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Loan Process: How much you can borrow

STEP # 1

Find out how much you can borrow

The first step in obtaining a loan is to determine how much money you can borrow. In case of buying a home, you should determine how much home you can afford even before you begin looking. By answering a few simple questions, we will calculate your buying power, based on standard lender guidelines.

You must be Pre-Qualified before Buying a Home!

You may also elect to get pre-approved for a loan which requires verification of your income, credit, assets and liabilities. It is recommended that you get pre-approved before you start looking for your new house so you:

- Look for properties within your range.
- Be in a better position when negotiating with the seller (seller knows your loan is already approved).
- Close your loan quicker

More on Pre-Qualification

[LTV and Debt-to-Income Ratios](#)

[FICO Credit Score](#)

[Self Employed Borrower](#)

[Source of down payment](#)

LTV and Debt-to-Income Ratios

LTV or Loan-To-Value ratio is the maximum amount of exposure that a lender is willing to accept in financing your purchase. Lenders are usually prepared to lend a higher percentage of the value, even up to 100%, to creditworthy borrowers. Another consideration in approving the maximum amount of loan for a particular borrower is the ratio of monthly debt payments (such as auto and personal loans) to income. Rule of thumb states that your monthly mortgage payments should not exceed 1/3 of your gross monthly income. Therefore, borrowers with high debt-to-income ratio need to pay a higher down payment in order to qualify for a lower LTV ratio.

FICO Credit Score

FICO Credit Scores are widely used by almost all types of lenders in their credit decision. It is a quantified measure of creditworthiness of an individual, which is derived from mathematical models developed by Fair Isaac and Company in San Rafael, California. FICO scores reflect credit risk of the individual in comparison with that of general population. It is based on a number of factors including past payment history, total amount of borrowing, length of credit history, search for new credit, and type of credit established. When you begin shopping around for a new credit card or a loan, every time a lender runs your credit report it adversely affects your credit score. It is, therefore, advisable that you authorize the lender/broker to run your credit report only after you have chosen to apply for a loan through them.

Self Employed Borrowers

Self-employed individuals often find that there are greater hurdles to borrowing for them than an employed person. For many conventional lenders the problem with lending to the self-employed is documenting an applicant's income. Applicants with jobs can provide lenders with pay stubs, and lenders can verify the information through their employer. In the absence of such verifiable employment records, lenders rely on income tax returns, which they typically require for 2 years.

Source of Down Payment

Lenders expect borrowers to come up with sufficient cash for the down payment and other fees payable by the borrower at the time of funding the loan. It is generally expected that these funds be borrower's own saving, although a borrower may receive non-returnable gifts towards down payment and other loan fees.

STEP # 2



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Select the right loan program

Home loans come in many shapes and sizes. Deciding which loan makes the most sense for your financial situation and goals means understanding the benefits of each. Whether you are buying a home or refinancing, there are 3 basic types of home loans. Each has different reasons you'd choose them.

1) Fixed Rate Mortgage

Fixed rate mortgages usually have terms lasting 15 or 30 years. Throughout those years, the interest rate and monthly payments remain the same. You would select this type of loan when you:

- Plan to live in home more than 7 years
- Like the stability of a fixed principal/interest payment
- Don't want to run the risk of future monthly payment increases
- Think your income and spending will stay the same

2) Adjustable Rate Mortgage

Adjustable Rate Mortgages (often called ARMs) typically last for 15 or 30 years, just like fixed rate mortgages. But during those years, the interest rate on the loan may go up or down. Monthly payments increase or decrease. You would select this type of loan when you:

- Plan to stay in your home less than 5 years
- Don't mind having your monthly payment periodically change (up or down)
- Comfortable with the risk of possible payment increases in future
- Think your income will probably increase in the future

3) Combination Rate Mortgage

Combination rate mortgages combine fixed interest rates and adjustable interest rates. Lenders often refer to these loans as hybrid loans. For the first few years (3-7), the interest rate is fixed. It remains the same and so does your monthly payment. During the remaining years of the loan, your interest rate becomes adjustable and can vary. You would select this type of loan when you:

- Want the stability of a fixed principal/interest payment in the short term
- Want to repair your credit by demonstrating your ability to make regular payments, then refinance for a lower interest rate
- Have a lot of consumer debt (these loans typically allow more)
- Want to borrow more and get a lower monthly payment than a standard fixed rate loan

By carefully considering the above factors and seeking our professional advice, you should be able to select the one loan that matches your present condition as well as your future financial goals.

STEP # 3

Contact a Mortgage Banker for a Quick Evaluation of your Options

www.mwbanker.com

718-274-1234



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STEP # 5

Begin loan processing

Although lenders conform to standards set by government agencies, loan approval guidelines vary depending on the terms of each loan. In general, approval is based on two factors: your ability and willingness to repay the loan and the value of the property. Once your loan application has been received we will start the loan approval process immediately. Your loan processor will verify all of the information you have given. If any discrepancies are found, either the processor or your loan officer will troubleshoot to straighten them out. This information includes:

Income/Employment Check

Is your income sufficient to cover monthly payments? Industry guidelines are used to evaluate your income and your debts.

Credit Check

What is your ability to repay debts when due? Your credit report is reviewed to determine the type and terms of previous loans. Any lapses or delays in payment are considered and must be explained.

Asset Evaluation

Do you have the funds necessary to make the down payment and pay closing costs?

Property Appraisal

Is there sufficient value in the property? The property is appraised to determine market value. Location and zoning play a part in the evaluation.

Other Documentation

In some cases, additional documentation might be required before making a final determination regarding your loan approval. In order to improve your chances of getting a loan approval:

- Fill out your loan application completely. You may use our online forms to expedite the process.
- Respond promptly to any requests for additional documentation especially if your rate is locked or if your loan is to close by a certain date.
- Do not move money into or from your bank accounts without a paper trail. If you are receiving money from friends, family or other relatives, please prepare a gift letter and contact us.
- Do not make any major purchases until your loan is closed. Purchases cause your debts to increase and might have an adverse affect on your current application.
- Do not go out of town around your loan's closing date. If you plan to be out of town, sign a Power of Attorney to authorize another individual to sign on your behalf when your loan is expected to fund.

STEP # 6

Close your loan

After your loan is approved, you are ready to sign the final loan documents. You must review the documents prior to signing and make sure that the interest rate and loan terms are what you were promised. Also, verify that the name and address on the loan documents are accurate. The signing normally takes place in front of a notary public.

There are also several fees associated with obtaining a mortgage and transferring property ownership which you will be expected to pay at closing. Bring a cashiers check for the down payment and closing costs if required. Personal checks are normally not accepted. You also will need to show your homeowner's insurance policy, and any other requirements such as flood insurance, plus proof of payment.

Your loan will normally close shortly after you have signed the loan documents. On refinance loan transactions federal law requires that you have 3 days to review the documents before your loan transaction can close.



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