

Mortgage Pre-Approval Tip Sheet

What does it mean to get pre-approved for a mortgage?

Getting pre-approval for a mortgage is a way to determine how likely you are to qualify for a mortgage and how much you could potentially borrow. Pre-approval is not a guarantee that you will be approved, however.

Why should I seek pre-approval?

When purchasing a home, obtaining a pre-approval helps put your time and your realtor's time to good use. With a pre-approval:

- You will find out what your price range is to help narrow down your search.
- Your mortgage application can be easier because much of the information has already been gathered.
- You are seen as a serious buyer to both realtors and sellers.

Who offers pre-approval

You can typically seek pre-approval through banks, credit unions, mortgage lenders or mortgage brokers.

When should I request pre-approval?

You should obtain pre-approval before you start looking for a home.

What information do I need to provide when applying?

When you apply for pre-approval be prepared to provide the following documents:

- Tax returns (two years)
- W-2 (two years)
- Recent pay stubs
- List of assets
- List of liabilities
- Investment income
- Employer information (two years)
- Residences (two years)
- Bank statements
- Gift letters (if applicable)

What else should I know?

- You are not obligated to borrow from the lender that provided the pre-approval.
- If the pre-approval contains an estimated monthly payment, know that interest rates could change by the time you actually apply for a mortgage, affecting the estimate.
- Pre-approvals typically have expiration dates. If you haven't purchased a home by the pre-approval expiration date, you may need to apply again.
- Once you sign a purchase agreement, it is time to actually apply for a mortgage.

Mortgage Pre-Approval Tip Sheet

Mortgage Terms

Abstract of Title

Legal documents recording the ownership of property throughout time.

Adjustable Rate Mortgage (ARM)

A loan with an interest rate that changes, usually starting low then increasing over time which may also increase/decrease monthly payments. ARM rates quoted are the initial rates for a specific period.

Amortization

The gradual elimination of a mortgage by making payments of principal and interest over a specified period of time.

Annual Percentage Rate (APR)

The annual interest rate expressed as a single percentage to show the true cost of borrowing. Includes certain costs associated with borrowing money that will be charged by a financial institution.

Appraisal

A written analysis by a qualified appraiser who estimates the value of a property which is used by a lender to approve the loan.

Back-End Ratio

One of several measures used to qualify a borrower for a mortgage that calculates a borrower's total debt to gross monthly income, including existing long-term debts and the requested loan amount. The general acceptable ratio maximum is 36%.

Buy Down

A cash payment made by either seller or buyer to reduce a borrower's interest rate.

Closing Costs

The expenses associated with a mortgage loan that is to be paid at closing. Examples include appraisal fees, title fees, required insurance, and taxes. These expenses can be paid by the buyer or the seller and can often be included in the mortgage loan.

Conventional Loan

A mortgage loan that is not guaranteed by the federal government.

Credit Report

A report detailing borrowing and payment history of a person or establishment.

Credit Score

A numerical value used to determine the likelihood that an individual will pay back debt. Scores range from 300 to 850.

Debt-to-Income Ratios

Figures that calculate how much of a person's income goes toward paying personal debt. Also known as front-end and back-end ratios.

Down Payment

Requirements range from zero-down to 20 percent of purchase price. Private Mortgage Insurance may be needed for down payments of less than 20 percent.

Equity

The difference between what a property is worth and the amount the owner still owes on mortgage.

Escrow

An account established by a lender who disburses funds to pay property taxes and home insurance on behalf of the buyer. Funds can be collected as part of a down payment and from monthly mortgage payments.

FHA Loan

A mortgage loan that is backed by the Federal Housing Administration. This loan is intended for low to moderate income borrowers and allows for a smaller down payment.

Fixed Rate Mortgage

A mortgage with an interest rate that remains the same throughout the term of the loan.

Front-End Ratio

One of several measures used to qualify a borrower for a mortgage that calculates how much of a borrower's gross monthly income will go toward a mortgage payment, including principal, interest, taxes and insurance. The general acceptable ratio maximum is 28%.

Good Faith Estimate

An estimate of the costs of a loan that a buyer needs to pay at closing, which is provided by the lender to a potential borrower.

Graduated Payment Mortgage

A mortgage with payments that starts out low then gradually increases over time.

Home Inspection

Often required as part for the mortgage loan process, home inspections are conducted by a trained expert to evaluate the condition of a home.

Homeowners Insurance

Insurance policy on a private home to cover costs in the event of a loss, such as damage to the structure and/or its contents, or for injuries incurred on the property.

Mortgage Pre-Approval Tip Sheet

Mortgage Terms (continued)

Lock-In

A lender's promise to hold an interest rate for a specific amount of time while the loan is processed.

Margin

A lender-imposed fee on Adjustable Rate Mortgages (ARM) where percentage points are added to the index rate to determine the interest rate of the loan.

Mortgage

A loan provided by a financial institution to a buyer in order to pay a seller for property.

Mortgage Insurance

Also referred to as Private Mortgage Insurance (PMI). Generally required if down payment is less than 20 percent to protect lenders from borrower default.

PITI

An acronym that stands for Principal, Interest, Taxes and Insurance that sums the monthly mortgage payment.

Points

Lenders may charge "points", or money, equal to one percent of the principal of the mortgage in order to increase the yield on the loan and to cover closing costs. Points can be paid by the borrower and/or the seller.

Pre-Approval

After a review of a buyer's financial situation, a financial institution provides a tentative commitment stating the amount of a loan the lender is willing to approve for a home purchase.

Prepayment Penalty

Fees paid by the borrower if the loan is paid before a specified period of time.

Pre-Qualify

A preliminary estimate to find out how much a buyer may be able to borrow. Lenders base the estimate on information the buyer provides, which is not supported by documentation. Therefore the loan estimate is less reliable and does not guarantee approval for a mortgage.

Principal Balance

The amount due to satisfy the payoff of a debt.

Promissory Note

A written promise to repay a loan or debt under specific terms.

Property Tax

A tax assessed on real estate by local government based on the value of the property.

Purchase Agreement

A legal document that is signed by both buyer and seller that stating the terms and conditions of the sale.

Sub prime Loan

A loan given to borrowers who may have a poor credit history. Due to the increased risk on the loan, lenders charge higher interest rates and offer less favorable terms.

Title Insurance

Insurance that protects against loss resulting from defects in the property's title.

Truth In Lending

Federal regulation requiring a lender to give full written disclosure of all costs, terms, and conditions associated with the loan before a buyer enters into the transaction.

VA Loans

A loan for qualified veterans backed by the U.S. Department of Veterans Affairs. Allows veterans to purchase homes with no down payment.