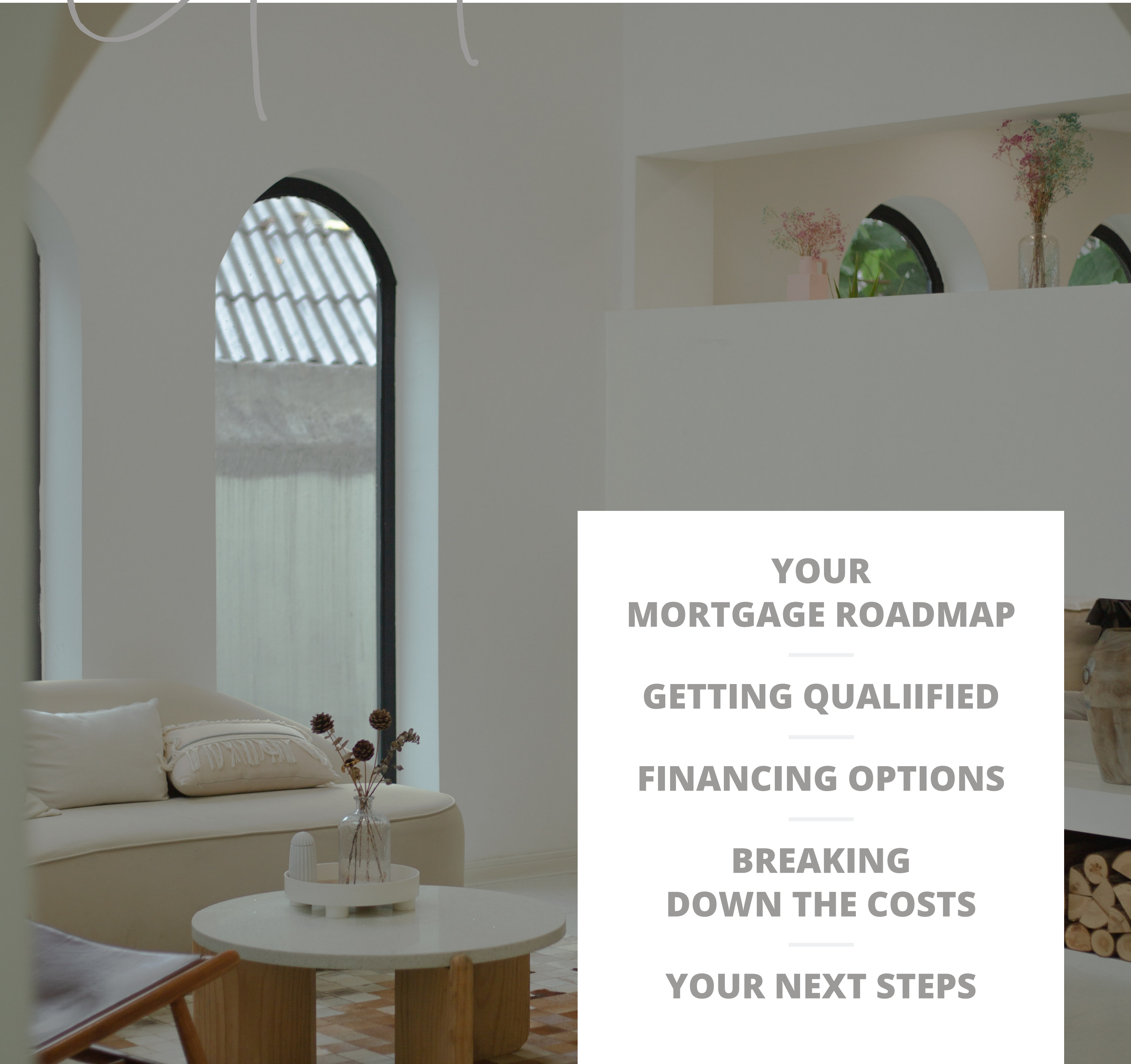
Mortgage Guide

YOUR GUIDE TO THE BASICS OF
A MORTGAGE APPROVAL.



**YOUR
MORTGAGE ROADMAP**

GETTING QUALIIFIED

FINANCING OPTIONS

**BREAKING
DOWN THE COSTS**

YOUR NEXT STEPS

Your Mortgage Roadmap

01 YOU NEED A LENDER.

You can either go through your bank or contract a Broker to find the best mortgage tailored to your unique financial circumstances.

Ask lots of questions along the way!

- What is your process for pre-approval and closing?
- How do you communicate with your clients?
- What is required for my down payment?
- What are your fees and how are they structured?
- What are the hidden costs?
- Is there an Origination Fee?
- Is fixed rate the best option for me?
- What is the prepayment penalty fee?

02 SUCCEED WITH PRE-APPROVAL

After contracting your lender, they'll be able to assess your financials and determine the size of the loan you qualify for.

By getting pre-approval, you'll be able to:

- Narrow down your market
- Signal to sellers that you're serious about home buying
- Make offers on your prospects
- Negotiate
- Close smoothly with a faster loan process

03 THE HUNT

Working with your Real Estate agent, find the ideal home that best suits your pre-approval. Make your offer, and expect a counter offer — your Real Estate agent will guide you through the negotiation process. Once a price is reached that both parties can agree on, a purchasing agreement will be signed.

04 APPLICATIONS & PROCESSING

You'll begin by filling out an application with your Lender about the home you've selected. They will create a file and request documentation. A home inspection will take place, followed by an appraisal to ensure the home is fit to sell. This is in the best interest of both the buyer and the Lender.

05 APPROVAL & CLOSING

Once you submit your completed application, it will be reviewed by a mortgage specialist called an underwriter. They will look at the completed application and supporting documents and determine if your application is fit for approval. Basically, if they trust you'll be able to pay back a mortgage within the agreed upon period of time. If they approve your application, you're ready to proceed with the closing of the sale!

Getting Qualified

As a prospective buyer, it's important to understand the process of qualifying for a mortgage. The four main elements of qualification are: your gross annual income, down payment, assets and liabilities, and finally, your credit history.

01 GROSS ANNUAL INCOME

Typically, most lenders want to see a steady stream of income and stable job history for a minimum of 2 years. Don't worry, if you're self employed, you can still qualify! The restrictions are a bit tougher, and lenders will want to see 3 years of steady income. Applying jointly? You and your partner will need to provide your combined gross annual income.

02 DOWN PAYMENT SIZE

Lenders will take into consideration the total sum of the down payment you're willing to offer. The larger the down payment, the easier it becomes to qualify. It all comes down to the level of risk; the less they lend you, the less risky it is for them.

03 ASSETS AND LIABILITIES

Lenders will have to measure your current debts and compare them to the new debt. They consider how your income compares to the payments on your mortgage and housing cost, as well as the other debts you may currently hold. These include car loans, student loans, and other lines of credit. The lower your rates of service debt are, the easier it becomes to qualify for a mortgage.

04 CREDIT SCORE

The final element of qualification is your credit score. A mortgage loan represents a lot of money, and your lenders are going to want to trust you to pay them back. Before applying for a mortgage, you should obtain a copy of your most recent credit score. Your credit score represents your track record of paying back debts — the higher the better. If you have a history of paying your bills in full and on time, you'll have an easier time qualifying. However, if you are often late and short, you may have a difficult time getting a good interest rate, or worse, not qualify for a mortgage at all.

Financing Options

Can't afford to buy a new home with cash in hand? Don't worry, you're not alone, and there are lots of options for financing.

CONVENTIONAL LOAN

This is considered a standard mortgage. With a 20% down payment, you will be able to access better interest rates and lower fees on your mortgage. The federal government does not issue or insure these types of mortgages.

FHA LOAN

An FHA loan is more accessible, with a minimum down payment as low as 3.5%! Sponsored by the Federal Housing Administration, this option is good if your credit score is too low to qualify for a conventional mortgage. Your interest rates may be higher, and you will be required to purchase insurance on this type of mortgage.

VA LOANS

A VA loan (also known as a Veteran's Loan) is a mortgage loan available to active and retired Military members. This type of loan is issued through a program established by the United States Department of Veterans Affairs rather than a bank. Many of these loans do not require a down payment, and may offer additional benefits.

Breaking Down Costs

When buying a home, there's more to the process than just the down payment on your mortgage to consider. Here's a quick breakdown of what you can expect:

THE EARNEST-MONEY DEPOSIT (EMD)

This is the commitment to purchasing the property in question. Your deposit is often about 1-2% of the purchase price of the home, although the actual number is negotiated between both parties. When the market is more aggressive, the seller may ask for a higher percentage. The money is then held in escrow in good faith by the seller's broker. It is considered a credit towards the down payment and closing costs. This deposit is non-refundable though, so make sure you've done your due diligence before paying it!

THE DOWN PAYMENT

A down payment is the money you pay up immediately to secure your mortgage. This is a percentage of the total value of the mortgage, which can be as low as 3.5% of the total mortgage. As mentioned in Getting Qualified, the bigger the down payment the better — when your down payment is less than 20%, you may be required to purchase mortgage insurance, which is known as Private Mortgage Insurance.

CLOSING COSTS

As the buyer, you will be expected to pay 2-5% of the total property cost as part of closing. Generally speaking, it's safer to budget on the higher side: 3-5%. This is required by the mortgage, the transaction, and any payment the lender requires, such as titles and taxes. These fees are not considered part of the purchase price, and will be collected at the closing of the sale.

Additional fees you'll want to consider are the Land Transfer Tax, New Home Warranties, Legal Fees, Home Inspection, Appraisal, Insurance, Sales Tax, and Property Tax. These fees vary depending on where you're purchasing.

The Anatomy of a Mortgage Payment

It's important to know that when you make a mortgage payment, it's not simply a small percentage of the mortgage that goes completely back into what you owe. There are a number of other sources that payment goes towards every month.

PRINCIPAL AMOUNT

This is the amount borrowed to finance your mortgage. The faster this is paid down, the less you pay in interest.

INTEREST

This is the amount you're charged by your lender to borrow the mortgage.

PROPERTY TAX

You can opt in to include your property taxes in your mortgage payments. This is not always mandatory, but if you don't do it, you can expect bi-annual bills from your municipality to collect the taxes.

PRIVATE MORTGAGE INSURANCE (PMI)

If you can only afford 5-19.99% as a down payment, you will be required to pay for PMI until you accumulate enough equity that your mortgage is no longer considered high risk. This is typically 0.25-2% of your mortgage balance per year.

This probably seems like a lot, but it's all part of owning a home. The percentage of your payment that goes in to the principal is small at first, but the more you pay down, the more equity you gain in your home.

Terminology Index

Understanding the lingo of mortgages is crucial in making sound financial decisions. Here's a list of terms that are important to know:

FIXED RATE MORTGAGE:

This is the most popular type of mortgage. Fixed rate means that your interest rate remains the same throughout the term of the loan. This provides stability to your monthly mortgage payments. If you have a set budget, this might be the best option for you.

ADJUSTABLE RATE MORTGAGE:

This means your interest rate will be flexible and subject to adjustments depending on your lender. It usually means you will have a lower rate to start with but risk increasing over time as the market changes. It's not arbitrary though — you will have a predetermined schedule for when these adjustments occur. This is usually a better option when Fixed Rate Mortgages are high.

ANNUAL PERCENTAGE RATE (APR)

This the annual rate of your interest, rather than monthly. APR typically appears higher because it includes lender and mortgage broker fees. This rate is required by law to be disclosed by your lender.

DISCOUNT POINTS

This is referred to as "buying down the rate". It is the sum you can pay to your lender to decrease the interest rate on your mortgage. One point equals 1 percent of the total loan amount.

AMORTIZATION PERIOD

This is the term of your mortgage loan, or how many years it will take to pay your mortgage back in full with regular monthly payments. The most common term is 30 years, but 15-20 year terms may also be available to you depending on the size of your down payment..A shorter term would allow you to pay less in interest fees, but your mortgage payments would be higher overall.

MORTGAGE TERM

The number of years which the borrower is bound by the conditions of a contract. This may include the interest rate.

Track Your Monthly Budget

Before applying for a mortgage, you should be aware of your monthly budget. Your lender will approve you for a certain monthly payment, so it helps to know what kind of cost you can afford to incur and still keep on top of your expenses.

MONTHLY EXPENSES

RENT / MORTGAGE	
RENT/ HOME INSURANCE	
LIFE INSURANCE	
CAR INSURANCE	
CAR PAYMENTS	
MISC LOANS	
UTILITIES	
CREDIT CARD PAYMENTS	
MOBILE	
INTERNET	
ENTERTAINMENT	
GROCERY	
CLOTHES	
MEDICAL / DENTAL	
PRESCRIPTIONS	
HOUSEHOLD GOODS	
ENTERTAINMENT	
______________________	
______________________	
______________________	
______________________	
______________________	
______________________	
TOTAL MONTHILY EXPENSES	

MONTHLY INCOME

PAY	
PENSION / SOCIAL	
DISABILITY	
INTEREST / DIVIDENDS	
OTHER	
TOTAL MONTHLY INCOME	

TOTAL INCOME		
TOTAL EXPENSES	-	
DISPOSABLE INCOME	=	

Your Next Steps

Right now, it's crucial to do your research. You want to set yourself up for success by picking the right lender who will help you secure the right mortgage for you. You'll want to find a term and rate that is affordable to you with conditions you can live with. So shop around, ask questions, read reviews, and get referrals from friends and family.

This is your opportunity to get organized before you begin applying for a mortgage. Having a financial plan in place will help you put your purchasing decision in place.

Things you should do now:

1. Save for your down payment
2. Track your monthly budget
3. Obtain an up-to-date credit score
4. Reduce your current debts
5. Prepare documentation of your finances
    a. 2-4 pay stubs
    b. 2 years of tax filings
    c. 3 months of bank statements

When you do begin the process of applying for a mortgage, be sure to reply to any requests from your lender quickly! The most common reason for approval delays is missing or incomplete information. The best way to ensure your application is processed quickly is to be prepared and respond to all requests from your lender.

Now that you've mapped out your mortgage process basics, you're ready to begin!

AS YOUR REAL ESTATE AGENT, YOUR BEST INTEREST IS AT THE HEART OF WHAT I DO. YOU CAN TRUST IN ME TO REPRESENT YOU AND GUIDE YOU THROUGH THIS PROCESS SO YOU CAN HAVE THE BEST POSSIBLE EXPERIENCE.

LAURA PIZARRO

Realtor®
Zuccaro Realty Group

561.603.5924

info@laurapizarro.com
www.laurapizarro.com