

Bankrate.com's Mortgage Guide takes you through the mortgage process step-by-step.

Definition: A mortgage is a long-term loan through a bank or other financial institution, or even through the seller of the property. The house and/or property serve as collateral for the loan.

HOW TO GET A MORTGAGE

Step 1: Find a mortgage that's right for you.

The most common types are 30-year and 15-year fixed mortgages where the interest rate is fixed for the term of the loan. Other types include Adjustable Rate Mortgages (ARMs) where the interest rate can vary over time, hybrids ARMs, jumbos, assumables and seller financing. Go to www.Bankrate.com for more info on types of mortgages.

Step 2: Determine how much house you can afford.

Consider: equity in your current home (if you own), amount you can put down, monthly payments you can manage, real estate taxes, closing costs and insurance (definitely homeowners insurance and probably Private Mortgage Insurance – PMI – if you put less than 20% down). Monthly payments on debt obligations including items such as credit card bills, alimony, child support and student loans should not be more than 36% of your pre-tax income. We'll do the math for you at www.Bankrate.com/afford.

Step 3: Check your credit.

A potential lender will check your credit report immediately. It's best to clear up any credit problems before you apply for a mortgage. Get your credit report from Equifax (800-685-1111), Experian (888-397-3742) and Trans Union (800-888-4213).

Step 4: Pre-qualification and pre-approval.

If you haven't found a home yet, consider getting pre-qualified (a lender will review your financial history before you find a home) or pre-approved (a lender will check your credit and provide you with a letter stating that you've been pre-approved for a certain amount). Both of these will help improve your purchasing power.

Step 5: Gather the necessary paperwork.

See list below to get an idea of what you'll need.

Step 6: Find a lender.

Go to www.Bankrate.com/mortgage to find a comprehensive list of lenders and updated mortgage rates in your area. Remember that the lowest rate doesn't mean it's the best loan for you. In addition to the rate, check on points (pre-paid mortgage interest which will increase your upfront costs), APR, and other fees associated with a given loan. Compare mortgages and talk to several lenders before you apply for your loan.

Step 7: Assess your potential home.

Hopefully you've found your dream home by this time. Be sure to thoroughly evaluate the home to make sure it's what you really want. An appraisal is part of the mortgage process and will ensure that you're paying the appropriate price for your home.

Step 8: Prepare for closing.

Make sure the closing is scheduled before your loan commitment and any rate lock-in will expire. And be sure there is enough time to finish any loan documentation and complete any home inspections or repairs.

Step 9: Closing day!

Congratulations, you're about to own a new home! At the closing you will have to sign legal documents and pay closing costs (these could include surveying, taxes, insurance, attorney fees, agent fees, points, loan origination fees, PMI and balance of down payment).

Step 10: Servicing the mortgage.

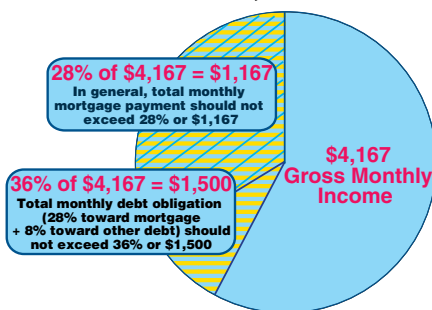
At closing, your mortgage lender must tell you who will be servicing or administering, your mortgage loan. Traditionally, the mortgage banker would service the loan for the life of the mortgage on behalf of the investor. However, the servicing may be handled by a third party.



Necessary Paperwork

- W-2 forms from the previous two years
- Federal tax returns from the previous two years
- Recent paycheck stubs
- Documents showing other sources of income, which could include second jobs, overtime, commissions and bonuses, interest and dividend income, Social Security payments, VA and retirement benefits, alimony, and child support
- A complete list of your creditors, such as credit cards, student loans, car loans and child support payments, along with minimum monthly payments and balances
- Investment records including mutual fund statements, real estate and automobile titles, stock certificates and records of any other investments or assets
- Canceled checks for your rent or mortgage payments

Maximum monthly debt obligation based on \$50,000 annual salary



Down the road ...

REMOVING PMI: YOU SHOULD BE ABLE TO REMOVE PMI ONCE THE EQUITY IN YOUR HOME REACHES 20% OF THE PROPERTY VALUE, EITHER BECAUSE THE LOAN BALANCE HAS BEEN DECREASED BELOW 80% OR BECAUSE YOUR HOME HAS APPRECIATED IN VALUE.

PREPAYMENT: THE MOTIVATION FOR PREPAYING A MORTGAGE IS SIMPLE -- YOU SAVE MONEY ON INTEREST. AND, IT CAN ADD UP TO A LOT OF MONEY. YOU CAN CREATE A PREPAYMENT SCHEDULE YOURSELF OR THE MORTGAGE SERVICER CAN SET UP A

FORMAL BIWEEKLY PREPAYMENT PLAN. BE SURE TO CONSIDER THE TAX IMPLICATIONS OF PREPAYMENT -- PREPAYING REDUCES MORTGAGE INTEREST, WHICH IS TAX DEDUCTIBLE. BUT THAT MAY NOT BE BENEFICIAL IN YOUR TAX BRACKET.

REFINANCING: IN TODAY'S MARKET, IF YOU'RE PLANNING TO STAY IN YOUR HOME FOR A WHILE, AND YOU FIND A GOOD DEAL ON REFINANCING COSTS, IT MAY BE WORTHWHILE TO REFINANCE WITH AS LITTLE AS A 0.5% LOWER RATE. REFINANCING INVOLVES MANY OF THE SAME STEPS YOU TOOK WHEN OBTAINING A MORTGAGE THE FIRST TIME AROUND.



Points or lower interest rate? 30 year \$100,000 mortgage					
Rate	Points	Monthly payment	Cost of points (paid at closing)	Total Interest	Comments
6.5	3	\$632	\$3000	\$127,544	If low monthly payments are your priority and you have the cash for points, then pay the points. But you may want to consider an alternative investment for your cash instead of paying the points upfront.
7.5	0	\$699	0	\$151,717	

Tip: Paying points usually lowers your interest rate. If you plan on staying in your home for a while consider paying the points.

Economics of Buying a Home	
Home price	= \$150,000
Cash down payment	= \$15,000 (10% down)
Mortgage	= \$135,000
Loan APR	= 7%
Term	= 30 years
Monthly loan payment	= \$898.16
Monthly PMI payment (will vary - approximate)	= \$56.25
Total monthly payment	= \$954.41*

(*allow for additional monthly costs such as homeowners insurance and real estate taxes)

Seller usually pays agent commission. Additional costs include: closing costs, agent fees (if selling your home), insurances, legal fees, points, application fees, etc.

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SAVE Money
With **Bankrate.com!**
We'll help you find the best mortgage for you!

About ARM's (Adjustable Rate Mortgages)

1. If you're going to be moving or only living in the house a few years, lower-rate ARM's are a good option.
2. After the initial fixed period, most ARM's adjust every year on the anniversary of the mortgage. Some ARM's adjust every three years, based on yields on three-year Treasury securities.
3. On an adjustable-rate mortgage, there is usually a maximum annual increase of two percentage points and a lifetime cap of six percentage points. Note: *ARM's can be tempting, but they come with some uncertainty. That's why more than 75% of homeowners opt for a fixed-rate mortgage. You need to ask if you can afford the highest possible payment in such a worst-case situation.



Interviewing Mortgage Lenders – compare several lenders before committing to one.

This worksheet provides you with key questions to ask potential lenders. There's also space to take notes so that you can compare each of the lenders you interview. Contact information can be recorded in the section below.

LENDER INTERVIEW	Notes	Notes	Notes
LENDER NAME			
1. What is the interest rate on this mortgage? <i>To know exactly what you'll be paying in interest over the life of the loan, you need to know the rate. This is the single most important figure to obtain.</i>			
2. How many discount and/or origination points will I have to pay to get this rate & loan? <i>Lenders can charge points that lower your interest rate and points that provide no benefit whatsoever to you. Find out how many you'll be expected to pay for the loan and which kind of points they'll be.</i>			
3. What closing costs will be charged on this loan & will you provide the "good faith estimate" of those costs up front? <i>Many experts say that you shouldn't use a lender or broker unless that person will provide a good faith estimate up front.</i>			
4. When can I lock in the interest rate & what will it cost me? <i>The interest rate of the mortgage you're applying for may go up or down between the time you apply and the time you close. Ask if there is a fee for locking in the rate and if you can also lock in points.</i>			
5. Is there a prepayment penalty on this loan? <i>Find out the duration of any penalty period and how the fee would be calculated.</i>			
6. What is the minimum down payment required? <i>Depending on the amount of your down payment and its relation to the price of your home, you might be charged different interest rates or quoted different loan terms. Loans made at high loan-to-value ratios can cost more than loans with larger down payments.</i>			
7. What are the qualifying guidelines for this loan? <i>The qualifying guidelines can relate to your income, employment, assets, liabilities and credit history. Some first-time home buyer programs and government-sponsored loans have easier qualifying guidelines.</i>			
8. What documents do I have to provide? <i>You will need to provide proof of income and assets in order to get a mortgage loan as discussed earlier. Find out what documents will be required in your particular situation by asking your lender.</i>			
9. How long will it take to process my application? <i>This varies from lender to lender. Get a realistic estimate and use that to figure out how long a rate lock you'll need.</i>			
10. What might delay the approval of my loan? <i>If you provide the lender with complete, accurate information, everything should go smoothly. However, there could be a delay if the lender discovers credit problems, which is why it is critical to get your credit in order.</i>			

Lender Contact Information					
Lender	Phone	Address	Web site	Contact Name	Status of application