

HOW TO GET A MORTGAGE

Shopping for a mortgage is the first step toward owning a home and perhaps the most daunting, especially if you are not prepared.

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Once a simple task that meant comparing fixed rates from among perhaps a dozen or fewer savings and loan companies, the mortgage hunt today is like finding your way through a maze.

There are dozens of loan types and hundreds of loan programs available through thousands of mortgage brokers, bankers, lenders, finance companies, credit unions, even stock brokerage firms.

Contrary to popular belief, finding a mortgage doesn't begin with an application.

Education is a better first choice. Mortgage information sources are as vast as the number of mortgages available. Web sites, topical newspaper articles, mortgage books, consumer seminars and workshops, financial planners, real estate agents, mortgage brokers and lenders are all available to assist you along the way.

First and foremost, you must determine how your mortgage payment will fit your current budget and, to some extent, your future obligations 15 to 30 years down the road.

If you discover too late that you can't afford your mortgage, you'll not only face the possibility of losing the roof over your head, but you could also damage your ability to purchase a home later.

Examine your finances

If you can afford to buy a home, you must then determine how much mortgage you can afford. Lenders are apt to put your loan application in the best light and qualify you for as much as they are willing to lend, which can be more than you can afford.

It's up to you to take stock of your income and expenses, both current and projected, to determine what you can comfortably manage each month. Along with your mortgage payment, don't forget related insurance, taxes, homeowner association dues and any other costs rolled into the mortgage payment.

Shopping for a loan

When you are ready to shop for a loan you have two basic types of mortgage stores to shop -- direct lenders and mortgage brokers.

Direct lenders have money to lend. They make the final decision on your application. Brokers are intermediaries who, like you, have many lenders from which to choose. Lenders have a limited number of in-house loans available. Brokers can shop many lenders for each lender's store of loans. If you have special financing needs and can't find a lender to suit them, an experienced broker may be able to ferret out the loan you need. Mortgage brokers, however, are paid with a slice of the amount you borrow, some more than others, some less. Internet brokers today perhaps receive the smallest cut, sometimes none at all, and can prove to be a real bargain.

Along with shopping the source, you'll also have to shop loan costs, including the interest rate, broker fees, points (each point is one percent of the amount you borrow), prepayment penalties, the loan term, application fees, credit report fee, appraisal and a host of others.

Apply for a loan

The application process is the easy part -- provided you've gathered documents necessary to prove claims you make on the application.

The application will ask for information about your job tenure, employment stability, income, your assets (property, cars, bank accounts and investments) and your liabilities (auto loans, installment loans, mortgages, credit-card debt, household expenses and others).

The lender will run a credit check on you to take a look at your credit status, but you'll have to supply additional documentation including paycheck stubs, bank account statements, tax returns, investment earnings reports, rental agreements, divorce decrees, proof of insurance, and other documentation. If the lender deems you creditworthy, it will likely hire a professional appraisal to make sure the value of the home you are about to buy is truly worth your loan amount.

Lender Checklist:

- W-2 forms — or business tax return forms if you're self-employed — for the last two or three years for every person signing the loan.
- Copies of at least one pay stub for each person signing the loan.
- Account numbers of all your credit cards and the amounts for any outstanding balances.
- Copies of two to four months of bank or credit union statements for both checking and savings accounts.
- Lender, loan number, and amount owed on other installment loans, such as student loans and car loans.
- Addresses where you've lived for the last five to seven years, with names of landlords if appropriate.
- Copies of brokerage account statements for two to four months, as well as a list of any other major assets of value, such as a boat, RV, or stocks or bonds not held in a brokerage account.
- Copies of your most recent 401(k) or other retirement account statement.
- Documentation to verify additional income, such as child support or a pension.
- Copies of personal tax forms for the last two to three years.



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