

Financing your real estate transaction

Written by James Hickman
Friday, 20 March 2009 00:00

The way you approach mortgage shopping can literally save thousands of dollars. Take time to understand the system and make educated decisions. Doing so may very well cost you less over a shorter period of time.

If we can explain any steps along the way, please ask. We're always happy to help as well as referring you to our select group of qualified, reputable lenders.

The steps to successful financing

Get pre-approved. Don't skip this step. Getting pre-approved is fast, easy and free. A written pre-approval includes a completed credit application and a certificate guaranteeing you a mortgage to a specified amount. With one in your pocket, you won't waste time looking at homes you can't afford.

Instead, you can invest your time shopping for the home of your dreams - and in your price range.

Examine your finances. How much can you afford to spend? While a lender will tell you how much you qualify for, it's up to you to figure how big a payment fits into your budget. What monthly dollar amount do you feel comfortable committing to? Remember to consider related costs such as insurance and taxes, as well as interest and principle.

Consider what type of loan is best for you. Compare fixed-rate with adjustable rate mortgages. Look down the road. Where will you be in 15 years, 30 years? What obligations might you have? Take those things into consideration as you choose a loan.

Check your Credit Report. A lender will run a credit report on you (it only takes a few minutes), but you'll be ahead of the game if you acquire a copy first. You'll know exactly what's on it and be able to correct any inaccuracies.

Shop Around. When you're ready to get a loan, explore your options. You can choose either

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a direct lender or a mortgage broker.

A direct lender has money to lend and makes the final decision on your loan. Brokers are intermediaries who choose from many lenders. A broker may be able to help find you a loan if you have special financing needs, but he or she will also receive a percentage of what you borrow.

While you're shopping for a loan, also look for the best loan costs. These may include:

- Interest rates
- Broker fees
- Points (each point is one percent of the amount you borrow)
- Prepayment penalties
- Loan term application fees
- Credit report fees
- Appraisal costs

Be aware. Don't let hidden costs sneak up on you. Ask your lender for a written estimate.

Apply for a loan. Gather all the documents you'll need to verify your loan application. Lenders will want to know your job tenure, employment stability, income, assets (property, cars, bank accounts and investments) and your liabilities (auto loans, mortgages, installment loans, credit-card debt, household expenses and others).

You'll need to provide documents such as paycheck stubs, bank account statements and tax returns. Check with your lender or broker for more information.

Lock it down. With interest rates changing daily, locking down your rate can prove a big money saver. A rate lock - in writing - guarantees you a certain rate and terms for a specified period of time. Lock in all the costs you can, including interest rates and points. And try to set the lock at the time of application, not at approval. This will protect you from rising rates.

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Your lock-in period should be long enough to allow for all processing time. Most lock periods range from 15 to 60 days. Make sure to check with your lender or broker about the average time it takes them to process a loan.

Ask about Pre-payment. You can shave years off the length of your mortgage by restructuring the way you pay back your loan. Simply paying more frequently can save thousands in interest. So can making a lump payment toward the principle - or paying a little more each month. These methods are called pre-payment.

Not all loans allow for pre-payment. If you want the option, discuss it with your lender or broker.

Clear up any financial problems. Do you have credit problems or owe money to the IRS? Buying a new home may still be a possibility. Contact a financial advisor or tax resolution service to find solutions.