

Avoid These Mistakes When Seeking a Mortgage

Written by Tim Decker, AIF®
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Q: We want to buy a bigger home and are bewildered by the mortgage process. How can we make this easier?

A: That's a question that many people need answers to these days as they begin to house hunt. Stung by the mortgage crisis that ushered in the Great Recession of 2008-09, many would-be buyers have been hunkering down in their homes, putting off plans of buying a new home until the storm passes.

Now that the economy has improved somewhat and people are a bit more secure in their jobs, more are looking to buy homes before mortgage interest rates rise further after inching upward a little in recent months.

Of course, finding an affordable home you like is only half the battle. The other half is getting a suitable mortgage at a suitable cost. To help you succeed, here are some key errors and lapses that are important to avoid:

- Failing to get pre-qualified for a mortgage. Pre-qualification simply involves giving some basic financial information to a lender - any lender, including one you might never use for your loan. You get him to send you a pre-qualification letter stating how much money he'd conditionally lend you after you go through the entire application process (provided your information proves accurate). You often can do this on the phone.

This is an important early step because you have to know your feasible home price range, and the amount you can borrow is an essential factor for this.

Also, taking this step before you start shopping increases your status as a buyer and can help

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you get a better price on the home as sellers compare the quality of offers in deciding whom to sell to, not just the price.

- Being short of cash for the down payment. Many borrowers put down 10 percent, but if you put down 20 percent or more, you can usually avoid private mortgage insurance, a whopping charge you pay monthly with your mortgage payment.

- Not knowing your credit score, a key factor in how much of a mortgage you can get and the interest rate you'll likely pay.

This affects your monthly payment and thus how much home you can afford. There are various websites that offer this information, the same basic information that lenders will get when they check your credit history. You can obtain free copies of your credit report yearly at annualcreditreport.com. If your credit is weak, you can see from the report what you need to work on. If it's strong, quoting your credit score to real estate agents can help distinguish you as a highly qualified buyer.

- Failing to shop around for a mortgage. Most people get one mortgage quote - a huge mistake. You want to get quotes from multiple lenders.

The rates you'll be offered might be all over the map. But don't overdo it because each time your credit is checked, this puts a negative mark on your recent credit history. You can limit this damage by getting all quotes within 14 days.

- Failing to understand the terms of mortgage loans that you're offered. Reserve time to read through the reams of documents you'll be asked to sign and some time to research the points you don't understand.

Research online and talk to a legal professional. Leave no questions unanswered, and don't blindly take the lender's assurances about anything. Also, have your attorney handle your closing as he or she can guide you through the process and answer questions about the mortgage documentation and contracts. Your attorney can advise you on the legitimacy - or lack of legitimacy - of the myriad fees that lenders slip into their contracts and which ones might be successfully negotiated away.

By avoiding these mistakes, you'll go a long way toward securing a mortgage that's well-priced and right for you.

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