

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



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.

the process

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
02

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

STEP
03

Loan Application & Processing

You'll fill out a loan application with the info about the home being purchased. The loan processor will create your file and request your documentation. Once your home inspection is complete, the lender will order an appraisal for your 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. 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. This is held by the escrow company as a 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.

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 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 associated with your mortgage, the transaction, or any payment required by the lender (such as 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.



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 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%.

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.

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	\$ <input type="text"/>
Pension/ Social	\$ <input type="text"/>
Disability	\$ <input type="text"/>
Interest/ Dividends	\$ <input type="text"/>
Other	\$ <input type="text"/>

TOTAL INCOME \$

TOTAL INCOME \$

- **TOTAL EXPENSES** \$

= **DISPOSABLE INCOME** \$

EXPENSES

Total Rent/ Mortgage	\$ <input type="text"/>
Child Support/ Alimony	\$ <input type="text"/>
Health Insurance	\$ <input type="text"/>
Life Insurance	\$ <input type="text"/>
Other Insurance	\$ <input type="text"/>
Vehicle Payments	\$ <input type="text"/>
Vehicle Insurance	\$ <input type="text"/>
Other Loans	\$ <input type="text"/>
Utilities	\$ <input type="text"/>
Credit Card Payments	\$ <input type="text"/>
Groceries	\$ <input type="text"/>
Clothes/ Personal	\$ <input type="text"/>
Medical/ Dental	\$ <input type="text"/>
Prescriptions	\$ <input type="text"/>
Household Goods	\$ <input type="text"/>
Child Care	\$ <input type="text"/>
Education	\$ <input type="text"/>
Eating Out	\$ <input type="text"/>
Entertainment	\$ <input type="text"/>

TOTAL EXPENSES \$



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
- 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!