

Deciding on a Mortgage

By David M. Barry

Before Jenny and Tim picked a real estate agent, they decided to review their financial information to help them make a decision about the home that they could afford. A mortgage would be needed to finance their new home so they decided to find out as much as possible. Jenny's best friend recommended her mortgage broker as a resource and Jenny spent hours on the internet researching mortgage loan process. Tim gathered their tax returns for the past two years and current pay statements, credit card statements, recurring bills including their current housing payments, utility statements, telephone, and cable bills, plus bank and brokerage statements. Jenny prepared a simple spreadsheet with their monthly income and expenses so they had an idea of what they could afford in a monthly payment.

Armed with this information, they meet with a mortgage broker to discuss their options. The broker reviewed their information, discussed their comfort level with various monthly payment amounts, and recommended a mortgage product which included a first mortgage of 80% of purchase price, a second mortgage of 10% of the purchase price, and a 10% down payment. The broker gave them a pre-approval letter which they gave to their real estate agent as preliminary proof of the financial ability to purchase a home. The agent would use this letter in negotiations with seller's agent.

In a perfect world, every home buyer would be like Jenny and Tim with a pre-approval letter before they shop for a home, but not everyone does. Many look at homes before they become serious shoppers, some want to check the market out before committing, some do it on the spur of the moment while taking a drive, and others want to see how their home will compare on the market. Whatever ever sends you shopping, you will probably start the mortgage process sooner or later. If you going to start the mortgage process first, then you need to know the difference between pre-approval and pre-qualified. It is one of degree – pre-approval means a mortgage professional has interviewed you and examined your credit report to make a recommendation about a specific mortgage product and pre-qualified means a mortgage professional has interviewed you and made an educated deduction about your ability to qualify for a mortgage. Once one makes an offer on a specific property, then mortgage broker will submit your information to the underwriting department and order an appraisal on the property so underwriting will issue a loan commitment. A loan commitment is a promise from a lender to a buyer that they will lend money for the purchase a specific property. Most real estate contracts have a mortgage contingency clause which gives the buyers an opportunity to obtain a loan commitment within a specified time frame. If they cannot, generally the earnest monies are returned, and the seller seeks another buyer. Check this website for more information

about pre-approval:

<http://homebuying.about.com/cs/mortgagearticles/a/loanterms.htm>

Here is another website that contains a wealth of information about the entire mortgage process by Jack M. Guttentag, a Professor of Finance Emeritus at the Wharton School of the University of Pennsylvania <http://mtgprofessor.com/>. This site will assist anyone with questions about mortgages.

I want to point out that brokers are not the only sources for mortgage loans. Banks are another major source for mortgages in our country. At one time, it was said that brokers had access to more mortgage products because bankers were limited to their own products. Today, this difference may not be real. Bankers may also have access to many different kinds of mortgage products. See this discussion for further details:

<http://www.bankrate.com/brm/news/mortgages/20030925a1.asp>

About The Author

David M. Barry, Attorney concentrates in the areas of Estate Planning, Probate Law and Real estate Law. His firm, Law Offices of David M. Barry is headquartered in Des Plaines, Illinois, a suburb of Chicago.

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