Mortgage 101

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What is a mortgage?

A MORTGAGE IS A LOAN SECURED FROM A BANK FOR THE PURCHASE OF YOUR NEW HOME. YOU WILL REPAY THE BANK THE LOAN (WITH INTEREST) OVER THE SPAN OF YOU MORTGAGE'S LIFE.

Do I need

A MORTGAGE BROKER? I COULD JUST GO TO MY BANK, RIGHT?

A broker can shop around to any bank, unlike walking into a single bank where a consumer is then locked into their terms, offers, options, etc. – a broker can present you with a myriad of options and find you the bank and the mortgage that fits your life and needs. Mortgages in Texas are standardized in their process; there is a standard form (Uniform Loan Application Form) which all banks require, so this helps the broker to be able to see the bank and their offers fairly weighed against their competitors in order to ensure you the best possible fit.

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Who pays THE MORTGAGE BROKER?

The bank pays the commission to the broker, so on that front they are "free" to the client. The client is responsible for the application and appraisal fee – which varies from broker to broker. This is an upfront cost for the consumer once the formal process has started, paid to the broker for the processing of your application and a property appraisal which is done by an independent company.

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What are THE TYPES OF MORTGAGES?

There are a few different types of mortgages to choose from, we've laid them out very basically for you but your mortgage broker will be your guide in choosing the correct type for your purchase situation.

Types of mortgages:

1. Fixed Rate – the interest rate is stable for the entire term of the loan.

2. Adjustable (ARM) – the interest rate changes over the term of the loan – in increments of 1, 6, 12, 18 months, etc.

3. Hybrid-Fixed – this is the most popular loan, for TX especially. The interest rate is fixed for 3, 5, 7, 10 years and then goes to a one year (typically) adjustable schedule. This is the most attractive option for people who do not plan on owning their apartment for the entirety of a 30 year mortgage. Also, the shorter the fixed portion is, the lower the interest rate typically tends to be. 5 year is popular here in TX.

Jargon...it's nobody's friend really. There is not a lot of terminology in mortgages that is beyond normal language, that's the good news. Here are the main two terms that people generally want to understand:

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Good faith ESTIMATE: EH?

This is given to you when you start the application process; it is the estimate of your closing costs – the assurance that you will be able to afford closing costs, which can become rather pricy, before the whole process begins. It is important to build your closing costs into your financial picture for this transaction.

Amortization: WHAT IS IT? HOW DOES IT WORK?

Amortization provides for paying a debt by installment payments. A portion of each payment is applied first to the payment of interest; the remainder reduces the principal. The interest always is applied against only the outstanding principal balance unpaid at the time of an installment payment. The rate of interest is an annual percentage rate as specified by the note and mortgage. The interest rate is calculated by multiplying the annual percentage rate by the unpaid principal balance and dividing the result by 12 to determine the amount of interest due and payable for each monthly installment.

After deducting the interest, the remainder of the payment goes to reduce the principal balance. Therefore, the amount of interest paid with each installment declines because the interest rate is applied against a smaller and smaller amount of principal. In this way, the loan is amortized, so the final payment in a fully amortized mortgage will pay any remaining interest and principal.

Okay, I understand the types and jargon, but what are the steps to actually GETTING a mortgage?

FIRST STEP: PRE-QUALIFY – NO COST TO THE CLIENT FROM MOST MORTGAGE BROKERS.

- The bank wants to know not only the client financials in the first steps but also the building. You will talk to your broker and they will get basic information from you.
- Every bank has its own building criteria, this is not standardized in Texas, this is another reason to use a broker, and they can save the hassle of a bank turning down a client because the BUILDING does not meet their criteria. The broker will research the building to find banks that will be compatible.
- Your broker will give you a monetary figure of what you qualify to borrow.

SECOND STEP: PRE-APPROVAL – NO COST TO THE CLIENT FROM SOME MORTGAGE BROKERS.

- This step is more formal and the approval comes from the bank, not just your broker.

- You will submit the documentation to support information from the pre-qualification, such as W-4s, pay stubs, etc. These are standard document requests; nothing should be surprising after speaking with your broker.

- Your broker runs a credit report – the score comes from three separate agencies and ranges from 500 to 800 – it is important to note that anyone who is below 620 will have difficulty securing a loan – closer to 800 means better mortgages with better rates, so pay those creditors on time!!

- The bank then issues you your pre-approval letter, which basically confirms what was determined by pre-qualification, just in an official way.

- NOTE!!! This process and result are FLUID! Pre-approval gives you the maximum monetary amount that you will qualify for, you can decide not to use the whole amount.

- Also important to understand that just because you are pre-approved, this does not guarantee that you will be able to pass your co-op board. Obviously in a condo situation, the board approval is less of an issue.

- Being able to tell a seller that you are already approved for your financing gives an edge over other buyers who may not have started the process, which is a bonus here in New York, especially because bidding can move quickly on desirable properties.

- Pre-approval basically just “officially” tells everyone involved that the client can qualify for X amount of money, a protection against wasting time and energy for the client, brokers, and buyers.

THIRD STEP: PLACE THE BID.

It’s accepted...hooray!!
It’s time to move onto the full mortgage application.

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FOURTH STEP: THE MORTGAGE APPLICATION PROCESS

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It's time to move onto the full mortgage application.

- This is what you paid for with the application & appraisal fee.

- Your real estate lawyer starts to come into the process at this stage of the mortgage application. Lawyer fees are separate and will vary firm to firm. Your mortgage broker gets the property appraisal from the appraisal company...this was where your appraisal fee went.

- Your broker will compile all of the supporting documents that the bank needs (you will have already submitted these in the pre-approval stage and won't need to resubmit unless there has been a significant time lag).

- The uniform application form is filled out by you or your broker. If your mortgage broker is willing to fill this out, you will benefit since these forms can sometimes be technical and confusing. Some will do this as a standard procedure.

- Once your file is complete (and it's LARGE!) and reviewed by the bank, the REAL approval letter comes from the bank – the COMMITMENT LETTER – this is the documentation needed in order to proceed with board interviews, etc.

FIFTH STEP: THE BOARD INTERVIEWS... MOSTLY APPLICABLE TO CO-OP BUYERS.

This is your formal interview and should be taken very seriously. Once you pass the board, it is time for step six...

SIXTH (AND FINAL) STEP: SCHEDULE THE CLOSING

- This is where the bank delivers the money.
- Buyers, sellers, lawyers, brokers, and others are all present at the closing; it is truly the grand finale of the process.
- You sign all of the legal documents for payment and foreclosure terms on your new home.
- Finally, the deal is done. Congratulations, you are a homeowner.

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