

8 Key Questions to ask when applying for a Mortgage Loan

Free Mortgage information

In this article, you will gain a basic understanding of the guidelines and elements of the mortgage loan.



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WHAT GUIDELINES ARE REQUIRED FOR ME TO BE QUALIFIED FOR THIS LOAN?

There is no set plan that is the perfect loan package for every person or situation. Many factors must be evaluated to determine what terms will offer the best available loan program. The *interest rate*, size of payment and **down payment**, schedule of payments, amount of loan, life of the loan, and any other requirements or conditions attached to the loan, all play into the evaluation of a loan plan. In most cases, loan guidelines are based on credit history, employment, income, assets and liabilities and each loan program typically offers a set criteria of guidelines that may be slightly different from the other.

WHAT IS THE ANNUAL PERCENTAGE RATE (APR) FOR THIS LOAN?

The Annual Percentage Rate is important for true loan cost comparisons and is typically provided to you at the time of application (or within 3 days) on a Truth in Lending disclosure (TIL).

The APR is generally higher than the initial rate because it includes all of the lenders fees.

WHAT POINTS ARE BEING CHARGED AND WHAT ORIGINATION FEE IF ANY WILL BE CHARGED?

It is important to know how this impacts your closing cost for the loan program that you desire. In most cases, you can buy down your interest rate and lower it by paying Discount Points or in other words, prepaid mortgage interest. By paying a portion of the investor yield upfront, you reduce the long term interest rate charged. *Remember:*

- a. **Discount Points:** are optional payments to lower the *interest rate* (each point is 1% of the mortgage amount - \$120,000 mortgage discount point would cost \$1,200 and typically lower the interest rate by 0.125 percent)
- b. **Loan Origination Fee:** is a percentage of the mortgage (generally 1%), charged to set up and originate the *loan application*

WHAT IS MY MINIMUM DOWN PAYMENT?

The amount of down payment you make on your loan will affect the size of your payments, the length of your loan life, the amount of interest you will pay, the type of loan you may obtain, conditions on the loan and other aspects of your life depending on how you obtain the down payment. Only certain types of money are acceptable for use as a down payment, and you will be required to prove your down payment source when the *lender verifies your qualifications*. However, there are many options for possible ways to come up with a down payment. These should be considered as you contemplate the affect the down payment has on the other loans terms. *For instance:*

- c. Cash on hand or from savings
- d. Accumulating cash for a down payment may take some sacrifices such as cutting expenses, reducing debt, forgoing vacations or getting a second job

- e. Sale of other property or investments
- f. Mutual funds, stocks, IRA, or 401K
- g. A gift from a family member
- h. A zero down mortgage (or other no-down or low-down mortgages)
- i. Charitable assistance – see the Home Gift Providers Association (HGPA)

When determining the size of your down payment keep in mind that, generally speaking, the higher your down payment amount the lower your payments, the shorter your loan life, the lower your interest, and the better your over-all loan terms.

SHOULD I LOCK OR FLOAT MY INTEREST RATE?

When you lock your interest rate the lender typically guarantees that rate for a specified period of time, for example a 15 day, 30 day or 45 day lock. Usually a “Lock Disclosure” form is provided for you to acknowledge this.

Since the mortgage market changes daily, Interest rates can fluctuate up or down. By locking in your interest rate you are protected against higher interest rates prior to closing. When you choose to “Float” your rate, you agree to take on the market risk and reward of rate fluctuation. In some cases the market rates will decrease which will allow you to lock in your interest rate at a lower rate than when you started your loan application.

If you choose to float your interest rate, make sure you keep up to date with nationwide rate changes.

IS THERE A PRE PAYMENT PENALTY ON THIS LOAN?

This is an important question to ask since it may impact your mid-term options if and when you decide to sell your property or

refinance. Pre payment penalties are charged by the lender to insure that their yield is covered for a period of time. The pre payment penalty is often used as a hedge against risk for the lender and varies with loan types and programs.

Find out the length of the pre payment period and the amount of any fees and specifically how they are calculated.

WHAT COSTS SHOULD I EXPECT AT LOAN CLOSING?

At the *loan closing*, you will be required to pay your down payment and other various closing costs and fees. Most of the closing fees are paid by the buyer, but some of the fees are prorated, by date, to the seller and the buyer. In order to be prepared to pay the closing costs, you may request a Good Faith Estimate from the lender. However, the estimate often differs from the actual closing costs, so it is important to understand what to expect. Before you make long term decisions about the terms of your mortgage, such as locking in an interest rate, you should review the Good Faith Estimate to determine if there are hidden costs that may change your decision. Typically, total closing costs will be from 3-6% of your mortgage amount. Although the Good Faith Estimate is subject to change, under (RESPA) the Real Estate Settlement Procedures Act, you have a right to request a HUD-1 Settlement Statement (one day before the actual settlement or closing). The HUD-1 details the actual fees that will be required. It is important to review this statement to ensure that you agree with and understand all the costs and fees listed. At times, fees such as the application fee, credit report fee, or the appraisal fee may be required with the loan application before the closing. Certain fees vary from lender to lender, but generally, taxes, appraisals, credit reports and title insurance should be

comparable for all borrowers. Sometimes, your fees may be included in the mortgage amount, depending on the *terms* negotiated. But generally, the buyer comes prepared to pay the related fees at the time of the loan closing. Common closing costs and fees that you may expect are:

- j. **Loan Origination Fee:** a percentage of the mortgage (generally 1%), charged to set up and evaluate the *loan application*.
- k. **Application Fee:** required by the lender to process your loan application often required with the application, generally non-refundable.
- l. **Credit Report Fee:** requested by the lender in order to *evaluate* your loan application (generally obtained from one of three major credit reporting agencies: Equifax, Experian, TransUnion).
- m. **Appraisal Fee:** used to obtain an independent *appraisal* of the home to be mortgaged; the appraisal is a factor in determining the amount the lender will loan.
- n. **Survey Fee:** may be required - verifies the legal position of the home on the property and ensures that there has been no encroachment on the property.
- o. **Title Search Fee:** charged for a detailed search of the historical records related to a property to ensure that the seller is legal owner, that there are no liens, restrictive covenants, outstanding judgments or other claims against the property (A certificate of title issued as a result of a title search does not necessarily protect against hidden defects which did not show up in the search – often the lender will require title *insurance* for protection against such claims).
- p. **Title Insurance:** often required by the lender for protection against hidden title defects; a lender's policy only protects the lender – a buyer may also opt to purchase an owner's title insurance policy.
- q. **Discount Points:** optional payment to lower the *interest rate* (each point is 1% of the mortgage amount - \$120,000 mortgage discount point would cost \$1,200 and typically lower the interest rate by 0.125 percent).

- r. **Recording or Transfer Fees:** a small fee charged to cover the paperwork to record the home purchase and transfer ownership.
- s. **Interim Interest:** interest from the closing date to the end of the month generally charged to the buyer.
- t. **Property Taxes:** buyer's prorated portion of state and local government property taxes already paid by the seller (such as annually paid taxes).
- u. **Escrow Account Payments:** (often required by the lender) charges to cover costs or payments which will be due after the closing; *escrow accounts* are often set up to continue for the life of the loan, where a specified portion of the mortgage payment goes into escrow to cover certain on-going property related expenses and payments such as taxes and insurance.

WHAT ARE THE CONDITIONS FOR THIS LOAN TYPE?

Certain conditions may be required by the lender such as maintaining specified *insurance policies*, an *escrow account*, current appraisals, etc. RHS loans are restricted to rural residents among other things. VA loans are only for eligible veterans. Some lenders may require conditions that create additional costs, such as having an attorney review the loan documents. Certain regulations place caps on loan amounts and interest amounts. Also, each lender will have a unique loaning profile, with its specific requirements and standards. As a borrower, make sure you know the conditions or restrictions placed on your loan before make the *final commitment*.