

## APPLY BEFORE YOU BUY

When you are planning on purchasing a home, the first thing you should do is apply for a mortgage loan. Having a preapproved mortgage loan has many advantages. The lender can help you determine the price range of a home you can afford and how much money you will need for a down payment and closing costs.

Shop for a loan, not a lender. You may have a long-term relationship with your bank, but that doesn't mean they will give you the best deal. Most loans are sold on the secondary market, so the financial institution that gives you the loan might not be the one that owns and services it for the next 30 years.

The more knowledgeable you are before you approach lenders, the better deal you're likely to get. Look in your local paper to see what rates are being offered. Interview lenders over the telephone before meeting with them in person. Find out if they are the actual lender or a broker. A mortgage broker acts as a third party between you and the lender and there will be extra fees for his services.

Do a background check on the lender you choose. It's crucial that you check out a company's past.

## WHAT INFORMATION SHOULD YOU TAKE TO THE LENDER?

Your lender will need to know how much money you have coming in and how much money you pay out in expenses each month. When you apply for a mortgage loan, take the following information with you:

- ❑ **Your address(es) for the past two years.** If you're renting now, bring the name and address of your landlord.
- ❑ **Your employer(s) for the last two years.** Bring your pay stubs for the past few months.
- ❑ **Bring a copy of your tax forms for the last two years; any divorce papers to show alimony or child support you receive; retirement benefit information; and information on any other income you have.** If you are self-employed, you will need a certified profit and loss statement.

- ❑ **Bank account numbers and balances** as well as information about any other savings or investments you have.
- ❑ **The year, make, and value of any vehicles you own.** If your vehicles are financed, information on the finance company and payment amounts.
- ❑ **Information about all your debts or bills,** account numbers and how much you owe.
- ❑ **If you have ever filed for bankruptcy, be sure to bring the bankruptcy petition or discharge.**
- ❑ **If you are a veteran, bring your certificate of eligibility or discharge form.**
- ❑ **Bring identification** with your picture on it and your social security number.

## WHAT QUESTIONS SHOULD YOU ASK?

Different kinds of mortgages and different programs are available to help you buy a home. Here are some questions you should ask:

- **Are you a mortgage broker or a mortgage lender?** With lenders other than banks, it's hard to tell. A mortgage broker does not make the loan; they act as an agent for the customer to find a mortgage lender and there is an extra fee for their service. The mortgage lender is the company actually making the loan.
- **What is the note rate and what is the annual percentage rate?** The note rate is the rate of interest contracted for during the term of the loan. The annual percentage rate is the yearly rate for all finance charges, interest as well as prepaid finance charges.
- **Is the rate fixed or adjustable?**
- **Will I have to pay "points" (prepaid finance charges)? If so, how much? A point is one percent of the mortgage loan paid up front by the buyer or seller to the lender.**

- **How much will the closing costs be?** Lenders may impose fees for various items such as the credit report, title examination, abstract of title, title insurance, property survey, appraisal, notary, and fees for preparing deeds, mortgages, settlement, and similar documents.
- **How long after I apply will the rate be guaranteed (locked in)?**
- **How long will it take to process my mortgage application?**
- **What is the required down payment?** VA loans do not require a down payment. Down payments are a percentage of the value of the home.
- **What type of mortgage is it? Is it a VA, FHA, or conventional mortgage?** VA and FHA mortgages are federally insured, and conventional loans are not federally insured. VA loans do not require mortgage insurance; FHA and conventional loans have mortgage insurance premiums added to the interest and principal payments unless you have a large down-payment.
- **What is the term of the loan and how much will my mortgage payment be each month?** (including principal, interest, taxes, and insurance)
- **What will I have to pay up front?** Funds due at closing usually include closing costs and points (prepaid finance charges based on a percent of the loan amount). Closing costs include credit reports, appraisal fees, document preparation, settlement charges, title insurance, etc.
- **Is there a prepayment penalty, if so, how much?**

## ADJUSTABLE RATE Vs FIXED RATE MORTGAGES

Fixed-rate loans look like a good bet these days and the spread compared with adjustable rate loans has dropped below 2 percentage points, making the fixed rate loan a better value. Adjustable rate mortgages (ARM) still deserve consideration. They are easier to qualify for, have starting interest rates and often have lower loan

fees. If you plan to move within five years, an ARM will probably be cheaper than a fixed rate loan. A compromise could be a so-called hybrid ARM which offers fixed payments for three to seven years and then adjusts to current interest rates.

### ADJUSTABLE RATE MORTGAGES

If the rate is adjustable, you should ask the following questions:

- **How often can the interest rate change?**
- **How much can the rate increase or decrease at each adjustment period?**
- **How much can the rate increase or decrease during the life of the loan?**
- **What is the index for the mortgage and where is it published?**
- **How has the index changed in the past?** The lender must give you examples of rate changes when you apply for an adjustable rate mortgage.
- **Can I change the ARM to a fixed rate loan during the life of the loan? If I can, when would I be permitted to?**
- **How much would it cost me to change from a fixed rate mortgage to an adjustable rate mortgage?**

Often adjustable rate mortgages offer a lower or discounted rate for the first year or two of the loan; making the payments lower for that period. You should make sure you understand how the rate and payments will increase after the discounted rate period.

### UNPLEASANT SURPRISES

Too often when you sit down to sign the loan documents you discover that the interest rate, points or some other feature is not what you expected. Borrowers are at their most vulnerable point when sitting down to sign the paperwork. A shady lender may try to exploit this

disadvantage. There are some steps you can take to reduce your risks.

After your loan is first approved, get a loan agreement in writing. It should spell out the size, interest rate, fees and other details of the loan. If possible include an expected closing date. Get the rate lock-in in writing too. Otherwise, the interest rate on your loan may be subject to change until the day you sit down to sign.

Get a receipt for all fees that you must pay up front, including the terms under which the money will be refunded in the event that the loan doesn't close.

Be wary of lenders or brokers who won't back up that they say in writing.

**REMEMBER, your home is likely to be the most expensive investment that you will ever make. Differences in mortgage terms can result in thousands of dollars of savings to you.**

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