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Home Buying FAQ

1. What will a lender look at when I apply for a mortgage?

Lenders consider many factors in evaluating your loan application, but they usually focus on four areas:

Income and debt. How much money you make and what other bills you have to pay helps the lender determine whether you can afford to make mortgage payments.

Assets. The lender needs to make sure you have enough money to cover the costs of buying a home.

Credit. Whether you’ve met other financial obligations helps the lender predict whether you will repay your mortgage.

Property. The home you want to buy has to be worth enough to act as collateral for the mortgage.

2. What does it mean to get pre-approved?

Getting pre-approved means you receive a loan commitment from your mortgage company before you have found a home, based on a review of your credit and finances. Having your credit pre-approved shows sellers that you’re a qualified buyer and helps you establish a clear price range. The process is the same as a typical mortgage application, except that your application doesn’t include property information.

3. What if I’ve had credit problems?

Your credit history is only one factor in qualifying for a loan, and having made some late payments doesn't have to keep you from buying a home. Someone who has consistently made payments on time in the past may have more financing options than someone who has not, but that doesn't mean a mortgage is off-limits if you've had credit problems. We may be able to recommend a variety of mortgage options to help people with less-than-perfect credit become homeowners and leave credit challenges behind.

4. What is the minimum down payment I can make on a home?

There is generally no minimum down payment required for buying a home. Many first-time buyers believe they must be able to put down as much as 20% of a home's purchase price in cash. That may have been true in the past, but many of the mortgage options available to today's home-buyers require little or no down payment. With housing prices as high as they are, homeownership would be impossible for many people if not for these low-down-payment options.

5. Will I have to pay for Private Mortgage Insurance?

Private Mortgage Insurance (PMI) provides your lender with a way to recoup its investment if you are unable to repay your loan. PMI is usually required when the mortgage amount is higher than 80% of the home's value. That means that if you buy a home with a down payment of less than 20%, you will probably have to pay for PMI. One common way of bypassing PMI without making any down payment at all is to use an 80/20 program, which combines a first mortgage with home equity financing.

6. What closing costs will I have to pay?

Closing costs vary based on a number of factors — including the lender, mortgage type, purchase contract, and location — but they usually include the following:

- **Lender fees.** Your mortgage company may charge for expenses related to making the loan, including an appraisal fee, a credit report fee, origination points, and discount points.
- **Third party fees.** Charges for services not provided by your lender often include the settlement fee, title insurance, and attorney's fees.
- **Prepaid items.** Certain mortgage costs must be paid to your lender in advance. The most common of these are pre-paid interest, hazard insurance, and deposits to set up an escrow account.

7. Should I pay discount points?

Discount points are prepaid interest, which you can pay to your lender at closing in exchange for a lower interest rate on your mortgage. Paying discount points, each of which is equal to 1% of the loan amount, is often called "buying down" your rate.

So does paying points make sense for you? The answer depends primarily on how long you plan to stay in your home. First, find out how much lower your monthly payments will be if you pay points. Then, calculate how long it will take for those monthly savings to add up to the cost of the points. If it would take five years to break even and you're planning to live in your home for 10, paying discount points may be a smart move.

8. Should I choose a fixed-rate or adjustable-rate loan?

Most mortgage loans have either a fixed interest rate or an adjustable interest rate. With a fixed-rate mortgage, the interest rate never changes and your payments remain stable throughout the life of your loan. With an adjustable-rate mortgage (ARM), the interest rate changes at regular intervals — usually once every year — based on a formula that uses a market index. For most ARM options, rate adjustments begin after an initial period — usually between three months and ten years — during which the rate is fixed.

A fixed rate is usually best if you plan to stay in your home for the long term and are buying at a time when rates are relatively low. An ARM is usually best if you plan to move before the rate adjustments begin, or if you are buying when rates are relatively high.

For help deciding which option is best for you, please discuss your situation with one of our agents.

9. Should I lock my rate?

Locking your interest rate means your lender guarantees the rate on your loan even if market rates change before closing. Most lenders will allow you to lock your rate for 30 to 60 days, with the option to extend the rate-lock period for a fee. So how do you know whether to lock your interest rate? It depends on whether you expect rates to rise or fall before you close on your home. No one knows for sure which direction rates will go at a given time, so it's a difficult to make a reliable prediction. It helps to keep track of announcements from the Federal Reserve Board, whose monetary policies have an effect on mortgage rates, and to talk to you financial advisor about what may happen in the near term.

10. What will my mortgage payments include?

For most borrowers, each monthly mortgage payment goes toward the following:

- **Principal,** which is the total outstanding balance of the loan
- **Interest,** which is the cost of borrowing money
- **Taxes,** which are levied on the property by the local government
- **Insurance,** which protects the owner and the lender from losses caused by fire and natural hazards