



When Applying for Your First Mortgage, Information is Key

By gathering as much knowledge as you can about mortgages before you apply, you can confidently navigate this process

The process of buying your first home is more manageable if you take steps to prepare for the purchase (discussed in last month's article [Thinking About Buying your First House?](https://www.fdic.gov/consumers/consumer/news/june2019.html) <https://www.fdic.gov/consumers/consumer/news/june2019.html>). Once first-time buyers get to the stage of applying for a mortgage loan, it's important to be well-informed. These tips can help you navigate the mortgage loan application process.

Consider Shopping for Your Mortgage Loan First...Before You Find Your House

Knowing your loan options before you start looking at houses will help you in your home search by providing the amount a lender will loan you to buy a house. This information will help you target homes in a price range you can afford. When you find a lender and mortgage that's right for your situation, you can get a preapproval for the loan, which will save time later when you're ready to make an offer on a house, since lenders will have most of the information they need to move forward with the loan.

A mortgage preapproval is similar to a loan application, but with important differences. With a preapproval, a lender provides a commitment letter/document and agrees to

loan you a specified amount of money to buy a home, subject to certain conditions. With a preapproval, you do not provide a specific home you want to buy, but get a strong sense of how much money you can get to buy a home. To get a preapproval, you will have to provide documentation. Lenders typically ask for items such as identifying documents (state-issued ID such as a driver's license and/or passport), pay stubs for the last 60 days, two years of federal tax returns, bank account statements (savings and checking), and any investment account statements (including retirement accounts) from the last quarter. The lender will also check your credit history by obtaining a credit report. Preapprovals are typically valid for 60 to 90 days. You are not obligated to formally apply for a loan you have been preapproved for, so you should still shop around to ensure you are getting the best possible deal. It's important to note that a mortgage preapproval is different from a mortgage prequalification, which only gives you a general idea of the amount a lender may be willing to lend to you and the terms available based on estimated financial information that you provide.

Find the Mortgage That Works Best for You

There are many different types of mortgages to choose from, and an important aspect of the process is to choose the mortgage that works for you now and in the future. When shopping for a mortgage, consider the type of interest rate (fixed or adjustable) and whether a conventional loan or a government-guaranteed or insured loan is best for you.

Rates

The distinguishing feature of the fixed rate mortgage loan is that the interest rate does not change. This means your monthly principal and interest payment will stay the same for the entire repayment term, whether it is, for example, 15 years or 30 years. (However, your total monthly payment could still change if you pay property taxes and insurance as part of your monthly mortgage payment and those

costs change.) On the other hand, the interest rate fluctuates periodically (such as annually) with an adjustable rate mortgage (ARM), so your monthly payment typically will change when the rate does. ARMs can offer a lower initial interest rate than fixed rate mortgages, but when the rates increase, your payments typically increase.

Before deciding on a fixed rate mortgage or ARM, consider how long you plan to be in the house you're purchasing. In general, borrowers who anticipate selling their home within a few years are more likely to benefit from a low-rate ARM than those who plan to own the home for many years. But, an ARM can be a good choice for some borrowers depending on other factors. Be sure to consider whether you can make your ARM loan payments if the interest rate increases to the highest level it could go while you own the home.

Loan Types

You may also choose a conventional mortgage loan or a loan insured or guaranteed by the federal government. Loans from the Federal Housing Administration (FHA), the United States Department of Veterans Affairs (VA), and the United States Department of Agriculture (USDA) offer government insured or guaranteed loans. These loans typically have more flexible requirements than conventional loans (such as the minimum credit score needed for approval) and may allow borrowers to make smaller down payments than for conventional loans. However, rates and fees may be higher for these loans than for conventional loans, depending on your credit history, down payment, and other factors. However, you'll have to pay for mortgage insurance, an extra cost increasing your monthly payments that protects the lender in the event you default on the mortgage.

You may also find lenders offering interest-only loans, hybrid mortgages, and balloon payment loans. These loans generally start with low payments that increase over time. Before choosing one of these loans, be sure you understand the loans terms and the potential risks.

Once you decide on a type of mortgage, comparison shop for your loan by online and/or by getting quotes from different lenders. Interest rates and fees vary from lender to lender, even for the same type of loan, so shop around and don't be afraid to try to negotiate these costs.

The Loan Estimate

Knowing the monthly payment and the interest rate of your loan is not enough; you need to understand the major other costs and other terms of the loan. When you apply for a mortgage, the lender must provide you with a document called the "Loan Estimate" within three business days of receiving your application. The Loan Estimate provides important information about the loan offered to you by the lender, including a summary of loan terms, estimated loan and closing costs, and additional information.

Moving Forward With the Loan

The Loan Estimate is not an approval of the loan; it simply shows the loan terms the lender can offer you if you decide to move forward with it. You must inform the lender if you decide to proceed with the loan, and you can obtain a written "lock-in" from the lender. A lock-in guarantees the rate agreed upon, the period the lock-in lasts, and other information

you specifically negotiated, such as the number of "points" (fees) to be paid to the lender for the loan. (Usually, the more points you pay, the lower the interest rate.) A fee may be charged for locking in the loan rate. If so, ask if the fee is refunded at closing.

As your loan application is being processed you may be asked to provide additional documentation showing the source of your down payment funds, cash reserves to cover the first few months of mortgage payments, and documents specific to your situation.

Closing the Loan

Closing is the last stage in the process. At closing, you'll be required to have the agreed-upon funds, which could be used for the closing costs (including the escrow deposit, which is money that is set aside for a couple of months of property tax and mortgage insurance payments) and the down payment. The closing costs vary, depending on the type of loan you choose, and property type, but could be 2% to 6% of the loan amount. These costs generally include appraisal fees, attorney fees, credit report fees, title search fees, and property inspection fees.

To learn more about mortgages, see the FDIC's Affordable Mortgage Lending Guide at <https://www.fdic.gov/consumers/community/mortgagelending/guide.html>.

Also, the Consumer Financial Protection Bureau's web site provides helpful information about mortgages at <https://www.consumerfinance.gov/consumer-tools/mortgages/>.

For more help or information, go to www.fdic.gov or call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342). Please send your story ideas or comments to Consumer Affairs at consumeraffairsmailbox@fdic.gov



FICUS BANK

4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
 123 Anywhere Street
 Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
 Anytown, ST 12345
SALE PRICE \$180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____
LOAN ID # 123456789
RATE LOCK NO YES, until 4/16/2013 at 5:00 p.m. EDT

Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
Does the loan have these features?		
Prepayment Penalty	YES • As high as \$3,240 if you pay off the loan during the first 2 years	
Balloon Payment	NO	

Projected Payments			
Payment Calculation	Years 1-7		Years 8-30
Principal & Interest	\$761.78		\$761.78
Mortgage Insurance	+	82	+ —
Estimated Escrow <i>Amount can increase over time</i>	+	206	+ 206
Estimated Total Monthly Payment	\$1,050		\$968
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$206 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>	In escrow? YES YES

Costs at Closing	
Estimated Closing Costs	\$8,054 Includes \$5,672 in Loan Costs + \$2,382 in Other Costs – \$0 in Lender Credits. See page 2 for details.
Estimated Cash to Close	\$16,054 Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.