



Applying for a Mortgage



Since most people finance their home purchases, buying a home usually involves applying for a mortgage. Here is some basic information to help guide you through the process.

Mortgage prequalification vs. preapproval

Before applying for a mortgage, you'll want to shop around and compare the mortgage rates and terms that various lenders offer. When you find the right lender, find out how you can prequalify or get preapproval for a loan.

Prequalifying gives you the lender's estimate of how much you can borrow and, in many cases, can be done over the phone, usually at no cost. Prequalification does not guarantee that the lender will grant you a loan, but it can give you a rough idea of where you stand. If you're really serious about buying, however, you'll probably want to get preapproved for a loan. Preapproval is when the lender, after verifying your income and performing a credit check, lets you know exactly how much you can borrow. This involves completing an application, revealing your financial information, and paying a fee.

Generally, if you're applying for a conventional mortgage, your monthly housing expenses (mortgage principal and interest, real estate taxes, and homeowners insurance) should not exceed 28 percent of your gross monthly income. In addition, most mortgages require borrowers to have a debt-to-income ratio that is less than or equal to 43 percent. That means that you should be spending no more than 43 percent of your gross monthly income on longer-term debt payments.

It's important to note that the mortgage you qualify for or are approved for is not always what you can actually afford. Before signing any loan paperwork, take an honest look at your lifestyle, standard of living, and spending habits to make sure that your mortgage payment won't be beyond your means.

Before you apply

Do some homework before you apply for a mortgage. Think about the type of home you want, what your budget will allow, and the type of mortgage you might want to apply for. Obtain a copy of your credit report, and make sure it's accurate; you'll want to dispute any erroneous information and quickly correct it. Be prepared to answer any questions that a lender might have of you, and be open and straightforward about your circumstances.

What you'll need when you apply

When you apply for a mortgage, the lender will want a lot of information about you (and, at some point, about the house you'll buy) to determine your loan eligibility. Some of the information you'll need to provide:

- The name and address of your bank, your account numbers, and statements for the past three months
- Investment statements for the past three months
- Pay stubs, W-2 withholding forms, or other proof of employment and income
- Balance sheets and tax returns, if you're self-employed
- Information on consumer debt (account numbers and amounts due)
- Divorce settlement papers, if applicable

You'll sign authorizations that allow the lender to verify your income and bank accounts, and to obtain a copy of your credit report. If you've already made an offer on a home, you'll need to give the lender a purchase contract and a receipt for any good-faith deposit that you might have given the seller.

Types of mortgages

Like homes themselves, mortgage come in many sizes and types. The type of mortgage that's right for you depends on many factors, such as your tolerance for risk and how long you expect to stay in your home. The following are some of the more popular types of mortgages available:

- Conventional fixed rate mortgages
- Adjustable rate mortgages (ARM)
- Government mortgages (e.g., FHA or VA mortgage loans)
- Hybrid adjustable rate mortgages (ARM)
- Jumbo loans

Finalizing the application

As your mortgage application is processed and finalized, your lender is required by law to give you a Loan Estimate within three business days of receiving your application. The Loan Estimate is a form that spells out important information about the loan you applied for, such as the estimated interest rate, monthly payments, and total closing costs for the loan.

Sincerely,



John Kent Kidwell