Preliminary
Financing Concerns

Most homebuyers find that they need to finance at least part of their home purchase. Therefore, the first stage in finding the right home is to review your personal financial situation and make an informed estimate of your true purchasing power. Your purchasing power will depend on:

• Your Income
• Your Credit Rating
• Other Monthly Expenses
• Your Down Payment
• Available Interest Rates

How Much Home Can You Buy?
The next four steps discussed will help you review home financing and get you prepared to speak in detail with a lender. A more
thorough overview of the financing process is covered later in this guide.

Step 1: Make a rough estimate of how much home you can afford based on your income.
Here are a few methods that will give you an approximate starting point for how much home you can afford.

Method 1: *The price of your home shouldn't be any more than 2.5 times your annual salary.*

Annual Salary	Maximum Home Value
$50,000	$125,000
$60,000	$150,000
$70,000	$175,000
$80,000	$200,000
$90,000	$225,000
$100,000	$250,000

Annual Salary	Maximum Home Value
$110,000	$275,000
$120,000	$300,000
$130,000	$325,000
$140,000	$350,000
$150,000	$375,000
$160,000	$400,000

Method 2: *A house payment should be no more than 25% of your gross monthly income (before taxes and deductions)*

Annual Salary	Gross Monthly Income	Maximum House Payment
$50,000	$4,167	$1,250
$60,000	$5,000	$1,500
$70,000	$5,833	$1,750
$80,000	$6,667	$2,000
$90,000	$7,500	$2,250
$100,000	$8,333	$2,500
$110,000	$9,167	$2,750
$120,000	$10,000	$3,000
$130,000	$10,833	$3,250
$140,000	$11,667	$3,500
$150,000	$12,500	$3,750
$160,000	$13,333	$4,000

Keep in mind that these are guidelines. There are many other factors that determine how much home you can afford.

Step 2: Take a close look at your credit report.

Your Credit History is one of the principal measures used by a lender to determine your interest rate. The better your credit, the better lending terms your bank or lending institution will be able to offer you. A higher interest rate translates into a higher monthly mortgage payment, and so your credit score will directly affect how much money you can borrow and at which homes you should be looking.

You should be aware of what information is on your credit report by obtaining and reviewing copies of your credit report from the three main credit report agencies.

Equifax
www.equifax.com
1.888.766.0008

TransUnion
www.transunion.com
1.800.888.4213

Experian
www.experian.com
1.888.397.3742

Remember that there are several factors that affect your credit report including your payment history, your current ratio of debt to income and signs of responsibility and stability. And since not all creditors report to all three agencies, it's best to order a report from all three institutions. ***Your goal in ordering all three credit reports is to make sure that all of the information stated on each report isaccurate and correct.***

If there are any discrepancies on your credit report, it's important that you contact the rating agencies and have those records corrected. Taking the time to verify and correct your credit report before you speak to a lender will help eliminate hassles later on.

How Does Your Score Rate?	
Exceptional	Above 780
Great	740-780
Good	690-740
Fair	620-690
Low	Below 620

The average credit score in the US is 678.

Step 3: Gather the Documents / Take a look at your Assets and Monthly Expenses

Your lending institution will ask you to give a complete profile of your financial situation. In addition to your income, your existing assets and debts will determine how much money that you can borrow.
Below you'll find a list of documents you may be required to produce regarding your financial situation when you speak to a lender. It is a good idea to gather these things now and have them on hand. You will need to provide this information for all primary and coborrowers.

• Social Security Number
• W2 Forms from the previous two years
• Pay Stubs (most recent months)
• Employment History Summary Bank statements for checking and savings accounts (past 3 months)
•Creditor Information. This includes debts like:
• Student Loans
• Auto Loans
• Credit Cards

- Child Support Payments
- Federal Tax Returns (for the past 2 years)
- Complete Record of Assets
- Stocks, bond, and investment accounts
- IRA / Retirement plan
- Life insurance policies
- Automobiles owned
- Construction loan
- Gift letters
- Documentation of other income

What **NOT** To Do

There are a few actions that you can take that will negatively affect your credit score and therefore your home purchasing power. If at all possible, you **should avoid making a major purchase or changing your job** if you're seriously considering buying a home in the next few months.

Improving any of these areas will help you qualify for better lending terms, so keep that in mind before you speak with a mortgage professional. If it's possible to pay off a car loan or a credit card balance before you seek financing for your new home, the preferential financing terms that you could receive may save you thousands of dollars over the life of your mortgage.

Step 4: Talk to a Qualified Lender

After looking at this information for yourself, it's time to speak to a qualified lender. A professional advisor will not only be able to give you information on the best rates and terms available in the current market, but he or she can also explain to you what options you have given your unique financial situation. Talking to a lender at this time will help you get a more accurate idea of what you can afford. When we begin to look seriously at homes you'll go back to the lender and shop around for the best loan available. If you're still looking for a qualified and experienced lending professional, I'd recommend you speak to:

Northwest Savings Bank: 814-723-9696
First Niagara Bank: 800-421-0004
CNB Bank: 814-726-3577 Terri Swanson
Snare and Associates: 814-280-0361 Pat Flynn

Pre Qualification vs. Pre Approval

Prequalification is only a loan agent's opinion that you'll be able to obtain financing. No verifications are made, so formal approval is not issued.

Preapproval means your loan application has been taken through a rigorous procedure. Preapproval saves you the time of looking at houses you can't afford.

Preapproved buyers are ahead in the home buying game. If you make an offer on a home and then apply for a loan instead of the other way around, you are at the mercy of the lender who now knows that you don't have time to shop around.

A preapproval letter from a lender will also give you an edge when multiple offers have been made on a house. Preapproved buyers generally close escrow more quickly, since most of the paperwork has already been taken care of.

Mortgage Overview

When considering your financing options, you'll want to review many different things about the loans offered to you. In this next section you'll find a basic overview of home loan features and the things you should consider as you shop for a lender or loan.

What kind of lender are you borrowing from?

Home loans are available to consumers from thrift institutions commercial banks, mortgage companies, credit unions and mortgage brokers. A Mortgage Broker is unlike other lenders in that the broker does not lend money to you directly. A broker will help find you a lender and secure the terms of your arrangement.

Mortgage Broker vs. Traditional Lender

A Broker may have access to several lenders and therefore can offer you a wider selection of loan products and terms. He or she can help you shop for the best deal based on your circumstances. (A Broker is not obligated to find you the best deal possible, so be sure to ask questions.) For their work, brokers are paid a fee in addition to the lender's origination fees. Brokers set their own compensation, so you'll need to ask anyone you speak to how their fees are determined.

What are the terms of the loan?

All the terms of a loan matter, not just the interest rate. You'll want to get a complete picture and break down of what a given offer means to you on a monthly basis as well as how much money you'll be spending over the life of the loan. At a minimum, you should request quotes with a few different scenarios and compare the financial impact of each situation before you determine your best course of action.

Loan Type/Rate Types

Fixed Rate (Traditional) Loan

These loans are usually structured with repayment terms of 15, 20 or 30 years. The lender will agree to charge a fixed interest rate over the life of the loan. With this loan type, your monthly mortgage payments will remain the same for the length of the term.

Adjustable Rate Loans (ARMs)

Also known as variable-rate loans, ARMs often offer a teaser rate for the initial period of the loan. This introductory interest rate is usually lower than rates offered for fixed rate mortgages. The interest rate will fluctuate over the life of the loan based on market conditions. Changes in rate happen at certain time periods, and the lender can set both a maximum and minimum on the rate of fluctuation.

Federal Housing Administration (FHA) Loans

Federal Housing Administration (FHA) insured loans are made by private lending intuitions such as banks, savings & loans, or mortgage companies to eligible borrowers for the purchase of a home. To secure an FHA loan, a borrower must apply and qualify with a certified FHA Lender. Additionally, eligible borrowers must be able to pay a minimum of 3.5% of a home's purchase price. If the loan is approved, FHA will insure a portion of the loan's value to the lender.

Veterans Administration (VA) Guaranteed Loans

VA Home loans are available to qualified Veterans and their spouses. Private lending institutions issue the loans which are in turn guaranteed by the Veteran's Administration. The VA does not require any down payment on VA Guaranteed loans and allows the borrower to receive a competitive, fixed interest rate.

Points

The lender or broker can charge you points on your mortgage. One point equals 1 percent of the loan amount. These are simply fees paid to the lender or broker that are often linked to the interest rate, and are usually paid in cash to the lender or broker at closing. A lender may offer you a lower interest rate, but charge more points, so it's important to compare offers.

Things to keep in mind:

1. You can ask your lending institution for a list of its current mortgage rates. You'll want to ask your lender whether you're being quoted the lowest rate for the day or week.
2. If the rate quoted to you on a loan in an adjustable-rate, ask when and how your loan payment will vary.
3. Ask what the loan's Annual Percentage Rate (APR) is. The APR will express as a yearly rate all of the fees associated with a loan including the interest rate, points, broker fees and other credit charges you may be required to pay.
4. For better understanding, ask your broker or lender to quote you a dollar amount rather than just a number on any points you are being charged on the loan.
5. If you are satisfied with a proposed interest rate, you can ask your lender if he or she can lock in the quoted rate. There may be a fee associated with locking in a rate and the agreement will generally only last 60 to 90 days.

What Additional Fees will be required in this Loan?.

Most loans have additional fees. You can sometimes borrow the money need to cover these fees, but that will obviously increase the overall amount of debt you undertake. Some fees are paid up front, and others are not due until closing.

Loan Origination Fees
The institution that actually loans you the money will generally charge on origination fee for processing the loan. They are often expressed as a percentage of the amount of the loan.

Underwriting Fees
Certain lenders will charge a fee to investigate your creditworthiness and determine if you are likely to repay your loan.

Broker Fees
Typically paid at closing, a mortgage broker may charge you a fee in addition to the origination fee. If you are working with a broker, be sure to check with them what their fee is.

Transaction / Settlement / Closing Costs
These fees lump together several charges for: application fees, title examination, abstract of title, title insurance, property survey fees, deed preparing fees, other mortgage fees and settlement documents, attorney fees, recording fees, notary fees, appraisal fees and credit report fees. The Real Estate Settlement Procedures Act requires that a lending institution provide a borrower with a good faith estimate of closing costs at the time of application. This estimate must list each expected cost as a range or as an exact amount where applicable.

Things to keep in mind:
1. Never hesitate to question a fee that you don't understand. Your lender should give you a thorough explanation and make sure that you know what you're paying for.
2. Sometimes lenders lump fees together. You can ask for a break down in that lump.
3. Certain fees, like the Brokers fee or the amount of Points assessed on a loan are negotiable. It never hurts to ask your lender if they can get you a better deal.

The Down Payment / Private Mortgage Insurance
The largest upfront cost in purchasing a home is the down payment. Most traditional lenders expect borrowers to put at least 20% of a loans total amount down. Borrowers who are unable to do so are required to purchase **Private Mortgage Insurance (PMI)**. This insurance protects the lender in case of default by the borrower.

Interview Questions for your Lender
1. What kind of loans do you offer?
2. What kind of loan would you recommend for me? What are the advantages and disadvantages of this loan structure?
3. What is the current mortgage interest rate? Is the rate quoted the lowest for that day or week?
4. What is the Annual Percentage Rate (APR) of an offered loan?
5. Is the loan rate adjustable or fixed?
6. What are the Discount Points and Origination Fees?
7. What are all the Costs?
8. If the rate is adjustable, how will rate and loan payment vary?
9. What are the Qualifying guidelines for this loan?
10. What is the lender's required down payment for this loan?
11. What documents will need to be provided?
12. What are the closing costs?
13. Will the Lender Guarantee the GFE?
14. Does the lender offer a loan rate lock? Is there a fee for the rate lock?

things to keep in mind

1. Be sure to get a clear indication of the down payment percentage required by your lender. You will also want to know what kind of documentation your lender requires to verify that you have funds for the down payment.

2. If you are not able to put down the traditional 20% on your purchase and Private Mortgage Insurance is required, ask your lender what the total cost of the insurance will be, how much it will increase your monthly

ASK ME

for a loan comparison worksheet that you can print off and use to compare lenders and loan options. I can send you one today!