mortgage 101

a rookies guide to home buying and mortgages

THE PROCESS

QUALIFYING

TYPES OF MORTGAGES

COSTS

STEPS TO TAKE NOW

WHAT TO AVOID

the process

CHOOSE YOUR LENDER

STEP 01

Using a local lender instead of a big bank makes your life easier. You want to look for someone who works nights and weekends and is available to answer your questions as they come up. Things you should ask your lender;

- What technology do you use to make the process more efficient?
- How do you communicate with homebuyers?
- Is my quoted rate one that includes "points"?
- What are your closing times?

APPLYING & GETTING PRE-APPROVED FOR A MORTGAGE

STEP 02

The lender will review your financial situation to determine how much you are approved to borrow. The pre-approval helps you:

- Know how much you can afford
- Budget your projected monthly expenses
- Have negotiating power
- Speed up loan processing time for a quicker, smoother

HOUSE HUNTING & OFFER

STEP 03

You will work with a realtor to find your ideal home and present your offer. Your realtor may need to negotiate the price with the seller on your behalf. If you come to an agreement you have an "accepted offer" and a "purchase and sale" agreement is signed by both parties.

DOCUMENTS & LOAN PROCESSING

STEP 04

Your loan officer will collect the necessary documentation from you, including but not limited to; two years of tax returns, two of your most recent pay stubs, W-2s for the past two years (if applicable) and a photo of your driver's license. Your documents and application will be sent to processing. An inspection and an appraisal for your home will be ordered unless otherwise agreed upon in your sales contract.

UNDERWRITING, APPROVAL & CLOSING

STEP 05

The underwriter analyzes the loan file to determine if it can be approved. You may be asked for more information, don't be frustrated - this is normal! The underwriter will issue an approval known as the "clear to close", and you're ready to attend the closing to finalize the purchase of your home.

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QUALIFY FOR A MORTGAGE IN TODAY'S MARKET

- 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. There are a number of credit monitoring applications that are helpful.

- Determine what a **comfortable monthly mortgage payment** would be for you. Go through your monthly expenses and budget, and find a figure that doesn't spread you too thin financially.

- **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.

PRESTIGE Properties

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types of financing

CONVENTIONAL LOAN

This is the "standard" mortgage - most home buyers use a conventional mortgage loan. Down payments for a conventional loan range from 3% to 20%, with most people falling in the 5% range. 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. If your credit score is lower than ideal or you're wanting to buy a multi- family you'll likely use a FHA Loan. These loans have 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.

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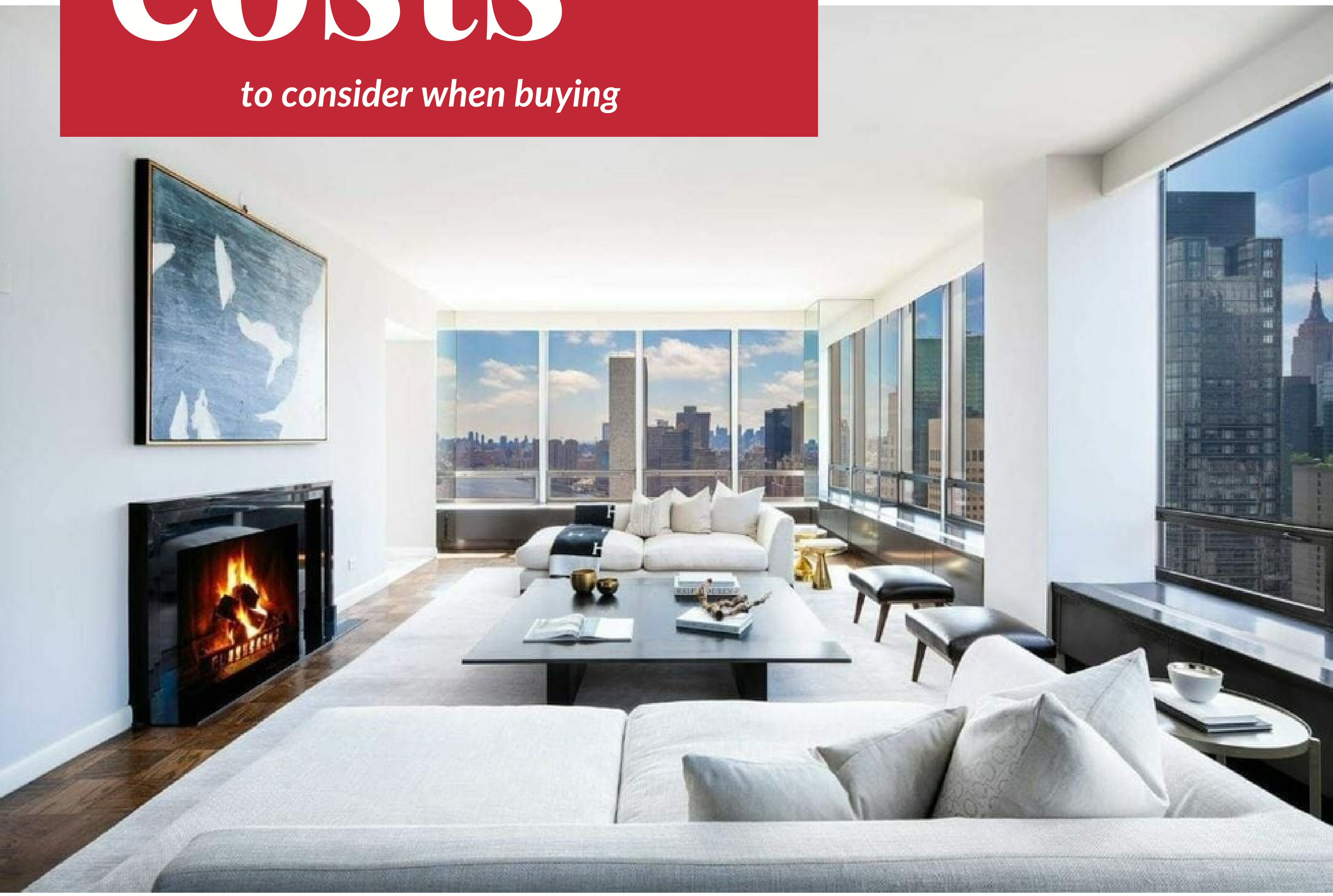
PRESTIGE Properties

costs

to consider when buying



EARNEST MONEY

Typically 1-2% of the purchase price, this is a deposit paid by the buyer. This is held by the escrow company as good faith from the buyer to the seller. At closing, the earnest money will be transferred to the seller as a portion of the original purchase amount. This is often times referred to as the "deposit."

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.

CLOSING COSTS

Closing costs are additional fees associated with your mortgage. These include your escrow accounts of taxes and insurance, title fees, attorney fees, etc. These costs are not part of the purchase amount, and are paid at closing by the buyer in addition to the down payment. As a buyer, you can expect to pay around 2% of the purchase price in closing costs.

PRINCIPAL OF THE LOAN

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

What's in a mortgage payment?

INTEREST OF THE LOAN

The amount the lender charges you to borrow the money. Typically a fixed rate for the life of the loan.

PROPERTY TAXES

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

PRIVATE MORTGAGE INSURANCE

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

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HOMEOWNER'S INSURANCE

The amount you pay to insure your home from damages (fire, natural disasters, etc.) You will pay your first year up front when purchasing a home. It will also be in your monthly payment

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. Home buying is stressful and you want to work with a professional who you feel comfortable asking lots of questions.

Your lender will tell you the exact documentation you will need per their guidelines. However, you can begin preparing standard documents now, including:

- 1 month of recent pay stubs
- 2 years of most recent tax filings
- 2 years of W2's or 1099's
- 3 months of bank account statements

The home buying process is a machine with a lot of moving parts, working with professionals who know each other makes the machine run smoothly. Take your realtor and lender's suggestions seriously when considering which vendors to use.

Most importantly, make sure to respond quickly to the paper work your lender requeststo keep the mortgage process on schedule!

things to avoid

MAKING A BIG PURCHASE
Avoid making any large purchases including financing a new car or furniture until after closing. Big purchases can change the debt-to-income ratio that lenders use to approve your home loan.

OPENING NEW CREDIT
Do not apply for or open any new credit cards or loans without speaking to your lender first. credit inquiries and new accounts can drastically lower your credit score.

MISSING PAYMENTS
Pay all of your bills on time to prevent your credit score from dropping and affecting the lender's ability to close your loan.

CASHING OUT
Avoid any transfers of large sums of money between bank accounts or making any undocumented deposits - both of which could be "red flags" to your lender.

SWITCHING JOBS
Do not quit or switch jobs during the loan process. Your employment will need to be verified by your lender and any abrupt changes could prevent your loan from closing.

contact us today

Whether you are looking to purchase a home or refinance an existing mortgage, call, email, or text us to get started!

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