Hello MORTGAGE

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

CONNECT WITH ME

STEP 01

Connect with me to discuss your mortgage goals. Make sure to ask plenty of questions, such as:

- What is my process for pre-approval?
- How do I communicate with homebuyers?
- What will be my down payment requirement?
- What are the fees?

STEP 02

GET PRE-APPROVED FOR A MORTGAGE

Say Hello To The Easiest Way To Mortgage!

1. **Complete the application online**
2. **Upload your docs** (I get docs upfront so that you know you're on solid ground when you start house hunting. Not everyone does this and it's one of the reasons I am more successful.
3. **Discuss mortgage options**

HOUSE HUNTING & OFFER

STEP 03

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

LOAN PROCESSING

Once you have an accepted offer to purchase, I'll submit the application to the lender for formal approval.

Depending on how long it has been since you received your pre-approval, there may be a need for updated documents.

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, 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.

- Find out your current **credit history and score**. Credit scores range between 300 and 900. A credit score above 640 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. 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 using our online calculator. The maximum that many lenders would like to see for your monthly mortgage payment is 32% of your gross monthly income.

- **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. With at least a 20% down payment, you won't be required to have mortgage default insurance. Because the mortgage isn't insured the risk to the lender is slightly higher and the interest rate will be slightly higher than a "high ratio" mortgage. Lenders will also require an appraisial on the property.

HIGH RATIO

Any home purchase with less than 20% down payment. Mortgage default insurance is added to the mortgage and paid by the borrower. This protects the lender in the event of a default by the borrower. Because the risk to the lender is lower than a conventional mortgage, the interest rate will be lower.

SPECIAL PROGRAMS

There are many different mortgage programs available to home buyers.
- Cash back on closing
- Borrowed/flex down payment
- First responders
- First Time Home Buyer incentive
- Home Buyer's Plan

Connect with me to learn more about these programs.

costs

TO CONSIDER WHEN BUYING

DEPOSIT

Typically 1-2% of the purchase price, this is a deposit paid by the buyer. This is held by the real estate company as a good faith from the buyer to the seller. At closing, the deposit will be used as a portion of the down payment..

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 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 lawyer 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. *Some lenders allow you to pay this on your own.

MORTGAGE DEFAULT INSURANCE

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

HOMEOWNER'S INSURANCE

The amount you pay to insure your home from damages (fire, natural disasters, etc.) *Not included in your mortgage payment, but it is a required monthly payment associated with home ownership.

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 **Variable rate mortgage (VRM) -**
The interest rate is flexible and subject to adjustments. A variable rate mortgage is one where the interest rates change with the market but the monthly payments are always the same. When rates increase, less of your monthly payment goes towards the principal and more towards the interest portion.

03 **Adjustable rate mortgage (ARM) -**
An adjustable rate mortgage is one where the monthly payments can change when the interest rate changes. So if the interest rates go lower, then the monthly mortgage payments will be lower. However, if the interest rates go higher, than the mortgage payment will also increase.

04 **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.

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	$

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 know and understand your current credit score. This will help you decide if you will qualify for mortgage financing or if you have items that need to be addressed before applying for a home loan.

I 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 document 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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