Homebuyers Guide

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 an all cash offer, you'll need to take a loan from the bank to pay the home off gradually.

Just like any loan, you'll need to apply for it. If you're "approved" you will be able to borrow a certain amount of money from a lender. Each month you'll pay a portion of the loan (plus interest) for a period of time.

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.

- 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.

QUALIFY FOR A MORTGAGE IN TODAY'S MARKET.

- 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.

the process

STEP 1

CHOOSE YOUR LENDER

Shop around to find the best mortgage for your financial situation. Make sure to ask plenty of questions, such as:

- What is your process for preapproval and closing?
- How do you communicate with homebuyers?
- What will be my down payment requirement?
- What are the fees?

STEP 2

LOAN APPLICATIION & PRE-APPROVAL

The lender will review your credit and financial profile to determine how much you qualify for.
Pre-approval helps you:

- Be taken seriously as a buyer
- Know how much you can afford
- Have negotiating power
- Speed up loan processing time for a quicker, smoother closing

STEP 3

HOUSE HUNTING & OFFER

Find your ideal home and present your offer. You may need to negotiate the price with the seller, and both parties will sign a purchase agreement.

STEP 4

ACCEPTED CONTRACT & PROCESSING

After you go under contract you will get an official Loan Estimate within 3 days. After reviewing and signing, your file will go into underwriting. Once your home inspection is complete, the lender will order an appraisal for your home.

STEP 5

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 approval, and you're ready to attend the closing to finalize your home purchase.

Mortgage Broker vs. Mortgage Banker

Mortgage Broker

- **What They Do**: A mortgage broker is like a middleman who works with several different lenders to find you the best mortgage deal. They don't lend you the money themselves but instead help you compare loan options from various banks and lenders.

- **Benefits:**
  - **More Options:** Because they work with multiple lenders, brokers can shop around for the best interest rates and terms for your specific situation.
  - **More Flexibility:** Mortgage brokers often work faster and can find loans for people with less-than-perfect credit or special financial situations.
  - **Personalized Service:** A broker will work closely with you throughout the process, offering more customized solutions.

Mortgage Banker

- **What They Do:** A mortgage banker works directly for a specific bank or lending institution. They issue loans from their own funds and manage the loan process in-house.

- **Benefits:**
  - **Direct Lending:** Since bankers lend their own money, the process may feel more streamlined and simpler.
  - **Fewer Middlemen:** You deal directly with the lender, which may help with consistency.
  - **Potential Relationship Discounts:** If you bank with the institution, you might get discounts or favorable terms.

Mortgage brokers offer more loan options by working with multiple lenders, which can give you access to better rates or terms. Mortgage bankers offer a more direct lending experience but are limited to the products their institution offers.

Pre-Qualification vs. Pre-Approval

PRE-QUALIFICATION

A basic estimate of what you might qualify for based on the information you provide about your income, assets, and credit score. It gives you a rough idea of your budget.

PRE-APPROVAL

Is a more in-depth process. A lender will run a credit check, verify your income and assets, and give you a more accurate loan amount. This shows sellers that you're a serious buyer, ready to make offers.

DOCUMENTS NEEDED FOR PRE-APPROVAL

- Proof of Income
- Proof of Assets
- Credit Report
- Identification

A **Pre-approval** carries more weight when making offers on homes, as it shows sellers that you are a serious and qualified buyer.

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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 will not be required to have mortgage insurance, but you can still obtain a conventional loan with as little as 3% down.

FHA LOAN

This is a government backed loan, sponsored by the Federal Housing Administration. 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.

VA 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 such as no monthly mortgage insurance and a waived funding fee for a disability rating above 10%.

USDA LOAN

This is a government backed loan, sponsored by the the U.S. Department of Agriculture. This loan is available for low-income borrowers in specific designated rural areas. There is no minimum down payment.

WHY THE CREDIT REPORT IS IMPORTANT TO THE LOAN PROCESS

Your credit report is key to getting a mortgage. Lenders use your credit score to evaluate your ability to repay the loan.

WHATS DOES THE CREDIT REPORT SHOW.

- Personal Information
- Credits Accounts
- Credit Inquiries
- Public Records
- Collections

ACCESSING CREDITWORTHINESS

- **Risk Evaluation**: Lenders use your credit report to evaluate your creditworthiness and determine how likely you are to repay a mortgage.

- **Interest Rates and Terms**: Better credit typically results in lower interest rates and more favorable loan terms, saving you money over the life of the mortgage.

DEBT-TO-INCOME RATIO

- **Financial Health**: Lenders look at your debt-to-income (DTI) ratio. A lower DTI ratio indicates that you have a manageable level of debt relative to your income.

IDENTIFYING RED FLAGS

- **Past Issues:** Red flags, like late payments, bankruptcies or collections, can affect your ability to secure a mortgage or result in higher interest rates.
- **Consistency:** A consistent history of on-time payments and responsible credit use positively impacts your credit score

Tips to improve your Credit Score

If your credit score isn't where you want it to be, here are some steps to help boost it before applying for a loan:

- **Pay Down Existing Debt:** Lowering your credit card balances can improve your score.
- **Dispute Errors on Your Credit Report:** Incorrect information can drag your score down. Check your report for errors and dispute them.
- **Avoid Opening New Credit:** New credit inquiries can lower your score, so avoid applying for new credit cards or loans.
- **Make Timely Payments:** Consistent, on-time payments are one of the best ways to improve your credit score.

DEBT-TO-INCOME

Lenders will look at your debt-to-income (DTI) ratio when qualifying you for a loan. Understanding your DTI will help determine your budget.

There are 2 parts that make up your DTI:
Front end debt
Back end debt

FRONT END DEBT INCLUDES:

- Your Complete Mortgage Payment From Your Primary Residence.
    - Principal & Interest Property
    - Tax
    - Hazard Insurance
    - Private Mortgage Insurance (PMI)
    - Homeowners Association (HOA)

BACK END DEBT INCLUDES FRONT END DEBT PLUS:

- Credit Debt (Credit Cards, Auto Loan, Personal Loans, etc.)
- Court Ordered Debt (Alimony, if You Owe Money in a Lawsuit, Child Support)
- Government Ordered Debts
- (IRS) Investment Properties
- Second Homes

How It's Calculated:

Add up all your monthly debts (like student loans, car payments, and credit cards) and divide by your gross monthly income. Most lenders prefer a DTI of 43% or lower.

Lowering Your DTI:

You can improve your DTI by paying off debts or increasing your income before applying for a mortgage.

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Closing Costs

Closing costs are the various fees and expenses associated with finalizing a mortgage and transferring ownership of a property from the seller to the buyer.

Common Components of Closing Cost

LOAN-RELATED FEES

- Origination Fee
- Application Fee
- Discount Points
- Appraisal Fee.

TITLE AND LEGAL FEES

- Title Search Fee
- Title Insurance
- Attorney Fees

GOVERNMENT FEES

- Recording Fees
- Transfer Taxes

PREPAID & ESCROW COSTS

- Property Tax
- Homeowners Insurance
- Mortgage Insurance

Tips for Managing Closing Costs

GET AN ESTIMATE

Loan Estimate: your lender will provide a Loan Estimate form, which outlines the estimated closing costs. Review this document carefully to understand what costs you'll need to cover.

SHOP AROUND

Compare Fees: Different lenders may charge different fees. Shop several lenders for the best rate and lowest fees. Ask about Lender's Credit's to help offset closing costs.

NEGOTIATE WITH THE SELLER

Seller Concessions: Negotiate with the seller to cover a portion of the closing costs as part of the purchase agreement. This can reduce your out-of-pocket expenses.

what's in a mortgage payment?

PRINCIPAL OF THE LOAN

This is the amount you borrowed, and is also referred to as the "amount financed."

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 county.

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 Conventional loans if your down payment is less than 20% FHA and USDA loans.

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TERMS TO KNOW

01 **Fixed rate mortgage -**
The interest rate remains the same, allowing you to lock in the rate for the life of the loan. This type of mortgage provides a stable and predictable monthly payment. You do not pay interest on your escrow account, only the principle balance of the loan.

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 Up-Front Mortgage insurance Premiums or VA Fundings 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	$

TOTAL INCOME	$
- TOTAL EXPENSES	$
= DISPOSABLE INCOME	$

EXPENSES

Total Rent/ Mortgage	$
Child Support/ Alimony	$
Health Insurance	$
Life Insurance	$
Other Insurance	$
Vehicle Payments	$
Vehicle Insurance	$
Other Loans	$
Utilities	$
Credit Card Payments	$
Groceries	$
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 you 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 or W2s
- 2 months of bank account statements
- copy of Driver License and Social Security Card

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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Work with a local lender & save!

We are dedicated to providing tailored advice to help you make the best decision for you and your family.

1 Apply For Your Home Loan

Visit liinks.co/foleylending or scan the QR Code below to fill out an application through our secure online system.

2 Upload Documentation

Once your application is complete, the system will send a document request for everything we will need for your approval.

3 Get Approved!

After we review your credit profile and documentation we will discuss your options and issue your pre-approval!

SCAN ME

APPLY NOW

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