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Berkshire Hathaway Home Services Starck Real Estate

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Home Buyer's FAQs

What will a lender look at when I apply for a mortgage?

Lenders consider many factors in evaluating your loan application, but they usually focus on four areas:

Income and debt. How much money you make and what other bills you have to pay helps the lender determine whether you can afford to make mortgage payments.

Assets. The lender needs to make sure you have enough money to cover the costs of buying a home.

Credit. Whether you have met other financial obligations helps the lender predict whether you will repay your mortgage.

Property. The home you want to buy has to be worth enough to act as collateral for the mortgage.

What if I have had credit problems?

Your credit history is only one factor in qualifying for a loan, and having made some late payments does not have to keep you from buying a home. Someone who has consistently made payments on time in the past may have more financing options than someone who has not, but that does not mean a mortgage is off-limits if you have had credit problems. We may be able to recommend a variety of mortgage options to help people with less-than-perfect credit become homeowners and leave credit challenges behind.

Will I have to pay for Private Mortgage Insurance?

Private Mortgage Insurance (PMI) provides your lender with a way to recoup its investment if you are unable to repay your loan. PMI is usually required when the mortgage amount is higher than 80% of the home's value. That means that if you buy a home with a down payment of less than 20%, you will probably have to pay for PMI. One common way of bypassing PMI without making any down payment at all is to use an 80/20 program, which combines a first mortgage with home equity financing.

Should I pay discount points?

Discount points are prepaid interest, which you can pay to your lender at closing in exchange for a lower interest rate on your mortgage. Paying discount points, each of which is equal to 1% of the loan amount, is often called "buying down" your rate.

So does paying points make sense for you? The answer depends primarily on how long you plan to stay in your home. First, find out how much lower your monthly payments will be if you pay points. Then, calculate how long it will take for those monthly savings to add up to the cost of the points. If it would take five years to break even and you are planning to live in your home for 10, paying discount points may be a smart move.

Should I choose a fixed-rate or adjustable-rate loan?

Most mortgage loans have either a fixed interest rate or an adjustable interest rate. With a fixed rate mortgage, the interest rate never changes and your payments remain stable throughout the life of your loan. With an adjustable-rate mortgage (ARM), the interest rate changes at regular intervals, usually once every year, based on a formula that uses a market index. For most ARM options, rate adjustments begin after an initial period, usually between three months and ten years, during which the rate is fixed. A fixed rate is usually best if you plan to stay in your home for the long term and are buying at a time when rates are relatively low. An ARM is usually best if you plan to move before the rate adjustments begin, or if you are buying when rates are relatively high. For help deciding which option is best for you, please discuss your situation with one of our agents.

What will my mortgage payments include?

For most borrowers, each monthly mortgage payment goes toward the following:

Principal, which is the total outstanding balance of the loan

Interest, which is the cost of borrowing money

Taxes, which are levied on the property by the local government

Insurance, which protects the owner and the lender from losses caused by fire and natural hazards

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