Obtaining a Mortgage

Obtaining a loan to buy a house is a demanding, meticulous process. You will need to document how much money you have, how you got that money, and persuade lenders that money will continue to arrive to cover your mortgage and other financial obligations. Keep copies of all documents you submit for your mortgage application. At the very least, you'll have a record of the process. And in case parts of your application package go missing, you can quickly supply replacements and keep the loan approval process on track.

Information Needed at Your Application

1. W-2 (2 years) & current paystub (30 day).
2. Contract of Sale and legal description.
3. Latest 3 months bank statements (all accounts).
4. All currently monthly obligations including credit cards, account numbers, monthly payment and balance owed.
5. Loan Information on other real estate owned.
6. Copy of Driver's License or other photo ID (FHA/VA).
7. Certificate of Eligibility and DD214's (VA Only).
8. Check for credit report and appraisal.
9. Self-employed: Last two-years tax returns with schedules, YTD P&L and Balance Sheets
10. Divorce Decree and /or Bankruptcy papers (If applicable).

What Type of Loan Is Right For You?

Your lender will consider these factors when assessing the types of mortgages appropriate for you. Remember, though, that you need to be conservative in estimating the amount of total debt your household can comfortably carry. Just because you qualify for a 'stretch' loan doesn't mean you should take it.

Key factors in the mortgage include:

- The required down payment
- Both the interest rate and the annual percentage rate (APR)
- Standard closing costs and fees
- Requirements from secondary lenders, such as Fannie Mae and Freddie Mac, that might acquire your mortgage. These secondary lenders prefer cookie-cutter, standardized loans so they can assemble portfolios of identical mortgages for investors. If your situation is unusual – for instance, if you are self-employed or have an erratic income – you might not be able to get a loan that conforms to the secondary market. That will significantly complicate your ability to secure a mortgage.

The most common types of mortgages include:

Conventional Mortgages. A conventional mortgage offers a fixed rate, typically for 10, 15 or 30 years. The down payment requirement will likely range from 10% to 20% or even more. If you put less than 20% down, you'll be asked to carry private mortgage insurance (PMI). If you're a first-time homebuyer, you might qualify for a loan through a Federal program, such as the FHA, or a state program, geared for first-time or moderate-income buyers. These loans typically require smaller down payments.

Adjustable rate mortgages. Adjustable rate mortgages carry an interest rate that changes to reflect current market rates. This is an option for buyers planning to stay in their home for a short time. If you plan to stay in the home for an extended period of time, you may be better off locking in a fixed rate with a conventional loan. When deciding whether an ARM is right for you, determine the following:

- Will I be able to afford higher mortgage payments if interest rates go up?
- Will I be making other sizable purchases in the near future such as a car or college?
- How long do I plan to own this home?

FHA mortgages. Loans through The Federal Housing Administration (FHA) help low-to-moderate income home buyers purchase homes with low down payments (historically, 3%). Rules for FHA loans have been changing, so check with your lender for the latest parameters.

VA mortgages. Veteran Affairs loans may provide the opportunity to buy a home with no down payment. They are offered up to a predetermined loan amount (not more than $200,000) and might be assumable by qualified buyers. Check with your lender to learn the current rules applying to VA loans.

Assumable mortgages. An assumable mortgage is a loan that stays with the property. It is simply transferred to the qualified home buyer. This means considerable savings for the next buyer. It may include no points, no interest rate change and low closing costs. Assumable mortgages are often the most valuable part of a property. An assumable loan can be a marketing advantage when you sell the house because the new owner can take over the loan payments. However, parameters for government-backed loans have been changing, so always check with your lender for the latest rules.

Balloon mortgages. The balloon mortgage has a fixed rate for a certain time frame, typically seven years, followed by a "balloon" payment requiring repayment of the entire home loan balance. Interest rates are generally lower than conventional loans. People may choose this type of loan because they plan on either selling the home, paying it off, or refinancing before the balloon payment is due. Balloon mortgages were in favor during the housing bubble, but have since fallen in popularity because many borrowers could not afford the balloon payments.

Private mortgage insurance. If you put less than 20% down on a loan, you will likely have to pay PMI or Private Mortgage Insurance. PMI protects the lender against a loss in

the event of default by the borrower. You can ask your mortgage company to remove the PMI if you’ve paid 20% of the loan. However, you will be asked to provide an appraisal.

Most lenders require you pay real estate taxes and insurance on a monthly basis. This cost is included in your monthly mortgage payment, placed in an escrow account, and paid out by your mortgage company.