FREEandCLEAR®

Mortgage Process Guide

A Mortgage Borrower's Best Friend

www.freeandclear.com

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Get Organized - Mortgage Checklist

- You will likely have to provide extensive personal documentation to obtain a mortgage
- Lenders typically request documents related to your employment and income, financial position and tax history
- This is so the lender can verify your income and assets and evaluate your credit-worthiness as a buyer
- The requested documents may vary somewhat by lender but will likely include the items listed on the right

  Typically you are not asked to provide personal documents until later in the mortgage process but having these documents available and organized at the beginning of the process will make things go much smoother

  - Reviewing your personal finances in advance of the mortgage process will help you identify and resolve potential issues such as missing documents or errors you may find
  - This will help you avoid potential delays and ensure that your mortgage is processed as quickly as possible

Mortgage application document list

- Pay Stubs (two months)
- W-2 (two years)
- Tax returns (two years)
- Bank statements (two months)
- Investment account statements
- IRA /401K / pension statements
- Current statements for outstanding debt such as credit card, auto and student loans

If you are self-employed:

- Business License
- Schedule C
- Corporate tax returns
- Partnership returns

If you own income producing real estate:

- Schedule E
- Leases
- Schedule of real estate owned

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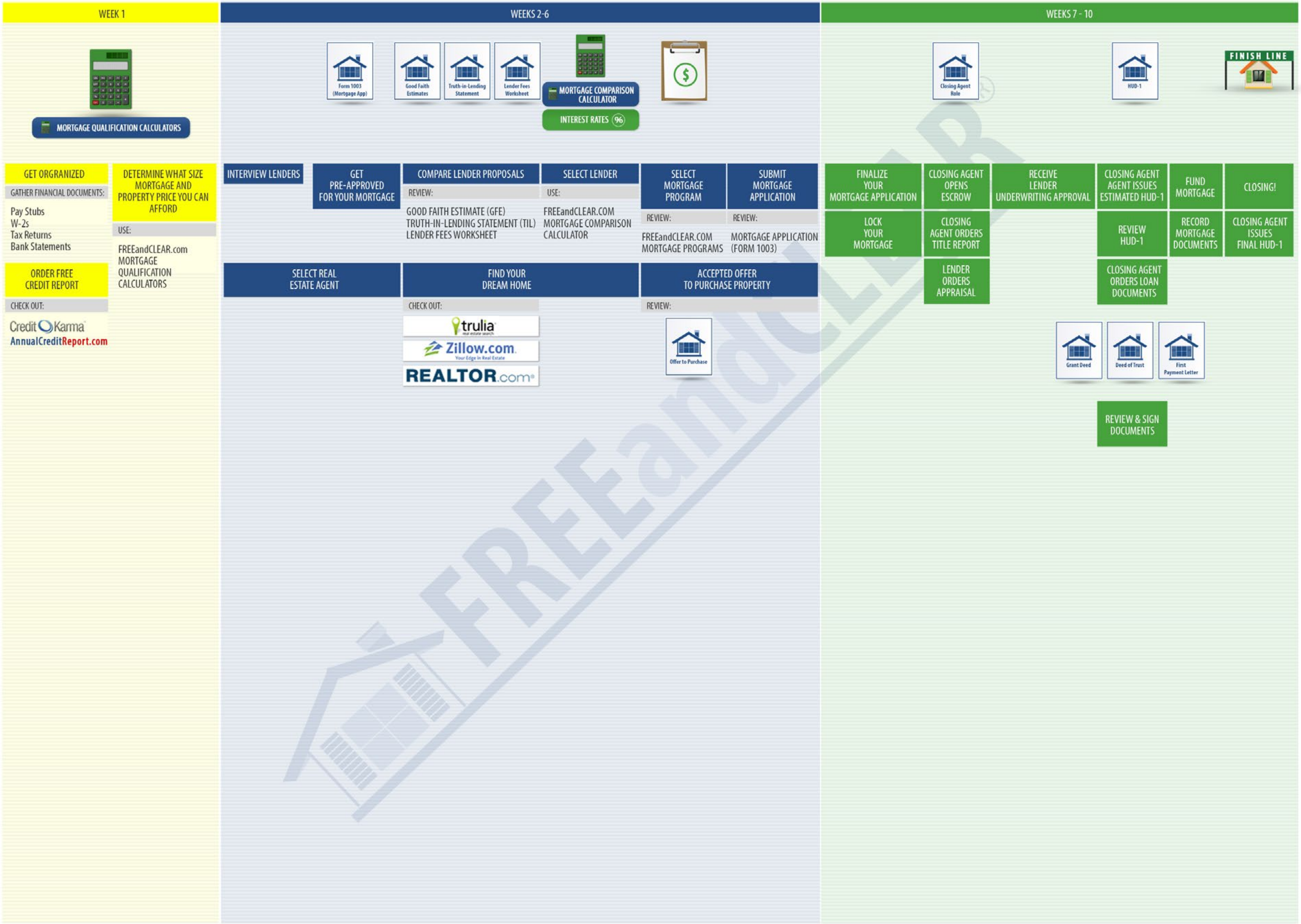
HOME PURCHASE MORTGAGE PROCESS TIMELINE



WEEK 1

MORTGAGE QUALIFICATION CALCULATORS

GET ORGRANIZED

GATHER FINANCIAL DOCUMENTS:

Pay Stubs
W-2s
Tax Returns
Bank Statements

ORDER FREE CREDIT REPORT

CHECK OUT:

Credit Karma
AnnualCreditReport.com

DETERMINE WHAT SIZE MORTGAGE AND PROPERTY PRICE YOU CAN AFFORD

USE:

FREEandCLEAR.com MORTGAGE QUALIFICATION CALCULATORS

WEEKS 2-6

INTERVIEW LENDERS

GET PRE-APPROVED FOR YOUR MORTGAGE

COMPARE LENDER PROPOSALS

REVIEW:

GOOD FAITH ESTIMATE (GFE)
TRUTH-IN-LENDING STATEMENT (TIL)
LENDER FEES WORKSHEET

SELECT LENDER

USE:

FREEandCLEAR.COM MORTGAGE COMPARISON CALCULATOR

SELECT MORTGAGE PROGRAM

REVIEW:

FREEandCLEAR.COM MORTGAGE PROGRAMS

SUBMIT MORTGAGE APPLICATION

REVIEW:

MORTGAGE APPLICATION (FORM 1003)

SELECT REAL ESTATE AGENT

FIND YOUR DREAM HOME

CHECK OUT:

trulia
Zillow.com
REALTOR.com®

ACCEPTED OFFER TO PURCHASE PROPERTY

REVIEW:

WEEKS 7 - 10

FINALIZE YOUR MORTGAGE APPLICATION

LOCK YOUR MORTGAGE

CLOSING AGENT OPENS ESCROW

CLOSING AGENT ORDERS TITLE REPORT

LENDER ORDERS APPRAISAL

RECEIVE LENDER UNDERWRITING APPROVAL

CLOSING AGENT AGENT ISSUES ESTIMATED HUD-1

REVIEW HUD-1

CLOSING AGENT ORDERS LOAN DOCUMENTS

REVIEW & SIGN DOCUMENTS

FUND MORTGAGE

RECORD MORTGAGE DOCUMENTS

CLOSING!

CLOSING AGENT ISSUES FINAL HUD-1

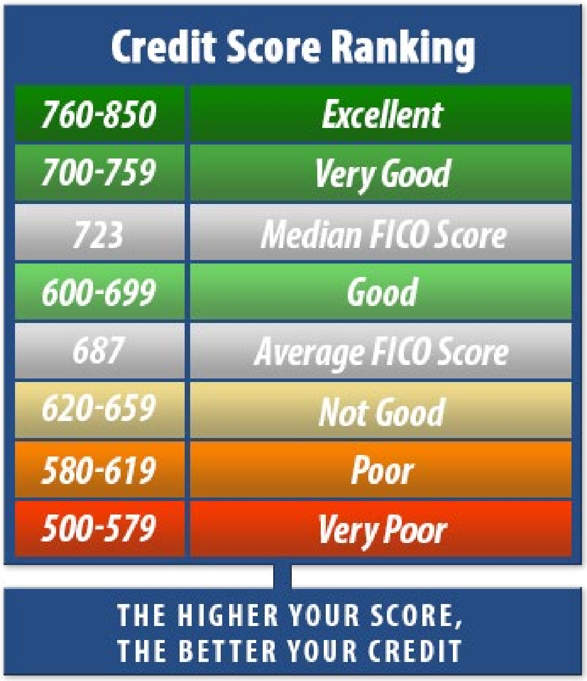
Form 1003 (Mortgage App)
Good Faith Estimates
Truth-in-Lending Statement
Lender Fees Worksheet
MORTGAGE COMPARISON CALCULATOR
INTEREST RATES %
Offer to Purchase
Closing Agent Role
HUD-1
FINISH LINE
Grant Deed
Deed of Trust
First Payment Letter

Your Credit Score and the Mortgage Process

- One of the most important inputs in the mortgage process is your credit score so it is very important that you know your score before you start the process
- In short, your credit score provides an indication of how likely you are to pay back your mortgage and lenders focus on it when determining how much money they are willing to lend you and the cost to you for borrowing that money (the interest rate)
    - A higher credit score means that lenders will be more willing to lend you money and charge you their lowest interest rate
    - A lower credit score means that lenders will be less willing to lend you money and charge you a higher interest rate if they do
- In many cases a borrower has enough income to afford a monthly mortgage payment but they cannot qualify for a mortgage due to a poor credit score or credit history
    - Lenders typically require that borrowers have a minimum credit score of 680 although it may be possible for borrowers with lower credit scores to qualify for a mortgage
- Additionally, negative credit events such as bankruptcy, a short sale or foreclosure can make it challenging to qualify for a mortgage
    - For example, if you experienced a short sale you may not be able to qualify for a mortgage for two years and if you experienced a foreclosure you may not be able to qualify for a mortgage for seven years
- We recommend that you review your credit report and score six months to a year before you start the mortgage process
    - This will help you avoid negative surprises and allow you to address potential issues with your credit report in advance of applying for a mortgage
- A common question is does it hurt my credit score when I check my credit score multiple times and the answer is no
    - Checking your own credit score is known as a soft inquiry and although this type of inquiry is recorded on your credit report, it does not lower your credit score
    - You can use services such as annualcreditreport.com, CreditKarma.com or credit.com to check your credit score on a weekly or monthly basis without lowering your credit score
- By reviewing your credit score months before you apply for a mortgage you can take positive steps to improve your credit profile such as addressing unknown bill mix-ups and late payments or potentially reducing your credit card balances
    - Please note that your credit score may continue to be impacted by past negative credit events, such as a late payment or charge-off, for a minimum of twelve months. Additionally, it can take one-to-two months for your credit score to reflect positive credit actions, such as paying down credit card debt
    - That is why FREEandCLEAR emphasizes understanding your credit score many months before you start the mortgage process
    - Being proactive about your credit profile will help you avoid negative surprises later in the mortgage process, qualify for a mortgage and receive the lowest possible interest rate
- It is important to highlight that if you are applying for a mortgage with a spouse or partner, the lender will use the lowest credit score among the borrowers to determine the credit-worthiness of the applicants
    - If two people are applying for a mortgage and one individual has a good credit score and the other individual has a poor credit score, it may make sense to only have the individual with the good credit score apply for the mortgage
        - If you decide to only have one person apply for a mortgage it is important that you can qualify for the mortgage with only that person's income and you do not need both individuals' incomes to afford the mortgage you are seeking
    - You can add the second individual to the property title after the mortgage closes although the actual mortgage will always remain in the name of the individual who applied for the loan unless you refinance the mortgage and have both individuals jointly apply for and receive the new loan
    - Additionally, the FHA Home Loan Program may enable borrowers with lower credit scores to obtain mortgages although the program requires borrowers to pay additional up-front and ongoing FHA Mortgage Insurance Premium (MIP) fees

Your Credit Score and the Mortgage Process (continued)

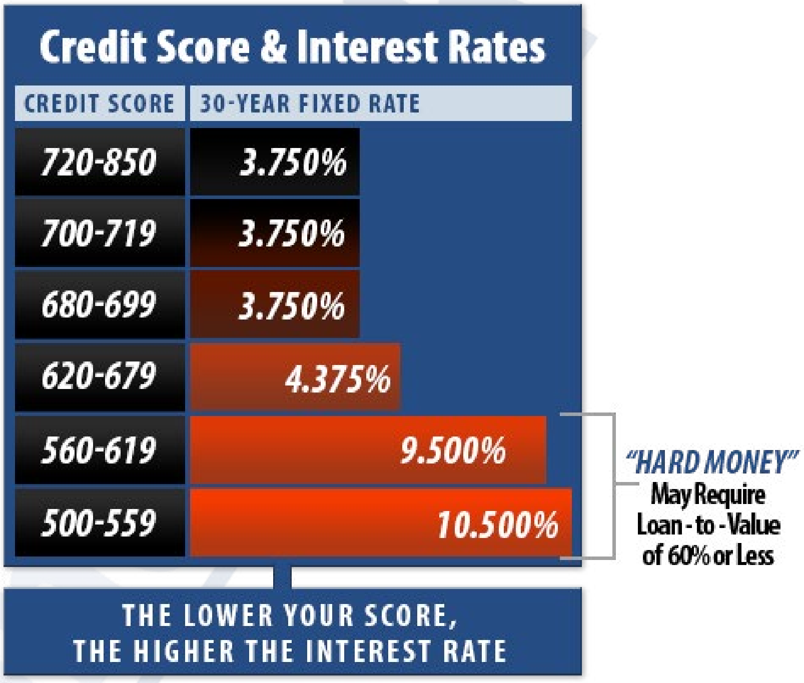
- The charts below show you how to interpret your credit score and illustrate the connection between credit score and interest rate -- the higher the credit score the lower the interest rate
- The charts below are examples. To get updated interest rates click INTEREST RATES



Credit Score Ranking

760-850	Excellent
700-759	Very Good
723	Median FICO Score
600-699	Good
687	Average FICO Score
620-659	Not Good
580-619	Poor
500-579	Very Poor

THE HIGHER YOUR SCORE, THE BETTER YOUR CREDIT



Credit Score & Interest Rates

CREDIT SCORE	30-YEAR FIXED RATE
720-850	3.750%
700-719	3.750%
680-699	3.750%
620-679	4.375%
560-619	9.500%
500-559	10.500%

"HARD MONEY" May Require Loan-to-Value of 60% or Less

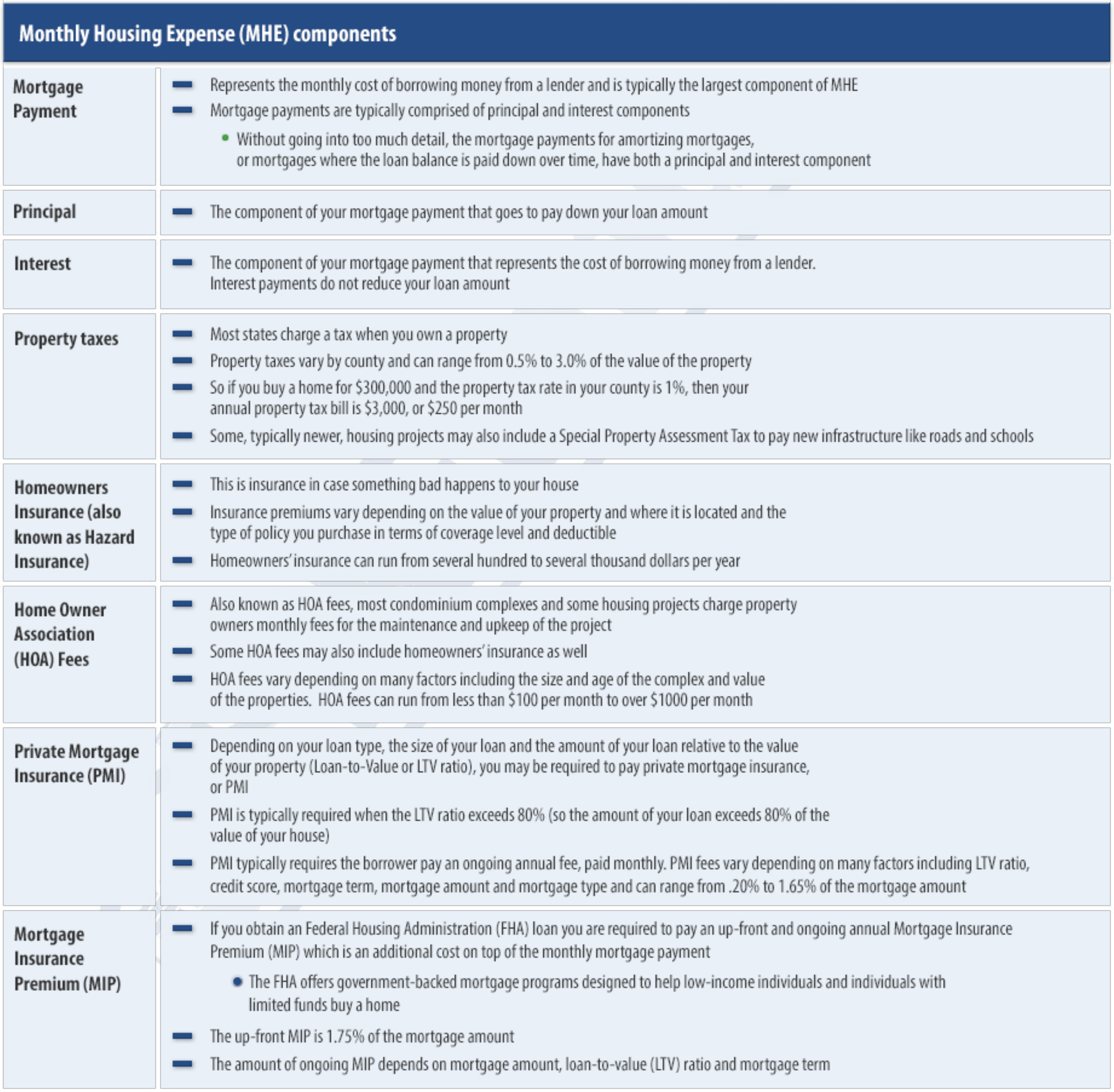
THE LOWER YOUR SCORE, THE HIGHER THE INTEREST RATE

- A lot of inputs go into determining your credit score and while we will not go into to detail on how your credit score is calculated, we highly recommend that you know your score as one of the first steps to the mortgage process
- The good news is that there are several sites where you can review your credit score for free
  - Do not be fooled by all of those commercials with the catchy jingles – you do not have to pay for your credit score!
- Check out one of the sites below and then compare your score against the charts above to help determine how lenders will view you as a borrower

Credit Karma™ AnnualCreditReport.com

Understanding Total Monthly Housing Expense

- It is super important to realize that your mortgage payment is only one component of the numerous expenses that you are responsible for when you own a home and have a mortgage
- When you think about the costs involved in having a mortgage you need to focus on your total Monthly House Expense, or MHE. By focusing on your MHE you will be able to select the mortgage that is right for you and properly manage your monthly budget
    - Total monthly housing expense includes your monthly mortgage payment plus other housing-related expenses such as property tax and homeowners insurance as well as other potentially applicable expenses such as homeowners association (HOA) fees, private mortgage insurance (PMI) or FHA mortgage insurance premium (MIP)
    - Your mortgage payment (principal and interest) plus property taxes and homeowners insurance is often referred to as principal, interest, taxes and insurance, or P I T I for short
    - Additionally, you should factor in the cost for maintenance and upkeep of the property, including potential repair
- A breakdown and explanation of the components of MHE are below – the better you understand them, the more likely you are to avoid any unpleasant surprises over the life of your mortgage



Monthly Housing Expense (MHE) components	
Mortgage Payment	– Represents the monthly cost of borrowing money from a lender and is typically the largest component of MHE – Mortgage payments are typically comprised of principal and interest components • Without going into too much detail, the mortgage payments for amortizing mortgages, or mortgages where the loan balance is paid down over time, have both a principal and interest component
Principal	– The component of your mortgage payment that goes to pay down your loan amount
Interest	– The component of your mortgage payment that represents the cost of borrowing money from a lender. Interest payments do not reduce your loan amount
Property taxes	– Most states charge a tax when you own a property – Property taxes vary by county and can range from 0.5% to 3.0% of the value of the property – So if you buy a home for $300,000 and the property tax rate in your county is 1%, then your annual property tax bill is $3,000, or $250 per month – Some, typically newer, housing projects may also include a Special Property Assessment Tax to pay new infrastructure like roads and schools
Homeowners Insurance (also known as Hazard Insurance)	– This is insurance in case something bad happens to your house – Insurance premiums vary depending on the value of your property and where it is located and the type of policy you purchase in terms of coverage level and deductible – Homeowners' insurance can run from several hundred to several thousand dollars per year
Home Owner Association (HOA) Fees	– Also known as HOA fees, most condominium complexes and some housing projects charge property owners monthly fees for the maintenance and upkeep of the project – Some HOA fees may also include homeowners' insurance as well – HOA fees vary depending on many factors including the size and age of the complex and value of the properties. HOA fees can run from less than $100 per month to over $1000 per month
Private Mortgage Insurance (PMI)	– Depending on your loan type, the size of your loan and the amount of your loan relative to the value of your property (Loan-to-Value or LTV ratio), you may be required to pay private mortgage insurance, or PMI – PMI is typically required when the LTV ratio exceeds 80% (so the amount of your loan exceeds 80% of the value of your house) – PMI typically requires the borrower pay an ongoing annual fee, paid monthly. PMI fees vary depending on many factors including LTV ratio, credit score, mortgage term, mortgage amount and mortgage type and can range from .20% to 1.65% of the mortgage amount
Mortgage Insurance Premium (MIP)	– If you obtain an Federal Housing Administration (FHA) loan you are required to pay an up-front and ongoing annual Mortgage Insurance Premium (MIP) which is an additional cost on top of the monthly mortgage payment • The FHA offers government-backed mortgage programs designed to help low-income individuals and individuals with limited funds buy a home – The up-front MIP is 1.75% of the mortgage amount – The amount of ongoing MIP depends on mortgage amount, loan-to-value (LTV) ratio and mortgage term

Borrower Mortgage Qualification

- There are multiple factors that determine a borrower's ability to qualify for a mortgage and it is important to highlight that a borrower's ability to qualify for a mortgage may be different than a borrower's ability to afford a mortgage
    - For example, borrowers may be able to afford a monthly mortgage payment based on their income and debt but they may not qualify for the mortgage because they do not meet other qualification requirements such as meeting the minimum credit score requirement
- Borrower mortgage qualification requirements vary by lender, mortgage program and loan size but there are some qualification guidelines that typically apply to all borrowers

Qualification Guideline	Explanation
Credit Score and Credit Report	– The lower your credit score the more difficult it is to qualify for a mortgage or the higher the interest rate you will pay – Lenders typically require that borrowers have a credit score of 620 and above – We offer a detailed discussion on your Credit Score and the Mortgage Process – Additionally, negative events in your credit history may impact your ability to qualify for a mortgage – For example, if you experienced a short sale you may not be able to qualify for a mortgage for two years and if you experienced a foreclosure you may not be able to qualify for a mortgage for seven years
Type of Employment and Employment History	– Lenders typically want to see that you have two years of continuous employment history (unless you have recently graduated from college) before you apply for a mortgage – If a borrower has recently changed jobs and the new job has a probation period, the lender may wait until the probation period is over before approving the borrower for a mortgage – If you have less than two years of continuous employment history it may be challenging for you to get a mortgage but lenders do have some discretion on this point – If you can effectively explain the gap in your employment or highlight the strength and stability of your current job and monthly income, a lender may be willing to provide you a mortgage – Some lenders may not offer mortgages to self-employed borrowers or it may be more difficult for self-employed borrowers to qualify for a mortgage – Self-employed borrowers typically must provide a minimum of two years of federal tax returns verifying their income when applying for a mortgage (lenders usually average the prior two years of self-employed income)
Your Down Payment	– The size of your down payment may affect your ability to qualify for a mortgage or to receive the lowest interest rate from a lender – Some lenders require that borrowers make a down payment of 20% of the property purchase price in order for the borrower to receive their lowest interest rate – We provided a detailed discussion on "What Size Down Payment Do I Need to Make?" that addresses how your down payment may impact your interest rate and we also review programs that allow you to buy a home with a low or no down payment
Lender Underwriting and Qualification Guidelines	– Underwriting and borrower qualification guidelines can vary across mortgage lenders – We provide a comprehensive review and example of lender mortgage qualification guidelines – It is important to contact multiple lenders when you are shopping for a mortgage as one lender may decline an applicant while another lender may approve an applicant

Lender Mortgage Qualification Guidelines

- All mortgage lenders use standardized underwriting guidelines when considering a borrower's mortgage request
- These underwriting guidelines provide lenders with a set of rules to determine how much money they are willing to lend you. The most important underwriting guideine looks at a borrower's debt-to-income ratio, or DIR ratio, for short
    - In short, a debt-to-income ratio represents the ratio of how much you spend on monthly debt payments such as your mortgage and credit card bills to your monthly income
    - The DIR ratios are based on a borrower's gross income, not net income, so your income before any deductions such as taxes, social security and medicare
    - In addition to reviewing a borrower's DIR ratios, lenders consider multiple other factors in evaluating a borrower's ability to qualify for a loan including credit score, employment history and down payment
        - We provide a detailed review of borrower mortgage qualification considerations
- Lenders look at two DIR ratios when evaluating what size mortgage a borrower can afford – the Front End Ratio and Back End Ratio
    - The DIR Front End Ratio represents the maximum acceptable percentage of a borrower's monthly gross income that can be spent on total monthly housing expense (MHE)
    - The DIR Back End Ratio represents the maximum acceptable percentage of a borrower's monthly gross income that can be spent on MHE plus other monthly debts such as auto, credit card, student loans and spousal support
    - Typically, lenders expect that borrowers spend a maximum of approximately 37% of their monthly gross income on MHE and no more than approximately 43% to 47% of their monthly gross income on MHE plus other monthly debt
    - This produces a maximum DIR Front End Ratio of approximately 37% and a maximum DIR Back End Ratio of approximately 43% to 47%
- These lender debt-to-income ratio guidlines are not set in stone, but provide you with a good perspective on how lenders think about borrower mortgage affordability
- In the example below we look at a borrower that makes $6,250 in monthly gross income (which is equivalent to approximately $4,235 in monthly net income) and has $400 in other non-housing monthly debt expenses
    - In the example, we apply a 37% front end debt-to-income ratio and 43% back end debt-to-income ratios to determine what size of mortgage the borrower can afford from the lender's perspective
    - The example shows industry standard debt-to-income ratios but it is important to highlight that lenders have some discretion over what debt-to-income ratios they apply to borrowers and may use higher ratios which would allow the borrower to qualify for a larger mortgage

Lender Mortgage Qualification Example

	Application of Guideline	Results
37% Guideline	37% of the borrower's monthly gross income of $6,250 equals $2,310	The borrower can afford $2,310 in total monthly housing expense (mortgage payment plus property taxes and insurance) for a front end debt-to-income ratio of 37%
43% Guideline	43% of the borrower's monthly gross income equals $2,710	$2,310 (total monthly housing expense) + $400 (non-housing related monthly debt) = $2,710 which equals 43% of the borrower's monthly gross income, for a back end debt-to-income ratio of 43%

Mortgage Size

Mortgage affordability	– Based on the amount of monthly gross income that the borrower should spend on total monthly housing expense ($2,310 in this example), he or she can afford a mortgage of $380,000 – Mortgage affordability in this example is based on a 30 year fixed rate mortgage at a 4.0% interest rate

What Size Mortgage Can I Afford?

▶ Watch our "What Size Mortgage Can I Afford?" instructional video

- You can also use our FREEandCLEAR MORTGAGE QUALIFICATION CALCULATORS and input your net income and debt level to determine what size mortgage you can afford
- One of the best ways to think about mortgage affordability is to figure out how much of your net income you want to spend on your: 1) mortgage payment; 2) total monthly housing expense (MHE); and, 3) total monthly housing expense plus other debt (such as credit card, car and student loans and spousal support, if applicable)
    - Total monthly housing expense includes your monthly mortgage payment plus other housing-related expenses such as property tax and homeowners insurance as well as other potentially applicable expenses such as homeowners association (HOA) fees, private mortgage insurance (PMI) or FHA mortgage insurance premium (MIP)
- Based on many years of experience we have found that borrowers spend a certain amount of their net income on their 1) mortgage payment; 2) total monthly housing expense; and, 3) total monthly housing expense plus other debt
    - Borrowers typically spend approximately 43% of their net income on their mortgage payment
    - Borrowers typically spend approximately 52% of their net income on total monthly housing expense
    - Borrowers typically spend approximately 62% of their net income on total monthly housing expense plus other monthly debt payments
        - These guideline are not hard and fast rules but serve as good guides for borrowers
        - We should emphasize that these guidelines are based on a borrower's net income, or take-home pay after deductions such as taxes, social security and medicare
- The good news according to these guideline is the less monthly debt you have, the more you can spend on your mortgage payment and total monthly housing expense, which means you can afford a larger mortgage amount
- After you determine how much of your monthly net income you are comfortable spending on your mortgage payment and total monthly housing expense, you can calculate how big of a mortgage you can afford
- It is important to highlight that being able to afford a certain mortgage amount does not necessarily mean that you will be able to qualify for that mortgage amount. Just because you can afford to make a monthly mortgage payment does not always mean that a lender is willing to lend you that amount for your mortgage
- What size mortgage you can afford may be different than what size mortgage you qualify for and there are several factors that influence your ability to qualify for a mortgage including:
    - Your credit score and credit report
    - Individual lender mortgage qualification guidelines
    - Your down payment amount
    - Your type of employment and employment history

What Size Down Payment Do I Need to Make?

▶ Watch our "What Size Down Payment Do I Need to Buy a Home?" instructional video

- Use our DOWN PAYMENT CALCULATOR to understand the down payment and total up-front money required to purchase a home

  The down payment is money that you contribute when you purchase the home that you do not get back until you sell the home

  - So if something unfortunate happens such as selling your home for less than you paid for it or your home going into foreclosure, then you could lose part or all of your down payment
- The down payment you can afford plus the mortgage you can afford equals the price of the home you can afford
- Borrowers frequently ask what size down payment they need to buy a home as saving money for a down payment can be challenging
- There is no set rule for what size down payment you need to make when you buy a home but there are some guidelines and financial considerations you should be familiar with
- In order to receive the lowest interest rate for your mortgage, most lenders expect a borrower to make a down payment of at least 20% of the purchase price of the home
- Lenders have guidelines that specify an acceptable loan-to-value (LTV) ratio, or the amount of money they are willing to lend you compared to the value of the house
- Lenders typically expect an LTV ratio of 80% or less, which means you are contributing a down payment equal to 20% or more of the purchase price of the home
  - For example, if you are buying a home for $100,000, if you want to receive the best interest rate, your down payment would be at least $20,000 and you would borrower the remaining $80,000 from the lender
  - In this example, the loan-to-value ratio is 80% ($80,000 mortgage ÷ $100,000 property value = .80 = 80%)
  - You also need to take into account mortgage closing costs in determining how much up-front money is required to purchase a home and closing costs can run thousands of dollars
  - We provide a detailed down payment example on the next page

Buying a Home with a Down Payment of Less than 20%

- So a 20% down payment is the standard down payment amount when buying a home but it is certainly possible to buy a home with a smaller down payment.
- If your down payment is less than 20%, the lender will likely charge a higher interest rate or require the borrower to purchase private mortgage insurance (PMI), which increases your mortgage costs
  - PMI typically requires that the borrower pay an ongoing annual fee, paid monthly. PMI rates vary but can be approximately .5% of the mortgage amount for a 30 year loan with a loan-to-value ratio of 90% (so when the borrower makes a down payment of 10%)
- Instead of charging PMI, some lenders may charge a higher interest rate. So the lender may offer you an interest rate of 4.0% if you make a down payment of 20% and an interest rate of 4.5% if you make a down payment of 10%
  - In many cases paying a higher interest rate can cost the borrower more than paying PMI fees because the borrower pays the higher interest rate over the life of the mortgage unless they are able to refinance
  - So if you decide to make a down payment of less than 20% and the lender does not require that you pay PMI, be sure to ask the lender if PMI is included in the interest rate, and if the answer is yes, ask what the interest rate would be if you pay for PMI separately as this could save you a significant amount of money over the life of your mortgage

What Size Down Payment Do I Need to Make? (continued)

- There are also multiple government-backed mortgage programs such as those offered by the VA and FHA that allow you to buy a home with a down payment of less than 20% and in the case of the VA program require no down payment
    - The FHA program allows the borrower to buy a home with a down payment as low as 3.5% of the property purchase price but requires the borrower to pay an up-front and ongoing annual mortgage insurance premium which are additional costs on top other closing costs and your monthly mortgage payment
    - The VA program requires the borrower to pay a one-time, up-front VA funding fee in addition to other mortgage closing costs
- So you can certainly buy a home with less than 20% down but it is going to cost you more in fees or increased interest expense
- When determining the size of down payment that is right for you, always remember to keep enough savings in reserve to cover four-to-six months of monthly housing expense. This will allow you to absorb any unexpected changes in your financial situation

Should I Save for My Down Payment or Pay-Off My Debt?

- Individuals thinking about buying a home are also typically focused on saving money for their down payment which raises a common question: should I save money for my down payment or pay off debt?
    - The answer to that question partially depends on the borrower's income level but it usually makes sense to pay down the debt first because paying off debt, especially if it has a high interest rate, makes it easier for a borrower to save money for a down payment and also improves the borrower's ability to qualify for a mortgage
    - When lenders evaluate a borrower's ability to qualify for a mortgage they review debt-to-income ratios, or the borrower's monthly debt expense as compared to the borrower's income. The less monthly debt a borrower has, the lower the borrower's debt-to-income ratio and the larger the mortgage the borrower can qualify for
    - Paying down your debt can also improve your credit score which is highly beneficial when you apply for your mortgage
- It is important to note that you do not need to pay-off all of your debt and saving for your down payment is also important as lenders typically require that borrowers make a down payment of at least 20% of the property purchase price in order to receive the lowest interest rate for your mortgage
- Borrowers can use the FREEandCLEAR MORTGAGE QUALIFICATION CALCULATORS to understand what size mortgage they qualify for at various levels of monthly debt. Based on the analysis, the borrower may decide to pay down or pay off debt to qualify for a larger mortgage amount

Using a Gift for Your Down Payment

- You can also use a gift from a relative, fiance or domestic partner to pay for all or part of the down payment, closing costs or financial reserves when buying a home
- There are typically certain rules and procedures that the lender requires you to follow when using a gift to pay for your down payment
    - The individual providing the gift is usually required to provide a gift letter to demonstrate proof of the gift, confirm that funds being provided are not borrowed and also verify that the borrower is not required to repay the gift
- It is important to highlight that the borrower is still typically required to pay PMI or a higher interest rate if the the down payment is less than 20% of the purchase price of the property, regardless of if the buyer contributes the down payment fully out of his or her own funds or if all or part of the down payment is provided as a gift
- Additionally, the buyer will typically receive the best terms (lowest interest rate) from the lender if he or she makes a down payment of at least 20% of the property purchase price even if all or part of the down payment is provided to the borrower as a gift from a relative, fiance or domestic partner
- FREEandCLEAR recommends that you consult a tax professional to understand potential tax consequences associated with using a gift to pay for a down payment

What Price Home Can I Afford?

▶ Watch our "What Size Down Payment Do I Need to Buy a Home?" instructional video

- How much home you can afford is based on two things:
    1. Down payment: the money you contribute to buying the home
    2. Mortgage: the amount of money you borrow from a lender
        - Down payment + mortgage = how much home you can afford
- We provide a comprehensive discussion of what size down payment you should make and what size mortgage you can afford and we are going to review these topics below

Down Payment

- The down payment is money that you put in when you purchase the home that you do not get back until you sell the home
- So if something unfortunate happens such as selling your home for less than you paid for it or your home going into foreclosure, you could lose part or all of your down payment
- In order to receive the lowest interest rate for your mortgage, most lenders expect a borrower to make a down payment of at least 20% of the purchase price of the home
    - For example, if you are buying a home for $250,000 your down payment would be $50,000 – $250,000 times 20% equals $60,000
- If your down payment is less than 20%, the lender will likely charge a higher interest rate or require the borrower to purchase private mortgage insurance (PMI) to protect the lender in case you do not pay back your mortgage
    - PMI typically requires that the borrower pay an ongoing annual fee, paid monthly
- Some lenders may charge a higher interest rate instead of charging PMI
    - A higher interest rate can cost the borrower more than paying PMI fees because the borrower pays the higher interest rate over the life of the mortgage unless they are able to refinance while PMI fees can be removed after the amount of your mortgage falls below 80% of the value of your house
- There are also multiple government-backed programs that enable you to purchase a home with a down payment of less than 20%
    - The FHA home loan program allows you to purchase a home with a down payment as low as 3.5%
    - The VA home loan program for active and retired military personnel requires no down payment
- You can also use a gift from a relative, fiance or domestic partner to pay for all or part of the down payment and mortgage costs
- It is important to emphasize that the buyer will typically receive the best terms (lowest interest rate) from the lender if he or she makes a down payment of at least 20% of the property purchase price even if all or part of the down payment is provided to the borrower as a gift
- When you are thinking about your down payment, you also need to take into account mortgage closing costs, which can run thousands of dollars, and remember to keep enough savings in reserve to cover four-to-six months of total monthly housing expense

What Price Home Can I Afford? (continued)

Mortgage Amount

- We have a great MORTGAGE QUALIFICATION CALCULATORS on FREEandCLEAR that helps you determine what size mortgage you can afford but we also are going to review the fundamentals of mortgage affordability
- To determine what size mortgage they can afford, people typically want to understand how much of their net income they should spend on their mortgage payment and total monthly housing expense
- Although there are no strict rules, the table below outlines some general guidelines for how much of your monthly net income you should spend on your mortgage payment, total monthly housing expense and total monthly housing expense plus other debt. Applying these guidelines to your personal financial situation will help you determine what size mortgage you can afford
  - In the table below, we show an example for a borrower with $5,000 in monthly net income
  - It is important to emphasize that the guidelines look at monthly NET income, or your income after any deductions, which is also known as your take-home pay

		Maximum % of Borrower Monthly Net Income		Borrower Monthly Net Income		What Borrower Can Afford to Spend
1	Monthly mortgage payment	43%	x	$5,000	=	$2,150
2	Total monthly housing expense (mortgage payment plus property tax, homeowners insurance and other applicable housing-related expenses)	52%	x	$5,000	=	$2,600
3	Total monthly housing expense plus other monthly debt (such as credit card, auto and student loans)	62%	x	$5,000	=	$3,100

- In the example above, the borrower can afford to spend up to:
  - $2,150 on their monthly mortgage payment
  - $2,600 on total monthly housing expense (which means they are spending $450 a month on non-mortgage housing expenses such as property taxes and homeowners insurance)
  - $3,100 on total monthly housing expense plus other debt (so the borrower can afford to spend $500 a month on other debt such credit card payments)
- It's important to highlight that the less monthly debt you have the higher the mortgage payment and larger the mortgage you can afford
  - So in example above, if our borrower has less than $500 in monthly debt, they can afford a larger mortgage amount
- After you determine what size mortgage payment you can afford, you can figure out what size mortgage you can afford which depends on the interest rate and term, or length, of the mortgage
- Returning to the example above where the borrower can afford a monthly mortgage payment of $2,150, let's look at a thirty year fixed rate mortgage with three different interest rates – 4%, 5% and 6% -- and show what size mortgage our borrowers can afford at each interest rate
  - 4% = $450,000 mortgage
  - 5% = $400,000 mortgage
  - 6% = $360,000 mortgage
- This example demonstrates the lower the interest rate, the larger the mortgage you can afford
- Additionally, the longer the mortgage term, the larger the mortgage you can afford

What Price Home Can I Afford? (continued)

What Price Home Can I Afford?

- Let's return to our original question of "What Price Home Can I Afford?" and the answer to this question is what size down payment you can afford plus what size mortgage you can afford
- Let's use the 4% interest rate scenario from our example above and say that our borrower can afford a $450,000 mortgage
- The question then becomes what size down payment can we afford? The table below outlines three scenarios – with the borrower making down payments of 5%, 10% and 20% – and shows what price home the borrower can afford at each down payment amount

Down Payment (%)	Down Payment Amount ($)		Mortgage Amount ($)		Home Price the Borrower Can Afford ($)
5%	$23,675	+	$450,000	=	$473,675
10%	$50,000	+	$450,000	=	$500,000
20%	$112,500	+	$450,000	=	$562,500

- In this example, if our borrower can afford to put 20% down, the down payment is $112,500, and if you add the $450,000 mortgage amount, the borrower can afford to purchase a $562,500 home
- This example provides a framework for thinking about what price home you can afford but the most important rule to remember is that you select a down payment and mortgage amount that you are financially comfortable with for the long term

Understanding Mortgage Closing Costs

- Closing costs are the fees that a borrower is required to pay to numerous third parties at the time a mortgage closes
- Closing costs are typically thousands of dollars and are very important for borrowers to consider and understand when they obtain mortgages
    - It is important to compare closing costs in addition to interest rates when you evaluate mortgage proposals from multiple lenders
    - Click INTEREST RATES ㊋ to review interest rates and costs from lenders in your area
- There are two types of closing costs
    1. Non-recurring closing costs: These are one-time, up-front costs that the borrower pays to various third parties to process and close the mortgage. Examples include lender, appraisal, title company, escrow and attorney (if applicable) fees
    2. Recurring closing costs: These are costs that the borrower will continue to pay after the mortgage closes. Typically the borrower is required to pay a portion of these ongoing costs which are calculated based on at what time of year and day of month the mortgage closes. Examples include interest (from the day your mortgage closes until the end of the month in which your mortgage closes), homeowner's insurance, pro-rated property taxes, homeowners association fees (if applicable), private mortgage insurance (PMI) (if applicable) and FHA mortgage insurance premium (MIP) (if applicable)

Tips for Avoiding Excessive Closing Costs

- One tip you can use to quickly compare and identify excessive closing costs is to compare the Annual Percentage Rate (APR) presented in the Truth-in-Lending Statement to the interest rate
- In short, the APR represents what your mortgage interest rate would be if it included all up-front lender and closing costs
- If the APR is close to your interest rate then you know that the closing costs are relatively small. If the APR is much higher than your interest rate then you know that the closing costs are relatively high and you may want to negotiate lower costs or change lenders
- Additionally, if you have proposals from two lenders that are offering the same interest rate but one APR is higher than the other, then you know the lender with the higher APR is charging higher fees
- The table below outlines typical non-recurring and recurring closing costs when you obtain a mortgage
    - The table attempts to capture most closing costs across the mortgage industry but please note that closing costs vary by geography and lender so not all of these costs will be included for all mortgages
    - Additionally, closing costs vary depending on the mortgage amount with larger loans having higher costs
- The example on the following page provides a detailed case study on estimated closing costs for a mortgage

Understanding Mortgage Closing Costs (continued)

Closing Costs

Non-Recurring Closing Costs

Item	Description	Approximate Cost
Lender Fees	▬ Different lenders often use different terminology for the various fees and expenses they charge to process your mortgage which can be confusing to borrowers ▬ Some lenders may charge no fee, a flat fee or break-out the fees into separate cost items as outlined below	▬ From $0 to 1.5% - 2.0% of mortgage amount
Origination Fee (or Points)	▬ Lender cost for processing the mortgage ▬ One origination point equals 1.0% of the mortgage amount	▬ 1 point = 1.0% of mortgage amount
Administration Fee	▬ Cost for processing your mortgage	▬ $500 - $1000
Commitment Fee	▬ Lender costs for locking in rate (typically not charged)	▬ .25% - .50% of mortgage amount
Funding Fee	▬ Lender cost for funding mortgage ▬ Some government-backed mortgage programs such as the Veterans Administration (VA) program charge a separate funding fee in addition to any funding fee charged by the lender	▬ $695 - $1,295
MERS Fee	▬ A lender cost to register the mortgage in the Mortgage Electronic Registration System (MERS)	▬ $13 - $25
Rate Lock Extension Fee	▬ A fee charged to extend the period of time for which your interest rate is locked (typically not charged)	▬ .25% - .50% of mortgage amount
Underwriting Fee	▬ Lender cost for reviewing borrower documents and determining mortgage qualification	▬ $695 - $995
Wire Transfer Fee	▬ Lender cost for wiring funds to settlement agent	▬ $25 - $100
Discount Points (optional)	▬ A one-time, up-front fee equal to 1.0% of the mortgage amount charged by the lender or mortgage broker to obtain a lower interest rate than the borrower would otherwise receive ▬ Optional cost to the borrower	▬ 1 point = 1.0% of mortgage amount
Mortgage Broker's Fee (if applicable)	▬ Fee paid to mortgage broker, if you are working with a mortgage broker ▬ The fee is typically expressed in points with one point equaling 1% of the mortgage amount	▬ 1 point = 1.0% of mortgage amount
Non-Lender Costs		
Appraisal Fee	▬ Fee to obtain appraisal report	▬ $400 - $750
Title Services Fees	▬ Fee charged to provide title report and lender's title insurance	▬ $490 - $700
Escrow Fee	▬ Fee charged by escrow company to manage mortgage closing Escrow companies are typically used in the western U.S.	▬ $800 - $2000
Attorney Fee	▬ Fee charged by real estate attorney to manage mortgage closing Real estate attorneys are typically used in the eastern U.S.	▬ $800 - $2000
Credit Report Fee	▬ Fee charged to obtain a copy of your credit report	▬ ~$25
Flood Certification Fee	▬ Fee to make sure that the property is not located in a flood plain	▬ $15 - $20
Government Recording Charge	▬ State and local fees to record your mortgage and title documents	▬ ~$150
Notary Fee	▬ Fee paid for notarizing documents	▬ $125 - $300
Tax Service Fee	▬ Fee to set-up an account with tax service company to make sure you pay your property taxes	▬ $60 - $100
Home Inspection Fee (optional)	▬ Fee charged for home inspection report that identifies potential issues with property	▬ $400 - $500
Termite Inspection Fee (optional)	▬ Fee charged for termite report that identifies potential termite issues with property	▬ ~$50

Some lenders may charge no fee or a flat fee

Some lenders may break-out fees into separate cost items

Understanding Mortgage Closing Costs (continued)

Item	Description	Approximate Cost
Homeowners Association (HOA) Certification Fee (if applicable)	Fee charged by the HOA to provide information on the property	$50 - $300
Transfer Tax	Tax or fee charged by some local city government to transfer property ownership from seller to buyer **TYPICALLY PAID FOR BY SELLER**	~1% or more of the property purchase price

Recurring Closing Costs

Item	Description	Approximate Cost
Interest	Daily interest charge on your mortgage from the day of settlement (mortgage closing) until the end of the month in which your mortgage closes	Depends on interest rate and mortgage amount
Property Tax	Pro-rated amount of property tax due based on the time of year your mortgage closes and when your property tax is due	Property taxes vary by county and can range from 0.5% to 3.0% of the value of the property
Homeowner's Insurance (Hazard Insurance)	Charge to buy homeowners insurance, which is mandatory when you purchase a property	~0.1% - 0.2% of the property purchase price
Homeowners Association (HOA) Fee (if applicable)	Pro-rated amount of HOA fee due if the property you are buying requires an HOA fee	Determined by HOA; typically several hundred dollars per month
Private Mortgage Insurance (PMI) (if applicable)	Lenders typically require borrowers to purchase Private Mortgage Insurance (PMI) when the loan-to-value ratio for a mortgage exceeds 80% (so you put down less than 20% of the purchase price of the property you are buying)	Annual fee, paid monthly, that varies depending on many factors including LTV ratio, credit score, mortgage term, mortgage amount and mortgage type. Can range from .20% to 1.65% of the mortgage amount
Mortgage Insurance Premium (MIP) (if applicable)	If you obtain an Federal Housing Administration (FHA) loan you are required to pay an up-front and ongoing annual Mortgage Insurance Premium (MIP)	Depends on mortgage size, term and loan-to-value ratio

Understand Your Lender Options

▶ Watch our "Mortgage Lender Options" instructional video

- It is important to realize that you have options when selecting a lender for your mortgage. You can use these options to create competition for your mortgage business and make sure you are getting the best terms for your mortgage
- There are several types of mortgage lenders including banks, mortgage brokers, mortgage bankers, credit unions and private investors and there are pros and cons to working with each type of lender
  - Some mortgage lenders such as banks, mortgage bankers and credit unions are direct lender, which means they lend you money directly for your mortgage, potentially allowing them to offer you a lower interest rate
  - Other lenders such as mortgage brokers do not fund mortgages directly but instead act as a personal mortgage shopper for borrowers and compare rates and fees from multiple funding lenders to find you the best terms for your mortgage, so you benefit from lender competition
  - Private investors typically charge the highest interest rate and are used by borrowers who have poor credit or who are unable to qualify for a mortgage with other types of lenders
- You should treat the mortgage process like you would any other major purchase, such as buying a car -- shop around, compare mortgage proposals from multiple lenders and negotiate the best terms for your mortgage
  - We highly recommend that you speak to at least four lenders when shopping for your mortgage including one lender from each category
  - Gathering and comparing mortgage proposals from several lenders will help ensure that you receive the lowest interest rate and fees for your mortgage
  - The table shows interest rates and fees for a selection of lenders in your area or click INTEREST RATES % to see a full list of lenders
- It takes extra time to compare lender proposals but spending an extra hour or two shopping your mortgage business can save you thousands of dollars over the life of your mortgage
  - For example, on a $300,000 30 year fixed rate mortgage, reducing your interest rate by just .125% will save you almost $8,000 in interest expense over the life of your mortgage
- The table on the following page outlines your lender options and reviews the pluses and minuses and provides examples for each type of lender

Understand Your Lender Options (continued)

Lender Options

Lender Type	Definition	Example	Pros	Cons
Banks	— Take deposits from customers and loan money to borrowers — Banks fund mortgages, which means they actually provide you the money for your mortgage — They may keep your mortgage or sell it to a third party in the secondary mortgage market	— Wells Fargo — Bank of America — Chase	👍 Direct lender	👎 May be more difficult to qualify for mortgage
Mortgage Broker	— Personal Mortgage Shopper — Work with multiple lenders to offer borrower the best mortgage product — Also referred to as third party originators — Do not fund loans but work with a number of funding lenders	— Typically smaller, local companies	👍 Compare mortgage offers from multiple, competing lenders	👎 Does not fund loans 👎 May not offer better mortgage terms
Mortgage Banker	— Originates and funds mortgages using a corporate line of credit — Does not take deposits from consumers — Sells all loans into secondary mortgage market	— Quicken Loans	👍 Direct Lender 👍 Alternative to using a bank	👎 May have limited resources 👎 May not offer better mortgage terms
Credit Union	— Takes deposits from customers and loans money to borrowers — Typically not for profit institutions which may allow them to offer more competitive mortgage rates — You must be a member to obtain a mortgage from a credit union — Membership eligibility may require employment with a specific organization (active military, etc.) — Typically sells loans into secondary mortgage market	— Navy Federal Credit Union — State Employees Credit Union	👍 Potentially lower rates and fees because of not for profit status	👎 May need to meet eligibility requirement
Private Investors	— Individual investors — Typically require low Loan-to-Value ratios and charge higher interest rates — Typically used by individuals with poor credit histories	— Individual investors	👍 Access to mortgage when no other options exist	👎 More expensive type of mortgage financing

How to Compare Lenders and Select a Mortgage

You should treat the mortgage process like you would any other major purchase, such as buying a car -- shop around, compare mortgage proposals from multiple lenders and select the best proposal. Follow the steps below to negotiate the best terms for your mortgage:

1 Gather mortgage proposals from at least four lenders, including one mortgage broker

- There are different types of lenders such as banks, mortgage brokers, mortgage bankers and credit unions and they are ALL competing for your mortgage business
- Some mortgage lenders such as banks, mortgage bankers and credit unions are direct lenders, which means they lend you money directly for your mortgage, potentially allowing them to offer you a lower interest rate
- Other lenders such as mortgage brokers do not fund mortgages directly but instead act as a personal mortgage shopper for borrowers and compare rates and fees from multiple funding lenders to find you the best terms for your mortgage, so you benefit from lender competition
- Gathering proposals from at least four lenders will ensure that you have a range of mortgage options, which puts you in a stronger position when you negotiate your mortgage

2 Request a Good Faith Estimate (GFE), Lender Fees Worksheet and Truth-in-Lending Statement from the lenders you contact

- According to federal law, a lender must provide a Good Faith Estimate (GFE) of the key terms of a mortgage including interest rate and closing costs, at the time the borrower submits a loan application although most lenders will provide a GFE before the borrower submits a loan application. If a lender refuses to provide a GFE, this is a red flag and you should contact other lenders. The GFE is a standard document that will be the same across all lenders – this allows you to more easily compare proposals from various lenders
- The Lender Fees Worksheet provides a detailed breakdown of all the costs and expenses associated with a mortgage including fees charged by lenders and other third parties. By law, the lender is not required to provide you with the worksheet, but will likely provide it to you if you ask
- The Truth-in-Lending Statement outlines important mortgage costs such as the Annual Percentage Rate (APR) and Finance Charge and summarizes key mortgage features. The Truth-in-Lending Statement is a standard document that will be the same across all lenders
- Borrowers should use the information on interest rates and mortgage costs presented in these documents to compare mortgage proposals
- Instead of providing a these documents, some lenders may provide you with a verbal or written summary of estimated mortgage costs and terms. You can also use this estimated information to compare mortgage proposals

3 Compare mortgage proposals

- When comparing mortgage proposals, we recommend that you focus on two key items that have the most impact on your up-front and long-term mortgage costs: 1) interest rate; and, 2) closing costs. You can use the Good Faith Estimate (GFE), Lender Fees Worksheet and Truth-in-Lending Statement to help with the comparison
- You can find the interest rate in the middle of page one of the Good Faith Estimate (GFE) and the GFE breaks down closing costs into two components: "Your Adjusted Origination Charges" which are the fees charged by the lender and "Your Charges for All Other Settlement Services" which are the fees charged by non-lender service providers such as the appraiser, title insurance company, escrow company and attorney (if applicable). Settlement charges are another name for closing costs and the "Total Estimated Settlement Chargers" box at the bottom of page one of the GFE provides a good estimate of total closing costs
- We outline the three items in the table below and tell you where to find them on the Good Faith Estimate (GFE). Click on the GFE rectangles under the cost items to see where each figure is located on the GFE
- You should use the Annual Percentage Rate (APR) presented in the Truth-in-Lending Statement to quickly compare and identify excessive closing costs. In short, the APR represents what your interest rate would be if it included all up-front lender and closing costs. If the APR is much higher than your interest rate then you know that the closing costs are relatively high and you may want to negotiate lower costs or change lenders. Additionally, if you have proposals from two lenders that are offering the same interest rate but one APR is higher than the other, then you know the lender with the higher APR is charging higher fees
- Use the Lender Fees Worksheet to perform a more detailed review of mortgage closing costs and negotiate specific cost items to reduce your overall mortgage costs

How to Compare Lenders and Select a Mortgage (continued)

- When you compare mortgage proposals keep in mind that interest rates and closing costs vary by mortgage program. For example, a fixed rate mortgage typically has a higher interest rate than an adjustable rate mortgage. In some cases borrowers review different types and lengths of mortgages as part of their selection process so be sure you are comparing similar mortgage programs when selecting your lender

4 Negotiate the best terms

- Some lenders may offer a lower interest rate with higher fees while other lenders may offer a higher interest rate with lower fees
- Use this information to your advantage to negotiate the lowest interest rate and fees for your mortgage by seeing if a lender is willing to match the interest rate or fees offered by another lender
- Additionally, you can use the Lender Fees Worksheet to perform a more detailed review and comparison of mortgage closing costs. For example, one lender may charge an appraisal fee of $600 while another lender may only charge $500. Use information from the Lender Fees Worksheet to negotiate specific cost items and reduce your overall mortgage closing costs
- In some cases lenders are willing to improve their mortgage proposal and in other cases lenders may not be willing to change their proposal but you have nothing to lose by asking

It takes extra time to compare and negotiate lender proposals but spending an extra hour or two can save you thousands of dollars over the life of your mortgage.   For example, on a $300,000 30 year fixed rate mortgage, reducing your interest rate by just .125% will save you almost $8,000 in interest expense over the life of your mortgage

- The table below shows interest rates and costs for lenders in your area. Contact multiple lenders to make sure you receive the best terms for your mortgage

Our MORTGAGE COMPARISON CALCULATOR enables you to input interest rate and cost information for multiple mortgages to compare them and select the mortgage that is right for you

Get Pre-Approved for Your Mortgage

- It is important to get pre-approved at the beginning of the mortgage and home buying processes
  - Click on a lender in the table below or click INTEREST RATES ％ to review lenders in your area and get pre-approved
- Getting pre-approved for a mortgage demonstrates your ability to qualify for a certain loan amount prior to making an offer to purchase a property
- This gives you a big advantage when you are attempting to buy a home because you have removed one of the biggest risks from the process – your inability to obtain financing
  - Pre-approval shows sellers that you are both qualified financially and serious about the home buying process
  - If multiple potential home buyers place offers to purchase a home, the buyers that are pre-approved for a mortgage typically have an advantage over the buyers that are not pre-approved
- The pre-approval process focuses on borrower mortgage qualification, what size mortgage the borrower can afford and the borrower's ability to make the monthly mortgage payment and pay back the mortgage
- Getting pre-approved typically requires a borrower to provide certain personal and financial information to a lender although some lenders may require that a borrower submit a full loan application
- Pre-approval typically qualifies the borrower for a specific mortgage amount and a lender may provide a letter or online certificate outlining what size mortgage you are pre-approved for as well as the conditions of the pre-approval
  - Mortgage pre-approval is typically subject to the borrower finalizing his or her mortgage application as well as lender review and approval of the terms of the home purchase contract, property appraisal, title report or abstract and other documentation required to close your mortgage
  - So even if you are pre-approved for a mortgage, the lender will still need to provide final loan approval after you have selected the property you want to buy and your offer to purchase has been accepted by the seller
  - Your mortgage pre-approval may also be based on a speciifc interest rate or mortgage program so if interest rates increase or you select a different mortgage program, it may affect your ability to receive final approval for the pre-approved mortgage amount
  - In some cases, mortgage pre-approval may be related to a specific property although typically a borrower receives lender pre-approval for a certain mortgage amount
- It is important to highlight that just because you are pre-approved by a lender or submit a mortgage application to a lender does not obligate you to work with that lender to finalize your mortgage
  - Even if you have been pre-approved by a lender, FREEandCLEAR recommends that you compare mortgage proposals from multiple lenders to find the mortgage that is right for you
  - You may find a lender that offers a lower interest rate or closing costs in between the time you are pre-approved and the time your offer to purchase has been accepted by the seller
- Understanding your lender options, asking the right questions and getting pre-approved for your mortgage at the start of the process will enable you to address potential issues and better position you to successfully obtain a mortgage and buy a home

What Mortgage Program is Right for Me?

- Selecting a mortgage program is one of the most important steps in the mortgage process
    - It is key to select a mortgage program that you are comfortable with and what type of mortgage program you choose also impacts what size mortgage you can afford
- There are three main types of mortgage programs
    - Fixed Rate Mortgage
    - Adjustable Rate Mortgage (ARM)
    - Interest Only Mortgage
- The chart below summarizes and discusses the main pros and cons for each type of mortgage program. As illustrated by the chart, each program is suitable for a specific type of borrower in a specific situation
    - The most common type of mortgage program is a fixed rate mortgage because it involves the least amount of risk
        - This is because the monthly mortgage payment for a fixed rate mortgage can never increase and stays constant over the life of the mortgage
    - The primary reason to select an adjustable rate mortgage (ARM) is because the interest rate and mortgage payment are lower than a fixed rate mortgage during the initial fixed rate period of the loan
        - Another reason to select an ARM is if you think interest rates are going to decline significantly in the future although ARMs also carry the risk that your mortgage payment will increase if interest rates rise in the future
    - Interest only mortgages are the riskiest and least common type of loan program. The primary reason to select an interest only mortgage is because the mortgage payment during the initial interest only period of the loan is lower than the mortgage payment for a fixed rate mortgage or an ARM (because you are not paying principal). Additionally, you can typically qualify for a larger mortgage amount with an interest only mortgage
        - The downsides to an interest only mortgage are that your mortgage payment typically increases after the initial interest only period when you start paying both principal and interest plus your interest rate can increase in the future, which could also cause your mortgage payment to go up
- So what program is right for you? It all depends on you risk profile and financial goals
    - If you are looking for certainty, then a fixed rate mortgage probably works best
    - If you have a higher tolerance for risk and are looking for a lower monthly payment or larger mortgage amount, than an Adjustable Rate Mortgage or Interest Only Mortgage may be right for you
    - Additionally, if you know you are going to sell your home before the adjustable rate period for an ARM or an Interest Only Mortgage, they could be the right program for you
        - That way you benefit from the lower monthly mortgage payment during the initial period of the mortgage but you are not exposed to a potential increase in interest rates and mortgage payment during the adjustable rate period
        - This approach is not without risk either, as there is no guarantee you could sell your property for more than you paid for it
- Review the chart on the following page to learn about each type of mortgage so you can choose the program that best meets your financial objectives

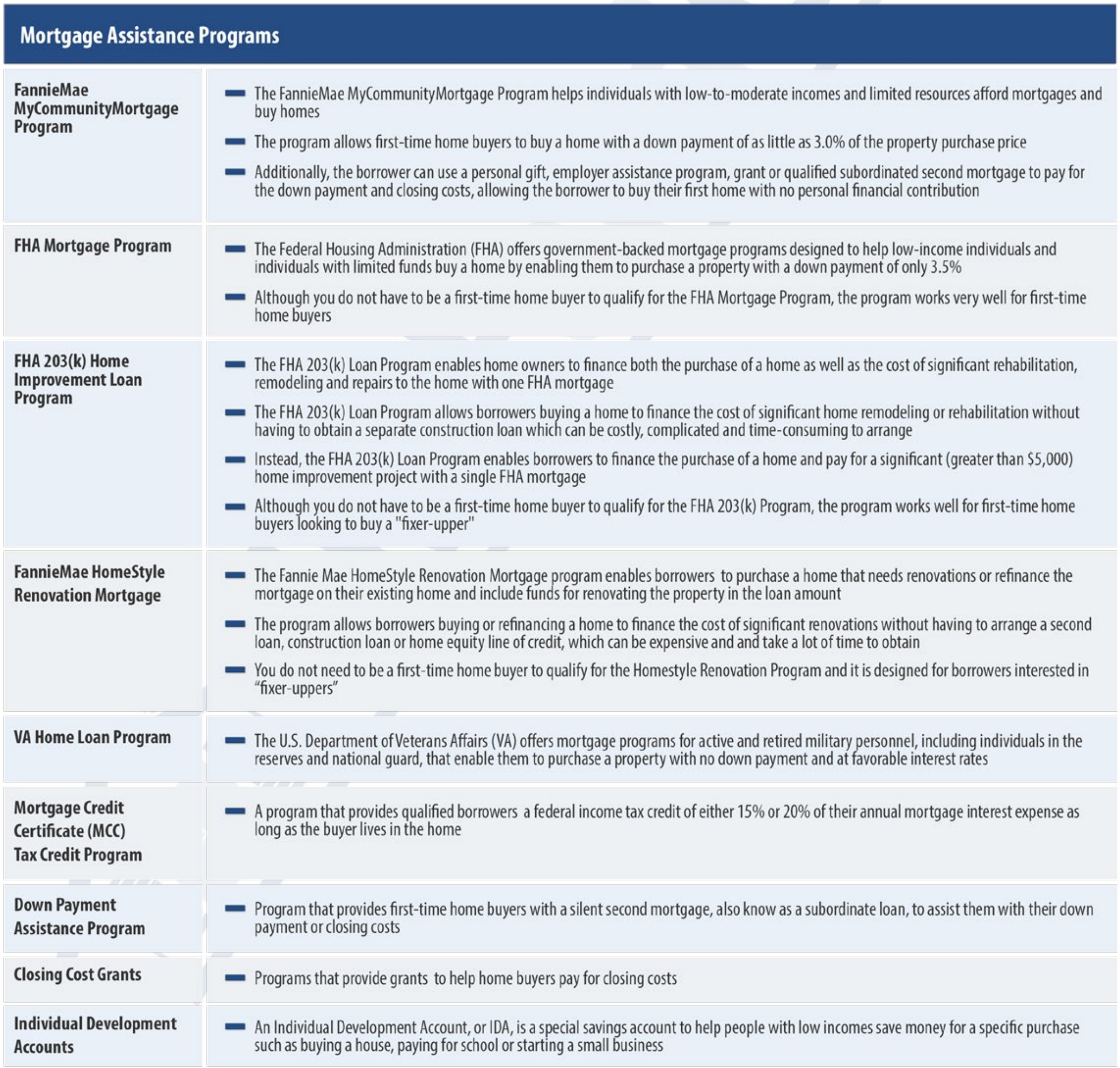
What Mortgage Program is Right for Me? (continued)

Mortgage Program Comparison

	Fixed Rate Mortgage	Adjustable Rate Mortgage (ARM)	Interest Only Mortgage (IO ARM)
Summary	– Interest rate and payment do not change over the life of the mortgage	– Fixed interest rate and payment for first 3, 5, 7 or 10 years (fixed rate period) – Then interest rate and payment can change (adjustable rate period)	– Pay only interest at fixed interest rate for first 3, 5, 7 or 10 years (interest only period) – Then pay both principal and interest plus interest rate and payment can change (adjustable rate period)
Pros	👍 Certainty	👍 Lower interest rate and payment during fixed rate period 👍 Lower payment if rates go down	👍 Lower payment during interest only period 👍 Qualify for larger mortgage amount
Cons	👎 Higher payment than ARM or Interest Only 👎 Locked into interest rate if you cannot refinance	👎 Uncertainty 👎 Potential increase in interest rate and payment	👎 Uncertainty 👎 Payment Increases when you starting paying principal 👎 Potential increase in interest rate
Risk Level	Lowest	Higher	Highest
Term	10-40 years 30 years most common	30 years	30 years
Amortizing Loan?	Yes	Yes	Only for part of term
Can interest rate increase?	No	Yes	Yes
Can interest rate decrease?	No	Yes	Yes
Lowest possible monthly payment			✓
Highest possible monthly payment			✓
Going to own property for short period of time		✓	✓
Going to own property for entire term of mortgage	✓		
Think interest rates will go up significantly	✓		
Think interest rates will go down significantly		✓	✓
Best for low interest rate environment	✓		
Best for high interest rate environment		✓	

Mortgage Assistance Programs Summary

- There are several mortgage programs designed to help first-time home buyers obtain mortgages
  - The table below summarizes the programs. Click on the program title in the first column to review more detailed information about each program
  - You do not need to be a first-time home buyer to use all of these programs, such as the FHA and VA Programs, but many of them are especially helpful for first-time home buyers because they allow you to buy a home with little or no down payment or help borrowers pay for mortgage closing costs
- So review the information on the government sponsored mortgage programs listed below and then click state programs to find the programs available in your state
- Many mortgage programs are administered by state housing financing agencies or city and county housing commissions and program offerings and requirements may vary by state or county
  - In some cases borrowers can combine state and local mortgage programs with national mortgage programs such as the FHA Mortgage Program to provide additional buyer assistance
  - For example, eligible borrowers may be able to combine a local Down Payment Assistance Program or Closing Cost Grant Program with the FHA Mortgage Program to reduce their required down payment or offset mortgage closing costs



Mortgage Assistance Programs	
FannieMae MyCommunityMortgage Program	▬ The FannieMae MyCommunityMortgage Program helps individuals with low-to-moderate incomes and limited resources afford mortgages and buy homes ▬ The program allows first-time home buyers to buy a home with a down payment of as little as 3.0% of the property purchase price ▬ Additionally, the borrower can use a personal gift, employer assistance program, grant or qualified subordinated second mortgage to pay for the down payment and closing costs, allowing the borrower to buy their first home with no personal financial contribution
FHA Mortgage Program	▬ The Federal Housing Administration (FHA) offers government-backed mortgage programs designed to help low-income individuals and individuals with limited funds buy a home by enabling them to purchase a property with a down payment of only 3.5% ▬ Although you do not have to be a first-time home buyer to qualify for the FHA Mortgage Program, the program works very well for first-time home buyers
FHA 203(k) Home Improvement Loan Program	▬ The FHA 203(k) Loan Program enables home owners to finance both the purchase of a home as well as the cost of significant rehabilitation, remodeling and repairs to the home with one FHA mortgage ▬ The FHA 203(k) Loan Program allows borrowers buying a home to finance the cost of significant home remodeling or rehabilitation without having to obtain a separate construction loan which can be costly, complicated and time-consuming to arrange ▬ Instead, the FHA 203(k) Loan Program enables borrowers to finance the purchase of a home and pay for a significant (greater than $5,000) home improvement project with a single FHA mortgage ▬ Although you do not have to be a first-time home buyer to qualify for the FHA 203(k) Program, the program works well for first-time home buyers looking to buy a "fixer-upper"
FannieMae HomeStyle Renovation Mortgage	▬ The Fannie Mae HomeStyle Renovation Mortgage program enables borrowers to purchase a home that needs renovations or refinance the mortgage on their existing home and include funds for renovating the property in the loan amount ▬ The program allows borrowers buying or refinancing a home to finance the cost of significant renovations without having to arrange a second loan, construction loan or home equity line of credit, which can be expensive and and take a lot of time to obtain ▬ You do not need to be a first-time home buyer to qualify for the Homestyle Renovation Program and it is designed for borrowers interested in "fixer-uppers"
VA Home Loan Program	▬ The U.S. Department of Veterans Affairs (VA) offers mortgage programs for active and retired military personnel, including individuals in the reserves and national guard, that enable them to purchase a property with no down payment and at favorable interest rates
Mortgage Credit Certificate (MCC) Tax Credit Program	▬ A program that provides qualified borrowers a federal income tax credit of either 15% or 20% of their annual mortgage interest expense as long as the buyer lives in the home
Down Payment Assistance Program	▬ Program that provides first-time home buyers with a silent second mortgage, also know as a subordinate loan, to assist them with their down payment or closing costs
Closing Cost Grants	▬ Programs that provide grants to help home buyers pay for closing costs
Individual Development Accounts	▬ An Individual Development Account, or IDA, is a special savings account to help people with low incomes save money for a specific purchase such as buying a house, paying for school or starting a small business

What Length Mortgage Should I Choose?

- One of the key decisions you make when you select a mortgage is to choose how long your mortgage should be
    - Lenders typically offer mortgages with 10, 15, 20, 25, 30 and 40 year terms, with the 30 year term being the most popular
- Understanding how mortgage term impacts what size mortgage you can afford, your monthly mortgage payment and total interest expense over the life of your mortgage will help you select the term that is right for you
- The table below outlines some basic guidelines on mortgage term:

Guideline	Explanation
Shorter term = lower interest rate	A shorter term means less risk for the lender providing you the loan and less risk means a lower interest rate for you
Shorter term = higher mortgage payment	Even though mortgages with a short term have lower interest rates, they have higher monthly payments because you are repaying the principal amount of the mortgage over a shorter period of time
Longer term = larger mortgage you can afford	For example, if you can afford to spend a maximum of $3,000 on your monthly mortgage payment, you will be able to afford a larger mortgage amount with a longer term than you could with a shorter term
Longer term = more interest expense	Even though your mortgage payment is higher with a mortgage with a shorter term, you pay much less in total interest expense over the life of the mortgage because you pay off your mortgage faster

The table below demonstrates how you can afford a larger mortgage with a longer mortgage term. Note how the monthly mortgage payment does not change while the mortgage size increases significantly as the mortgage term increases

- The table is an example as mortgage size and monthly mortgage payment vary depending on interest rates

Mortgage Term				
	10 Years	15 Years	20 Years	30 Years
Interest Rate	3.00%	3.25%	4.00%	4.25%
Mortgage Size	$310,000	$427,000	$495,000	$610,000
Monthly Mortgage Payment	$3,000	$3,000	$3,000	$3,000

What Length Mortgage Should I Choose? (continued)

- In the table below, we hold the mortgage size constant at $300,000 to demonstrate how the monthly mortgage payment decreases as the mortgage term increases but total interest expense over the life of the mortgage increases as the mortgage term increases
    - This example illustrates how getting a mortgage with a shorter term can save you hundreds of thousands of dollars in interest expense over the life of the mortgage

	Mortgage Term			
	10 Years	15 Years	20 Years	30 Years
Interest Rate	3.00%	3.25%	4.00%	4.25%
Mortgage Size	$300,000	$300,000	$300,000	$300,000
Monthly Mortgage Payment	$2,900	$2,110	$1,820	$1,475
Total Interest Expense	$48,000	$80,000	$136,000	$231,000

- Now that you have an understanding of how mortgage term impacts your interest rate, mortgage payment and total interest expense, we can return to the question of "What length of mortgage should I choose?"
- The answer to that depends on your financial goals
    - If you are seeking to maximize your mortgage amount and minimize your mortgage payment, then you should go with a 30 year mortgage term
    - If you can afford a higher monthly mortgage payment and want to save tens of thousands or even hundreds of thousands of dollars in interest expense over the life of your mortgage, then you should choose a shorter mortgage term, such as a 15 year mortgage
- At FREEandCLEAR we recommend that you pay off your mortgage as soon as possible so that you can start paying yourself instead of paying interest to the bank
    - Although most people select a 30 year mortgage term, consider choosing the shortest term that will also allow you to feel comfortable with your monthly mortgage payment
- One creative way to think about mortgage term is to get a mortgage with a 30 year term but make the same payment that you would with a 15 year mortgage, so a higher mortgage payment than what is required
- That way you maintain the flexibility of having a lower required monthly mortgage payment that goes along with a longer mortgage term (in case you cannot afford to make the higher payment), but you pay off your mortgage in 15 years and save hundreds of thousands of dollars in interest expense

Should I Pay Discount Points?

- Most lenders offer the borrower the option to pay a discount point or points to obtain a lower interest rate than he or she would otherwise receive
  - A discount point is an up-front fee that equals 1% of the mortgage amount
  - For example, if your mortgage amount is $300,000, one discount point would cost the borrower $3,000
  - A discount point should not be confused with an origination point, which is a fee that some lenders charge to process and close your mortgage. To reiterate, it is completely up to the borrower to decide if they want to pay discount points
- Which leads to one of the most common (and confusing) questions that people ask when evaluating lender proposals is "Should I pay discount points to lower my interest rate?"
- In short, if you are paying discount points on your mortgage then your interest rate should be lower than if you are not paying points, so there is a trade-off between the two
- But how do you compare the cost of a discount point, a one-time up-front fee equal to 1% of the mortgage amount, with the benefit of a lower interest rate, the ongoing cost of your mortgage?
- As a rule of thumb a half of a point is equivalent to .125% (1/8th of 1%) in interest rate, so a full point is equivalent to .250% (1/4 of 1%) in interest rate
- For example, if you receive a mortgage proposal with a 4.00% interest rate plus one discount point, this equates to mortgage proposal with a 4.25% interest rate with zero discount points

Should I Pay Discount Points? (continued)

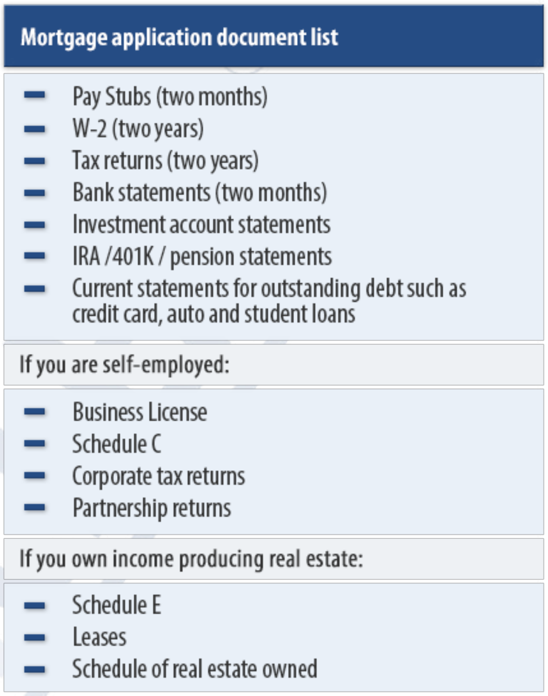
- The example below compares a scenario where the borrower pays a discount point to a scenario where the borrower does not pay any discount points and shows the difference in discount point cost, monthly mortgage payment and total interest expense over the life of the mortgage for the two scenarios
    - The example looks at a $300,000 30 year fixed rate mortgage
    - In scenario #1 (no points scenario), the borrower pays an interest rate of 4.25% and no discount points
    - In scenario #2 (one point scenario), the borrower pays an interest rate of 4.00% and one discount point
    - In the scenario where the borrower pays one discount point, the borrower pays an extra $3,000 up front but saves $44 per month on their mortgage payment and $15,685 in total interest expense over the life of the mortgage by paying for a discount point to lower the interest rate from 4.25% to 4.00%

	Scenario 1 (No Discount Points)	Scenario 2 (1 Discount Point)	Difference		
Interest Rate	4.25%	4.00%	0.25%		
Discount Points	0	1	(1)		
Discount Points ($)	0	$3,000	($3,000)		
			÷		
Monthly Mortgage Payment ($)	$1,476	$1,432	$44	=	~68 months to recover cost of discount point
Total Interest Expense Over Mortgage ($)	$231,295	$215,610	$15,685		

- It is important to understand how long it takes you to recover the cost of paying for discount points
    - In this example, in the scenario where the borrower pays one discount point, the borrower saves $44 per month with the lower interest rate, so if you divide the up-front discount point cost of $3,000 by $44 per month, it takes more than 68 months, or more than five and a half years, to recover the cost of the discount point
    - Which highlights an important rule of thumb when you are considering paying points – if you plan on owning the property you are financing for less than five years it typically does not make sense to pay any discount points because you are not able to recover the up-front cost in that time period
- To summarize, if you are planning on owning the property you are buying for more than five years and the interest rate when you pay a discount point is at least .250% less than if you do not pay a discount point, you can save money on your monthly mortgage payment and on total interest expense over the life of the mortgage by paying discount points
- You can use our DISCOUNT POINTS VERSUS INTEREST RATE COMPARISON CALCULATOR to review the monthly mortgage payment and total interest expense for mortgages with different interest rates and discount points

Finalize Mortgage Application

- After your offer to purchase has been accepted by the seller, you will likely want to move as quickly as possible to complete your mortgage and purchase your new home
- At this point in the process, the lender will likely ask you for numerous personal and financial documents to finalize your mortgage application
  - The list of documents that the lender will most likely request is provided on the right side of the page
- FREEandCLEAR recommends that you gather, organize and review these documents at the beginning of the mortgage process
- In addition to requesting personal and financial documents, the lender will also order your credit report to include with your mortgage application
  - FREEandCLEAR recommends that you order and review your credit score and report at the beginning of the mortgage process to identify and address any potential issues before the lender reviews it
- Lenders require that borrowers submit a loan application when applying for a mortgage
- All lenders use the same standard mortgage application form – referred to in the industry as a Form 1003



Mortgage application document list

- Pay Stubs (two months)
- W-2 (two years)
- Tax returns (two years)
- Bank statements (two months)
- Investment account statements
- IRA /401K / pension statements
- Current statements for outstanding debt such as credit card, auto and student loans

If you are self-employed:

- Business License
- Schedule C
- Corporate tax returns
- Partnership returns

If you own income producing real estate:

- Schedule E
- Leases
- Schedule of real estate owned

- The mortgage application contains a lot of questions about a borrower's income, assets, debt and employment history
  - Check out the FREEandCLEAR home purchase mortgage checklist that lists the personal and financial documents you will likely have to provide to the lender when applying for a home loan. You will also use information from these documents to fill-out the mortgage application
- The good news is that almost all lenders provide an online mortgage application which streamlines the process and allows you to submit the application from the comfort of your own home

Should You Lock Your Mortgage?

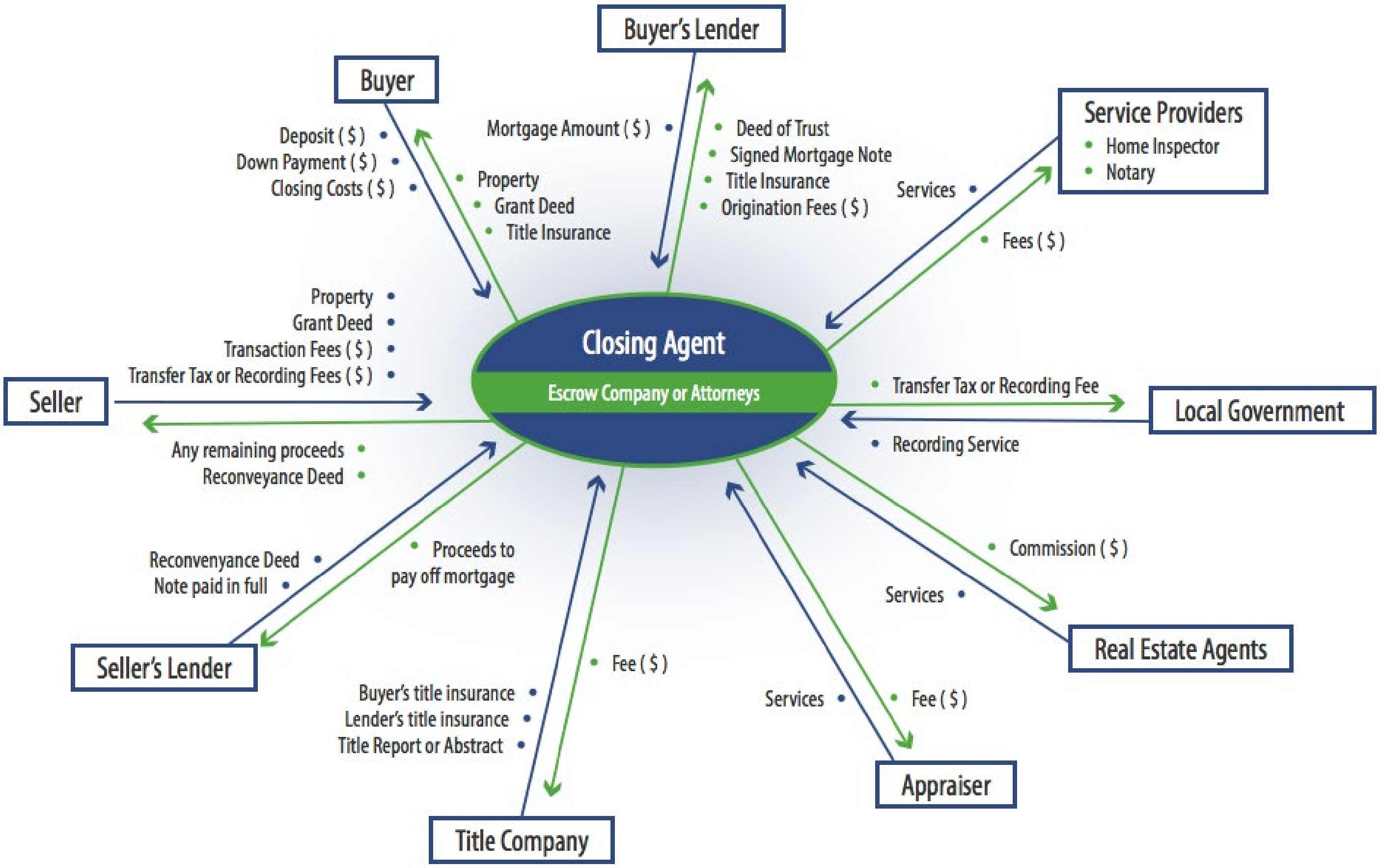
- By locking your mortgage, you eliminate the risk that your interest rate goes up over the course of processing and closing your mortgage
- As the name suggests, by locking your mortgage the lender agrees to set the terms of your mortgage, including interest rate and origination fees, for the timeframe of the lock period
- Depending on the length of the lock period, locking your mortgage can come at a cost to the borrower. The longer the lock period, the greater the cost in terms of a higher interest rate and / or more points
- Typical mortgage lock periods are for 12, 21, 30, 45 or 60 days
- The 12 day lock period is typically provided by the lender free of charge (because it is so short) and is utilized when the borrower has satisfied all funding conditions and the mortgage is ready to close
- In a declining or static interest rate environment, the borrower will want to utilize the 12 day lock period, or no lock at all. This is called "floating" the mortgage
- In a rising interest rate environment, the borrower will want to lock the mortgage over the period necessary to process the mortgage. The borrower should always do diligence at the beginning of the mortgage process to understand how long it takes the lender to process, approve and fund the mortgage
  - A typical mortgage takes approximately 30 - 60 days to complete after your loan application has been accepted by the lender
- Generally speaking, the longer the mortgage lock period, the higher the interest rate
  - Although it may come at a cost to the borrower in terms of a higer interest rate, the insurance you receive by locking your mortgage (as compared to a greater increase in interest rate due to market conditions) can save you thousands of dollars over your mortgage
  - Be sure to discuss the interest rate environment and pros and cons of locking your mortgage with your lender at the beginning of the mortgage process
- If you decide to lock your loan, you should request that your mortgage terms are locked immediately after the lender accepts your loan application, so at the beginning of the mortgage process
- Be sure that the length of your mortgage lock period is long enough to process and close your mortgage. The length of your mortgage lock period should also match the length of time for which the offer to purchase for the property you are buying is valid
- If the time it takes the lender to process your mortgage exceeds the rate lock period it may be possible to ask for a rate lock extension. In a rising interest rate environment a lender may be unwilling to provide a rate lock extension or may try to charge the borrower for a rate lock extension. These fees are relatively uncommon and should be avoided
- Be sure to ask your lender at the beginning of the mortgage process if they charge rate lock extension fees. If the answer is yes, consider working with a different lender

Closing Agent Opens Escrow

- The mortgage closing process is administered by a closing agent who handles the transfer of funds and property ownership through an escrow or trust account
- The closing agent also provides an escrow agreement which is a contract between the buyer and seller that outlines the key terms of the purchase
- Additionally, the closing agent provides the estimated and final HUD-1 that discloses all fees and expenses associated with the mortgage transaction
- In the western U.S., the closing agent is typically an escrow company
- In the eastern U.S., an attorney typically serves as the closing agent
- The proceeds from your down payment as well as your mortgage will also be held in the escrow account (usually for less than a day) until the mortgage closes
- The closing agent has instructions from the lender that determine how the money in the account gets distributed among the numerous parties at mortgage closing
- The closing agent provides escrow instructions to ensure that all third parties such as real estate agents receive their fees and commissions, that the seller's bank is repaid if he or she has a mortgage on the property, and that any remaining proceeds go to the seller
- On the flip side, the closing agent ensures that the buyer receives the grant deed, the legal document that conveys property ownership, and that the lender receives the deed of trust, the legal document that indicates that there is a mortgage on the property
- Technically, the borrower has total control in selecting the closing agent. In practice, however, the choice of closing agent is typically made by mutual agreement between the buyer's and seller's real estate agents

Closing Agent Role Diagram

As depeicted in the chart below, the closing agent administers the mortgage closing process and manages the transfer of funds and properties to all parties involved in the mortgage process


Buyer's Lender
Buyer
Deposit ($)
Down Payment ($)
Closing Costs ($)
Property
Grant Deed
Title Insurance
Mortgage Amount ($)
Deed of Trust
Signed Mortgage Note
Title Insurance
Origination Fees ($)
Service Providers
Home Inspector
Notary
Services
Fees ($)
Property
Grant Deed
Transaction Fees ($)
Transfer Tax or Recording Fees ($)
Seller
Closing Agent
Escrow Company or Attorneys
Transfer Tax or Recording Fee
Local Government
Recording Service
Any remaining proceeds
Reconveyance Deed
Reconvenyance Deed
Note paid in full
Proceeds to pay off mortgage
Seller's Lender
Commission ($)
Services
Real Estate Agents
Fee ($)
Buyer's title insurance
Lender's title insurance
Title Report or Abstract
Services
Fee ($)
Appraiser
Title Company

Title Report & Title Insurance

- At this point in the process, the closing agent will order a title report, sometimes referred to as a title search or title abstract (in the South), from a title company
- In short, the title report makes sure that the property you are buying actually matches the property you have agreed to purchase in terms of property lines, type, ownership, zoning and any easements
    - An easement is a right to use the property by a third party, typically involving access to another piece of land
- A title company or attorney examines county records to determine the legal ownership of the property and identify any recorded property liens or easements
- The title report makes sure that there are no current liens against the property, such as an outstanding property tax bill, that could interfere with your ability to purchase the property
- All of this information is included in the title report (or title search or abstract) provided to you by the title company or attorney
- A clear title report indicates that the property is free of all liens and clears the way for transferring the property from the seller to the buyer at mortgage closing
- Included in the title fee paid by the borrower is the title report as well as title insurance for the lender, which insures the lender in the rare event that there are defects or errors in the property's title and a party makes a claim against the property at some point in the future
- The buyer also recieves title insurance, which is typically paid for by the sellar
- Similar to selecting the closing agent, the choice of title company or attorney in a refinancing is typically made by mutual agreement between the buyer's and seller's real estate agents
- In some areas of the country, including parts of New York state, buyers and lenders do not obtain title insurance but instead rely on a real estate attorney to provide an opinion on the title of the property

Appraisal Report

- The appraisal is one of the most important pieces of the mortgage puzzle and can make or break the entire transaction
- The appraisal, ordered by the lender and provided by an independent third party called an appraiser, is a comprehensive analysis of the value of the home you are seeking to purchase
- While you and the seller have agreed to a purchase price for the home you want to buy, the appraiser provides the lender with an objective opinion on the value of the house
- The appraiser's valuation analysis is usually based on recent property sales in an area (known as "comparables"), current listings in the area, the condition of the neighborhood in which the property is located and other factors such as property square footage and amenities
- The lender wants to make sure that that value of the house exceeds the value of the mortgage it is providing to you (so that the lender can recover its money in the unfortunate case when the borrower cannot repay his or her mortgage)
- Lenders typically expect a loan-to-value (LTV) ratio of 80% or less. LTV is the ratio of the mortgage amount to the value of the property you are buying and the lender uses the appraisal to determine the property value used to calculate the LTV ratio
- If the appraised value of the property is less than expected, it could result in an LTV ratio above the lender's acceptable limit
- When the appraised value of the property is less than expected, this is known as the appraisal "coming up short." On the following page, we review an example of this scenario and what a borrower can do if the appraisal comes up short
- Although the borrower typically pays the appraisal fee (it is one of the costs listed on the Good Faith Estimate (GFE)), the lender selects the appraiser
- If you are working with a mortgage broker then the funding lender (the company the mortgage broker is using to lend you the money for your mortgage), not the mortgage broker, selects the appraiser
- One thing to note is that the appraisal cannot be transferred to a different lender
- So if you decide to change lenders in the middle of the mortgage process, after the appraisal has been ordered, then you will likely have to pay for another appraisal

What happens if the appraisal comes up short?

- When the appraised value of the property is less than expected, this is known as the appraisal "coming up short"
- If the appraisal "comes up short" and shows a value for the house significantly less than the price you have agreed to pay for it, then the loan-to-value (LTV) ratio, or the ratio of the mortgage amount to the value of the property you are buying, may be pushed above the lender's maximum LTV limit, which is typically 80%, and this can create some serious challenges
- There are several potential outcomes if the appraisal comes up short:
    1. You can try to renegotiate the purchase price of the home, which the seller may be unwilling to do
    2. You can reduce your loan size by increasing your down payment so that the LTV ratio is less than 80%, which you may not have the money to do
    3. The lender may ask you to purchase private mortgage insurance (PMI), which is an additional ongoing monthly cost to you
        - If you make a down payment of less than 20% when you buy a home, lenders typically require the borrower to purchase private mortgage insurance (PMI). PMI is insurance against loss from mortgage default provided to the lender by a private insurance company. PMI typically requires that the borrower pay an ongoing annual fee, paid on a monthly basis
    4. The lender may decide to decline the loan, in which case you are out the cost of the appraisal as well as a lot of time and effort
    5. You can also ask the lender to review the appraisal or request an additional appraisal although there is no guarantee that the new appraisal will produce a higher estimated value for the home, or if it does, the lender may not use the higher property value for its underwriting process

Review the HUD-1 Statement

▶ Watch our "HUD-1 Statement" overview video

- RESPA (the law that regulates the mortgage process) requires the closing agent (escrow company or attorney) to issue the borrower an estimated HUD-1 Statement at least one day prior to the closing of the loan
- Typically the borrower receives the estimated HUD-1 when he or she signs loan documents three-to-four days prior to closing
- The HUD-1 is a standardized form that lists the final, actual terms and costs of your mortgage, including your interest rate, points and all one-time fees
- The borrower should use the estimated and final HUD-1 Statements to verify that he or she is receiving a mortgage at the terms agreed to at the start of the process
- The first two pages of the HUD-1 outline the final, actual mortgage transaction terms and settlement costs (also known as closing costs)
- The third page of the HUD-1 compares the final, actual closing costs to the estimated closing costs provided in the Good Faith Estimate (GFE) that the lender should have provided to you at the beginning of the mortgage process
- Page three of the HUD-1 also indicates by how much the final closing costs can legally change as compared to the estimated costs provided in the GFE
    - Certain closing costs such as lender fees (also known as origination fees or charges) and any discount points the borrower decides to pay, are NOT allowed to change from the initial estimate provided by the lender
    - Other non-lender closing costs such as the appraisal fee, escrow or attorney fee and title services fee cannot increase more than 10% from the initial estimate provided by the lender
    - Certain recurring closing costs, or costs that you will continue to pay after your mortgage closes such as daily interest charges from the date your mortgage closes until the end of the month in which your mortgage closes and homeowner's insurance fees are allowed to change because the final, actual amounts for these costs vary depending on the date your mortgage closes
- The key items to review when comparing the HUD-1 and GFE are interest rate and settlement costs (also known as closing costs) such as the appraisal and escrow fees and title services costs
    - If the figures and information in the HUD-1 and GFE match or are relatively close, then you are all set to close your mortgage
    - If there are meaningful discrepancies between the HUD-1 and GFE and the final mortgage terms and costs have changed or increased significantly, this could be a sign that you are not getting the mortgage you thought you were and that you are potentially getting ripped off
- If there are significant differences in any of these items then ask the lender for an explanation
- If you are not satisfied with the explanation then you should cancel the mortgage. You can cancel your mortgage at any time before it closes and then you are free to work with a different lender
- Although you may be out non-refundable costs such as your appraisal fee and certain lender fees, canceling a bad mortgage will save you much more money over the life of the mortgage
- One way to avoid potential negative surprises as you move toward closing your mortgage is to lock your mortgage. That way, all key terms and costs are agreed to by you and the lender at the start of the process and remain unchanged through the closing of your mortgage

Mortgage Closing!

▶ Watch our "First Payment Letter" overview video

- After you have reviewed all of the loan documents related to the mortgage and home purchase process, the final step is for those documents to be recorded and made official and for your mortgage to fund
- The closing agent manages all of the logistics that are required to record documents and fund your mortgage
- After the lender wires funds to the closing agent, the closing agent sends the grant deed and deed of trust (or mortgage, if you are in the Southern U.S.) to the local county recorder office
- Once these documents are recorded by the recorder office, property ownership is transferred from the seller to the buyer and the transaction becomes a matter of public record
- After the transaction has been recorded, the closing agent then distributes all of the funds in the escrow or trust account, including your mortgage proceeds, to the appropriate parties
- The seller's bank is repaid its mortgage, third party service providers such lenders and real estate agents receive their commissions, city governments receive any property taxes due and the seller receives whatever money remains after everyone else is paid
- The buyer receives ownership of the property
- You now officially own the property. Congratulations!!!
- Now that your mortgage has closed it's time to celebrate!!!
- Before you pop the champagne there are a couple of last minute items to remember
- The first point is that you should always review the final HUD-1 Statement, which is issued after loan documents are recorded
- Although it is very rare, if you do find a mistake in the final HUD-1, such as a miscalculation, then you should bring it to the attention of the closing agent immediately
- Another important item to highlight is the first payment letter, which notes your monthly mortgage payment amount and when the payment is due
- The last thing you want to do is pay a late fee because your were late with your first mortgage payment
- You have now obtained a mortgage, purchased a home and completed the FREEandCLEAR Home Purchase Mortgage Guide. Congratulations!!!

Key Steps to Recording and Funding

1. Lender provides loan documents to closing agent
2. Borrower reviews and signs loan documents
3. Closing agent sends signed documents to lender
4. Lender reviews and approves loan documents
5. Lender wires funds to closing agent
6. Closing agent sends grant deed and deed of trust to county recorder
7. Closing agent issues final HUD-1 and releases funds to all parties

Appendix

Five Ways to Prepare for Getting a Mortgage *39*
Five Ways You Can Get Ripped Off on Your MortgageYour Credit Six....................................... *41*
Tips for Negotiating the Best Mortgage *43*

Five Ways to Prepare for Getting a Mortgage

1 Know Your Credit Score

- One of the most important inputs in the mortgage process is your credit score so it is very important that you know your score before you start the process. In short, your credit score provides an indication of how likely you are to pay back your mortgage and lenders focus on it when determining your ability to qualify for a mortgage and what interest rate you will pay. A higher credit score means that lenders will be more willing to lend you money and offer you their lowest interest rate. A lower credit score means that lenders will be less willing to lend you money and charge you a higher interest rate if they do.
- It is important that you understand your credit score and address any potential credit issues well before you apply for a mortgage. FREEandCLEAR recommends that you review your credit score six months to a year before you apply for a mortgage. A common question is, does it hurt my credit score when I check my credit score multiple times and the answer is no. You can use services such as annualcreditreport.com, CreditKarma.com or credit.com to check your credit score on a weekly or monthly basis without lowering your credit score.
- By reviewing your credit score months before you apply for a mortgage you can take positive steps to improve your credit profile such as addressing unknown late payments or potentially reducing your credit card balances. Being proactive about your credit profile will help you avoid negative surprises later in the mortgage process, qualify for a mortgage and receive the lowest interest rate offered by a lender.

FREEandCLEAR Resources

- Your Credit Score and the Mortgage Process

2 Organize Your Finances

- Lenders typically require a lot of personal and financial documents to process and approve your mortgage. Lenders request documents to verify your employment and income, financial position and tax history. Some of the items a lender may request include pay stubs, W-2 forms, tax returns, bank statements and investment account statements. Typically you are not asked to provide personal documents until later in the mortgage process but having these items organized at the beginning of the process will make things go much smoother and may even help you get pre-approved for a mortgage.
- Additionally, reviewing your personal finances in advance of the mortgage process will help you identify and resolve potential issues such as missing documents or errors you may find. This will help you avoid potential delays and ensure that your mortgage is processed as quickly as possible.

FREEandCLEAR Resources

- Home Purchase Mortgage Checklist

3 Pay-Off Debt and Save for Your Down Payment

- One of the best steps you can take prior to applying for a mortgage is to pay-off or reduce your monthly debt. Examples of monthly debt include credit cards, auto and student loans as well as alimony and child support, if applicable. When lenders evaluate a borrower's ability to qualify for a mortgage they review debt-to-income ratios, or the borrower's monthly debt expense (including total monthly housing expense) as compared to the borrower's income. A borrower may make a lot of money but if he or she has too much monthly debt his or her debt-to-income ratio may be too high and the borrower may not be able to qualify for a mortgage.
- Additionally, the less monthly debt a borrower has, the lower the borrower's debt-to-income ratio and the larger the mortgage the borrower can afford. So if you are thinking about getting a mortgage within a year, paying off or paying down your monthly debt can help ensure that you qualify for a mortgage and potentially increase the size of the mortgage you qualify for. Reducing your debt can also improve your credit score which is beneficial when applying for a mortgage.
- Individuals thinking about buying a home are also typically focused on saving money for their down payment which raises a common question: should I pay off debt or save money for my down payment? The answer to that question partially depends on the borrower's income level but it usually makes sense to pay down the debt first because paying off debt, especially if it has a high interest rate, makes it easier for a borrower to save money for a down payment. Plus, paying down your debt improves your debt-to-income ratio and your ability to qualify for a mortgage. It is important to note that you do not need to pay-off all of your debt and saving for your down payment is also important. Lenders typically require that borrowers make a down payment of at least 20% of the property purchase price in order to receive the lowest interest rate for your mortgage, although it is certainly possible to buy a home with a down payment of less than 20%. It is also important to keep sufficient funds in reserve to be in a position to absorb unexpected financial challenges after your mortgage closes.
- It is important to note that you do not need to pay-off all of your debt and saving for your down payment is also important. Lenders typically require that borrowers make a down payment of at least 20% of the property purchase price in order to receive the lowest interest rate for your mortgage, although it is certainly possible to buy a home with a down payment of less than 20%. It is also important to keep sufficient funds in reserve to be in a position to absorb unexpected financial challenges after your mortgage closes.
- Borrowers can use the FREEandCLEAR Mortgage Qualification Calculator to understand what size mortgage they qualify for at various levels of monthly debt. Based on the analysis, the borrower may decide to pay down or pay off debt to qualify for a larger mortgage amount.

FREEandCLEAR Resources

- MORTGAGE QUALIFICATION CALCULATOR
- What Size Down Payment Do I Need to Make?
- Lender Mortgage Qualification Guidelines

Five Ways to Prepare for Getting a Mortgage (continued)

4 Develop Lender Relationships

- One of the best ways to make sure you get the best terms for your mortgage is to compare proposals from multiple lenders so it makes sense to develop relationships with several lenders three-to-five months before you are thinking about getting a mortgage. In many cases you may have a friend who is a lender or your real estate agent may recommend a lender or you use the bank where you have your checking or savings account. When borrowers select lenders without comparing mortgage proposals from multiple lenders they could end up paying a higher interest rate or closing costs.
- It is important to understand that there are different types of lenders such as banks, mortgage brokers, mortgage bankers and credit unions and they are ALL competing for your mortgage business. FREEandCLEAR recommends that you gather proposals from at least four lenders, including one mortgage broker, to make sure that you are getting the mortgage with the lowest interest rate and fees. Gathering proposals from at least four lenders will ensure that you have a range of mortgage options, which puts you in a stronger position when you negotiate your mortgage.
- Developing lender relationships well in advance of applying for a mortgage allows you to understand lender qualification requirements and underwriting guidelines and positions you to quickly obtain a mortgage proposal when you need it. Additionally, working with a lender months before you need your mortgage will allow you to address any issues in your financial or credit profile and get pre-approved for your mortgage, which can be very helpful when you are buying a home.
- We want to emphasize that while we recommend that you develop relationships with, and receive proposals from, multiple lenders you will ultimately select one lender for your mortgage. Just because you receive a mortgage proposal from a lender does not mean that you are obligated to work with that lender. Developing lender relationships months before you actually need your mortgage will allow the mortgage comparison and lender selection process to go more smoothly so you are set to move quickly when you find a home you want to buy. The good news is web sites like FREEandCLEAR.com offer lender tables that allow you to review and contact lenders in your area to help you develop lender relationships.

FREEandCLEAR Resources

- INTEREST RATES %
- Mortgage Lender Options

5 Get Pre-Qualified

- Getting pre-qualified for a mortgage demonstrates your ability to qualify for a certain loan amount prior to making an offer to purchase a property. This gives you a big advantage when you are attempting to buy a home because you have removed one of the biggest risks from the process – your inability to obtain financing. The pre-qualification process focuses on borrower mortgage qualification, what size mortgage the borrower can afford and the borrower's ability to make the monthly mortgage payment and pay back the mortgage.
- Getting pre-qualified typically requires a borrower to provide certain personal and financial information to a lender although some lenders may require that a borrower submit a full loan application. Pre-qualification typically qualifies the borrower for a specific mortgage amount and a lender may provide a letter or online certificate outlining what size mortgage you are pre-approved for as well as the conditions of the pre-qualification.
- It is important to highlight that just because you are pre-qualified by a lender does not obligate you to work with that lender to finalize your mortgage. Over the course of the mortgage comparison process, you may find a lender that offers better terms and you are free to work with that lender. Understanding your lender options and getting pre-qualified for your mortgage in advance of the home search process will better position you to successfully buy a home.

FREEandCLEAR Resources

- Get Pre-Qualified for Your Mortgage

Five Ways You Can Get Ripped Off on Your Mortgage

1 The Interest Rate Increases from When You Apply for Your Mortgage Until Your Mortgage Closes

- The interest rate the lender commits to providing you at the beginning of the mortgage process should be the interest rate you receive at the end of the mortgage process. One of the most common ways that borrowers get taken advantage of on their mortgage is to get promised one interest rate when they apply for a mortgage and then they end up receiving a higher rate when the mortgage closes -- this is sometimes referred to as a "bait and switch." Paying a higher interest rate can cost the borrower tens of thousands of dollars over the life of the mortgage. Typically borrowers find out about the higher interest rate within a week of the expected closing date of their mortgage, when they need the proceeds from the loan to complete their home purchase. Borrowers usually accept the higher interest rate instead of starting the mortgage process all over and potentially losing the house they want to purchase.
- In some cases an increase in interest rate is caused by natural fluctuation in the marketplace -- interest rates can be unpredictable and sometimes they go up quickly. In other cases, the lender is acting in bad faith and trying to get the borrower to pay a higher interest rate to make more money.
- In either case, what can the borrower do to avoid an increase in interest rate over the course of the mortgage process? Borrowers usually have the option to lock their interest rate at the beginning of the mortgage process to make sure that it does not increase from the time they apply for their mortgage until when their mortgage closes.
- If the time it takes the lender to process your mortgage exceeds the rate lock period it may be possible to ask for a rate lock extension. In a rising interest rate environment a lender may be unwilling to provide a rate lock extension or may try to charge the borrower for a rate lock extension. The borrower should always do diligence at the beginning of the mortgage process to understand how long it takes the lender to process, approve and fund the mortgage, especially in a rising interest rate environment.
- It is important to emphasize that if you decide to lock your mortgage, make sure that the lock period is long enough to process and close your mortgage, which can take 60 days or longer. Additionally, FREEandCLEAR advises against paying rate late extension fees as this is typically a way for lenders to take advantage of borrowers.
- In some cases, locking your mortgage can come at a cost to the borrower. The longer the lock period, the greater the cost in terms of a higher interest rate or potentially higher lender fees. However, the insurance you receive against a greater increase in interest rate can save you thousands of dollars over your mortgage. In a flat or declining interest rate environment or if you have full trust and confidence in your lender, it may not make sense to lock your mortgage but it is important that the borrower knows the potential benefits of locking their mortgage.

FREEandCLEAR Resources

- Should You Lock Your Mortgage?

2 Pay Higher Interest Rate Instead of Paying Private Mortgage Insurance (PMI) Separately

- If you make a down payment of less than 20% when you buy a home, lenders typically require the borrower to purchase private mortgage insurance (PMI) which is an which is an additional monthly fee paid by the borrower for insurance to protect the lender in case the borrower defaults on the mortgage. In some cases, the lender may charge a higher interest rate instead of charging the borrower a separate PMI fee. There can be a significant difference in cost between paying a higher interest rate over the life of the mortgage and paying for PMI separately.
- With PMI, the borrower only pays the PMI fee as long as the loan-to-value ratio is greater than 80% (so the amount of the mortgage divided by the value of the property is greater than 80%). The loan-to-value ratio typically decreases as borrower pays down the mortgage balance over time or if the property value increases and the borrower can request to have the PMI fee removed if he or she believes the loan-to-value ratio is less than 80%.
- Requesting the removal of PMI can be a time-consuming process but removing PMI can save the borrower a significant amount of money. If the borrower pays a higher interest rate instead of paying for PMI separately, the borrower pays the higher interest rate over the life of the mortgage (unless they are able to refinance), which can cost the borrower thousands of dollars more in interest expense.
- If you decide to make a down payment of less than 20% and the lender does not require that you pay PMI separately, be sure to ask the lender if PMI is included in the interest rate, and if the answer is yes, ask what the interest rate would be if you paid PMI separately. If you pay for PMI separately, the interest rate should be lower and you will be able to have the PMI fee removed if your loan-to-value ratio drops below 80% in the future, which could save you a significant amount of money in interest expense over the life of your mortgage.

FREEandCLEAR Resources

- What is Private Mortgage Insurance and When Do I Need to Pay It?
- What Size Down Payment Do I Need to Make?

Five Ways You Can Get Ripped Off on Your Mortgage (continued)

3 Get a "No Cost" Mortgage and Pay a Higher Interest Rate

- Lenders frequently promote "no cost" mortgages as a way to attract potential borrowers. The idea of not paying closing costs can be enticing to borrowers who are looking to save money on a mortgage but in some cases a "no cost" mortgage may end up costing the borrower more in the long run.
- If you are interested in a no cost mortgage be sure to ask the lender up-front what costs you are required to pay, if any. Make sure that you are not required to pay any lender or third party closing costs including non-lender costs such as the appraisal, title and escrow fees.
- In some cases with a "no cost" mortgage the lender requests that the borrower pay for non-lender closing costs such as appraisal, title, escrow and attorney (if applicable) fees. This is not truly a "no cost" mortgage.
- In other cases "no cost" mortgages may require the borrower to pay certain costs, such as an appraisal fee, up-front, and then those costs are rebated to the borrower when the mortgage closes. This is considered a "no cost" mortgage because the borrower recovers the up-front costs when the mortgage closes.
- Additionally, make sure that no costs are rolled into the mortgage, which increases your mortgage amount and monthly payment. Rolling closing costs into the loan amount is a clever way for lenders to make borrowers pay closing costs without charging borrowers up-front. Your loan amount when your mortgage closes should equal the loan amount you agreed to obtain at the beginning of the process.
- It is important to highlight that because a "no cost" mortgage typically has a higher interest rate than a mortgage with standard closing costs, the borrower could pay thousands more in interest expense over the life of the loan.
- For example, the interest rate on a "no cost" mortgage may be 4.125% while the interest rate on a standard fee mortgage may be 4.000%. On a $300,000 30 year fixed rate mortgage, paying an extra .125% in interest rate (so 4.125% instead of 4.000%) will cost you almost $8,000 more in interest expense over the life of your mortgage. So in many cases, it does not make sense to select a "no cost" mortgage if you are required to pay a higher interest rate.
- Be sure to understand the trade-off between not paying closing costs up-front and paying a higher interest rate which increases your monthly mortgage payment and total interest expense.
- Use the FREEandCLEAR Mortgage Comparison Calculator to compare mortgage proposals with different interest rates and closing costs to understand the true cost of a "no cost" mortgage, including total interest expense over the life of the mortgage.

FREEandCLEAR Resources

- MORTGAGE COMPARISON CALCULATOR

4 Excessive Closing Costs

- Another item that mortgage borrowers should focus on is closing costs. In many cases borrowers will concentrate on finding the lowest interest rate for their mortgages but pay less attention to closing costs and end up paying more than they should. Closing costs can be complicated. Closing costs vary by lender, geography and mortgage program and size. Additionally, there are different types of closing costs. Non-recurring closing costs are one-time, up-front costs that borrowers pay to various third parties to process and close the mortgage such as lender, appraisal, title company, escrow and attorney (if applicable) fees. Recurring closing costs are costs that the borrower will continue to pay after the mortgage closes. Typically the borrower is required to pay a portion of these ongoing costs which are calculated based on at what time of year and day of month the mortgage closes. Examples include interest expense (from the day your mortgage closes until the end of the month in which your mortgage closes), homeowners insurance and prorated property taxes, among other applicable costs.
- So what is the best way to make sure you do not pay excessive closing costs? First, borrowers should gather mortgage proposals from multiple lenders and compare closing costs. When you contact lenders you should request that they provide a Good Faith Estimate (GFE) and Truth-in-Lending Statement, which are standard documents that outline the key terms of the mortgage including interest rate and closing costs. Lenders are required by law to provide these documents to a borrower at the time a borrower submits a mortgage application. The GFE and Truth-in-Lending Statement are standard documents that are the same for all lenders which allows you to more easily compare mortgage proposals.
- One tip you can use to quickly compare and identify excessive closing costs is to compare the Annual Percentage Rate (APR) presented in the Truth-in-Lending Statement to the interest rate. In short, the APR represents what your mortgage interest rate would be if it included all up-front lender and closing costs. If the APR is close to your interest rate then you know that the closing costs are relatively small. If the APR is much higher than your interest rate then you know that the closing costs are relatively high and you may want to negotiate lower costs or change lenders. Additionally if you have proposals from two lenders that are offering the same interest rate but one APR is higher than the other, then you know the lender with the higher APR is charging higher fees.
- In some cases, instead of providing a GFE or Truth-in-Lending Statement, a lender may provide you with a verbal or written summary of estimated mortgage terms closing costs and you can also use this estimated information to compare mortgage proposals. By comparing multiple mortgage proposals you can understand the range of closing costs and potentially negotiate lower closing costs with the lender you select. Additionally, you can use the FREEandCLEAR Mortgage Closing Costs Calculator to review estimated costs for your mortgage and avoid paying excessive closing costs.

FREEandCLEAR Resources

- Mortgage Closing Costs
- Example: Mortgage Closing Costs
- Good Faith Estimate (GFE) Overview
- MORTGAGE CLOSING COSTS CALCULATOR

5 Mortgage has Pre-Payment Penalty

- Some mortgages require the borrower to pay a penalty if you repay the loan in full prior to a specified period of time. For example, the if a borrower has a 30 year fixed rate mortgage he or she may be charged a pre-payment penalty if the mortgage is paid in full in the first five or ten years of the mortgage. To determine if your mortgage has a pre-payment penalty you should ask your lender and also review the Truth-in-Lending Statement, which outlines key mortgage information and indicates if your mortgage has a pre-payment penalty. Lenders are required by law to provide a Truth-in-Lending Statement at the time a borrower submits a mortgage application. FREEandCLEAR recommends that borrowers select mortgages that do not have a pre-payment penalty as this is a potentially unnecessary cost to the borrower in the future.

FREEandCLEAR Resources

- Truth-in-Lending Statement Overview
- Truth-in-Lending Statement: Other Key Items

Six Tips for Negotiating the Best Mortgage

1 Contact a Minimum of Four Lenders

- Like with all significant purchases, it makes sense to comparison shop when you get a mortgage. When borrowers select a lender without comparing shopping they could end up paying thousands of dollars more in interest expense or closing costs than they should.
- There are different types of lenders such as banks, mortgage brokers, mortgage bankers and credit unions and they are ALL competing for your mortgage business. You should treat the mortgage process like you would any other major purchase, such as buying a car -- shop around, compare mortgage proposals from multiple lenders and negotiate the best terms for your mortgage.
- Although the mortgage process can be complicated and overwhelming, you are really focused on only two items when comparing mortgage proposals: the interest rate and closing costs. You can use lender competition to your advantage by potentially negotiating a lower interest rate or reduced closing costs.
- FREEandCLEAR recommends that you gather proposals from at least four lenders, including one mortgage broker, to make sure that you are getting the mortgage with the lowest interest rate and fees. Gathering proposals from at least four lenders will ensure that you have a range of mortgage options, which puts you in a stronger position when you negotiate your mortgage.
- It takes extra time to compare lender proposals but spending an extra hour or two shopping your mortgage business can save you thousands of dollars over the life of your mortgage. For example, on a $300,000 30 year fixed rate mortgage, reducing your interest rate by just .125% will save you almost $8,000 in interest expense over the life of your mortgage. The good news is web sites like FREEandCLEAR.com offer lender tables that allow you to review interest rates and fees for lenders in your area to help you with the lender comparison process.

FREEandCLEAR Resources

- INTEREST RATES %

2 Request a Good Faith Estimate (GFE) from Each Lender

- When you contact lenders you should request that they provide a Good Faith Estimate (GFE), which is a standard document that outlines the key terms of the mortgage including interest rate and closing costs. Lenders are required by law to provide a GFE at the time a borrower submits a mortgage application although most lenders will provide a GFE before the borrower submits a loan application. If a lender refuses to provide a GFE, this is a red flag and you should contact other lenders.
- The GFE is a standard document that is the same for all lenders which allows you to more easily compare mortgage proposals. When reviewing a GFE, the key figures to focus on are interest rate, which is found in the middle of page one, "Your Adjusted Origination Charges" which are the fees charged by the lender and "Your Charges for All Other Settlement Services" which are the fees charged by non-lender service providers such as the appraiser, title insurance company, escrow company and attorney (if applicable). Settlement charges are another name for closing costs and the "Total Estimated Settlement Charges" box at the bottom of page one provides a good estimate of total closing costs.
- It is important to highlight that just because you submit a mortgage application or receive a GFE from a lender does not mean you are obligated to work with that lender. You are using information from the GFE to review and compare mortgage proposals.

FREEandCLEAR Resources

- Good Faith Estimate Overview
- Good Faith Estimate Cost Items

3 Request a Truth-in-Lending Statement from Each Lender

- The Truth-in-Lending Statement outlines important mortgage costs such as the Annual Percentage Rate (APR) and Finance Charge and summarizes key mortgage features. The Truth-in-Lending Statement is a standard document that will be the same across all lenders.
- You should use the Annual Percentage Rate (APR) presented in the Truth-in-Lending Statement to quickly compare and identify excessive closing costs. In short, the APR represents what your mortgage interest rate would be if it included all up-front lender and closing costs. If the APR is much higher than your interest rate then you know that the closing costs are relatively high and you may want to negotiate lower costs or change lenders. Additionally, if you have proposals from two lenders that are offering the same interest rate but one APR is higher than the other, then you know the lender with the higher APR is charging higher fees.
- The Truth-in-Lending Statement also outlines the key features of your mortgage including if your interest rate is subject to change (for adjustable rate and interest only mortgages), if your mortgage has a balloon payment and if your mortgage has a pre-payment penalty.

FREEandCLEAR Resources

- Truth-in-Lending Statement Overview: APR and Finance Charge
- Truth-in-Lending Statement: Key Mortgage Features

4 Request a Lender Fees Worksheet from Each Lender

- FREEandCLEAR recommends that you also request the Lender Fees Worksheet. The Lender Fees Worksheet provides a breakdown of the up-front closing costs and expenses associated with a mortgage and provides more detailed information than the Good Faith Estimate. By law, the lender is not required to provide you with a Lender Fees Worksheet, but will likely provide it to you if you ask.
- You can use the Lender Fees Worksheet to perform a thorough review of closing costs and to compare costs across different lender proposals. For example, one lender may charge an appraisal fee of $600 while another lender may only charge $500. You can use the information you gather from the Lender Fees Worksheet to negotiate specific cost items and reduce your overall mortgage closing costs.

FREEandCLEAR Resources

- Lender Fees Worksheet Overview

Six Tips for Negotiating the Best Mortgage (continued)

5 Compare Interest Rates and Fees for Each Lender

- After you have gathered the Good Faith Estimate, Truth-in-Lending Statement and Lender Fees Worksheet from the lenders you contact you can compare interest rates and fees presented in the mortgage proposals. Some lenders may offer a lower interest rate with higher fees while other lenders may offer a higher interest rate with lower fees. Use this information to your advantage to negotiate the lowest interest rate and fees for your mortgage by seeing if a lender is willing to match the interest rate or fees offered by another lender. In some cases lenders are willing to improve their mortgage proposal and in other cases lenders may not be willing to change their proposal but you create competition for your business by asking.
- When you compare mortgage proposals keep in mind that interest rates and closing costs vary by mortgage program. For example, a fixed rate mortgage typically has a higher interest rate than an adjustable rate mortgage. In some cases borrowers review different types of mortgage programs as part of their selection process so be sure you are comparing similar mortgage programs when selecting your lender.

FREEandCLEAR Resources

- Comparing Mortgage Proposals
- MORTGAGE COMPARISON CALCULATOR

6 Select the Mortgage that is Right for You

- In addition to selecting the mortgage with the lowest interest rate and fees, it is important to select the mortgage that is right for you. That means selecting a mortgage amount that you can afford and the mortgage program and length that are right for you.
- When it comes to mortgage size, just because a lender is willing to offer you a certain mortgage amount does not mean that you will be comfortable with that mortgage. When selecting a mortgage size, make sure you can afford the monthly mortgage payment in addition to total monthly housing expense which includes your monthly mortgage payment plus property taxes and homeowners insurance as well as other potentially applicable costs such as homeowners association (HOA) fees, private mortgage insurance (PMI) or FHA mortgage insurance premium (MIP) -- so the all-in cost of owning a home. Additionally, you should consider the cost for maintenance of the property.
- Mortgage program is another important consideration when selecting the mortgage that is right for you. There are different types of mortgage programs and each has pros and cons. A fixed rate mortgage is typically best for a conservative borrower while and adjustable rate mortgage (ARM) or interest only mortgage (IO ARM) may be better for people with a higher tolerance for risk who are looking for a lower monthly mortgage payment or higher mortgage size. Understand the positive and risks of each type of program before selecting your mortgage.
- Finally, choosing the proper mortgage length is key to selecting the right mortgage. The most common length of mortgage is 30 years but you can lower your interest rate and total interest expense over the life of the mortgage by selecting a shorter term. The downside of a mortgage with a shorter term is that the monthly mortgage payment is higher (because you are paying back the loan over a shorter period of time) which means you can afford a smaller maximum mortgage amount.
- Understanding the pros and cons of your options when it comes to mortgage size, type and length and working with a lender who understands your mortgage objectives will enable you to select the mortgage that is right for you.

FREEandCLEAR Resources

- What Size Mortgage Can I Afford?
- What Mortgage Program is Right for Me?
- What Length Mortgage Should I Choose?