

ANSWERS TO THE MOST COMMON MORTGAGE QUESTIONS

Obtaining a mortgage in today's ever-changing market is often complicated. Numerous products serve varying needs depending on a homeowner's future income, length of occupancy, and current real estate trends. Here are answers to some of the most common questions about mortgages.

Q: *What advantages does pre-approval offer to homebuyers?*

A: When a borrower applies for a mortgage before finding a house, and receives a written commitment from a lender to finance a suitable property when found, the buyer has several advantages, including:

House hunting made easy. Pre-approval lets the home buyer know exactly how much home he or she can afford. Home finding is focused on a precise price range.

Cash buyer status. The buyer has the increased negotiating leverage of cash buyer status, because the mortgage is already in place.

Accelerate the mortgage process. Significant time is saved because a large part of the mortgage has already been processed.

Q: *How do underwriting or qualifying ratios work?*

A: Qualifying ratios are percentages of a homebuyer's gross income that can prudently be allotted for debt. These calculations help the mortgage lender determine whether the borrower will be able to make mortgage payments in a timely and consistent way.

The most commonly used rule of thumb is 28% or 36%, which limits the sum of monthly mortgage principle, interest, property taxes and insurance payments (PITI) to 28% of the home owner's gross monthly income and further limits the total of all long-term debt payments to 36%. Lenders may relax these limits to allow a financially stable borrower to qualify for a larger loan amount. Compensating factors that count include an excellent credit history, a consistent savings pattern, or a future increase in income. Moreover, borrowers who are eligible for qualifying levels of 33% and 38% (vs. 28 and 36) because as a group they show a track record of lower risk of default, and they move more frequently than other home owners.

Q: *What costs are incurred at a typical closing?*

A: In addition to the "points" you elect to pay when applying for the mortgage, at closing you will be required to pay a down payment, closing costs and prepaid costs.

Points are fees paid to the lender to obtain a lower interest rate. A point equals one percent of the loan amount. Points are usually paid at the time of closing. Discount points are paid by the buyer to reduce the loan's interest rate. Paying one discount point normally reduces the rate by 1/8th%. If the home buyer plans to keep the residence for five or more years it is worthwhile to pay as many discount points as possible to reduce the monthly payments and achieve greater savings over the life of the mortgage.

The down payment is the difference between the price of a house and the mortgage amount. Part of the down payment is usually paid as "earnest money", or deposit, when the contract is signed by both buyer and seller. The balance of the down payment is due at the closing.

Closing costs are the other charges the buyer must pay to obtain a loan. These usually include taxes, which are charged in most states, and title insurance, which protects the borrower and the lender in the event anyone can prove that the borrower is not the proper owner of the house.

Q: *How much will these closing costs actually be?*

A: If the mortgage is for more than 80% of the price of the home, private mortgage insurance protecting the lender may be required. Closing costs also include the cost of a property appraisal and credit report. Prepaid items are the first several months of costs paid on a monthly basis such as homeowner's insurance and real estate taxes. These prepaid items are held in an escrow account for the borrower.

The down payment will depend on the mortgage you have obtained, it can be as little as 3%, and occasion-ally, even zero, or as much as 30% *or more*

of the purchase price. Points will add another 1% to 3% of the purchase price.

In some areas, closing costs add up to another 5% of the mortgage amount, and in the New York area, may be even higher. That means, for example, if you buy a \$90,000 home you will need at least \$2,700...and more likely...\$4,500 for a down payment, plus another \$5,000 to \$7,500 for closing costs.

When applying for a mortgage, your mortgage counselor will provide a good faith estimate of the closing costs as part of the applications package you receive.

Q: *What information is required with a mortgage application?*

A: Personal, employment and financial information will be required. A list of what you need to supply your lender follows.

Personal information:

- The full names of all buyers as they appear on the title,
- Social Security numbers of all buyers listed on the title,
- Present addresses of all buyers going back at least 2 yrs.
- Home, office phone numbers.

Employment information:

- Present employer's name, address and a contact person to whom an employment verification form may be sent,
- Written explanation for any gap during a 2 year period,
- Previous employer name and address going back 2 years if not in present job 2 full years.
- Present salary. (Year to date pay stub and last 2 yrs. W-2)
- Variable income: commission, part-time income, bonus, overtime and/or interest income used to qualify. Supply 2 yrs. signed, federal tax returns and W-2s and/or 1099s.

- Self employed: Supply 2 yrs. signed federal, personal and business tax returns, a profit and loss statement and a balance sheet.

Other Income:

- Rental income. Supply a copy of a current lease that is in effect for at least 12 months.
- Alimony and child support. If you use for qualification, supply copy of divorce decree and property settlement showing terms. Proof of payment is also necessary.
- Income from notes held. Supply copy of ratified note.
- Retirement, social security and disability income. Supply copy of award letter and latest check showing amount of present payment. Copy of year-end statement, if applicable, may be necessary.

Assets:

- Bank account names, addresses, account numbers, balances. Show the average daily balance for your checking accounts.
- Supply the two most recent bank statements for all accounts, with the exception of your checking accounts, for which you may need statements for the past 12 months.
- If you have owned another home you will need the past 12 months cancelled mortgage payment checks to prove you made timely payments.
- Stocks and bonds. Supply copies of certificates or statements of accounts that you received from your broker within the past 30 days that list your holdings and any/all action on your accounts.
- Mutual funds. Supply a copy of your most recent statement and an explanation of any recent account activity that is not included on the statement.
- Life insurance. Include the current cash value of all life insurance policies owned by all buyers who will be listed on the title.
- Vehicles. List year, model, make and value and supply copy of the title if vehicle is less than 4 years old, has no outstanding lien or has investment value.
- Real Estate. Supply address and market value. If free and clear, date of mortgage payoff. Supply copy of deed.

- Present residence. Supply copy of sales contract, settlement sheet.

Liabilities:

- All loans including mortgages on real estate, home improvement, auto, education and personal loans. Include name and address of lender, account numbers, outstanding balance for all loans, monthly payments, months left on each loan, a copy of the next payment coupon.
- Credit cards. Account numbers, outstanding balance, most recent statements for all credit cards.
- Alimony and child support. Supply a copy of your ratified decree and property settlement documenting the terms of the decree.

Present home:

- Copy of the listing.
- Copy of the sales contract.
- Settlement sheet (if the house was sold within the past year.)
- Copy of the deed if you are refinancing.
- Name and address of your present landlord if you are renting or leasing.

Q: What do I need to do to apply for a VA loan?

A: Basically, two documents.

- Certificate of eligibility. To obtain the certificate, you will need a DD-214 (Separation of Service) or if you are still in military service, a statement of service signed by your commanding officer or personnel officer. The statement must be updated before application.
- Authorization to Live Off Base, form DD-1747 from the Housing Office, and , Transfer Orders (if they are applicable).

Q: What payments are made at the time of loan application?

A: Usually only two payments.

- Appraisal Fee
- Credit Report

At some banks or financial institutions you may have to pay an “application fee” to cover the lender’s (or loan broker’s) cost to process the paperwork.

Buyer’s Mortgage Qualification Guide

Gross Yearly Income	25% of Gross Mo. Income	28% of Gross Mo. Income	33% of Gross Mo. Income	36% of Gross Mo. Income
\$25,000	\$521	\$583	\$688	\$750
\$30,000	\$625	\$700	\$825	\$900
\$40,000	\$833	\$933	\$1100	\$1200
\$50,000	\$1042	\$1167	\$1375	\$1500
\$60,000	\$1250	\$1400	\$1650	\$1800
\$70,000	\$1458	\$1633	\$1925	\$2100
\$80,000	\$1667	\$1867	\$2200	\$2400
\$90,000	\$1875	\$2100	\$2475	\$2700
\$100,000	\$2083	\$2333	\$2750	\$3000