

LOAN FAQ's

1 What types of documentation do I need for the application?

Based on the loan program you choose, the exact documents required will vary. In general, you should bring the following:

- Federal income tax statements and verification of any additional income
- Your two most recent W2's.
- Current paycheck stubs
- Recent bank statements
- Asset and liability information (stocks, bonds, other real estate, etc.)

2 How do I know which type of mortgage is best for me?

There is no simple answer to this question. The right type of mortgage for you depends on many different factors:

- Your current financial situation
- How much you expect your finances to change
- How long you intend to stay in your house
- Your tolerance for having your mortgage payment changing from time to time.

We can help you decide which loan program is best for you. Give us a call and we'll review your situation with you and show you what programs you might like.

3 How much of a down payment will I need?

Quite probably, less than you think. Many first-time buyers are surprised to learn there is no fixed answer to this question. Usually, down payments range anywhere from three to twenty percent of the property's value.

4 What is escrow?

In addition to the principal and interest portion of your monthly payment, the terms of your loan agreement allow the lender to collect funds from you for the payment of your real estate taxes, insurance bills, and sometimes other items. These additional funds are referred to as the escrow portion of your payment. They are collected throughout the year and paid on your behalf.

5 What is amortization?

This is the lifetime of your loan. For example, most mortgages have an amortization of 30 years, meaning your mortgage will be paid off after 30 years.

6 Will my monthly payment always stay the same.

No, your monthly payment can change for the following reasons:

- Escrow Analysis - At least once a year, your lender will analyze your escrow account, and adjust the portion of your monthly payment collected for real estate taxes, insurance, and other escrow items. Your new monthly payment amount shown on the analysis will typically be effective on the anniversary of your first payment due date.
- ARM Adjustments - If you have an adjustable rate loan, the interest rate and principal and interest (P & I) portion of your payment will change on a scheduled basis based on its index. To determine when your new payment will become effective, please refer to your loan agreement. If you have an escrow account, the escrow portion of your payment may change as well.

7 How does the lender decide the maximum loan amount that I can afford?

The lender considers your debt-to-income ratio, which is a comparison of your gross (pre-tax) income to housing and non-housing debts. Non-housing expenses include such long-term debts as car or student loan payments, alimony, or child support. Typically, mortgage payments should be no more than 29% of gross income, while the mortgage payment, combined with non-housing expenses, should be no more than 41% of income. The lender also considers your cash available for a down payment and closing costs, credit history, and employment history when determining your maximum loan amount.

8 Do I really need homeowners insurance?

Yes. Proof of a paid homeowner's insurance policy is required at closing, so arrangements will have to be made before then. Plus, involving the insurance agent early on in the home buying process can save you money. Insurance agents are a great for tips on how to keep insurance premiums low and information on home safety.

9 What is loan-to-value and how does it determine the size of the loan?

The loan to value ratio is the amount of money you borrow compared with the appraised value of the home you are purchasing. Each loan has a specific LTV limit. For example: With a 95% LTV loan on a home priced at \$100,000, you could borrow up to \$95,000. The higher the LTV, the less cash homebuyers are required to pay out of their own funds. So, to protect lenders against potential loss in case of default, the higher LTV loans (over 80%) usually require a mortgage insurance policy.

10 What are discount points?

Discount points enable you to lower your loan's interest rate. They are basically prepaid interest, with each point equaling 1% of the total loan amount. By and large, when you pay a point on a 30 year mortgage, you can lower your interest rate by 1/8 (or .125) of a percentage point. When comparing loan rates, ask lenders for an interest rate with 0 points and then see how much the rate decreases with each point paid. Discount points are a good idea if you plan to stay in your home for some time since they will lower your monthly loan payment. Points are tax deductible when purchasing a home and sometimes you can negotiate with the seller to pay for some of them.

11 What is the difference between discount points and loan origination points?

You purchase discount points to lower your interest rate. Origination points are a fee paid to the originating lender which are part of the profit margin for the services that they provide. Both are measured as percentage of the loan amount and both are factored into the loan's APR. Generally, points are deductible as long as the seller didn't pay for them and origination fees are tax deductible provided they are expressed as a percentage.

12 What is the difference between the mortgage rate and the APR?

The APR (Annual Percentage Rate) of a loan is supposed to be an overall interest rate with all the applicable closing costs factored in. Unfortunately, not all lenders include the same costs so not all APRs are created equally. Use the APR as a general guide to the overall cost of the loan but keep in mind that you have to look at the details of what's included to be sure.