25 MORTGAGE QUESTIONS

25 OF YOUR BIGGEST

MORTGAGE QUESTIONS ANSWERED, ALL IN ONE PLACE

One of the worst things you can do when you're buying a house is to go into your mortgage blind. Questions are your number one comparison tool. You can quickly suss out a lender, or a loan product, based solely on what you ask and the answers you get back.

You also can't shock your loan officer. They've heard it all before. Count on the fact that your loan officer has answers to all the everyday, and even the uncomfortable, mortgage questions you may be too afraid to ask.

If you don't ask, you could be leaving money on the table. Almost half of all homebuyers don't shop around before they take out a mortgage. But comparison shopping and asking questions of one to five lenders could save you anywhere from $1,500 to $3,000.

Getting the answers to 25 of the top mortgage questions can prep you to make your smartest pick:

1. How can I find out how much home I qualify for?:

- You can use our quick online prequalification to work with a loan officer and find out approximately how much you can borrow before you start shopping for a house.
- Once you have that number, you can provide more information and allow your loan officer to run your credit report to verify your assets and income.
- Your loan officer can also help you obtain a complete written credit approval, subject to an appraisal, before you make an offer on a house.

There's a difference between being preapproved and prequalified. When you're prequalified, you've given your mortgage lender all the basic info they need to help you determine what loan program and what amount you may prequalify for. When you're preapproved, your mortgage lender will have collected and verified the necessary documents to move the loan forward to underwriting and approval.

2. Is there anything I shouldn't do before I get prequalified?*

- Don't start shopping for a new home yet.
- Don't get behind on your bills or make late payments.
- Don't pack or ship any important documents, such as tax returns, bank statements, pay stubs, and W-2s.

*Avoiding these actions before and during the financing process can prevent any unnecessary confusion.

Prequalifying for your home loan before you begin shopping for a house can save you hours of unneeded stress and heartache. When you know how much house you can afford in advance, you can meet with your realtor, well-informed and ready to make an educated buy. In eyes of a seller, a prequalified homebuyer also appears more motivated.

3. Is there anything I shouldn't do while I'm getting prequalified?*

- Don't suddenly pay off all your debts.
- Don't apply for new credit cards.
- Don't change jobs, become self-employed, or quit your job.
- Don't co-sign a loan with someone.

Prequalification can be easy, but it's after you get preapproved and a loan progresses that your lender is required to pull a refreshed credit report before closing to check for any new debt. So, any major changes in your finances could delay your loan closing – or even result in a denial despite an earlier approval.

4. What are income and debt ratios?

- **Income ratio:** Your total monthly housing expense divided by your pre-tax monthly income.
- **Debt ratio:** Your total monthly housing expense plus any recurring debts, i.e., car payments, monthly minimum credit card payments, and other loan payments, divided by your monthly income.
- Standard loan underwriting guidelines suggest a max 28 percent income ratio and 36 percent debt ratio, which may vary based on personal finances, loan program, and down payment.

Not taking on any debt and paying for everything with cash seems like a logical choice if you feel you can't afford your lifestyle, but no credit also means bad credit in the eyes of a lender. So, it's a good idea to open at least three credit card accounts and make occasional buys.

5. What are cash reserves?

- **Cash reserves:** The extra funds available to you after your loan closes.
- These funds reflect your ability to make monthly mortgage payments, and different loan programs may have different cash reserve requirements.
- To estimate your ability to pay your monthly mortgage, it's ideal to set aside about 28 percent of your monthly income.

For many people, a debt-to-income ratio between 25 percent and 32 percent of your income is manageable. But keep in mind that relying on a higher percentage of your monthly income could put you at risk if you have a big financial change, like rising insurance costs or loss of employment.

6. Can I get a home loan with no job?

- Depending on your financial situation, you may have to scale back.
- After a job loss, your loan officer will recalculate your earnings, submit a new mortgage application, and provide you with new options.
- You might qualify for a smaller loan and get to buy a house in that price bracket. Or, you may still qualify for the same loan amount if you have more than one job or a low debt-to-income ratio.

More than anything, it's important to be honest. That's what your loan officer is there for. Failing to disclose that you lost your job before closing could increase your risk of loan default and foreclosure -- both in the real world and in the eyes of your lender.

7. Does my husband/wife have to be on the loan or deed?

- Having a spouse as a co-borrower on a mortgage can help to improve your odds of qualification based on credit score, employment history, and income.
- But in some cases, you may have a better outlook by keeping your partner off the loan if their debt or credit score could hurt you.
- In the U.S., you aren't required to apply for a mortgage in both married names. Bear in mind that your non-borrowing partner may still need to get a credit check during the mortgage process.

Adding your partner's name to your mortgage in the future is possible. You can contact your loan officer with this request, and they'll either decline or accept by making a mortgage modification. Refinancing your mortgage – taking out a new loan to replace your current mortgage -- will also allow you to apply again as co-borrowers.

8. How do I take an ex off my mortgage if I get divorced?

Two options are frequently used to come to a resolution:

1. Sell your house.
2. Have one spouse buy out the other.

Selling and dividing the profits is an easy way to resolve the issue of homeownership after divorce. If one partner prefers to keep the house, the spouses will need to settle on a buyout figure -- i.e., the home's appraised value minus the cost of selling to equal the amount of leftover equity split between both parties. The spouse keeping the home may then decide to use a mortgage refinance to pay the buyout. Purchasing back a home with this option will remove the other partner from the home's title.

9. What is mortgage insurance?

- This insurance helps protect the lender if a borrower forecloses on their property.
- Borrowers pay for the mortgage insurance, allowing lenders to grant loans they might not have otherwise.
- Mortgage insurance may be required on some loans when a down payment is less than 20 percent.

10. What are mortgage points?

- Also called discount points, mortgage points work as a one-time fee you can opt to pay if you'd like to get a lower interest rate.
- One mortgage point equals one percent of your total loan amount and may drop your interest rate one-eighth to one-quarter percent lower.
- You can check if you're getting a good deal on a loan by comparing the cost of some of the most common lender fees for application, appraisal, credit report, document prep, inspection, loan origination, notary, title search, and more.

These loan fees may seem like small potatoes compared to the ever-important interest rate, but they're a great indicator for finding a good mortgage loan from a fair lender. Lenders are also required to provide a free written fee estimate for any of the costs listed above.

11. What's an APR?

- Annual Percentage Rate: The cost of your total loan credit calculated into an annual interest rate, also called APR.
- The APR includes loan points and other prepaid finance charges to reflect the true yield on the loan, which is why the APR is normally higher than a loan interest rate.
- To check that you're getting the most competitive loan, you can compare "apples to apples," or APR to APR, on different loan programs.

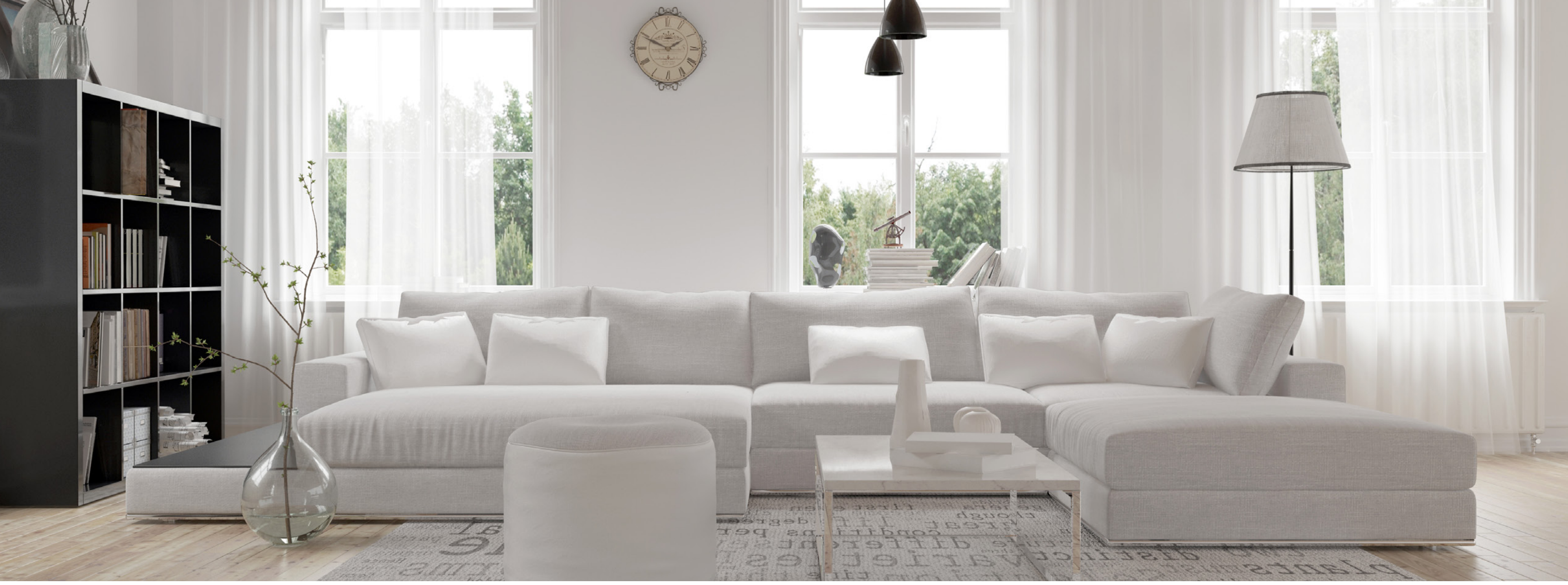
After you've applied for a home loan, you can expect to receive a Loan Estimate (LE) from your lender. If you applied for more than one type of loan, an LE will be broken down for each loan type. You can use this handy trick to separate the good from the bad when choosing a mortgage: Compare a loan's APR to its advertised interest rate. An APR that's noticeably higher than the interest rate on a loan may be a red flag that added costs are attached.

12. Can I "lock in" my interest rate?

- Definitely. Get in touch with your loan officer, and they can lock in the interest rate you were quoted.
- You'll be provided with a written rate lock agreement, detailing interest rate, loan terms, and time period for the rate lock.
- You could use a rate shield to lock your rate for up to 270 days, with the option to float down to a lower rate if rates drop within 45 days of closing.**

Once you're prequalified and receive your rate quote, make sure you get a full, written term sheet that shows the interest rate, loan term, total monthly payment (including insurance and taxes), total cash-to-close, and line item list of closing costs before you lock your rate with a lender.

***Upfront fee required based on length of extended rate lock term.*



13. What's prepaid interest?

- Prepaid interest on a mortgage is paid in advance at closing.
- It covers the gap between the date you close on your loan and when your first monthly payment is due.
- Depending on when you close, you may pay prepaid interest that has accrued for the days left in the month — the interest accumulated from May 15 to May 31, for example.

When asking about interest, take a moment to talk to your lender about other out-of-pocket expenses, like down payment, closing costs, and loan-related fees. Other expenses that come with buying a house may include: taxes, homeowners' association dues, utilities, homeowner's insurance, and any home improvements you want to make.

14. Can I still get a mortgage if I have bad credit?

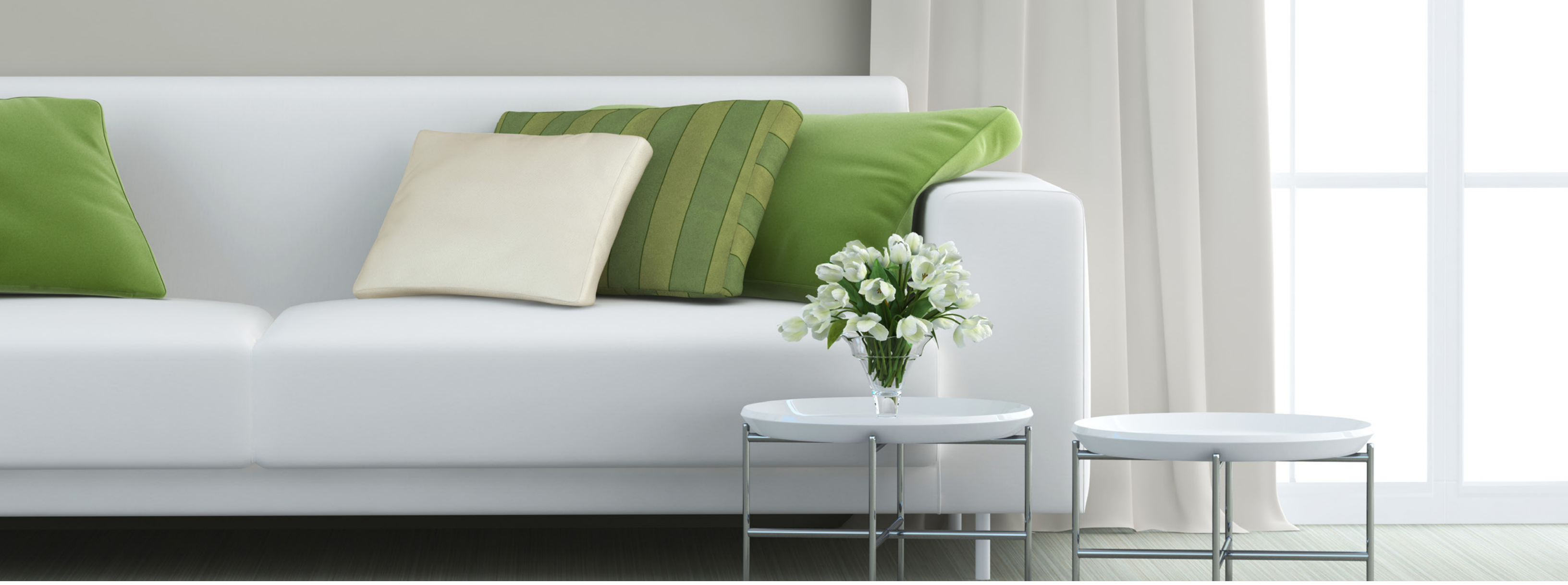
- Having good credit helps to get a more competitive mortgage rate, but you don't need perfect credit to buy.
- If you have a low credit score or have filed bankruptcy in the past, you can work toward improving your credit.
- Checking your free credit report yearly can help you keep tabs on your financial status and catch any problems that pop up early on, like errors or fraud.

If you have a great credit score, then use it. You're more likely to get a better mortgage rate. If you need to take some time to repair your credit, take heart because it shouldn't take long. Most of the time, a good credit score is good enough to help you find a great rate.

15. What happens to my mortgage when I file for bankruptcy?

- Legally, a mortgage lender can't punish you for filing bankruptcy by changing your loan terms or raising your rate.
- Some homeowners filing for Chapter 7 bankruptcy may be at risk of losing their home.
- Homeowners filing for Chapter 13 bankruptcy may be permitted to keep their house and continue paying their mortgage.

This is the time to call or sit down with your loan officer. They're always there to help. Your loan officer will find ways to work with you, with options to modify or reaffirm your loan, so you can keep paying on and living in your house.



16. Does it matter if I owe back child support?

- Child support arrears can show up as a negative mark on your credit.
- Back child support that has reached the collection or judgment phase may make you look like a greater risk to a lender.
- Talking openly with your loan officer, as well as discussing the ways you're trying to pay down the debt, could improve your odds of loan eligibility.

To show how you're managing your debt, your loan officer may ask for a court-approved repayment plan or proof of payment. Paying the debt in full can also ease the burden on your credit and will make you eligible for mortgage programs like FHA and VA that require either a formal child support arrears repayment plan or total payoff.

17. I just got a new job. How does this impact getting a mortgage?

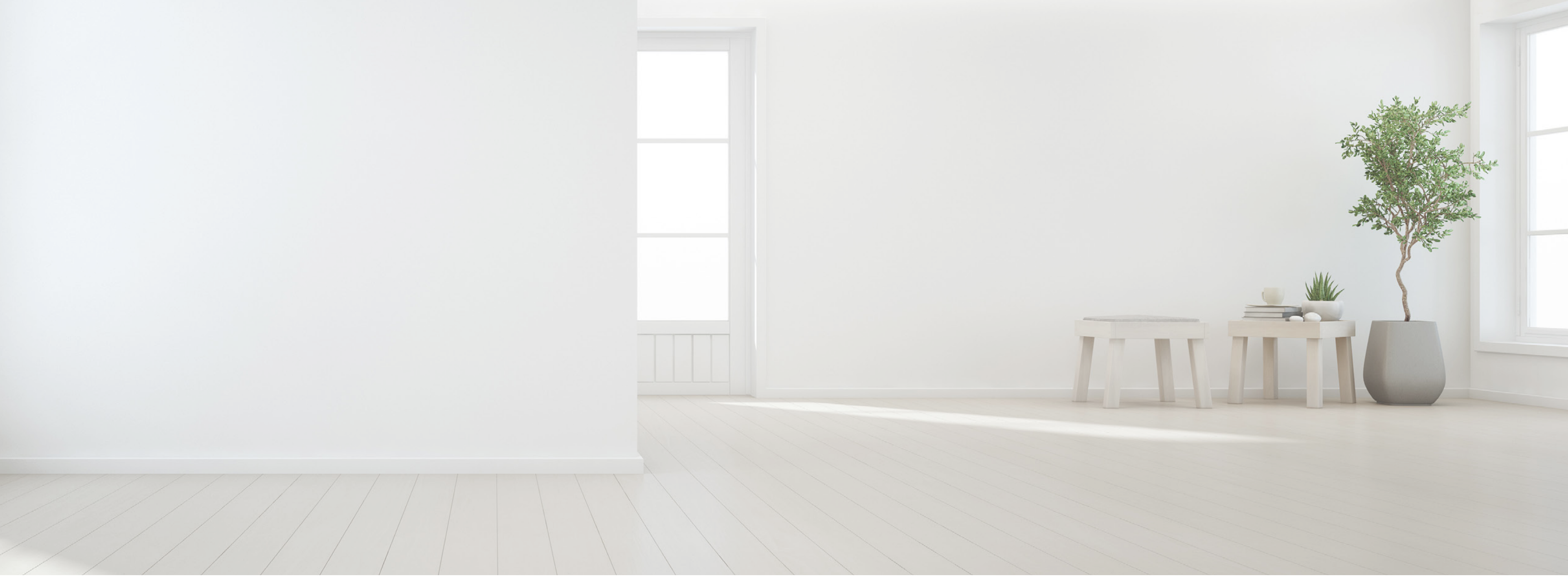
- Most loan programs are looking for a two-year job history in the same field.
- But changing jobs to move to a better position could be seen as favorable.
- For recent college grads, you may still be able to get a home loan without a two-year work history.

If you've recently transitioned from conventionally employed to self-employed, your loan officer may ask for extra documents to move you through to mortgage approval, including your 1099 for the last two years, Form 1120S or K1, personal and business tax returns for the last two years, proof of self-employment, and a current balance sheet and profit/loss statement.

18. Why do you need to know where the money deposited in my account comes from?

- During the mortgage approval process, large deposits unrelated to your earnings require some explanation.
- An underwriter will typically ask for verification on a significant deposit to ensure it came from an acceptable source.
- Confirming a large deposit is also a way for an underwriter to find out if you've taken on a new loan or line of credit, potentially affecting your debt-to-income ratio and the loan amount you can afford.

If taking on a new loan or credit line can't be avoided, talk to your lender before you make it official. Your loan officer can help you figure out what to do so that your home loan is the least negatively affected.



19. Do I have to keep the realtor I started with?

If you're unhappy with the service you've received from your realtor, you can:

- Go to the brokerage and request another agent.
- Select another agent from another brokerage.
- Ask your loan officer for a Realtor Partner referral.

In some cases, an early termination fee may be required in your listing contract. Many agents would also appreciate an honest conversation or email. It's possible problems or miscommunications could be resolved before a breakup is needed. But either way, it's well within your right to switch realtors while in escrow without providing an explanation.

20. What are closing costs?

- The extra costs paid at closing may include attorney fees, prepaid interest, insurance fees, documentation fees, and more.
- Closing costs may vary by borrower based on your mortgage loan type, property location, and other factors.
- You can find your closing costs broken down in your Closing Disclosure (CD), provided by your loan officer at least three business days before your expected closing date.

Closing costs may range from 2 to 5 percent of your purchase price. The buyer and the seller are both responsible for paying different costs at closing. As a buyer, you can also ask a seller for closing cost assistance as part of your offer on a house. Making this request could save you up to $3,700.

21. What should I bring to closing?

- Closing normally takes place at the title company.
- You and any other borrower listed on your mortgage agreement will need to bring in a valid driver's license.
- Any funds needed at closing must be brought as a wire transfer or cashier's check made out to the title company.

You'll have access to your funds on the day you close on your loan — when you've officially bought a house. Sign your closing documents, and you take ownership of your home loan and become the proud owner of a new house. Cue the happy dance.

22. Will my mortgage be sold to another company after I buy a house?

- It's likely. Since a mortgage is paid back slowly, normally over a term of 15 to 30 years, mortgage lenders aren't always able to service every home loan they fund.
- If they did, these outstanding balances could add up to billions of dollars in available funds.
- That's why borrowers' loans are often bundled and sold to investors, normally based on risk level. Government agencies like Freddie Mac and Fannie Mae are frequent investors.

Selling a loan to a servicing company is one way many lenders stay in business: It frees up the funds a lender needs to take on new borrowers, and it allows a lender to continue to offer affordable loan programs with competitive rates. When a servicing company takes over, there's little to worry about on your part. Your mortgage terms and payment (with the exception of adjustable-rate interest) will remain the same, and you'll pay to a new company each month.

23. What do I do when the mortgage company loses my payment?

- If your payment has been lost in the mail, or if you think your mortgage company or loan servicer has lost your payment, it's important to contact their customer service number or servicing number immediately.
- Your lender will be able to help you track down your payment and get it properly credited to your account.
- Assuming you paid by check, contact your bank to see if your check has cleared and have that information handy.

If a check was lost in the mail, contact your bank directly to stop payment. Then contact your servicing company to let them know about the situation and that you'll be sending another payment. Making payments online and checking that each monthly payment goes through can prevent miscommunications and keep your loan from going into default.

24. I didn't pay my property taxes, and I received a letter from my lender. What do I do?

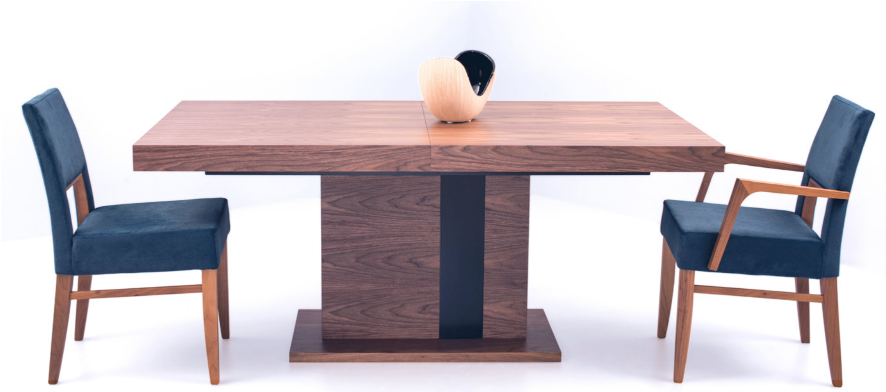
- Homeowners pay property taxes to fund county and municipal services.
- If you didn't or couldn't pay your property tax bill, your local tax office will begin charging monthly interest. You may also be charged penalties for overdue payment.
- If this continues, a tax lien will be placed on your property, indicating that you can't sell your home until the tax bill is paid.

If you've received a tax notice or a letter from your lender, it's important to contact both a tax attorney and your loan officer as soon as possible. Failing to pay property taxes is considered an "event of default" and could put you at risk for foreclosure, even when making monthly mortgage payments. Your loan officer can walk you through the relief options to get you back on track.

25. I'm in over my head and can't make my mortgage payment. What should I do?

- Contact your lender first: They want to help you keep your home as much as you do.
- Your loan officer can help you better understand your financial situation and offer solutions.
- Your loan officer will ask for more information about your financial hardships, like why you can no longer make your payment and whether the circumstances are permanent or temporary.

No matter what curveballs life throws at you, your loan officer is ready and available. They can help you explore options like mortgage refinance, loan modification, a repayment plan, mortgage assistance programs, forbearance, or short-selling your home before more extreme actions are needed, like foreclosure or bankruptcy.



DARIN SMITH
Senior Loan Officer
NMLS 620998
Direct: 713.744.1248 | Cell: 832.497.8050
dsmith@crestmarkmortgages.com
www.DarinTSmith.com