Mortgage Guide

Everything you need to know about financing your new property purchase.

Learn about different loan programs, what to expect throughout the journey, and how to set yourself up for a successful closing.

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Hello!

Our names are Sam & Trisha Azares, and we am honored to be working alongside you! A house is, more often than not, going to be one the biggest purchases and investment you're ever going to make. It is completely normal to feel overwhelmed and even unsure at times about the process or what happens next.

Choosing a mortgage isn't as simple as it sounds. That's because there are many different mortgage programs and options that can be tailored to fit your specific buying scenario and needs. All of these are made up of different components.

This is why it is crucial to work with a trusted loan partner to help guide you and be in the journey with you. Some additional reasons it is so important are to help you understand the basics like options, features and cost of each loan program. Every one of our valued clients have different needs and financial situation and I specialize in finding the right program and loan option for yours. We have developed this guide to help you understand and educate yourself on the ins and outs of the mortgage process and the different loan types that are available.

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Communication is our number one priority, please reach out if you have any questions or concerns during the process. We are not only here as your resource during this financing process, we are here to be a continuous resource even after.

The Mortgage *Road Map*

01 Application

The first step is submitting all necessary documentation and discussing budget. This normally takes about 10 mins over the phone or even online if you prefer.

02 Pre-Qualification

Based on your qualifying indicators your lender will issue a pre-approval with your qualifications and discuss amount with you and Realtor partner.

03 House Hunting

This is where it is important to have a great Realtor partner. They should be listening and directing you towards your home needs and wants during this time, so you are equipped to make an offer.

04 Under Contract

If your offer is accepted, you and the seller along with your Realtor representation will come to an agreement on the terms and conditions of the sale.

05 Inspection Period/Appraisal

Appraisals are ordered by the lender whereas the other items during an inspection period are ordered by your Realtor Partner.

06 Processing

Your lender and their team will prepare and process the file for underwriting. This step may require more documentation depending on your specific loan program or financial situation.

07 Underwriting

Your file will be sent to underwriting for review to make sure all of your documentation aligns. This ensures that your loan and contract on your home is set to move forward towards closing with everything needed.

08 Satisfy Terms

During this stage an underwriter can request a “condition” to your file. This might be an updated bank statement, a credit card statement, a gift letter or anything that is just needing clarification.

09 Clear to close

Your lender will clear your file if there is no additional information to fund your loan. They will coordinate with title and your Realtor to schedule your document signing appointment.

10 Closing Day

Congrats on signing your documents! Keep in mind, the day you sign could potentially differ than the day you record. Once you record, your Realtor will coordinate getting you your keys to your new property.

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Getting Qualified

As a perspective buyer, it's important to understand the process of qualifying for a mortgage. The four main elements of qualification are gross annual income, assets and liabilities, credit score, and down payment size. There can be other qualification items but these 4 help set the ground work for your loan application, program, and rate options.

01. Gross Annual Income

Typically, most lenders will need to see your gross income and a consistent work history for a minimum of two years.

If you are a W2 salaried employee, your loan officer would go off of your current salary wage. If you are a W2 hourly employee, your income would be averaged out over the last two years.

Don't worry, if you are self-employed, you can still qualify, and your lender will explain the difference for “net” income vs. hourly/salary in relation to your loan.

02. Assets and Liabilities

Your overall worth when it comes to borrowing money is based on your assets and your liabilities combined. So if you have more assets than liabilities your ability to pay your mortgage will look more favorable.

Lenders will see how your income compares to your current debt and your new debt (your new mortgage payment) and determine your DTI (Debt to income) ratio. Different programs have different DTI limits.

03. Credit Score

Your credit is one of the most important parts of the qualifying process. Different loan programs have different credit score minimums but of course the better the score, the better chances of approval terms. Your credit history is always an important part of qualifying. Late payments, collections accounts, etc. are always taken into consideration when applying.

04. Down Payment Amount

Your loan officer will take into consideration the down payment amount you are willing to offer. Certain loan programs require different down payment amounts but typically the larger the down payment, would allow for a smaller loan amount and can make it easier to qualify in some financing situations.

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What is a Conventional Loan?

A conventional mortgage is a home loan that **is not** insured by a government agency. Virtually every type of mortgage lender offers conventional loans, and they are ideal for borrowers with a strong credit profile, stable income and minimal debt.

Conventional loans can come with a fixed or adjustable rate, and they can be conforming, meaning they fall within the loan limits set by the **Federal Housing Finance Agency (FHFA)**, or non-conforming in that they exceed these limits. In 2023, the conforming loan limit was $726,200 in most areas, and $1,089,300 in pricier markets.

Some conventional loan programs allow you to put down as little as 3% to 5 %, but the tradeoff is you'll need to pay for **private mortgage insurance (PMI)**, a cost added on to your monthly mortgage payment. PMI protects the lender — not you — if you default on your loan, and you'll need to pay this until you accumulate 20 percent equity in your home. If you can make at least a 20 percent down payment upfront instead, you won't have to pay this expense.

- **Minimum Down Payment amount: 3-5%**
- **Minimum Credit Score: 620**

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What is an *FHA Loan?*

An FHA loan is a **government-backed mortgage insured by the Federal Housing Administration.** FHA home loans require lower minimum credit scores and down payments than many conventional loans, which makes them especially popular with first-time homebuyers. In fact, according to FHA's 2021 Annual Report, more than 84.6 percent of all FHA loan originations were for borrowers purchasing their first homes.

FHA loans come in 15-year and 30-year terms with fixed interest rates. The agency's flexible underwriting standards are designed to help give borrowers who might not qualify for private mortgages a chance to become homeowners.

But, there's a catch: Borrowers must pay FHA mortgage insurance, which is designed to protect the lender from a loss if the borrower defaults. Mortgage insurance is required on most loans when borrowers put down less than 20 percent, but ALL FHA loans require the borrower to pay two mortgage insurance premiums no matter the down payment amount for the life of the loan:

- **Upfront mortgage insurance premium**: 1.75 percent of the loan amount, paid when the borrower gets the loan. The premium can be rolled into the financed loan amount.
- **Annual mortgage insurance premium**: 0.45 percent to 1.05 percent, depending on the loan term (15 years vs. 30 years), the loan amount and the initial loan-to-value ratio, or LTV. This premium amount is divided by 12 and paid monthly.

- **Minimum Down Payment amount: 3.5%**
- **Minimum Credit Score: 580**

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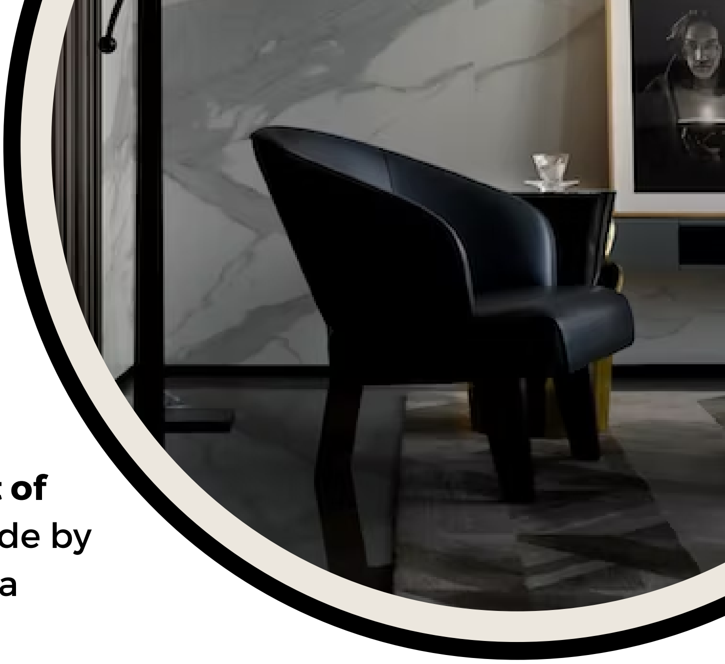
What is a VA Loan?



A VA loan is **guaranteed by the U.S. Department of Veterans Affairs**. The loan itself isn't actually made by the government, but the fact that it's backed by a government agency makes lenders feel more comfortable offering these loans because they take on less risk than with a conventional mortgage.

As a result, it's possible to get a VA loan without a down payment, and sometimes with looser credit standards. While you still need to meet certain requirements, and the lender still needs to approve you, if you qualify for a VA loan, it can help you attain homeownership with less money than you'd need in the bank otherwise.

You fill out paperwork from the VA that verifies your eligibility for the program. You also receive what's known as your **entitlement**, which is the **dollar amount guaranteed on each VA loan**. Some lenders might be willing to loan up to four times the amount of your entitlement.

With all of that in place, it's possible to get a VA loan with no money down. **VA loans also don't require private mortgage insurance (PMI)**, but you will pay a VA funding fee when you close unless you are exempt, which will be a percentage of the loan's total value. That fee helps keep the program running for future borrowers.

- **Minimum Down Payment amount: 0%**
- **Minimum Credit Score: 580**
- **Only eligible to active duty military, honorably discharged veterans, retired veterans, and deceased veteran's spouses.**

What is a Usda Loan?

A USDA home loan is a **no-down-payment mortgage for low- and moderate-income homebuyers in largely rural areas.** USDA loans are part of a national program created by the U.S. Department of Agriculture to help create loans for first-time homebuyers or people who don't meet conventional mortgage requirements.

The benefits of a USDA mortgage include no down payment and looser credit requirements. Some drawbacks are that the **property must be located in a USDA-approved rural areas and borrowers cannot exceed income limits.**

The USDA defines these rural areas as "open country or any town, village, city, or place, including the immediate adjacent densely settled area, which is not part of or associated with an urban area."

The population requirements differ depending on the characteristics of the property, but the **maximum population limit for any USDA loan is 35,000**. Even if you're buying in a town that has a lower population than that, you won't qualify for a USDA mortgage if the area is within a metropolitan statistical area (MSA). It also must be in an area with "a serious lack of mortgage credit for lower and moderate-income families," according to the USDA website.

- **Minimum Down Payment amount: 0%**
- **Minimum Credit Score: 580**
- **Only eligible to borrowers living in a rural area with a population of less then 35,000 people.**

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Mortgage Payment Breakdown

It is important to know that when you make a monthly payment it is not simply just a small percentage of your mortgage that goes back into what you owe. There are a number of other sources where that payment disburses to every month.

01. Principal Amount

The basic mortgage payment consists of two components: principal and interest. Principal is the loan amount you initially borrow from a lender to buy your home. It's factored into your monthly payment and paid off throughout the life of your loan.

02. Interest

Interest is the percentage of the principal you pay over the life of the loan to your mortgage company as a fee for lending the money. The amount that goes to interest will continue to decrease as you pay down your loan. Luckily, you'll potentially be able to claim a mortgage interest deduction on your taxes to further offset the interest you owe each year.

03. Property Taxes

No matter where you live, you'll pay a property tax on your home. The amount you pay is based on a percentage of your property value, which can change from year to year. The actual amount you pay depends on several factors, including the assessed value of your home and local tax rates. Typically, every county has its own taxation system.
If the assessed value – not necessarily the same as the market value – of your property increases, the taxes you pay on your property will increase with it.

04. Insurance

- **Homeowners insurance**: Homeowners insurance works as a safety net to protect your home and your finances in the event of something happening that is sudden and unforeseen. If something were to happen, your homeowner's insurance would give you a coverage option to make you whole again within the policy limits and would be subject to your deductible on the policy. It is also a requirement of your loan term to have in place when you finance a home. It protects the mortgage company or investors' investment.
- **Mortgage insurance:** Mortgage insurance doesn't apply to everyone, but if you can't make a sizable down payment on your home, you'll likely have to pay a premium. Since low down payments are risky for lenders, they might require mortgage insurance to cover their investment if the loan goes into default. Depending on the type of home loan you have, you might have Private Mortgage Insurance (PMI) or a mortgage insurance premium (MIP) included.

The Costs Of *Buying a Home*

Earnest Money Deposit

Earnest money is put down before closing on a house to show you're serious about purchasing and responsible for your part of the contract offer. When a buyer and seller enter into a purchase agreement, the seller takes the home off the market while the transaction moves through the entire process to closing.
Earnest money protects the seller if you, the buyer, backs out. It's typically around 1 – 3% of the sale price and is held in an escrow account until the deal is complete and can vary based on your realtor negotiation. The exact amount depends on what's customary in your market. If all goes smoothly, the earnest money is applied to the buyer's down payment or closing costs.

The Down Payment

A home down payment is the part of a home's purchase price that you pay upfront and does not come from a mortgage lender via a loan. Suppose you want to buy a house priced at $300,000. If you were to put $9,000 toward the purchase price, or 3 percent down, you'd take out a mortgage for the remaining $291,000

Closing Costs

When you buy or refinance a home, you will need to budget for closing costs. Mortgage closing costs are fees and expenses you pay when you secure a loan for your home, beyond the down payment. These costs are generally 3 to 5 percent of the loan amount and may include title insurance, attorney fees, appraisals, taxes and more.

Additional fees you'll want to consider is transfer tax's, new home warranties, appraisals, inspections, property taxes, and sales tax. These fees vary depending on where you're purchasing.

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Mortgage Terms

and what they mean:

Amortization

The gradual repayment of a mortgage loan, both principal and interest, by installments.
Annual Percentage Rate (APR)
The cost of credit, expressed as a yearly rate including interest, mortgage insurance, and loan origination fees.
This allows the buyer to compare loans, however APR should not be confused with the actual note rate.

Equity

The amount of financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on the mortgage. Equity is the primary and most exciting reason, in my opinion, to become a homeowner. This is the piece that makes your home an investment into your financial future.

Escrow

An item of value, money, or documents deposited
with a third party to be delivered upon the fulfillment
of a condition. For example, the deposit of funds or
documents into an escrow account to be disbursed
upon the closing of a sale of real estate

Loan To Value (LTV)

The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a $100,000 home with an $80,000 mortgage has an LTV of 80 percent.

Mortgage Insurance Premium (MIP)

The amount paid by a mortgagor for mortgage insurance.

Private Mortgage Insurance (PMI)

Mortgage insurance provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

Rate Lock

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate and lender costs for a specified period of time and within the loan program and guidelines.

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Track Your *Monthly Budget*

Before applying for a mortgage, budgeting your monthly expenses is important. Your loan officer will approve you for the top amount that your income can qualify you for but not everyone is comfortable spending that much monthly on a mortgage payment. We will review those items together. Budgeting your monthly expenses will help you know what kind of costs you can actually afford, and it will keep both of us on track to making sure we are aligning with your financial needs and goals.

Monthly Income

Pay

Pension/ Social

Disability

Interest/Dividends

Other

Total Monthly Income

Monthly Expenses

Rent/Mortgage

Rent/Home Insurance

Car Payments

Car Insurance

Life Insurance

Medical Insurance

Utilities

Phone Bill

Subscriptions

Groceries

Childcare

Pet and Food Care

Debt Payments

Savings and Contributions

Total Income

−

Total Expenses

=

Disposable Income

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Mortgage *Checklist*

Preparation is everything. This list is a general outline of some of the documents you can expect to be asked for during the loan application process. Not all of these items are required at initial application, and there may be additional items needed depending on your loan program and financial ssituation. I will communicate with you on what items fit your specific scenario.

Copy each of the following for each applicant:

- [ ] Drivers license
- [ ] Social security card
- [ ] W-2's from all employers for the past 2 years
- [ ] Paycheck stubs for the past 30 days
- [ ] 2 years of tax returns complete
- [ ] Bank statements for the past two months
- [ ] 401(k) and profit sharing statements
- [ ] Complete quarterly or semi-annual statements for IRA's, CD's, money market fund, stocks, proof, in the form of a bank statement, that any earnings resulting from investments was deposited and has cleared

For purchase transactions (some of these won't be applicable until you have a property under contract):

- [ ] The Purchase Contract
- [ ] Copy of your canceled Earnest Money Deposit Check

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Check out our other buyer online resources

Thank you for trusting us with one of the biggest and most important purchases in your life and thank you for allowing us to be a part of this journey with you. As your mortgage loan officers, I commit to guide you with advice and options that align with what is important to you and your needs from start to finish.

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