

Applying for a Mortgage

The first step in applying for a mortgage for financing is to fill out a mortgage application or get pre-approved with a lender. A lending institution will qualify a buyer at no cost, and after a Purchase and Sales Agreement is signed, the mortgage application can be processed. Most lenders have two steps to approve a loan, the first approval of the subject property which is typically done with an appraisal and secondly, it must approve the borrower. Most sales contracts for real estate have a financing clause for the property. The financing clause states the borrower has a specified period of time to get approved for the loan amount. In most cases buyers have pre-approval for the loan amount and the subject property must have equity for the lender to process the loan. It is not unusual to see the loan applicant denied due to credit issues or no credit history. Prepare in advance to be pre-approved and have a lender in mind before signing a Purchase and Sales agreement.

Mortgage Types

There are various mortgage options available today and should be reviewed in detail with your financial or legal advisor. The borrower should be familiar with the common types of mortgages and choose a mortgage the best suits his or her needs. A few common types of mortgages are listed below:

- Conventional (lender to borrower)
- V.A. Mortgage (G.I. Mortgage/Veterans Admin)
- F.H.A. Mortgage (Federal Housing Admin)
- Construction Mortgage (Finances new home construction)
- Purchase Money Mortgage (seller financing)
- Variable Rate Mortgage (rates may vary ; ARM)
- Balloon Mortgage (final payment larger than preceding payment)
- Equity (home equity; borrow on equity in property)
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Other types of mortgages are available, lenders can offer you a variety of plans suited to your particular real estate needs.

Mortgage Payment vs. Purchase Price

Take a moment to review our home page mortgage calculator. This will provide you with an estimate of your payment based on the interest rate and purchase price of your new home.

	50,000	100,000	200,000	300,000	400,000	500,000	LOAN
5 %	268.41	536.82	1073.64	1610.46	2147.29	2684.11	
6%	299.78	599.55	1199.10	1798.65	2398.20	2997.75	
7%	332.65	665.30	1330.60	1995.91	2661.21	3326.51	
8%	366.88	733.76	1467.53	2201.29	2935.06	3668.82	
9%	402.31	804.62	1609.25	2413.87	3218.49	4023.11	
10%	438.79	877.57	1755.14	2632.71	3510.29	4387.86	
%RATE							

The above table shows your monthly payment based on a 30 yr loan and APR interest, PMI and taxes are not included. When applying for a real estate mortgage, take a moment to review your local lenders rates and programs.

What is the total cost of my new real estate purchase?

Let's take a look at an example of closing on a real estate transaction:

Loan Payment (Principle / Interest and PMI)	\$1700.00
Taxes	\$150
Insurance	\$ 50
Other (fixed one time fees)	
Legal	\$500
Title Insurance	\$200
Mortgage application fees	\$1500
Deed Record	\$150
Application fee	\$250
Appraisal fee	\$250
Processing fee	\$150
Points (if any)	

* Closing costs may vary subject to lender and attorney's fees, above fees are for illustrative purposes only.

Mortgage terminology

Take a moment to review lenders for competitive rates and closing costs and consult with your attorney before entering into a Purchase and Sales Agreement and Mortgage Application.

Adjustable Rate Mortgage (ARM Loan): An ARM Loan has an initial interest rate that is often lower than a conventional fixed-rate mortgage. This initial rate is usually locked in for one or more years. Once the initial term is over, the interest rate on an ARM loan may go up within specified limits over predetermined intervals during the course of the loan. The lower initial interest rate associated with an ARM loan translates to a lower initial monthly payment. The tradeoff, however, is the potential for a higher payment if interest rates go up as the ARM loan progresses.

Annual Percentage Rate (APR): The APR for your home loan is an annual calculation that includes the interest rate quoted by your mortgage company plus additional home loan costs such as origination fees and points. The important thing to keep in mind about your loan's APR is that it will be higher than advertised interest rates because of these additional factors.

Closing Costs: With each real estate transaction, there are many expenses to pay and agencies to compensate. These fees, which are often shared by the buyer and the seller, are referred to as the closing costs. When you buy a home, the closing costs might include loan origination fees, escrow payments, title insurance, attorney fees and even discount points paid to lower your loan's interest rate.

HUDD: HUD-1 statement

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. The blank form for the statement is published by the Department of Housing and Urban Development (HUD). The HUD-1 statement is also known as the "closing statement" or "settlement sheet."

Escrow: During the home loan process, a neutral third party known as Escrow holds documents and money (including earnest money deposits) for safekeeping until the real estate transaction is complete. An Escrow account is also used once you complete your home loan to hold the property tax and insurance monies that are collected with each mortgage payment.

Fixed-Rate Mortgage: A conventional fixed-rate mortgage means that your interest rate will be the same for the entire life of the home loan. Financing for this type of loan is typically spread out over 10, 15, 20, or 30 years, depending on the needs and payment capability of the buyer. A fixed-rate mortgage provides buyers with the security of knowing exactly what their monthly house payment will be during the entire loan term.

Loan to Value Ratio (LVR): When you buy a home, this term refers to the amount of financing you are getting in relationship to your new home's value. For example, an \$80,000 mortgage on a \$100,000 home has an LVR of 80 percent. This is important because an LVR of more than 80 percent will require you to purchase private mortgage insurance (PMI). To illustrate, if you finance \$90,000 of your \$100,000 home, your LVR will be 90 percent, initiating the need for PMI.

Lock-In: Home mortgage interest rates vary from day to day. While you buy a home and secure financing, you may decide to lock in a particular interest rate with your lender. This lock-in guarantees that your home loan will be processed with this rate, even if interest rates rise before your loan closes.

Points: There are two types of points that can be applied to a home mortgage. Discount points are used to reduce the loan's interest rate and origination points may be added to cover the expenses associated with processing a loan. One point equals one percent of the loan amount. This means that, to lower your interest rate by one point on a \$300,000 mortgage, you'll need to pay an additional \$3,000 at closing.

Private Mortgage Insurance (PMI): When you finance more than 80 percent of your new home's value, your lender will require you to purchase PMI. This protects the lender against loss if you default on your home loan. Your monthly PMI payment is added to the cost of your mortgage payment. It is important to note that when you have accumulated 20 percent equity in your home, you will want to check into canceling your PMI to lower your monthly mortgage payment.

Title Insurance: A home mortgage requirement, title insurance protects both the buyer and the seller against legal defects in a home's title. This policy ensures that a property owner has the legal right to transfer a home's title to the seller. If a problem occurs, the title company pays the associated legal fees to correct the situation.