“What should I know before applying for a mortgage?”

We have all heard that getting a mortgage loan can be challenging and the amount of paperwork can be daunting. You will have a few important decisions to consider right at the beginning of the application. Fortunately, a little pre-planning on your part can greatly help reduce the stress and make the process go smoothly.

What are a few ways I can prepare myself before I obtain a mortgage?

There are three steps that can really start the process smoothly. First, review your credit report and clear up any derogatory items or incorrect data. Second, be able to provide verification of all income you plan to use in your application for at least the last 12 months and finally, be able to verify your down payment funds. These are all minimal requirements for an approval on a mortgage application.

What is the first decision to consider for a mortgage loan?

First is the type of mortgage you want. Do you want an adjustable rate mortgage (ARM) or do you want a fixed rate loan? The difference is that an ARM’s rate can change over time after an initial fixed period. A fixed rate loan is fixed for whatever term you decide for the entire term of the loan. ARM rates are usually lower than fixed loan rates leading to a lower monthly payment for ARM loans. Choosing the option best for your situation requires the consideration of several factors including how long you plan to stay in the home.

Are there other options to consider for mortgage loans?

Another option is paying points or fees to lower your rate. For upfront fees, lenders will lower the rate which can lower your monthly payment amount. One also has to consider how long your rate can be locked once you are approved. The rate might be higher or there might be a fee for a longer rate lock term. A final option is the amount of down payment you will need, which can be as low as 3% for some loan types. If you have 20% or more for a down payment, you can possibly avoid paying private mortgage insurance (PMI).

We have all heard about mortgage loans that were stopped at or within a week of closing, how can this be avoided?

Don’t take out new loans after being pre-approved for the mortgage loan because it can lower your credit score. Most lenders require a recent credit report and the new score could disqualify you for the mortgage. This is one of the bigger reasons mortgages are stopped at or near closing. A good rule of thumb to follow is don’t make any drastic changes to your financial situation while attempting to buy a new home and be approved for a mortgage.