Mortgage Tips and Advice

Less Points or Lower Interest Rates?
When you receive a quote from a lender, it will usually include the interest rate and points. A point is one percent of the loan amount, and lenders can charge from one to several points on a loan. Points are paid as part of closing costs.

Discount points are prepaid interest; the more points you pay at closing, the lower the interest rate on your mortgage is.

Origination points are basically just a fee to cover the lenders cost of making a loan.

Discount points are tax deductible, but origination fees are not. When choosing between loans with points or no points, consider how much money you have available for closing, and how long you plan to own the home.

If you do not have much money for closing, a loan with no points will require less money up front. However, if you plan to live in the home for a long time, a lower interest rate will ultimately be better for you.

You can ask the seller to pay the points as part of the purchase agreement; if they agree to pay the points, you still get the tax deduction.

What Is My Credit Score and What Does My Credit Score Mean?
When lenders are considering your application, they will get a copy of your credit report. This report gives all the details about your financial history, payment records, total debt, and any bankruptcies.

The information on this report is used to create your credit score or FICO score, a numerical rating of your creditworthiness. Credit scores range from 300 to 900, with most people falling somewhere between 600 and 700.

The higher your credit score, the more appealing you are to a lender, and the more likely they will offer you good rates and loan terms. Factors affecting your credit score include the number and frequencies of your delinquencies, how long you've had credit, and how close you are to your credit limits.

If you know you will be applying for a mortgage in the near future, it is wise to request a copy of your own credit report in order to look at it before the lenders do.

It's estimated that almost 80% of credit reports contain errors, so this gives you a chance to correct them before you apply for a loan, as well as take basic steps to improve your credit score.

You should look for credit cards you don't use anymore and close those accounts. Resolve any outstanding accounts, verify all listed account numbers to make sure they are yours, and check your loan balances and late payments. You may be required to explain these to lenders.

To improve your credit score, pay all of your bills on time and reduce the amount of credit you have outstanding.

What If I Don’t Have A Down Payment?
A down payment is the biggest hurdle most first-time homebuyers face. Most lenders prefer at least 20% down and require at least 5% to 10% down.

Financing a mortgage with less than 20% down requires you to get private mortgage insurance (PMI). Putting more money down on a house may persuade lenders to overlook credit problems, as well as loan you more money.

To come up with a down payment, you can save money by cutting out extras, borrowing from your 401(k), or borrowing from family members.

You should have your down payment available at least two months before you apply for a mortgage.

If you are still unable to come up with 20% down, look for special mortgages or programs for first-time homebuyers or those with low income.

What If I’m Turned Down for a Mortgage?
Many people applying for a loan worry about this possibility, but it is actually a somewhat unusual occurrence. Lenders can usually adjust loan terms in many ways in order to help you qualify for a loan.

However, if you are denied, there are several steps you should take:

First, ask the lender for an explanation. They are required to tell you, in writing, exactly why your application was denied within thirty days. The most common reasons given are inadequate down payment, too much debt, and poor credit rating. All of these can be corrected with time however.

Second, ask for a review of the decision. It is possible you could still qualify if you can satisfy the reviewer that your credit was damaged by an isolated and unpredictable incident such as a major illness.

Finally, if the first lender still denies your application, go to another lender. Just because one lender feels you are not qualified for a loan doesn't mean they will all feel the same way. Different companies operate under different guidelines, and although you may pay higher rates, you should be able to find someone who is willing to offer you a loan.