

Mortgage 101



a home buyer's guide through the **basics** of a mortgage approval.

THE PROCESS

QUALIFYING

TYPES OF MORTGAGES

COSTS

STEPS TO TAKE NOW



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mortgage

/ˈmôrgij/

noun

A mortgage is simply a loan that is used to buy your home.

Unless you can pay for your home upfront in all cash, you'll need to take out a loan from a bank or lender to pay for the home upfront and pay it off gradually.

Just like any loan, you'll need to apply for it. If you're "APPROVED" you will be able to borrow a specific amount of money from your lender. Each month you'll pay a portion of the loan (plus interest) over a specified period of time (usually a 30 year term).

The requirements to secure a mortgage may seem overwhelming - but by understanding basic lending terminology and requirements, you'll be able to avoid common roadblocks.

Use this guide to learn how to prepare before applying for a mortgage, and what to watch for during the process to keep your mortgage application as simple as possible.

the process

CHOOSE YOUR LENDER

Shop around to find the best mortgage for your financial situation. **LOCAL LENDERS** are most preferred amongst sellers so start first with local credit unions. Make sure to ask plenty of questions, such as:

- What is your process for pre-approval and closing?
- How do you communicate with homebuyers?
- What will be my down payment requirement
- What are my closings costs expected to be and are there additional fees I need to be aware of?
- Do I qualify for any discounts (such as first time homebuyers)?

STEP
02

HOUSE HUNTING & OFFER

Find your ideal home and present a strong offer. In today's market you only get one shot so make sure it's an offer you feel confident about. You may need to negotiate the price or other terms with the seller but once an agreement is made, both parties sign the Offer and you are officially Under Contract.

STEP
04

UNDERWRITING, APPROVAL & CLOSING

The underwriter analyzes the loan file to determine if it can be approved. You may be asked for more information, but don't be frustrated -this is normal! The underwriter will issue an official Loan Approval aka Loan Commitment, and you're ready to attend the closing to finalize your home purchase.

STEP
01

GET PRE-APPROVED FOR A MORTGAGE

The lender will review your financial situation to determine how much they are willing to lend.

Pre-approval helps you:

- **Be taken seriously by sellers - you're ready to go!**
- **Know** how much you can afford
- Have negotiating power
- Speed up loan processing time for a **quicker + smoother closing**

STEP
03

LOAN APPLICATION & PROCESSING

Once Under Contract, you'll need to fill out an official loan application (usually within 5 days) with specific info about the home being purchased. The loan processor will create your file and request additional documentation from you. You'll schedule any inspections on the home and your lender will order an appraisal for the home.

STEP
05



- Find out your current **credit history and score**. Credit scores range between 200 and 860. A credit score above 620 is best for trying to obtain a mortgage. You can improve your credit score by paying down credit card bills and not charging credit cards to the max. If possible, wait 12 months after credit difficulties to apply for a mortgage. And once you're ready to shop for a mortgage, don't open any new credit card accounts.
- Determine the **approximate amount of mortgage** you may qualify for by taking your gross monthly income and multiply by 25%. This is the maximum that many lenders would like to see for your monthly mortgage payment.
- **Stable income and income verification** are both necessary. Make sure to stick with your employer while going through the home buying process, as a job switch will force lenders to reevaluate your finances.

**QUALIFY
FOR A
MORTGAGE
IN TODAY'S
MARKET.**

types of financing

CONVENTIONAL LOAN

This is the "standard" mortgage - most home buyers use a conventional mortgage loan. With at least a 20% down payment, you'll qualify for the best rates without required mortgage insurance. Conventional mortgages are not guaranteed or issued by the federal government.

FHA LOAN

This is a government backed loan, sponsored by the Federal Housing Administration (FHA). If your credit score is too low to qualify for a conventional loan, you'll likely use a FHA Loan with a minimum down payment of 3.5% and required mortgage insurance.

VETERAN'S LOAN

This type of loan is for active duty military or veterans. The U.S. Department of Veterans Affairs backs this loan instead of a traditional bank. Most VA loans do not require a down payment and offer several other advantages.





costs

TO CONSIDER WHEN BUYING

EARNEST MONEY

Typically 1-2% of the purchase price, this is a deposit paid by the buyer at the time the Offer is accepted by the seller. This is held by the escrow company (usually the title company or attorney) as a good faith from the buyer to the seller. At closing, the earnest money counts toward your overall downpayment and is deducted from the amount of funds you need to bring to closing.

DOWN PAYMENT

This is the portion of the purchase price that you'll be paying in cash. The rest of the payment to the seller comes from your mortgage.

Down payments are generally between 3.5%-20% of the purchase price. A down payment of at least 20% allows you to avoid Private Mortgage Insurance (PMI).

CLOSING COSTS

Closing costs are associated with your mortgage, the transaction, or any payment required by the lender (such as escrows for taxes + insurance, and title fees.)

These costs are not part of the purchase amount, and are collected separately by the escrow company at closing. As a buyer, you can expect to pay 1-5% of the purchase price in closing costs.



PRINCIPAL OF THE LOAN

This is the amount you are borrowing aka the amount financed. $\text{Purchase Price} - \text{Downpayment} = \text{Principal of the Loan}$

INTEREST OF THE LOAN

The amount the lender charges you to borrow the money.

PROPERTY TAXES

A portion of your payment will be used for property taxes to your local city/ municipality.

HOMEOWNER'S INSURANCE

The amount you pay to insure your home from damages (fire, natural disasters, etc.) .

Also consider for your payment - PRIVATE MORTGAGE INSURANCE

Usually required on loans if your down payment is less than 20%.

what's
in a
mortgage
payment?

TERMS TO KNOW

01

Fixed Rate Mortgage -

The interest rate remains the same (aka Fixed), allowing you to lock in the rate for the life of the loan. This type of mortgage provides a stable and predictable monthly payment and is most common among home owners.

02

Adjustable Rate Mortgage -

The interest rate is flexible and subject to adjustments, usually offering a lower rate that will rise as the market rates increase. These types of mortgages may be a good choice when fixed interest rates are high. Rates adjust on pre-determined dates (i.e. annual, 3, 5 or 7 year terms.)



03

APR (Annual Percentage Rate) -

This is your interest rate stated as a yearly rate. Your Annual Percentage Rate is typically higher than your interest rate because it includes fees, such as lender and mortgage broker fees.

04

Mortgage Points -

Also known as discount points, these are fees paid to the lender at closing in exchange for a reduced interest rate. One point costs 1 percent of your mortgage amount (or \$1,000 for every \$100,000.) Paying points is often referred to as "buying down the rate."



TRACK YOUR monthly budget

When you apply for a mortgage, your lender will approve you for a maximum monthly mortgage payment.

Determining - and sticking to - a budget helps ensure you'll be able to afford your new mortgage payment, while staying on top of your other expenses.

INCOME

Total Take Home	\$
Pension/ Social	\$
Disability	\$
Interest/ Dividends	\$
Other	\$

TOTAL INCOME	\$
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TOTAL INCOME	\$
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- TOTAL EXPENSES	\$
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= DISPOSABLE INCOME	\$
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EXPENSES

Rent/ Mortgage	\$
Vehicle Payments	\$
Child Support/ Alimony	\$
Renters/Owners Insurance	\$
Health Insurance	\$
Life Insurance	\$
Vehicle Insurance	\$
Other Insurance	\$
Personal/Other Loans	\$
Utilities + Phone	\$
Credit Card Payments	\$
Groceries + Eating Out	\$
Clothes / Personal	\$
Medical / Dental	\$
Prescriptions	\$
Household Goods	\$
Child Care	\$
Education	\$
Eating Out + Entertainment	\$

TOTAL EXPENSES	\$
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steps to take now

Before you begin the mortgage process, it's important to have your financial plan for purchasing in place. Use your tracked monthly budget to save for a down payment, reduce debt and increase your credit score.

It's also crucial to take the extra time to search for the **right lender** and the **right loan**. Check references, shop around and ask plenty of questions - including an estimate of fixed costs for the mortgage.

Your lender will inform you on the documentation they will need. However, you can begin preparing standard documents now, such as:

- 1 month of recent pay stubs
- Most recent 2 years of tax filings
- 3 months of bank account statements

And finally, make sure to respond quickly to the paperwork your lender requests to keep the mortgage process on schedule.

Now that you have the basics down, you're off to a great start for a seamless mortgage approval!

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