

Home Buyers - How to Make Sense of the Home Loan Process

The First Step (before shopping for a home) is to "Pre-Qualify"

Call at least 3 lenders (at least one bank, preferably where you have an account) who can pre-qualify over the phone. Based on verbal information, lenders can tentatively quote your 1) maximum purchase price of a home; and 2) lowest interest rate. Ask each lender to fax or email you a pre-qualification letter, in order to "shop" for the best rate.



You can shop for best interest rates over the phone or internet before sitting down with the lender who quotes the best rates. Start with the bank that handles your checking account. They have good reason to work with you. When talking with lenders, be sure to ask each the same questions:

1. What are the fixed annual interest rate options you can offer me?
2. How many points will I have to pay with each interest rate option? NOTE: 1 point = 1% of loan amount. If you have done your homework and know that your credit score is above 720, ask each lender for a no points, no origination fee loan - they'll only do it if you ask!
3. What is the origination fee with each interest rate option?
4. Would an Adjustable Rate Mortgage (ARM) be a better option for me? NOTE: This mortgage typically starts at a lower interest rate, which means a lower house payment. The interest rate then goes up every 1 to 3 years with a "CAP" interest rate for the life of the loan.
5. For what period of time can I "lock in" a rate while I shop for a home? Will a lock (or re-lock) cost me anything? If interest rates go down, will my "lock rate" go down in direct proportion?
6. What loan-to-value (LTV) options do you offer: 100%, 97%, 95%, 90% etc.
7. Will mortgage insurance be required (usually Yes...with less than 20% down)? If so, how much will it raise my monthly payment? Ask for a split 80/20 loan, or other split that will allow you to have a 2nd mortgage on the 20% - this will then allow you to not have to pay Mortgage Insurance, saving you money on the total loan and monthly payments!
8. What would be my exact PI (principal and interest) monthly house payment at my maximum loan allowed?

Include your pre-qualification letter (or that it is "in process") with offers. It is not uncommon for seller to have SEVERAL offers on the table simultaneously. If you have a pre-approval letter, yours will be considered ABOVE those who don't.

The second step is to choose the one lender you feel best about. Once you provide verifying documents, your loan commitment letter takes about a week.

Have ready gross income, monthly payments, and account balances (such as car, child support, credit cards, school loans, etc.) ready to give them. Have your last 2 years' income tax statements ready to refer to.

If you are a first-time homebuyer, let the lender know this. Ask about government incentive loans (FHA, Tennessee Housing Authority, Rural Development Agency CRA. etc.). If the lender does not specialize in that type loan...ask them to refer you to someone who does.

Disclose accurate and complete income information about you and your spouse. Mention any rental income property. Typically 75% of gross rents can be added to your base employment income. Disclose any questionable financial or credit facts about yourself and/or your spouse. With this, the lender can give you quick pre-approval as well as the maximum mortgage amount they can finance for you. They will also let you know if a loan will not be possible through them. Sometimes a few negatives (even bankruptcy, etc.) can be solved with some creative thinking, resulting in loan approval.