

# What Can I Afford

## How much house can I afford?

This depends on two things: your comfort level and the lender's approval. If you're young and upwardly mobile you may feel comfortable stretching to afford a bigger home, knowing that eventually your increasing income will make the payments easier as time goes by. But if you're older or retiring soon, you may want a lower mortgage payment that won't require as much of your income.

The lender, on the other hand, will be looking at your credit rating, your income and other factors to determine how large a mortgage you can support.

## What criteria do lenders use when approving a loan?

Lenders look at three criteria: Capacity, Credit and Collateral.

### **CAPACITY**

The lender will weigh your housing expenses and total debt against your monthly income to determine your ability to repay a loan. They'll also need proof that you have the cash available for down payment and closing costs by verifying funds from sources such as bank accounts, stocks, bonds, mutual funds, sale of an existing home, or gifts from family members.

### **CREDIT**

To determine your credit risk, the lender will look at previous mortgage payment history, rent payment history, credit card use and installment debt payment history. If you pay your bills regularly and on time, you're demonstrating the integrity that lenders are looking for in a borrower.

### **COLLATERAL**

When you ask for a home loan, you're putting the home itself up for collateral, so the lender will want to know what the home is worth.

## How much documentation will I need to supply to verify the information I provided on my application?

Every situation is different. Once you submit your loan application online you'll automatically receive a customized list of the documents you'll need to provide. If you apply over the phone, you'll receive this list within three business days.

## What if I can't supply the standard documentation necessary to get a loan?

We offer special loan programs that include low documentation or even no documentation. You can indicate how much documentation you'll be able to provide in your online application, or you can call your personal loan consultant for more details.

## What are the components of a monthly payment?

Your monthly payment is the sum of four factors, commonly referred to as PITI (Principal, Interest, Taxes, Insurance). You may also be required to pay PMI on a monthly basis.

**Principal** - The amount of the payment that is applied to the loan balance.

**Interest** - The charge paid for borrowing money.

**Taxes** - Property taxes. May also be paid separately to your local government.

**Insurance** - Lenders require you to maintain adequate insurance to protect your home. This may also be



paid

separately.

**PMI (Private Mortgage Insurance)** - For a detailed explanation of PMI, consult the question about Private Mortgage Insurance in this section, or see Mortgage Insurance in the Glossary.

### **What is Private Mortgage Insurance (PMI) and why would I need it?**

In most cases, if your first mortgage amount is greater than 80% of the property's value, the lender will obtain Private Mortgage Insurance (PMI) to safeguard its investment against the possibility of default. PMI premium is collected monthly along with the mortgage payment. Within three days after your loan application is submitted you'll be sent an estimate projecting the amount of the monthly PMI premium. As your equity increases, you may qualify to have PMI removed. There may be ways to finance your home so that PMI is not required. Your loan consultant can provide you with more information.

### **How much cash will I need for a down payment and closing costs?**

Depending on your credit and the loan amount, you may be able to get a home with 0% down. However, the more you put down, the lower your monthly payment will be. And if you can provide a 20% down payment, you'll avoid the extra monthly cost of Private Mortgage Insurance (PMI).

Closing costs generally add 1% to 2% to the final bill. You'll be asked to provide the down payment and closing costs in the form of a cashier's check at closing.

Your loan consultant can be quite helpful in finding ways to lower these costs.

### **What is an impound/escrow account?**

Instead of paying large, lump sums to cover the costs of homeowner's insurance and property taxes, these payments are divided into installments which are paid to the lender monthly along with your loan principal and interest. The lender will hold the money in an impound/escrow account and make the payments from the account when they are due. Impound/escrow accounts may be optional, or they may be required by the lender, depending on the location of the property, the size of the loan in relation to the value of the property, and the loan type.

### **What is homeowner's insurance?**

Homeowner's insurance is designed to protect your home. It is also known as hazard insurance, or fire insurance. While the lender requires this coverage, you determine which insurance company will carry the policy. Homeowner's insurance premiums are either paid directly to the insurance agency or by your lender through an impound/escrow account.

### **What is negative amortization?**

This can occur with flexible-payment loans which allow you, at times, to choose to make a payment that is lower than the monthly interest you incur. The difference in interest is then added to your loan balance. This is called negative amortization. If the value of your home does not increase, the amount of equity you have in the home decreases. However, this type of loan allows you to qualify for more home because the initial payments are substantially lower than those associated with a fixed-rate mortgage.

### **How do I prepare for the closing and how does it work?**

Soon after your loan is approved, your loan consultant will send a list of documents you'll need to bring to the closing. You'll also be sent an Estimated Settlement Statement that tells you the funds you'll need to bring to closing in the form of a cashier's check.

Before closing you should conduct a final walk-through of the property to make sure all repairs and construction work have been completed, that there's no new damage, and anything meant to be sold with the home is still in place.



At the closing itself, the legal purchase of your home is completed. You'll sign final documents and provide the cashier's check. Depending on where you live, the closing could be a meeting involving all related parties or a transaction conducted by a closing agent without a formal meeting.

**Can I get a loan if I'm not a U.S. citizen or if I live outside the country?**

Yes. As long as the property you are buying or refinancing is in the United States, you can apply right here online. We offer special programs for foreign nationals and resident aliens.

**Can I finance a vacation home?**

Yes. We have aggressive programs to help borrowers purchase or refinance a second home.

**Can I finance an investment property?**

Yes. Just apply online or call us toll-free and find out all the ways we help you secure purchase and refinance loans on investment properties

