

# Preparing Your Finances: Essential Steps



**Track Actual Spending:** Use receipts to create a realistic budget that reflects your actual spending habits, covering both regular and unexpected expenses.

**Reduce Debt Load:** Aim for a total debt load below 36% of income, balancing mortgage and other debts to around 8-10% of your net monthly income.

**Identify Savings Opportunities:** Monitor all expenses for a month to uncover areas for potential savings, like cutting unnecessary costs or adjusting habits.

**Boost Income Streams:** Consider seeking a raise or taking on extra work to increase your income and meet home purchase qualifications.

**Save for Down Payment:** Regularly allocate funds to savings. While a 5% down payment is possible, aiming for 20% can secure better mortgage rates.

**Sustain Employment Stability:** Job stability matters. While not mandatory, a shorter job duration may impact mortgage rates.

**Maintain Good Credit:** Use credit responsibly—timely payments on credit cards and bills contribute to a positive credit history, improving mortgage eligibility.

# LENDER CHECKLIST: GET A MORTGAGE

When it comes to preparing paperwork for your lending appointment there is a bit of a grey area because different banks (or alternative lending institutions) may require different things. However, there are some key items that usually required when you apply.

W-2 forms or business tax return forms if you're self-employed — for the last two or three years for every person signing the loan.

- Copies of at least one pay stub for each person signing the loan.
- Account numbers of all your credit cards and the amounts for any outstanding balances.

Copies of two to four months of bank or credit union statements for both checking and savings accounts.

Lender, loan number, and amount owed on other installment loans, such as student loans and car loans.

Addresses where you've lived for the last five to seven years, with names of landlords if appropriate.

Copies of brokerage account statements for two to four months, as well as a list of any other major assets of value, such as a boat, RV, or stocks or bonds not held in a brokerage account.

- Copies of your most recent 401(k) or other retirement account statement.
- Documentation to verify additional income, such as child support or a pension.
- Copies of personal tax forms for the last two to three years.



# Key Questions for Your Lender

**Mortgage Options:** Which mortgages are commonly offered? What makes them popular?

**Tailored Mortgage Plan:** What mortgage plan suits my situation best? Why this recommendation?

**Flexibility on Terms:** Are rates, terms, fees, and closing costs negotiable?

**Private Mortgage Insurance (PMI):** Will I need PMI? Cost and duration specifics?

**Loan Servicing:** Will the loan be serviced in-house or by another company?



**Escrow Details:** What are the escrow requirements associated with the loan?

**Lock-In Period:** How long is the interest rate locked in? Can it be adjusted if rates drop?

- **Approval Timeline:** What's the expected duration for loan approval?

- **Closing Timeframe:** How long does the loan closing process usually take?

- **Prepayment Conditions:** Are there charges or penalties for early loan repayment?

# Boost Your Credit for Better Home Loan Terms

Your credit score significantly impacts loan approval and terms. Maintain a high score by:



Reviewing and fixing errors in your credit report.

Reducing credit card balances, aiming to clear them monthly.

Avoiding maxing out cards—keep balances below the limit.

Wait 12 months after credit issues before applying for a mortgage.

Postpone buying significant items on credit until loan approval.

Avoid opening new credit cards before mortgage applications.

Compare mortgage rates at once to limit credit inquiries.

Steer clear of finance companies, as they may indicate credit risk.



## Choosing the Right Mortgage: Key Types to Consider

**Government-Backed Loans:** Agencies like FHA or VA offer these loans with special terms, including lower down payments or reduced rates for eligible buyers.

**Considerations:** Slight differences in rates, loan amounts, and terms notably impact monthly payments. Fannie Mae's online mortgage calculators can help estimate monthly payments for various loan scenarios.

**Mortgage Term:** Typically, mortgages span 15, 20, or 30 years. Longer terms mean lower monthly payments but higher overall interest costs.

**Fixed vs. Adjustable Rates:** Opt for a fixed rate to secure a low rate over your mortgage term, especially when prevailing rates are low. Adjustable-rate mortgages (ARMs) initially offer lower rates but may rise as market rates do. They suit periods of high fixed rates or anticipated income growth.

**Balloon Mortgages:** These provide low initial rates for a brief period, usually 3-7 years. However, they require full payment of the remaining principal after the initial period. Suitable if you plan to sell the property soon.

