

## Financing Your New Home

New home financing is required for:

Lot Acquisition

Construction Financing

Long Term Mortgage

**Lot Acquisition:** If you or the builder already own the lot, then financing for lot acquisition is not necessary. If you plan to purchase a lot and wait for some time before you build, you will need financing to purchase your lot. If you plan to start building as soon as you acquire the lot, you may include the lot acquisition in the construction loan.

**Construction Financing:** These funds are used to buy the materials, pay the subcontractors, purchase the lot (if it's not already paid for), and cover the builder's overhead.

If you are purchasing a spec home, the builder has already arranged for the construction financing and will make the interest payments on the construction loan. The interest paid will be structured into the final price that you will pay for the home.

If you are building a custom home, you will apply for the construction financing and make the interest payments during construction.

Construction money is not funded all at once. The builder makes draws on the money for specific work. He may not draw more until the work is completed. If the builder borrows the construction financing, the lender must approve the work. If the construction loan is in your name, both you and the lender must approve the next draw. This is to safeguard that the builder is using the funds only on your home.

**Mortgage Financing:** You will apply for your mortgage financing prior to the start of construction. At closing these funds will be used to pay off the construction loan and any lot acquisition loan. The builder signs an affidavit swearing that all outstanding bills have been paid. After closing, the only lien on the home will be your mortgage.

## How to Choose a Lender

Home buyers have many options when selecting their mortgage lender. The lowest price or best terms are not the only considerations. The key ingredients are interest rate, terms, AND service. Use the following tips to guide your selection:

Make sure that the lender gives you the rate and terms in writing. It is easy to quote a good rate to capture your loan. If you don't get it in writing, the quote could change. To keep a rate your lender quotes you, lock in the rate and get it in writing.

Share your main mortgage goals. Then let the lender offer suggestions on which vehicles meets your needs. If lenders don't offer counseling, their service is below par.

Determine how accessible your lender is during loan processing. Ask how the loan will be processed and who will be available to answer your questions. Ask for a direct line. If the lender resists giving you a direct number, you may have difficulty getting through at an important time.

Ask about the processing support the lender has available. If the lender does his/her own processing, takes loan applications, and prospects for new business, he/she may be too busy to take care of your loan in a timely fashion.

Confirm processing time. If the lender cannot promise a date, then you may not be able to confirm your contract closing day.

Ask your for lenders they have worked with who give competitive rates, terms, AND great service.

Learn more about obtaining written proof that you can qualify for a loan or learn about the different types of mortgages and mortgage products.

## Lender Risk: Private Mortgage Insurance and 80/10/10 Programs

To reduce the risk of losing money, lenders select well-qualified buyers with a strong credit history, low income-to-debt ratio, and income stability.

Loan programs that help lenders reduce their risk are 80/10/10 or 80/15/5 loans. These combine a first mortgage and a second mortgage to spread the risk between two lenders. The numbers represent the first loan percentage, second loan percentage, and the down payment.

Here's how it works. The first lender offers a mortgage for 80 percent of the value. Another lender offers a second mortgage for 10 percent of the value. The borrower puts down 10 percent. With 80/15/5, the second lender offers 15 percent and the buyer puts down 5 percent.

With only 80 percent of the loan invested, 80/10/10 and 80/15/5 loans reduce the first lender's risk. The buyer makes a payment to the first lender and a second payment to the second lender.

Since neither lender lends more than 80 percent of the value, private mortgage insurance (PMI) is not required. PMI is only necessary when a lender lends more than 80 percent of the value. No private mortgage insurance means a lower monthly payment.

Ask your sales professional about 80/10/10 and 80/15/5 loan programs.

## Mortgage Choices

There are basically three mortgage categories employed in a home purchase: FHA, VA, and conventional. Within these categories, there are many variations. Your lender's role is to counsel you regarding your mortgage options.

An FHA loan is a mortgage insured by the Federal Housing Administration (FHA), administered by the Federal Department of Housing and Urban Development (HUD). FHA will guarantee the lender against loss if the buyer does not pay the investor back.

Buyers find FHA loans attractive because they require as little as 3 percent down payment. FHA qualifying guidelines are also more lenient for the buyer. This makes them more attractive for a buyer who has a heavier debt load.

VA loans are mortgages offered only to veterans. To obtain a VA loan, the veteran must have a Certificate of Eligibility verifying the veteran's active duty status since September 16, 1940 and discharge papers from the service. VA loans require no down payment, have limited closing costs, and sometimes have lower interest rates. The Veteran's Administration (VA) will guarantee the lender against loss if the buyer does not make payments on the loan.

Conventional loans are mortgages which conform to standards set forth by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Investors remain at risk up to 80 percent of the value of the property. The amount borrowed above 80 percent of the home value is insured against loss by private mortgage insurance.

There are many different mortgage products within these three categories. Learn more about the various mortgage products.

## Mortgage Products: Choosing a Mortgage that is Right for You

Your lender will counsel you on available mortgage choices and products. Basic mortgage choices are FHA, VA, or conventional loans. Within these basics are different mortgage products and programs that have been tailored to today's buyer needs. Since one size does not fit all, some mortgage products will be better suited to your financial situation.

Fixed-rate mortgages are mortgages where the interest rate remains the same for the whole loan term. Thus your principal and interest will be the same every month until the loan is paid in full. Many home buyers choose this product because it minimizes uncertainty about the monthly payment. Home buyers can more readily budget around a house payment that they can count on.

Adjustable-Rate Mortgages (ARMs) are mortgages where the interest rate changes periodically according to a predetermined index. These loans initially have a lower interest rate. When borrowers qualify at an initial lower rate, they can afford more house.

ARMs vary according to how often the rate adjusts. Some ARMs have caps on the amount of rate change with each adjustment. ARMs are tied to one of a variety of market indexes. Your lender can show you how the index has behaved historically. This will allow you to gauge if there will be wide fluctuations in rate changes over the life of the mortgage. Some ARMs are hybrids with a fixed initial interest rate before they move into an adjustable mode.

No or Low Down Mortgages are mortgage products tailored to borrowers who are short on available cash but who have the income to support a higher payment. The risk to the lender is greater on this mortgage because the buyer has little cash investment. Thus these loans will require strong buyer credit histories.

## Starting the Home Buying Process

### First Stop – Get Pre-Approved

The excitement of buying can kindle urgency to set up your Home Tour. When you view homes the American Dream gets closer to reality. However, instead of jumping in to view homes first, the smart first step in the process should be arranging your financing. This focuses you on a price range of homes that matches your personal finances, instead of looking at properties beyond your means. It can be very disappointing to have to step back to a lower price range to obtain a mortgage.

Fluctuations in interest rates may influence the size of home you can qualify for. When rates are low you can qualify for more house than when the rates are high. Various loan programs can influence the amount you can borrow, the rate that you will pay, and the cash required. These factors will influence your purchase. When you make these decisions before you look at properties, you reduce the stress that accompanies financing uncertainty.

There is another important reason to qualify first. A seller will not negotiate in earnest if you cannot prove that you can obtain a mortgage. When you present an offer to a seller, you will provide written proof from a lender that you have been examined and qualify for a loan.

If you find the right property, you should make an offer right away. A delay while you arrange your financing might allow another buyer to buy the property. If multiple buyers make offers at the same time, it will be the buyer with the best terms who is fully qualified that will win.

Learn more about qualifying for your mortgage.

## The Role of Your Lender

The right fit between lender and mortgage products furthers your financial goals. Your lender will counsel you about the best mortgage product for your financial profile. You should be candid with your lender about the specifics of your financial information and share future goals and explore any concerns about your mortgage.

Your lender weighs how much money you have, your debt load, and your income. Other considerations should be the likelihood of a significant change in your income, future financial goals, your ability and willingness to save, your spending habits, and how mobile you will be in the near and long term.

The property itself may influence your choice. A property in need of major repairs may dictate the balance between the money for down payment and funds designated for repairs. Your lender can provide the best advice when you've provided a true picture of your situation.

Your lender provides the pathway to your mortgage by packaging information to showcase you to the underwriter. If your credit is tarnished, your lender can help you clear it up. If your credit has been damaged, your lender can work with you to design a repair strategy and obtain a mortgage at a later time.

Get more tips on how to choose your lender. Also, learn about your mortgage choices and the types of mortgage products available.

## What Does Your Credit Say?

Get started on the right foot—get a consumer credit report before you start your home search. Checking your credit before you apply for a home loan will help you avoid surprises as you get closer to finding your dream home. A consumer credit report is a record of your credit payment history. Any delinquent payments or prolonged debts can appear on your credit report for seven years. Neglecting credit problems may result in paying higher mortgage interest rates or delays in your application for financing. Clearing your credit will help your home closing go smoothly.

To see what your credit report says about you, contact one of these three agencies:

Experian 1-888-397-3742

Equifax 1-800-685-1111

TransUnion 1-800-888-4213

Remember, credit reports can include mistakes, so read your report carefully. If you see a problem, request an investigation to verify your information with the source. Once you have verified your good credit or corrected any problems, you are on your way to a successful home buying experience. You'll be surprised what a difference good credit can make as you prepare to buy a home.

## Written Proof of Mortgage Qualification

The first step in the home buying process is getting qualified for a loan. This will help you focus on the amount of mortgage you may obtain and the price range of homes to consider. Since sellers will be reluctant to take their property off the market for buyers who may not qualify, they will require written proof of financial qualification to negotiate with you.

There are two kinds of written proof of mortgage qualification. The first is a pre-qualification letter. This document provided by a lender tells an interested party that the buyer has provided the lender with certain financial details. A lender will agree to make a loan based on a later verification of these details. In this case, the lender will not investigate a buyer's credit or verify the buyer's income or debts prior to issuing a pre-approval letter.

Oftentimes the wording in pre-qualification letters states that based on information provided by the buyer, the buyer will qualify for a certain loan amount. The lender will take the buyer's word for information such as income and assets. The lender does not pull a credit report. This is the weaker of the two letters because a buyer may report income, assets, debts, or credit inaccurately, and might not get the loan.

The second written proof is a pre-approval letter. This is the stronger letter of the two because the lender has placed you through a loan approval process. The lender will pull a formal credit report from one or several credit bureaus to check your credit and debt information. The lender will verify your income usually through a copy of recent pay stubs or a copy of the buyer's W2. This type of approval takes longer because of verification of the buyer's finances, but it provides greater likelihood of loan funding.

Learn more about your credit history.

## Your Credit History

Lenders see your credit history as a reliable predictor of repaying your mortgage on time as agreed. You should protect your credit just as you would protect your good name. A damaged credit history can keep you from homeownership.

When you apply for a mortgage a lender will order a credit report from one of three credit bureaus: Equifax, Experian, and Trans Union. A credit report will give a history of your credit. It will show past loans, outstanding credit balances, how you make your payments, types of credit accounts, delinquent accounts, foreclosures, bankruptcy, judgments, liens, and collection accounts.

Lenders also look at your FICO credit score. FICO stands for the Fair and Isaac Company who developed the scoring system. The score is computer generated based upon information about your payment history. You get points based on how much you owe, the length of credit history, new credit, and your credit mix. FICO scores range from 400 to 900 points. The higher the score, the better your credit. You can go to [www.myfico.com](http://www.myfico.com) to learn about your score and ways you can improve it.

To obtain a copy of your credit report or to report problems with the accuracy of your credit report, go to [www.equifax.com](http://www.equifax.com), [www.experian.com](http://www.experian.com), or [www.transunion.com](http://www.transunion.com).

If your credit gets in the way of qualifying for a mortgage, your lender can help you devise a strategy to mend your credit and obtain a mortgage at a later time.

## Your Good Faith Estimate

Within three days of taking your loan application, your lender is required by The Real Estate Settlement Procedures Act (RESPA) to prepare a Good Faith Estimate of your closing costs. A good faith estimate is a lender's best approximation of your closing costs, so you'll have an idea of how much money you'll need to bring to the closing.

The Good Faith Estimate is often a range of charges which are the lender's best approximation of fees.

The costs will vary with the person or company who does the work. Often the lender will offer a range of values to account for differences in costs for the same item. The Good Faith Estimate lets you know approximately how much money you will need to close.

Buyers and sellers pay different closing costs. Specific costs are normal for each. Some of the buyer costs can be shifted to the seller when negotiated in the contract. The actual closing costs are presented to the buyer and the seller at closing on the HUD-1 Settlement Statement.

Closing costs can be divided into five categories:

1. Costs related to the buyer's mortgage
2. Government related costs
3. Items required by the lender to be paid in advance
4. Items related to the title
5. Other fees