PAPPAS • DAVIS
REAL ESTATE
Unique Mountain Properties

The Loan Process
Financing Your Home Purchase

1. Examine your Financial Situation

- Make a list of your monthly expenses, and project your expected financial commitments during the life of the mortgage. This will provide a realistic figure of what you can afford.
- In searching for a loan you should consider two main sources:
    - Direct Lenders: Lenders have the money and make the decisions, but have a limited number of in-house products to offer.
    - Mortgage Brokers: Brokers are intermediaries who charge a fee, but who can provide you with loan options from many sources and can often save you money overall.

2. Review Your Basic Mortgage Options

- Generally, there are two main options:
    - A fixed-rate mortgage with an interest rate that remains the same for the life of the loan.
    - An adjustable-rate mortgage (ARM) with a rate that adjusts up or down, depending upon economic trends.
- The advantages of fixed-rate mortgages – particularly if you lock in at a low rate – are that they protect you against the risk of rising interest rates, and their stability can also make it easier for you to plan and budget your short and long-term expenses. Their downside is that they generally have higher rates than ARMs at any given time, and by locking in, you run the risk of being trapped at a relatively high rate if interest rates fall.
- In this connection, another major consideration when getting a fixed-rate mortgage is the term. Shorter term mortgages, like a 15-year term, have lower rates than a 30-year mortgage. The shorter term and lower rate mean that you'll pay both less principal and interest over the life of the loan, although your monthly payments will generally be higher.

- On the other hand, an adjustable-rate mortgage (ARM) rate is commonly based on the U.S. Treasury index for a one-year Treasury bill, although it may also be geared to other indexes. Generally, lenders add 2-4% to the index rate to get their ARM rate. Initially, the rate is lower than the fixed rate by a quarter-point to two points or more. This rate will periodically adjust within set limits or "caps" that are specified by the terms of the loan.
- Finally, it must be noted that the loan you ultimately qualify for will depend on your credit status. The best rates and terms are only available to those with solid credit. So, if possible, pay off your credit cards and make all other bill payments in full and on time.

3. Get Pre-Approved For a Loan

- Generally, it is recommended that you get pre-qualified for a loan before you start viewing homes with a serious intention of buying. It is recommended that you speak with at least three lenders and/or mortgage brokers. Shop for the best interest rates and programs that suit your needs.
- The pre-approval process involves meeting with a lender and authorizing them to examine your current financial situation and credit history.
- On the basis of this examination, the lender will provide you with a document that details how much you can borrow to buy a home.
- There are benefits of pre-qualification:
    - To have the information regarding what you can afford.
    - As a qualified and motivated buyer, you'll be taken more seriously when you make an offer on a home.
    - Some sellers will require a buyer prequalification letter when a contract offer is presented.
    - Lenders can tell you whether you qualify for any special programs that will enable you to afford a better home (particularly if you're a first-time buyer).

4. Apply For a Mortgage

- Once you've reached a pending agreement with a seller to buy a home you'll have all the details you need to formally apply for a mortgage. When you meet with your chosen lender to complete the application you'll need to provide information – if you didn't during the pre-approval process – about your household income, job tenure and stability, assets and existing debt, and regular expenses. This may take the form of pay stubs, bank and investment statements, tax returns and other documentation. The lender will also check your credit status.
- During the application process you'll discuss your different loan options and programs you qualify for, as well as finalize the size of your down payment. If you place less than 20 percent down, the lender will require the mortgage to be guaranteed by a third party such as the Veterans Administration (VA), the Federal Housing Administration (FHA) or a private mortgage insurer (PMI).
- Because there are so many considerations and so much is at stake, make sure you bring all your questions to the table,; this includes asking the lender to explain all terms of the mortgage.
- Lastly, if you're deemed to qualify for the loan you're seeking, the lender will often have the home you're buying professionally appraised to ensure that it is worth the purchase price.