

Getting Pre-Approved Takes on New Importance

If you're getting ready to buy a new home, you probably already know that lower home prices and interest rates have made homes much more affordable. But did you also know that getting pre-approved for a mortgage can help you shop for and find a home that's right for you? Here's why:

Find Out How Much You Can Afford to Spend

It's no secret that lenders have tightened their standards or that loan qualifications now tend to be stricter than they were a few years ago. Lenders today will want to review your income, debts and credit score, and they'll expect documentation that shows your income and assets.

By getting pre-approved for a loan, you'll be able to find out whether you'll be able to qualify and how much you'll be able to borrow. Since you'll know how much you can afford to spend before you start shopping for a home, you won't get your heart set on a home that's too pricey or miss out on a home you thought you couldn't afford. Instead, you'll be able to limit your search to homes that meet your needs *and* budget.

By getting pre-approved, you'll also get a good-faith estimate of your closing costs, so you won't be surprised by those expenses later on.

Find Out Your Interest Rate and Monthly Payment

Getting pre-approved for a loan will also introduce you to the loan

application and approval process. You'll find out the types of loans, interest rates and monthly payments that may be offered to you, depending on your income, credit score and other aspects of your personal situation. And when you find a home you want to buy, you'll be ready to make an offer without delay. A pre-approval letter from your lender will help make a good impression on home sellers. Most importantly, home sellers will know that you're serious about buying a home and that you won't have to struggle to get financing. That might even improve the odds that the seller will accept your offer.

How to Get Pre-Qualified and Pre-Approved

To get "pre-qualified" for a home loan, you'll need to answer some basic questions about your financial situation. After that, the lender will review your paycheck stubs, bank statements and other documents, and then you'll be "pre-approved" for your loan. Be aware that pre-qualified and pre-approved are preliminary; your loan will still need to receive final approval before you can buy your new home.

Ready to get started on the road to becoming a new homeowner? Contact our office today!

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3 Things to KNOW BEFORE Applying for Any Kind of Loan!

There's nothing like being armed with knowledge to save yourself some money, so it stands to reason that it pays to educate yourself before financing any major purchase. Here are three things you should know *before* you apply for any kind of loan:

1. Your credit rating, also known as a FICO® score.

As a rating of your credit worthiness, your FICO® score is a basic building block in your quest for a loan. It doesn't matter whether you're trying to buy a house, a car or a refrigerator — before they give you money, lenders want to feel comfortable that you're going to pay it back. Your credit rating tells them your record of doing just that. If your credit rating is bruised or lacking, you might consider holding off on the purchase until you can improve your rating. That's because higher FICO® scores can translate into lower interest rates and lower overall borrowing costs.

2. The cost of borrowing.

This includes knowing and understanding interest rates, fees and other charges that make the amount of money you're paying back higher than the amount you borrowed. Knowing the prevailing interest rate can help you choose the loan that is best for your particular financial situation and needs (*your lender can help you in this process also*). The APR gives you a look at the true cost of borrowing. Make sure you also understand whether you are being offered a fixed-rate or an adjustable-rate loan and the long-term implications of both.

3. How much you can afford to borrow.

Your lender will help you determine your monthly payments, which is based on how much money you need to borrow, the likely interest

rate you can expect, and the length of the loan. Check, too, how the total amount you will owe varies under different formulas. You don't want to get stuck paying more than you have to. Carefully look at your monthly expenses to see how much you can realistically pay *without* putting you and your family in a financial bind. Don't forget to figure in things like rent increases or unexpected expenses that could hit down the line.

We can help you. If you need a loan, contact our office today!

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How to Get a Mortgage If You're Self-Employed!

Managing your credit, keeping good financial records and documenting your income are crucial if you are self-employed and plan to get a mortgage loan.

Self-employed people and others with irregular income could be caught in a squeeze as mortgage lenders continue tightening lending guidelines in response to the problems in the lending industry.

On paper, self-employed people and owners of so-called micro businesses with 10 or fewer employees can look like credit risks. Their income can vary widely from year to year. Most don't receive W-2 tax forms, making their income even harder to document. And after they deduct business expenses from their income for tax purposes, they can appear to make little money.

With many flexible loans like no-documentation mortgages drying up, self-employed people could find it more difficult to get a home loan, according to Gene Fairbrother, lead small-business consultant for the Dallas-based National Association for the Self-Employed.

"We could move back to the way it was 15 years ago," Fairbrother said. "If a self-employed individual went to any kind of lender and tried to get a loan for a mortgage, you could have a great deal of difficulty finding a lender that would touch you."

The Importance of Good Credit

The most important thing is to be sure you have a high credit score, known as a FICO® score, said Fairbrother. He advises annually checking your credit reports from the three major credit reporting agencies, Experian®, Equifax® and TransUnion®. Mistakes on your credit report can artificially pull down your credit score.

If your financial habits are pulling down your credit scores, change them now.

"Credit histories are absolutely critical," Fairbrother said. "If you're looking at getting a mortgage in the next 90 days, you can't fix your FICO® score in 90 days. It takes six months, nine months, even a year or longer."

From the Inside:

"My spouse has a poor credit rating...My credit rating is excellent...How do we get the best rate?"

If you are planning to buy a home with a spouse who has poor credit, you have a few options when you apply for a mortgage.

First, you can purchase the house on your own and apply for the mortgage *without* your spouse. Your good credit rating will likely help you get a more favorable mortgage interest rate than if you applied jointly. The downside is that you may qualify for a smaller mortgage, since the lender will consider *only* your income and ability to meet the payments. If your spouse is the main breadwinner in the family, you may find that you cannot afford the home you intend to buy.

A second option is to become joint owners of the home and include both names on the application. As you anticipate, your spouse's low credit score may result in your having to pay a higher interest rate than if you had applied for the loan on your own. The advantage, however, is that the lender will consider *both* spouses' earnings when assessing your debt-to-income ratio, so you may be able to borrow more.

Work to improve your spouse's bad credit

Here's a basic step that is sometimes overlooked by people seeking to build or improve their credit. Lenders see bank accounts as signs of stability.

Keep Good Records

Self-employed individuals also need to keep good financial records, he said. And you might need to provide both your personal and your business tax returns when applying for a loan.

If you're anticipating applying for a mortgage in the next year or two, consider deducting fewer expenses to increase your net income, he added. Lenders usually require self-employed people to provide copies of their previous two years' annual tax returns.

Scott Keegan, executive director of the National Association of Mortgage Professionals, says lenders now have greater expectations for self-employed people to prove their income. If tax returns don't do that, consider providing an audited financial statement, he said, although getting a certified public accountant to prepare the statement can cost several hundred dollars.



Fairbrother also advises getting pre-qualified and eventually fully pre-approved for a mortgage loan so you're sure how much house you can afford.

Despite the challenges, the small-business expert notes that he believes self-employed people who handle their finances carefully will still be able to get mortgages.

"I'm not concerned; I think the money is still going to be out there," he said. "It will be like back in the '90s when there was a lending crisis. It was a bump in the road, and then back to normal."

If you are self-employed and are in the process of considering buying a new home in the very near future, we can help. Contact our office today!

Opening checking and savings accounts is one of the few things you can do to start building or improving a damaged financial history.

It's also essential that your spouse start paying all their bills on time, all the time. Set up automatic payments or reminder systems so that they're never, ever late. All it takes is a single missed payment to trash their credit scores — and it can take several years for the effects to completely disappear.

Finally, if you have parents with good credit who are willing to co-sign your mortgage, that may also help you secure a lower rate. This arrangement isn't something to enter into lightly, however, as your parents would share the consequences if you are unable to meet the loan's obligations.

Looking ahead, work with your spouse to improve his or her credit rating. If they pay their bills on time and pay down the amount they owe, over time their credit *will* improve. In a few years you can perhaps refinance your mortgage, and with both of you as borrowers with good credit, you should be able to secure a good interest rate.