas: Much of the Hill Country qualifies, including parts of Kerrville, Boerne, Fredericksburg, and San Antonio suburbs. Check eligibility at usda.gov.

Estimate USDA Loan Payment Calculator

Mortgage Broker vs. Bank or Retail Lender: What's the Difference?

Not all mortgage lenders work the same way. Understanding the difference between a mortgage broker and a bank or retail lender can help you make a more informed decision.

Coast2Coast Mortgage is a wholesale mortgage broker.

This means we work with a large network of wholesale lenders to find loan options that best fit your financial profile, rather than offering only one lender's products.

How Mortgage Brokers Work

A mortgage broker:

- Works on your behalf, not for a single bank
- Accesses multiple lenders and loan programs
- Compares rates, fees, and guidelines across lenders
- Helps match you with the most competitive option for your situation

Because brokers are not limited to one lender's rules, they often provide more flexibility for:

- Credit score variations
- Debt-to-income ratios
- Self-employed income
- Unique property types

How Banks and Retail Lenders Work

Banks and retail mortgage companies:

- Offer only their own loan products
- Use in-house underwriting and pricing
- May have fewer program options
- Often apply stricter lending guidelines

This can work well for borrowers with very straightforward financial profiles, but may limit options for others.

Why This Matters to You

The right loan isn't just about the lowest advertised rate — it's about:

- Total loan cost
- Long-term flexibility
- Approval confidence
- Clear communication throughout the process

Lender Insight:

A mortgage broker's role is to help you compare options and guide you to the loan that best fits your goals — not to push a single lender's product.

Not Sure Which Loan is Right for You?

Get a Free Loan Comparison → We'll compare FHA, Conventional, VA, and USDA side-by-side with YOUR numbers. Call or Text Now: (830) 642-1507 | Book Your Free Consultation

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CHAPTER 6: WHY RATES CHANGE EVERY DAY (AND WHAT ACTUALLY SETS YOURS)

If you've shopped around and seen a different number every time you looked, you're not imagining it. There's no single mortgage rate on any given day — there's a range, and where you land in it depends on the market and the details of your own file.

What Moves Rates in the Market

Mortgage rates follow the bond market, which reacts to inflation reports, employment data, and what investors expect the Federal Reserve to do next. Rates can move more than once during a single day as that market moves. No individual lender sets rates, and no lender — including a broker — can hold them still.

What a lender or broker can change is which loan program you use, how your file is structured, and which wholesale lender it goes to. That's usually where the real difference between two quotes comes from — not from one side finding a calmer market than the other.

Lender Insight:

For the market-wide picture, Freddie Mac publishes a weekly national average in its Primary Mortgage Market Survey. That's the number most rate headlines are quoting — a useful benchmark, and still not a quote for your file.

What Actually Sets the Rate You're Offered

Once you're past the day-to-day market movement, these are the levers that shape your specific number. Some you can change before you apply; some are fixed by the property or the purchase itself.

- Credit score — the single biggest lever most borrowers can still move before applying. Small improvements can cross a pricing threshold.
- Down payment or equity — how much of the value you're financing. More equity generally prices better and can remove mortgage insurance.
- Loan program — Conventional, FHA, VA, USDA, jumbo, and bank statement loans each price differently and suit different files.
- Occupancy — a home you'll live in prices differently from a second home or a rental.
- Property type — a single-family home, a condo, a manufactured home, or acreage in the Hill Country aren't priced the same way.

- Loan amount and term — very small and very large loans both price differently, and a shorter term usually carries a lower rate with a higher payment.
- Discount points — paying cost up front to buy the rate down. Whether that's worth it depends on how long you keep the loan.
- Lock period — how long the rate is protected while you close. Longer protection generally costs a little more.

Lender Insight:

Working on your credit before you apply is usually the highest-return move on this list — see Chapter 2 for how to improve your score before you shop.

Why Advertised Rates Look Lower Than Your Quote

Advertised rates are real, but they assume a particular borrower — often a strong credit score, a sizable down payment, a primary residence, and sometimes points paid at closing. Rules on rate advertising require the annual percentage rate (APR) to be shown alongside the rate, which is usually where those assumptions surface in the fine print. If an advertised rate looks unusually good, the fine print is the part worth reading.

Lender Insight:

Because Coast2Coast shops multiple wholesale lenders instead of pricing from a single book of business, "today's rate" is whichever lender prices your file best that morning — not one fixed number to post.

Common Rate Myths

MYTH: "I need to have my credit pulled just to get a rate estimate."

REALITY: An initial quote can be built from your estimated credit score — no credit report required. A detailed credit report narrows that estimate down to a more precise number, but it's not needed for a first look at your options.

MYTH: "Once I get a quote, that's my rate until closing."

REALITY: A quote moves with the market until you actually lock it. Once you're under contract, your rate can be locked for a set period while the loan is processed — longer protection generally costs a little more.

MYTH: "The lowest rate is always the best deal."

REALITY: A lower rate often comes with higher costs paid upfront, which only pays off if you keep the loan long enough to break even. See Chapter 12 for how to compare the full picture, not just the rate.

MYTH: "Rates are the same for buying and refinancing."

REALITY: Pricing can differ by purpose, and cash-out refinances in particular are usually priced differently from a rate-and-term refinance. Texas also has its own rules on cash-out loans secured by a homestead — see Chapter 15.

Want Your Actual Number?

None of this means rates are a mystery. It means the only number worth planning around is the one calculated for your file — and that takes a few minutes, not a commitment.

Get My Rate & Options →

Call or Text: (830) 642-1507 | chet@chethearn.com

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CHAPTER 7: THE PRE-APPROVAL PROCESS

Getting pre-approved is your first official step toward homeownership. It shows sellers you're serious and helps you understand your buying power.

Pre-Qualification vs Pre-Approval

Pre-Qualification: Quick estimate based on self-reported information (30 minutes)

- Informal assessment of your finances
- No document verification required
- Helpful for initial budgeting

Pre-Approval: Verified review of credit, income, and assets (1-3 business days)

- Credit report pulled and reviewed
- Income and assets verified with documentation
- Official letter stating your maximum loan amount
- Pre-approval carries much more weight with sellers

Coast2Coast Mortgage offers FREE pre-qualification and pre-approval services — no obligation, no upfront costs.

The Pre-Approval Timeline

With all documents ready:

- Day 1: Submit application and documents to lender
- Day 1: Lender reviews credit and preliminary documentation
- Day 1-2: Receive pre-approval letter with maximum loan amount

Coast2Coast Mortgage can provide same-day pre-approval when you have all the required documents ready to submit.

Standard timeline: 1-3 business days

Pre-Approval Tips: Protect Your Approval

Get pre-approved BEFORE house hunting – Many sellers won't consider offers without it. A pre-approval is a strong step forward, but it is not a final loan approval. Your pre-approval can be revoked if your financial situation changes, so maintain financial stability throughout your home search.

What Can Change After Pre-Approval (And What to Avoid)

After pre-approval, maintain financial stability:

- Don't make any major purchases (cars, furniture, appliances)
- Don't change jobs if possible (lenders verify employment before closing)
- Don't open new credit accounts (even store credit cards)
- Don't close existing credit accounts
- Don't make large deposits or withdrawals without documentation
- Co-signing for loans for anyone else
- Do continue paying all bills on time
- Do keep your debt levels stable or decreasing

Your lender will re-verify shortly before closing:

- Credit
- Employment
- Assets
- Debts

Lender Insight:

Even small changes can affect your debt-to-income ratio or approval status. Always talk to your lender before making financial moves during the loan process.

Get Pre-Approved in 24 Hours

Start Your Pre-Approval Application →

Call or text for Same-Day Pre-Approval: (830) 642-1507

Email Your Documents: chet@chethearn.com

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CHAPTER 8: THE LOAN APPLICATION PROCESS

- Complete online application: Your lender will send you a secure link to complete your initial mortgage application online (typically 15-30 minutes).
- Credit check: The lender will pull your credit report to verify your credit score and history.
- Document submission: upload supporting documents for verification (see checklist below).
- Underwriting review: The lender's underwriting team verifies all information.
- Pre-approval letter issued: You receive an official letter stating your maximum loan amount.

Documents You'll Need

After you submit your loan application, you'll need to provide supporting documents for in-depth verification by underwriting. Requirements vary depending on the loan type, but here are the most common documents needed:

Income Verification:

- Last 2 years W-2s
- Last 30 days of pay stubs
- Last 2 years tax returns (if self-employed)
- Profit & Loss statement (if self-employed)

Asset Verification:

- Last 2 months bank statements (all pages)
- Investment account statements (all pages)
- Retirement account statements (all pages)
- Gift letter (if receiving down payment assistance from family)

Personal Information:

- Valid driver's license or state ID
- Social Security number (card if available)

Other Documentation (if applicable):

- Divorce decree or settlement agreement
- Child support/alimony documentation
- Landlord contact information (for rental history verification)

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CHAPTER 9: HOUSE HUNTING STRATEGIES

Now comes the fun part - finding your perfect home. Here's how to search effectively:

Working with a Real Estate Agent

Benefits:

- Access to MLS listings before they hit public sites
- Expert knowledge of local neighborhoods
- Negotiation skills to get you the best price
- Guidance through paperwork and deadlines
- Usually free for buyers (seller pays commission)

Your Home Shopping Checklist

Location:

- Commute time to work
- School district quality (even if no kids - affects resale)
- Proximity to shopping, restaurants, healthcare
- Crime rates and safety
- Future development plans for area

Property Features:

- Number of bedrooms/bathrooms needed
- Square footage requirements
- Garage/parking situation
- Yard size and maintenance
- Age and condition of major systems (HVAC, roof, water heater)

Texas-Specific Considerations:

- Property tax rate in this specific area
- HOA fees and restrictions
- Flood zone status (very important in Texas)
- Well vs city water
- Septic vs sewer

Red Flags to Watch For

- Foundation cracks (common in Texas clay soil)

- Signs of water damage or mold
- Outdated electrical systems
- Roof age over 15-20 years
- Deferred maintenance (indicates potential problems)
- Abnormal odors

Lender Insight:

Get pre-approved before house hunting — sellers require it.

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CHAPTER 10: MAKING AN OFFER

When you find the right home, you need to act quickly but strategically. A well-crafted offer protects your interests while standing out to sellers.

Before You Make an Offer

Get Pre-Approved First

Never make an offer without a pre-approval letter. Sellers won't take you seriously without proof you can secure financing. In competitive markets, pre-approval is often required just to view homes.

Coast2Coast Mortgage provides pre-approval letters typically within 24 hours.

Work with a Licensed Real Estate Agent

A licensed real estate agent is essential for making offers. They will:

- Research comparable sales to determine fair market value
- Advise on competitive offer strategies
- Structure contingencies to protect your interests
- Negotiate on your behalf
- Navigate counteroffers and contract terms

Your lender will work with your agent to ensure your financing aligns with your offer strategy.

Understanding Market Conditions

Your agent will help you assess current market conditions:

- Seller's Market: Low inventory, multiple offers—expect to offer at or above asking price
- Balanced Market: Fair negotiation—offer near asking price with reasonable contingencies
- Buyer's Market: High inventory, few offers—room to negotiate below asking price

Key Components of Your Offer

Your real estate agent will help you craft an offer that includes these essential elements:

Purchase Price

Your opening bid based on comparable sales, market conditions, and property condition. Your agent will advise on competitive pricing strategy.

Earnest Money Deposit

- Typically 1-2% of purchase price in Texas
- Shows you're a serious buyer
- Held in escrow and applied to your down payment at closing
- Example: \$300,000 home = \$3,000-\$6,000 earnest money

Proposed Closing Date

- Typically 30-45 days from offer acceptance (some loan types can close in as little as 21 days)
- Your lender needs adequate time to process your loan
- Some sellers need quick closings; others need more time

Lender Insight:

Your lender will confirm a realistic closing timeline based on your loan type and documentation. Share this with your agent before making your offer.

Contingencies (Your Protection Clauses)

Your agent will recommend appropriate contingencies based on the property and market. Here are the most common:

Financing Contingency (Recommended)

- Protects you if your loan falls through
- Typically 21-30 days to secure final approval
- Allows you to back out and recover earnest money if financing is denied

Lender Insight:

Even with pre-approval, include this contingency. Final loan approval depends on the property appraisal and underwriting, which happen after your offer is accepted.

Inspection Contingency (Highly Recommended)

- Gives you 7-10 days to hire a professional home inspector
- Allows you to negotiate repairs or back out if major issues are found
- Your agent will advise whether to waive this in competitive situations

Appraisal Contingency (Recommended)

- Protects you if the home appraises below your offer price

- Lenders won't loan more than appraised value
- Gives you options to renegotiate or walk away

Lender Insight:

If the appraisal comes in low, you'll need to either: negotiate a lower price with the seller, bring additional cash to cover the gap, or walk away using your appraisal contingency.

Option Period (Texas-Specific)

- Short period (typically 7-10 days) to conduct inspections and due diligence
- Costs \$100-\$500 (negotiable, paid to seller)
- Allows you to terminate for ANY reason and get earnest money back
- Option fee is NOT refundable

Additional Terms

Your agent may negotiate:

- Seller-paid closing costs
- Personal property included (appliances, fixtures)
- Home warranty request
- Possession date (when you get keys)

Lender Insight:

If requesting seller-paid closing costs, your loan officer will provide estimates of your total closing costs so your agent knows what to negotiate for.

Appraisal Gaps & Low Appraisals

What Happens If the Appraisal Comes in Low?

An appraisal determines the market value of the home for lending purposes. If the appraised value is lower than your contract price, this is known as an appraisal gap. When this happens, buyers typically have several options:

- Renegotiate the purchase price with the seller
- Bring additional cash to closing to cover the difference
- Request seller concessions or credits
- Walk away if protected by an appraisal contingency

Lender Insight:

Lenders base loan amounts on the lower of the purchase price or appraised value. Understanding this ahead of time helps you structure smarter offers and avoid surprises. Your real estate agent and lender will work together to guide you through the best option based on your financial comfort level and market conditions.

How Your Lender Supports Your Offer

While your real estate agent handles negotiations and contract terms, here's how your loan officer supports your offer:

Provide Strong Pre-Approval

A detailed pre-approval letter shows sellers you're financially qualified and serious.

Confirm Realistic Timelines

Verify that closing can occur within your proposed timeframe based on your loan type.

Calculate Affordability

Run scenarios showing different purchase prices and their impact on your monthly payment, helping you set your maximum offer.

Estimate Closing Costs

Provide accurate closing cost estimates so you know your total cash needed and can request seller credits if appropriate.

Communicate with Your Agent

Stay in close contact with your agent throughout the process to ensure financing supports your offer strategy.

Quick Response Time

In competitive situations, be available to answer financing questions quickly so you can make confident decisions.

Understanding Your Financial Limits

Lender Insight:

Before making an offer, discuss these key financial considerations with your loan officer:

Monthly Payment Scenarios

- How different purchase prices affect your monthly payment
- Impact of interest rate changes
- Property tax and insurance estimates

Cash Needed at Closing

- Down payment requirements
- Closing costs (typically 2-5% of purchase price)
- Earnest money (credited toward down payment)
- Reserves you should maintain after closing

Debt-to-Income Ratio

- Your maximum qualified loan amount
- Comfortable payment vs. maximum payment
- Buffer for unexpected expenses

Set Your Walk-Away Number: Before making an offer, decide your maximum comfortable price and monthly payment. Bidding wars can trigger emotional decisions—know your financial limits and stick to them.

The Offer Process: What to Expect

- Step 1: Your agent drafts the offer using the standard Texas Real Estate Commission contract
- Step 2: Your agent submits the offer to the seller's agent
- Step 3: Seller responds (usually within 24-48 hours): Accept, Counter, or Reject
- Step 4: If countered, your agent advises on accepting, countering back, or walking away
- Step 5: Once both parties sign, you're officially under contract and the financing process begins

Lender's Role: Once you're under contract, your lender will immediately begin processing your loan to meet your closing deadline.

Protecting Yourself During Negotiations

Don't Stretch Beyond Your Budget

Just because you're pre-approved for a certain amount doesn't mean you should spend it all. Leave room for:

- Furniture and moving costs

- Initial home maintenance and repairs
- Emergency fund (3-6 months expenses)
- Future financial goals

Keep Key Protections

Work with your agent to maintain important contingencies, especially:

- Financing contingency - protects if your loan falls through
- Inspection contingency - protects against hidden defects
- Appraisal contingency - protects if home value is lower than offer price

Coordinate with Your Team

Your lender and agent should work together seamlessly to communicate directly and ensure:

- Your financing supports your offer strategy
- Timelines are realistic and achievable
- Any financing concerns are addressed immediately

Green Lights: You're Ready to Make an Offer When:

- You have a pre-approval letter in hand
- You've toured the home at least once (ideally twice)
- You understand your total monthly payment including taxes and insurance
- You have cash reserves for down payment, closing costs, and emergencies
- You've reviewed the seller's disclosure and are comfortable with the property
- Your agent confirms the price aligns with market value
- You're emotionally and financially prepared to commit

Red Flags: When NOT to Make an Offer

- You haven't been pre-approved
- You're stretching beyond your comfortable budget
- Major red flags appeared during showing (foundation issues, extensive damage)
- You're in a bidding war that exceeds the home's value
- You haven't reviewed the seller's disclosure

Lender Insight:

For offer strategy, negotiations, and contract terms, work with a licensed real estate agent who can provide expert guidance on competitive offers, inspections, and

negotiations.

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CHAPTER 11: THE HOME INSPECTION PROCESS

The home inspection is one of the most important protections in your home purchase. It reveals the property's true condition before you finalize the deal.

What Is a Home Inspection?

A professional home inspector conducts a thorough, non-invasive examination of the property's condition, evaluating:

Major Systems:

- Foundation and structural components
- Roof and attic
- Plumbing system
- Electrical system
- HVAC (heating, ventilation, air conditioning)

Additional Areas:

- Windows and doors
- Insulation and ventilation
- Interior walls, ceilings, and floors
- Exterior siding and trim
- Drainage and grading
- Garage and outbuildings

The inspector identifies existing problems, potential safety issues, and items that may need repair or replacement in the near future.

Timeline and Cost

When It Happens:

- After your offer is accepted
- During your option period (Texas-specific, typically 7-10 days)
- Before loan appraisal (recommended)

Cost:

- Typically \$300-\$600 depending on home size and age
- Paid directly to the inspector (not part of closing costs)
- Buyer's responsibility - not covered by your loan

Duration:

- 2-4 hours for average-sized home
- Larger or older homes may take longer

Lender Insight:

Schedule your inspection as early as possible during your option period. If major issues are discovered, you'll need time to negotiate repairs or adjust your financing before your appraisal is ordered.

Choosing a Home Inspector

Look for:

- Licensed and certified (Texas requires TREC license)
- Member of professional associations (ASHI, InterNACHI)
- Experience with your home's age and style
- Errors and omissions insurance
- Detailed sample reports available
- Positive reviews and references

Red Flags:

- Significantly cheaper than competitors
- Can't provide proof of licensing
- Unwilling to let you attend the inspection
- Offers repair services (conflict of interest)

Questions to Ask:

- How long have you been inspecting homes?
- Are you licensed in Texas?
- What does your inspection cover?
- How long will the inspection take?
- When will I receive the report?
- Can I attend the inspection?

Your real estate agent can recommend qualified inspectors, but the choice is yours.

Attending Your Inspection (Highly Recommended)

Why You Should Attend:

- Ask questions in real-time about the home's condition

- See problems firsthand rather than just reading about them
- Learn about maintenance needs and system locations
- Understand the severity of issues (minor vs. major)
- Build relationship with inspector for follow-up questions

What to Bring:

- Notepad and pen
- Camera or smartphone for photos
- Questions about specific concerns you noticed
- Comfortable shoes (you'll be walking around a lot)

What to Expect:

- Inspector will walk through entire property systematically
- Feel free to ask questions, but let inspector work
- Take notes on major items and recommendations
- Discussion of findings typically happens at the end

Understanding Your Inspection Report

Timeline:

- Most inspectors provide reports within 24-48 hours
- Digital format with photos and descriptions
- Typically 30-50+ pages for average home

Report Sections:

- Summary of major concerns - Issues requiring immediate attention
- Detailed findings - Room-by-room breakdown with photos
- Safety issues - Electrical, structural, or health hazards
- Maintenance recommendations - Routine upkeep items
- System/component ratings - Condition and remaining life expectancy

How to Read the Report:

- Focus on safety issues and major system failures first
- Distinguish between immediate needs vs. future maintenance
- Understand remaining life expectancy of major components (roof, HVAC, water heater)
- Don't panic over minor cosmetic issues

Lender Insight:

If the inspection reveals issues that require immediate repairs (electrical, plumbing, structural), these may need to be addressed before closing to satisfy appraisal requirements. Discuss significant findings with your lender early.

Common Issues Found During Inspections

Major Concerns (Negotiate or Walk Away):

- Foundation cracks or settling
- Roof damage or near end of life
- Electrical hazards or outdated wiring
- Plumbing leaks or sewer line issues
- HVAC system failures
- Mold or water damage
- Structural defects

Moderate Issues (Negotiate Repairs or Credits):

- Minor roof repairs needed
- HVAC nearing end of expected life
- Plumbing fixtures needing replacement
- Dated electrical panels
- Drainage problems
- Window/door issues

Minor Issues (Accept or Request Small Credits):

- Cosmetic repairs
- Caulking and weatherstripping
- Minor maintenance items
- Routine upkeep recommendations

Your Options After the Inspection

Once you receive the inspection report, you typically have several options:

Request Repairs

Ask the seller to fix specific items before closing.

Pros:

- Issues resolved before you move in
- Seller's responsibility to ensure quality work

Cons:

- Seller may choose cheapest contractors
- You don't control repair quality
- May delay closing

Request Price Reduction

Negotiate lower purchase price to offset repair costs.

Pros:

- You control when/how repairs are done
- Can choose your own contractors
- Funds available at closing

Cons:

- Must have cash to make repairs after closing
- Living with issues until repairs completed

Lender Insight:

Price reductions don't change your loan amount—you still need the same down payment. The savings benefit your overall purchase price but don't reduce cash needed at closing.

Request Closing Cost Credit

Seller pays some of your closing costs; you handle repairs after purchase.

Pros:

- Reduces cash needed at closing
- You control repairs

Cons:

- Must have funds for repairs post-closing
- Credits have limits based on loan type

Lender Insight:

Seller credits for closing costs are limited by loan type: Conventional (3-9% depending on down payment), FHA (6%), VA (4%), USDA (6%). Your lender can confirm your

specific limits.

Negotiate Combination

Mix of repairs, price reduction, and/or credits.

Accept "As-Is"

Proceed with purchase despite findings.

When This Makes Sense:

- Issues are minor and manageable
- Property priced below market to account for condition
- You have cash reserves for repairs
- In competitive markets where seller won't negotiate

Terminate Contract

Walk away from the purchase.

When to Consider:

- Major structural or safety issues discovered
- Repair costs exceed your budget
- Property not worth the investment
- During your option period (Texas)

Lender Insight:

Major issues discovered during inspection may affect the property's appraised value. If the appraiser notes deferred maintenance or structural concerns, the lender may require repairs before funding the loan.

Texas Option Period: Your Safety Net

In Texas, the option period gives you the unrestricted right to terminate the contract for ANY reason.

Key Details:

- Typically 7-10 days (negotiated in your offer)
- Costs \$100-\$500 paid to seller (non-refundable)
- Must terminate in writing before option period expires

- Allows you to recover your earnest money if you walk away
- After option period ends, you can only terminate using contingencies

Strategy:

- Schedule inspection immediately after going under contract
- Receive report and make decision before option period expires
- If terminating, notify seller in writing by deadline

Re-Inspection After Repairs

If the seller agrees to make repairs:

Best Practice:

- Request a re-inspection before closing (\$100-\$200)
- Verify repairs were completed properly
- Document work was done as agreed
- Ensure no new issues arose during repairs

What to Check:

- Repairs match what was negotiated
- Work done by licensed contractors
- Permits pulled if required
- Quality of workmanship acceptable

Red Flags That Should Stop a Purchase

Some issues are serious enough to walk away:

- Major foundation problems - Extensive cracking, shifting, settling
- Active roof leaks or roof near complete failure
- Sewage or septic system failure
- Extensive mold or water damage
- Electrical fire hazards - aluminum wiring, Federal Pacific panels
- Structural defects compromising home integrity
- Extensive termite or pest damage

Lender Insight:

When repair costs exceed 10-15% of the home's value, seriously reconsider the purchase.

Specialized Inspections

Your general home inspection may reveal the need for specialized inspections:

When Needed:

- Structural engineer - Foundation or framing concerns
- Roof inspection - Detailed roof condition assessment
- Mold inspection - Visible mold or moisture issues
- Pest/termite inspection - Evidence of infestation (often required in Texas)
- Septic inspection - For homes with septic systems
- Well inspection - For homes with private wells
- HVAC specialist - Detailed system evaluation
- Chimney inspection - For homes with fireplaces

Cost: \$200-\$500+ per specialized inspection

Lender Insight:

Some loan types (FHA, VA, USDA) may require specific inspections or repairs before loan approval. Your lender will inform you of any mandatory requirements based on your loan type.

Final Inspection Walk-Through

Before Closing (24-48 hours prior)

- Agreed repairs were completed
- Property is in same condition as when offer was made
- All appliances and fixtures included in sale are present
- No new damage has occurred
- Utilities are functional

Bring:

- Copy of inspection report
- List of negotiated repairs
- Camera for documentation

Questions About How Inspection Results Affect Your Loan?

Your lender can help you understand:

- How inspection findings may impact your appraisal
- Whether repairs are required before loan funding
- Seller credit limits for your loan type
- How repair costs affect your cash-to-close
- Contingency timelines and lender requirements

For inspection scheduling, repair negotiations, and contract amendments, work closely with your licensed real estate agent.

Ready to Start House Hunting?

Get Pre-Approved First

How Much Home Can I Afford / What's My Buying Power?

Questions? Call or Text Chet: (830) 642-1507

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CHAPTER 12: UNDERSTANDING CLOSING COSTS IN TEXAS

How Much Are Closing Costs in Texas?

Quick Overview

Closing costs are the fees required to finalize a mortgage. In Texas, they typically range from 2% to 5% of the home's purchase price. These costs include lender fees, third-party services, prepaid taxes and insurance, and recording fees.

Example:

- \$300,000 home = \$6,000 to \$15,000 in closing costs
- \$400,000 home = \$8,000 to \$20,000 in closing costs

Lender Insight:

Working with a mortgage broker lets you compare lenders, identify credits, and avoid unnecessary fees—so you can choose the best overall deal, not just the lowest advertised rate.

Cash to Close vs. Down Payment

These two terms are often confused—but they are not the same.

Down Payment:

- The portion of the purchase price you pay upfront toward ownership
- Builds equity in your home from day one
- Example: 10% down on \$300,000 = \$30,000

Cash to Close:

- The total amount you bring to closing
- Formula: Down payment + Closing costs + Prepaid items - Credits/Concessions
- Example: \$30,000 (down payment) + \$9,000 (closing costs) + \$3,000 (prepaids) - \$5,000 (seller credit) = \$37,000 cash to close

Lender Insight:

Many first-time buyers are surprised that they need more than just the down payment. Always ask your lender for your total "cash to close" amount early in the process so you can plan accordingly.

What Makes Up Closing Costs?

Closing costs fall into several categories:

Lender Fees (Section A on Loan Estimate)

These vary by lender:

- Origination fee: Lender's charge for processing your loan (0.5% - 1% of loan amount)
- Discount points: Optional fee to buy down your interest rate
- Underwriting fee: Cost to review and approve your loan (\$750-\$1300)
- Processing fee: Administrative costs (\$500-\$900)

Third-Party Services (Section B & C)

These are fairly standard across lenders:

- Appraisal: \$650-\$750
- Credit Report: \$150
- Document Preparation: \$175 - \$250
- Title Attorney: \$150
- Flood Certification: \$15
- MERS - (Mortgage Electronic Registration) \$25
- Tax Service: \$85-\$100
- Title Company Settlement: \$500 - \$600
- Lenders Title Insurance (.6%-.9%): \$1800 - \$2500
- Owners Title Insurance (optional): \$200-\$300
- Survey: \$350-\$600

Government Fees (Section E)

Set by state/local government:

- Recording fees: \$100-\$200

Prepaid Items (Section F)

Money collected upfront for future expenses:

- Homeowners insurance: First year premium (paid at closing)
- Property taxes: Portion owed for current tax period
- Prepaid interest: Interest from closing date to end of month

Initial Escrow Payment (Section G)

Reserves held by lender:

- Property tax reserve: 2-6 months
- Homeowners insurance reserve: 2-6 months
- HOA dues (if applicable): Varies

Lender Insight:

Escrow reserves are YOUR money—held by the lender to pay your taxes and insurance when due. You're not losing this money; it's just set aside for future bills.

Factors Influencing Your Closing Costs

Loan Type:

- FHA, VA, USDA, or conventional loans have different requirements
- FHA and USDA require upfront mortgage insurance premiums
- VA loans have a funding fee (can be financed)

Location:

- State and local taxes vary by county
- Title insurance rates (set by Texas Dept of Insurance)
- Some Texas counties have higher recording fees

Lender Selection:

- Origination fees vary significantly between lenders
- Some lenders charge higher fees but offer lower rates
- Others offer lower fees with slightly higher rates

Purchase Price:

- Title insurance and some fees are percentage-based
- Higher-priced homes = higher closing costs

Closing Date:

- Closing late in the month = less prepaid interest
- Closing early in the month = more prepaid interest

When Do I Get an Accurate Estimate

Loan Estimate (LE)

- Federal law requires lenders to provide this within 3 business days of application
- Standardized 3-page form for easy comparison
- Valid for 10 business days
- Shows estimated closing costs and cash to close

Closing Disclosure (CD)

- Provided at least 3 business days before closing
- Final, detailed breakdown of all costs
- Must match Loan Estimate closely (with few exceptions)
- Review carefully before signing

Lender Insight:

The Loan Estimate is just that—an estimate. Your final Closing Disclosure may vary slightly based on actual title fees, taxes, and daily interest calculations. Major increases are rare and must be justified.

Comparing Lenders: What Really Matters

To compare loan offers effectively, don't just look at interest rates. Here's what to compare:

Step 1: Request a Detailed Loan Estimate

Ask for a standardized LE (Loan Estimate) based on the same loan amount, down payment, and property type.

Step 2: Focus on Section A (Lender-Controlled Fees)

These are the only fees that differ significantly between lenders:

- Origination charges
- Discount points (rate buy-down)
- Underwriting fees
- Processing fees
- Application fees

Total Section A and compare across lenders.

Step 3: Compare Interest Rate + APR

- Interest rate: What you'll actually pay monthly

- APR (Annual Percentage Rate): Reflects the interest rate plus lender fees, giving you a more accurate total cost comparison

A lower interest rate with high fees may cost more over time than a slightly higher rate with low fees. The APR helps reveal this.

Step 4: Ignore These Items When Comparing

These are the same regardless of lender:

- Third-party services (appraisal, title insurance, credit report)
- Government fees (recording, transfer taxes)
- Prepaid items (property taxes, homeowners insurance)
- Escrow reserves

You'll pay these no matter which lender you choose, so they shouldn't influence your decision.

Example Comparison:

Item	Lender A	Lender B
Section A Fees	\$3,500	\$1,200
Interest Rate	6.50%	6.75%
APR	6.72%	6.88%
Monthly Payment (P&I)	\$1,896	\$1,945

Analysis: Lender A has a lower rate but \$2,300 more in fees. Over 5 years, Lender B might actually cost less despite the higher rate. Always calculate the break-even point.

Warning: Watch Out for "No-Closing-Cost" Loans

These options don't eliminate closing costs—they just hide them in:

- A higher interest rate (you pay more monthly over time)
- A higher loan amount (costs added to principal)

When it makes sense:

- You plan to sell or refinance within 2-3 years
- You don't have cash for closing costs

When it doesn't:

- You plan to stay in the home long-term
- You have cash available

Helpful Tip: Two loans can have the same interest rate but very different total costs. Always compare the full Loan Estimate (rate + fees + credits), not just the rate.

Next Steps - The best way to determine your true interest rate, estimated closing costs, and total cash to close is through a personalized mortgage review tailored to your goals and situation. Online estimates are a good starting point—but they don't tell the whole story.

[Get Your Free Closing Cost Breakdown →](#)

No obligation → No credit impact. Schedule a Call to Review Costs →

Where you have control:

- Homeowners insurance (compare 3-5 quotes)
- Home inspection (ask for referrals, compare prices)
- HOA transfer fees (sometimes negotiable)

Where you DON'T have control:

- Title insurance (seller often chooses title company in Texas)
- Appraisal (lender orders from approved list)

Time Your Closing Strategically

Close near month-end to reduce prepaid interest:

- Closing on the 28th vs. the 5th can save hundreds in prepaid interest
- You'll still make your first payment 30 days after the month you close

Example:

- Close June 28: Pay 3 days of interest at closing
- Close June 5: Pay 26 days of interest at closing

Negotiate Seller Concessions

Ask the seller to contribute toward your closing costs.

How it works:

- Negotiated as part of your purchase offer
- Seller agrees to pay a portion of your closing costs
- Cannot be used for down payment
- Subject to loan type limits (see below)

Seller Concession Limits by Loan Type:

Loan Type	Maximum Seller Contribution
Conventional	3% (if down payment <10%); 6% (if down payment 10-24%); 9% (if down payment ≥25%)
FHA	6% of purchase price
VA	4% of purchase price
USDA	6% of purchase price

Lender Insight:

Seller concessions reduce your cash to close but may result in a higher offer price. In competitive markets, sellers may be less willing to offer concessions.

Request Lender Credits

A lender credit is money the lender applies toward your closing costs, typically in exchange for a slightly higher interest rate.

How it works:

- Lender covers some or all of your closing costs
- You accept a higher interest rate (usually 0.25% - 0.50% higher)
- Reduces cash needed at closing

When it makes sense:

- You're short on cash for closing
- You plan to sell or refinance within a few years
- You value lower upfront costs over long-term savings

When it doesn't:

- You plan to stay in the home long-term
- You have cash available and want the lowest rate

Example:

- Option A: 6.25% rate, \$8,000 closing costs, \$0 lender credit
- Option B: 6.50% rate, \$8,000 closing costs, \$2,000 lender credit (you pay \$6,000)

Lender Insight:

Lender credits and seller concessions can be combined to minimize your out-of-pocket

costs. Your loan officer will run scenarios to show you the best strategy for your situation.

Lender Credits vs. Seller Concessions: What's the Difference?

Feature	Lender Credits	Seller Concessions
Who pays?	Lender	Seller
Trade-off	Higher interest rate	Negotiated in offer
Limits	No regulatory limit	Loan type limits apply
Can combine?	Yes	Yes
Affects loan amount	No	No

Best Strategy: Combine both to maximize savings while keeping monthly payments manageable.

When Will I See My Closing Costs Estimate?

Initial Loan Estimate (LE)

Timeline: Within 3 business days of loan application

What it shows:

- Estimated loan terms
- Projected closing costs
- Estimated cash to close
- Monthly payment breakdown

Use it to: Compare lenders and plan your budget

Final Closing Disclosure (CD)

Timeline: At least 3 business days before closing

What it shows:

- Final loan terms (locked in)
- Actual closing costs (detailed breakdown)
- Final cash to close amount
- Side-by-side comparison with Loan Estimate

Use it to: Verify accuracy before closing day

Lender Insight:

Federal law requires the 3-day waiting period after you receive the Closing Disclosure. This gives you time to review and ask questions. Changes to the CD may trigger a new 3-day waiting period, potentially delaying closing.

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CHAPTER 13: HOMEOWNERS INSURANCE BASICS

Why You Need Homeowners Insurance

Homeowners insurance is required by your lender and protects your investment from unexpected damage or loss. It's a mandatory part of homeownership—you cannot close on your home without proof of insurance.

Your insurance premium is included in your monthly mortgage payment through an escrow account, along with property taxes. This means insurance costs directly affect your buying power and monthly budget.

Lender Insight:

Insurance costs are factored into your debt-to-income (DTI) ratio during loan approval. Higher insurance premiums mean higher monthly payments, which can affect how much home you qualify for.

What Homeowners Insurance Covers

Standard homeowners insurance (HO-3 policy) typically includes:

Dwelling Coverage:

- Repairs or rebuilds your home if damaged by covered events (fire, wind, hail, lightning)
- Should equal at least your loan amount (lender requirement)
- Often recommended to cover full replacement cost

Personal Property:

- Covers your belongings (furniture, clothing, electronics)
- Typically, 50-70% of dwelling coverage
- Consider riders for high-value items (jewelry, art)

Liability Protection:

- Covers you if someone is injured on your property
- Protects against lawsuits
- Typically, \$100,000-\$300,000 coverage

Additional Living Expenses:

- Pays for temporary housing if your home is uninhabitable

- Covers hotel, meals, and other costs during repairs

What's NOT Covered (Important!)

Standard homeowners insurance does NOT cover:

- Flood damage - Requires separate flood insurance
- Earthquakes - Requires separate earthquake insurance
- Normal wear and tear - Maintenance is your responsibility
- Pest damage - Termites, rodents, etc.
- Sewer backup - May require additional rider

Lender Insight:

Many Texas buyers are surprised to learn flood insurance is separate and NOT included in standard homeowners policies. If your home is in a flood zone, your lender may require flood insurance.

Texas-Specific Insurance Considerations

Wind and Hail Coverage:

- In coastal counties, wind/hail may be excluded from standard policies
- Requires separate coverage through TWIA (Texas Windstorm Insurance Association)
- Significantly increases insurance costs in coastal areas

Flood Insurance:

- Required if home is in FEMA-designated flood zone
- Purchased separately through National Flood Insurance Program (NFIP) or private insurers
- Costs vary widely (\$400-\$2,000+/year)
- Even if not required, consider it—flooding can happen anywhere

Higher Rates in Texas:

- Texas has some of the highest homeowners insurance rates in the U.S.
- Average: \$2,000-\$4,000/year (\$165-\$330/month)
- Coastal areas and high-risk regions can be \$5,000-\$8,000+/year
- Rates have increased significantly in recent years

Hail and Storm Claims:

- Texas experiences frequent hail storms
- Prior claims on the property can increase your rates
- Ask seller for CLUE report (claims history)

How Much Does Homeowners Insurance Cost?

Texas Averages:

- Statewide average: \$2,000-\$4,000/year (\$165-\$330/month)
- Coastal areas: \$4,000-\$8,000+/year
- Inland/suburban: \$1,500-\$3,000/year

Factors That Affect Your Rate:

- Home value and replacement cost
- Location (coastal, urban, rural)
- Age of home (older homes = higher rates)
- Construction materials (brick vs. wood frame)
- Roof age and condition
- Claims history (yours and property's)
- Credit score
- Deductible amount (higher deductible = lower premium)
- Security features (alarm system, smoke detectors)

Lender Insight:

When calculating your monthly payment, estimate insurance costs based on your location and home value. Get actual quotes early to avoid surprises at closing.

How to Shop for Homeowners Insurance

Start Early:

- Begin shopping 30-45 days before closing
- Need proof of insurance to close
- Gives you time to compare and negotiate

Get Multiple Quotes:

- Compare at least 3-5 insurance companies
- Don't just compare price—compare coverage limits and deductibles
- Ask about discounts (see below)

Compare Coverage, Not Just Price:

- Verify dwelling coverage limits match
- Check deductible amounts (typical: \$1,000-\$5,000)
- Review liability limits
- Understand what's excluded

Ask About Discounts:

- Bundling (home + auto with same company)
- New home discount (homes less than 10 years old)
- Security systems (burglar alarm, fire alarm)
- Storm shutters or impact-resistant roof
- Claims-free history
- Higher deductible (raises deductible to lower premium)
- Gated community or HOA

Questions to Ask Insurance Agents:

- What is the dwelling coverage limit?
- What is my deductible for wind/hail vs. other perils?
- Is flood insurance required or recommended?
- Are there any coverage exclusions I should know about?
- What discounts am I eligible for?
- How much will my premium increase after a claim?
- Can I pay annually to save money vs. monthly?

What Your Lender Requires

Your mortgage lender will require:

- Coverage equal to loan amount (minimum)
- Proof of insurance at or before closing
- First year premium paid at closing (included in closing costs)
- Lender listed as mortgagee (additional insured party)
- Flood insurance if property is in flood zone
- Continuous coverage - cannot lapse during loan term

Escrow Account:

- Your lender collects 1/12 of annual premium each month

- Holds funds in escrow
- Pays insurance company directly when premium is due
- You'll also prepay 2-6 months of insurance into escrow reserves at closing

Lender Insight:

If your insurance lapses after closing, the lender can force-place insurance on your behalf—and it will be significantly more expensive than if you maintained your own policy.

Common Homeowners Insurance Myths

MYTH: "My homeowners insurance covers flooding."

REALITY: Flood damage requires separate flood insurance. Standard policies exclude floods.

MYTH: "I don't need flood insurance if I'm not in a flood zone."

REALITY: 25% of flood claims come from outside high-risk flood zones. Consider it even if not required.

MYTH: "I can save money by insuring my home for less than its value."

REALITY: Your lender requires coverage at least equal to your loan amount. Under-insuring can leave you unable to rebuild after a total loss.

MYTH: "Insurance covers everything inside my home."

REALITY: Personal property coverage has limits. High-value items (jewelry, art, collectibles) may need additional riders.

MYTH: "The seller's insurance covers me until closing."

REALITY: You need your own policy effective on closing day. The seller's policy ends when ownership transfers.

Timeline: When to Get Insurance

30-45 Days Before Closing:

- Start shopping for quotes
- Compare coverage and costs
- Ask about discounts

7-14 Days Before Closing:

- Select your insurance company
- Finalize coverage amounts and deductibles
- Provide policy information to your lender

At Closing:

- Pay first year premium (included in closing costs)
- Proof of insurance required to close
- Policy effective date = closing date

Lender Insight:

Don't wait until the last minute. Insurance can delay closing if not arranged in time. The lender will remind you when to start shopping, but you're responsible for obtaining quotes and selecting a policy.

After You Close

Maintain Continuous Coverage:

- Never let your policy lapse
- Lender monitors insurance status
- Lapsed insurance = breach of mortgage contract

Review Coverage Annually:

- Home values and replacement costs change
- Update coverage as needed
- Shop for better rates (loyalty doesn't always pay)

Understand Your Deductible:

- You pay the deductible before insurance covers the rest
- Higher deductible = lower premium, but more out-of-pocket if you file a claim

Document Your Belongings:

- Take photos/videos of your home and possessions
- Store documentation off-site (cloud storage)
- Makes claims process easier

Questions About Insurance Requirements? Schedule a Call to Discuss Your Options →
Email Chet: chet@chethearn.com

For insurance quotes and coverage recommendations, contact licensed insurance agents. The lender will coordinate with them to ensure your policy meets the lender's closing requirements.

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CHAPTER 14: THE CLOSING PROCESS: WHAT TO EXPECT

In Texas, closings are handled by title companies (not attorneys, unlike many other states).

Closing (also called settlement) is the final step where ownership officially transfers from seller to buyer. Here's what happens:

Timeline

- Typically 30-45 days after your offer is accepted
- May be shorter (21 days) or longer depending on loan type and contract terms

Before Closing Day

Final Underwriting (1-2 weeks before closing):

- Lender completes final loan approval
- Re-verifies employment and assets
- Reviews appraisal and title report

Title Work:

- Title company searches property records for liens or ownership disputes
- Title insurance arranged to protect you and lender
- Any issues (liens, judgments) must be resolved before closing

Final Walk-Through (24-48 hours before closing):

- Verify agreed-upon repairs are completed
- Ensure property is in expected condition
- Check that appliances and fixtures included in sale are present
- Confirm no new damage has occurred

Lender Insight:

Don't make ANY major financial changes between final approval and closing. Lenders re-verify employment and pull credit again right before closing. A new car loan or maxed-out credit card can delay or even derail your closing.

Closing Day Checklist

Before Closing:

- Final walkthrough completed (24 hours before)
- Wire transfer instructions confirmed
- Homeowners insurance policy purchased
- Utilities scheduled to transfer to your name
- Moving company/truck reserved

Bring to Closing:

- Valid photo ID
- Certified or cashier's check for closing costs (if not wiring)
- Checkbook for any last-minute adjustments

What You'll Sign:

- Promissory Note - Your promise to repay the loan
- Deed of Trust (Mortgage) - Gives lender a lien on the property
- Closing Disclosure - Final breakdown of all costs
- Deed - Transfers ownership to you
- Various disclosures and affidavits

What You'll Pay:

- Down payment
- Closing costs
- Prepaid items (taxes, insurance, interest)
- Payment method: Wire transfer or cashier's check (confirm with title company)

Duration:

- Typically 1-2 hours to sign all documents
- Bring valid ID and be prepared to sign 50-100+ pages

At Closing:

- Ask questions about anything unclear
- Sign all documents
- Receive Keys to your new home
- Garage door openers and access codes
- Copy of all signed documents

After Closing

The title company:

- Records the deed with the county
- Transfers funds to the seller
- Pays off seller's existing mortgage (if applicable)
- Distributes funds to real estate agents, lender, etc.

Official ownership: Once the deed is recorded with the county (usually same day or next business day), you are the official owner of record.

Lender Insight:

Plan to take closing day off work if possible. While the signing appointment is typically 1-2 hours, you'll want time to do your final walk-through, review documents carefully, and not feel rushed.

Common Closing Day Issues (And How to Avoid Them)

Wire Transfer Fraud:

CRITICAL: Scammers send fake emails with fraudulent wiring instructions. Always call the title company directly using a verified phone number to confirm wiring instructions. Never trust email alone.

Funding Delays:

- Wire transfers must be sent early (usually by 2 PM) for same-day closing
- Cashier's checks should be obtained the day before
- Confirm exact amount needed with title company 24 hours in advance

Last-Minute Credit Issues:

- Don't open new credit accounts
- Don't make large purchases
- Don't change jobs
- Don't move money between accounts without documentation

Document Errors:

- Review your Closing Disclosure carefully 3 days before closing
- Compare to your Loan Estimate
- Question any unexpected fees or changes

What Happens After You Buy: Refinancing & Long-Term Strategy

Homeownership doesn't stop at closing. Over time, many homeowners explore refinancing to better align their mortgage with changing goals.

Common reasons homeowners refinance:

- Lower interest rates
- Reduced monthly payments
- Switching from FHA to conventional to remove mortgage insurance
- Accessing equity for home improvements or other needs
- Shortening the loan term

Lender Insight:

Refinancing is not about timing the market—it's about aligning your loan with your long-term plans. When the time is right, a personalized review can help determine whether refinancing makes sense for you.

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CHAPTER 15: PROPERTY TAX AND SCHOOL TAXES IN TEXAS

Understanding Two Separate Taxing Authorities

In Texas, there is no state property tax. Instead, property owners pay taxes to two distinct types of local taxing authorities:

1. General Local Government (Primary Property Tax)

Cities and counties levy property taxes to fund essential services such as roads, police, fire protection, libraries, and infrastructure.

2. Independent School Districts (School Tax)

Public school districts operate as independent taxing entities, completely separate from city and county governments. They have their own legal authority to set tax rates and levy taxes to fund local public education, including teacher salaries, facility maintenance, and operational costs.

How You Receive Your Tax Bill

In Texas, many counties have consolidated property tax collections. Most homeowners receive a single, combined tax bill from the county Tax Assessor-Collector or Central Appraisal District (CAD) that includes county, city, and Independent School District (ISD) taxes—rather than separate bills from each entity.

However, some local school districts choose to bill directly for supplemental tax items not included in the primary consolidated property tax bill. This means you may receive an additional tax bill from your school district.

School Taxes: The Largest Portion of Your Bill

School taxes typically represent the largest share of your total property tax burden—often more than 50% of the total amount you pay. This reflects Texas public education's heavy reliance on local property tax funding rather than state revenues. Whether on a consolidated bill or separate statement, you'll see school taxes reflected as a separate line item.

CRITICAL Information for Mortgage Qualification

Lenders commonly use only the county assessor's consolidated bill when calculating your debt-to-income (DTI) ratio and estimated monthly housing payment. Supplemental school district bills that arrive separately are typically NOT included in this calculation, even though you are legally required to pay them.

What this means for you: If your school district sends a separate supplemental tax bill, your actual annual property tax obligation will be higher than what your lender factored into your monthly mortgage payment estimate. Review your specific county's tax collection process and budget accordingly to avoid financial surprises when additional tax bills arrive.

Texas Property Tax Basics

Average effective rate: 1.6-2.0% of home value annually (varies by county)

Example: \$300,000 home = \$4,800-\$6,000/year in property taxes (\$400-\$500/month)

Why are they so high?

- No state income tax - property taxes fund schools and services
- Local school districts set their own rates
- Multiple taxing entities (county, city, school, hospital, etc.)

Texas Homestead Exemption (2026)

The standard homestead exemption is \$140,000 off the taxable value. That's a significant savings:

- Over-65 or disabled exemption: Additional \$60,000 exemption and a school tax ceiling (often called a freeze)
- 10% appraisal cap: Limits annual appraised value increases to 10% (plus new improvements) for tax purposes.
- Primary residence: Must occupy the property as your primary residence
- Apply: File with your County Appraisal District (CAD). File between Jan 1–April 30 for timely processing; late filing may still be possible.

Example savings:

\$300,000 home with \$140,000 school exemption. Taxable value: \$160,000 instead of \$300,000. Estimated savings often range from ~\$1,500–\$3,000+/year, depending on tax rate.

How to File for Homestead Exemption

- Must be your primary residence
- File with your county appraisal district
- Deadline: April 30, after you move in
- One-time filing (stays in effect as long as you own the home)

- Bring driver's license showing property address (or recent utility bill or vehicle registration)

When Property Taxes Are Due

- Tax bills typically mailed: October
- Payment deadline: January 31 of the following year
- Supplemental school district bills: May arrive separately (check local district)
- Penalty for late payment: 7% interest added in February, plus additional penalties each month thereafter

Tip: If your mortgage includes an escrow account, your lender pays these taxes on your behalf. If paying taxes yourself, plan to save monthly to avoid a large year-end bill.

Questions About Texas Property Taxes? Call Chet for Local Tax Info: (830) 642-1507

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CHAPTER 16: TEXAS DOWN PAYMENT ASSISTANCE PROGRAMS

The Down Payment Challenge

For many buyers, saving for a down payment is the biggest obstacle to homeownership. Texas offers multiple state and federal assistance programs that can provide \$5,000-\$15,000+ in grants or forgivable loans to help qualified buyers.

Lender Insight:

Many borrowers don't realize they qualify until they ask. Income limits are often higher than expected, and programs aren't just for low-income buyers.

How Down Payment Assistance Works

DPA programs typically provide funds in three ways:

Grants (Free Money)

- No repayment required
- Applied to down payment and/or closing costs

Forgivable Loans

- Second lien on your property
- Forgiven completely after 5-10 years of occupancy
- Must repay if you sell or refinance early
- No monthly payment during forgiveness period

Common Eligibility Requirements

Most DPA programs require:

- First-time homebuyer (haven't owned a home in past 3 years)
- Income limits (vary by county and household size—often \$75,000-\$110,000+)
- Credit score minimum 620-640 (may be lower with compensating factors)
- Homebuyer education course (8-12 hours, online or in-person) may be required
- Primary residence (must live in the home)
- Approved lender (not all lenders offer DPA programs)

How to Apply

Step 1: Work with an approved DPA lender to:

- Verify you meet income limits for your county
- Get pre-approved for primary mortgage
- Reserve DPA funds (first-come, first-served)

Step 2: Find a home that meets program requirements

Step 3: Close with DPA funds applied to reduce cash needed

Common Myths

MYTH: "I make too much money to qualify."

REALITY: Many counties allow \$75,000-\$110,000+ depending on family size.

MYTH: "I have to pay the money back."

REALITY: Most are forgivable loans that disappear after 5-10 years.

MYTH: "The process is too complicated."

REALITY: Your lender handles the paperwork—you just need homebuyer education certificate and standard loan documents.

Think You Might Qualify?

Get Your Free DPA Eligibility Review - No obligation. No cost. Just real answers about what's available to you right now. Call or Text Now: (830) 642-1507 | Schedule Consultation →

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CHAPTER 17: READY TO START?

You've learned the essentials of buying a home in Texas. Now it's time to take action.

Your Next Steps

Step 1: Get Pre-Approved

Know your buying power before house hunting. Pre-approval demonstrates to sellers that you're serious and helps you focus on homes you can afford.

Step 2: Find a Real Estate Agent

A licensed agent will help you find homes, negotiate offers, and navigate contracts.

Step 3: Start House Hunting

With pre-approval in hand, tour homes within your budget. Take your time—finding the right home is worth the wait.

Step 4: Make an Offer

Work with your agent to craft a competitive offer. Your lender will coordinate financing to support your timeline.

Step 5: Complete Inspections

Hire a professional inspector and attend the inspection. Use findings to negotiate repairs or credits.

Step 6: Close on Your Home

Sign documents, pay closing costs, and get your keys. You're officially a homeowner!

Timeline: Pre-Approval to Keys

Typical timeline: 60-90 days

- Weeks 1-2: Pre-approval and team assembly
- Weeks 2-8: House hunting
- Weeks 8-12: Offer and negotiations
- Weeks 12-16: Inspections, appraisal, final approval
- Week 16: Closing day!

Timeline varies by market and loan type. Some close in 21 days; others take longer.

Common Mistakes to Avoid

- House hunting before getting pre-approved

- Maxing out your budget
- Skipping the home inspection
- Making major purchases before closing
- Not shopping for insurance early enough
- Assuming you don't qualify for down payment assistance

You're Ready. Let's Get Started.

The journey to homeownership starts with pre-approval. I'm here to guide you through every step.

CONTACT CHET HEARN TODAY

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CHAPTER 18: GLOSSARY OF MORTGAGE TERMS

Adjustable-Rate Mortgage (ARM): A mortgage with an interest rate that can change periodically based on market conditions. Initial rate is typically lower than fixed-rate mortgages but can increase over time.

Appraisal: A professional assessment of a property's market value conducted by a licensed appraiser. Required by lenders to ensure the home is worth the loan amount.

Appraisal Contingency: A clause in your purchase contract allowing you to renegotiate or walk away if the home appraises for less than the offer price.

APR (Annual Percentage Rate): The total cost of your loan expressed as a yearly rate, including both interest and lender fees. More accurate than interest rate alone for comparing loan costs between lenders.

CAD (Central Appraisal District): County agency in Texas responsible for determining property values for tax purposes and issuing property tax bills.

Cash to Close: The total amount of money you must bring to closing, including down payment, closing costs, and prepaid items, minus any credits or seller concessions.

Closing: The final step in a real estate transaction where ownership transfers from seller to buyer. All documents are signed and funds are exchanged.

Closing Costs: Fees required to finalize your mortgage, typically 2-5% of the purchase price in Texas. Include lender fees, title insurance, appraisal, recording fees, and prepaid items.

Closing Disclosure (CD): A detailed, standardized form showing your final loan terms and closing costs. Must be provided at least 3 business days before closing.

Comparable Sales (Comps): Recently sold properties similar to the home you're buying, used to determine fair market value.

Contingency: A condition in your purchase contract that must be met for the sale to proceed. Common contingencies include financing, inspection, and appraisal.

Conventional Loan: A mortgage not insured by the federal government. Typically requires higher credit scores (620+) and may require PMI if down payment is less than 20%.

Credit Score: A numerical rating (300-850) representing your creditworthiness based on your credit history. Higher scores qualify for better interest rates.

Debt-to-Income Ratio (DTI): The percentage of your gross monthly income that goes toward debt payments. Lenders use this to determine how much you can borrow. Most loans require DTI below 43-50%.

Deed: The legal document that transfers property ownership from seller to buyer. Recorded with the county after closing.

Deed of Trust: A legal document giving the lender a lien on your property as security for the loan. Similar to a mortgage in other states.

Down Payment: The portion of the purchase price you pay upfront, typically 3-20% of the home's price. Not included in your loan amount.

Down Payment Assistance (DPA): Programs offering grants or forgivable loans to help qualified buyers cover down payment and closing costs.

Earnest Money: A deposit (typically 1-2% of purchase price in Texas) showing you're serious about buying. Held in escrow and applied to your down payment at closing. May be refunded if contract falls through due to contingencies.

Escrow: A neutral third-party account that holds funds until specific conditions are met. It also refers to the account your lender uses to collect and pay property taxes and insurance.

FHA Loan: A government-insured mortgage offered by the Federal Housing Administration. Allows lower credit scores (580+) and down payments as low as 3.5%, but requires mortgage insurance.

Financing Contingency: A clause protecting you if your loan falls through. Allows you to recover earnest money if you can't secure financing.

Fixed-Rate Mortgage: A mortgage with an interest rate that remains the same for the entire loan term (typically 15 or 30 years).

Flood Insurance: A separate insurance policy covering flood damage, which is not included in standard homeowners insurance. Required if home is in a FEMA-designated flood zone.

Forgivable Loan: A loan (typically for down payment assistance) that is completely forgiven after you live in the home for a specified period (usually 5-10 years).

HOA (Homeowners Association): An organization that enforces rules and maintains common areas in a neighborhood or condo complex. Charges monthly or annual fees.

Home Inspection: A professional examination of a property's condition, including structural, mechanical, and safety issues. Highly recommended before purchasing.

Homestead Exemption: A tax benefit in Texas that reduces the taxable value of your primary residence, typically by \$140,000 for school taxes. Must be applied for with your county appraisal district.

Inspection Contingency: A clause allowing you to negotiate repairs or walk away if significant issues are discovered during the home inspection.

Interest Rate: The percentage charged by the lender for borrowing money, expressed as an annual rate. Does not include other loan costs (see APR).

Lender Credit: Money the lender applies toward your closing costs, typically in exchange for accepting a slightly higher interest rate.

Loan Estimate (LE): A standardized 3-page form lenders must provide within 3 business days of application. Shows estimated loan terms, interest rate, monthly payment, and closing costs.

Loan-to-Value Ratio (LTV): The percentage of the home's value you're borrowing. Example: \$270,000 loan on \$300,000 home = 90% LTV.

MIP (Mortgage Insurance Premium): Insurance required on FHA loans to protect the lender if you default. Includes upfront premium (1.75% of loan) and annual premium (paid monthly).

Option Period (Texas): A negotiated period (typically 7-10 days) after contract execution during which the buyer can terminate for any reason and receive their earnest money back. Costs \$100-\$500 paid to seller (non-refundable).

PITI: Principal, Interest, Taxes, and Insurance—the four components of your monthly mortgage payment.

PMI (Private Mortgage Insurance): Insurance required on conventional loans with less than 20% down payment. Protects lender if you default. Can be removed once you reach 20% equity.

Pre-Approval: A lender's verification of your financial information and credit, stating the maximum amount you're qualified to borrow. Much stronger than pre-qualification.

Pre-Qualification: An informal estimate of how much you might be able to borrow, based on self-reported financial information. Less reliable than pre-approval.

Principal: The amount of money you borrow (loan amount), not including interest.

Promissory Note: Your written promise to repay the loan according to agreed-upon terms.

Property Taxes: Annual taxes based on your home's assessed value, used to fund local services including schools. In Texas, typically 1.6-2.0% of home value annually.

Seller Concessions: Contributions from the seller toward buyer's closing costs, negotiated in the purchase contract. Subject to limits based on loan type (typically 3-9% of purchase price).

Title Insurance: Insurance protecting you and your lender against ownership disputes, liens, or defects in the property's title. Required for closing.

Title Search: An examination of public records to verify the seller legally owns the property and there are no liens or claims against it.

TREC (Texas Real Estate Commission): State agency that licenses and regulates real estate agents, brokers, and home inspectors in Texas.

TSAHC (Texas State Affordable Housing Corporation): State organization offering down payment assistance programs including My First Texas Home and Homes for Texas Heroes.

TWIA (Texas Windstorm Insurance Association): Provider of windstorm and hail insurance for coastal Texas properties where standard policies exclude wind coverage.

Underwriting: The lender's process of verifying your financial information, evaluating risk, and making a final decision on your loan approval.

USDA Loan: A government-backed mortgage for rural and suburban properties. Offers 0% down payment for eligible buyers in designated areas with income limits.

VA Loan: A mortgage guaranteed by the Department of Veterans Affairs for eligible veterans, active-duty military, and surviving spouses. Offers 0% down payment and no mortgage insurance.

This guide is for educational purposes only. Loan programs, rates, and requirements are subject to change. This is not tax or legal advice. Consult the county appraisal district or a tax professional for property-tax questions. All loans are subject to credit approval. Consult a licensed mortgage professional for personalized advice.

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