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| **Mortgage preparation made simple** |
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| Buying a home is probably the single largest investment most people make in a lifetime. By preparing yourself and your credit profile before a home purchase, you can ensure a smooth finance process and can potentially save thousands on your loan. |
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| |  |  |  | | --- | --- | --- | | clear | • | To get the best possible mortgage rate, make sure your credit history is healthy and accurate. Aim to raise your credit score above 650 in order to qualify for most prime loans. | | clear | clear | clear | | clear | • | If your credit score is not quite 650, focus your efforts on paying bills on time, reducing your debt balances, avoiding new inquiries and clearing negative inaccuracies from your [credit report](https://www.truecredit.com/orderOrigination?op=LoanPrep:Body&product=MergeWithScore&addProfiler=true&addBPA=true&showSpecials=true). It is possible to improve your credit score quite a bit over a few months. | | clear | clear | clear | | clear | • | Make sure the information on your [credit report](https://www.truecredit.com/orderOrigination?op=LoanPrep:Body&product=MergeWithScore&addProfiler=true&addBPA=true&showSpecials=true) is correct and fix any problems you discover. Give yourself 30-90 days for correcting inaccuracies. | | clear | clear | clear | | clear | • | Found an error while reviewing your credit with the lender? Ask about the “rapid rescoring” process where your lender can submit a dispute and potentially improve your credit score in 72 hours. | | clear | clear | clear | | clear | • | For a complete understanding of your credit history, check your [3-in-1 Credit Report](https://www.truecredit.com/orderOrigination?op=LoanPrep:Body&product=MergeWithScore&addProfiler=true&addBPA=true&showSpecials=true) and Credit Scores online. | |
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| **Figure out how much you can afford** |
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| |  |  |  | | --- | --- | --- | | clear | • | The rule of thumb is that most borrowers can afford a home that runs about two and a half times their annual salary. | | clear | clear | clear | | clear | • | Calculate your loan-to-value ratio to see how much you can afford to borrow by dividing the loan amount by the property’s value. If your loan-to-value ratio is above 80% your rates may increase significantly. Find a less expensive home or save up for a down payment to lower this percentage. | | clear | clear | clear | | clear | • | Calculate your debt-to-income ratio by adding up your monthly debts and dividing by your monthly income. A debt-to-income ratio under 20-30% is usually considered good and will help you be perceived as financially stable. | | clear | clear | clear | | clear | • | Don’t be afraid to start small. Just because you may qualify for a large loan doesn’t mean that it is a smart financial decision to buy as large a home as possible. Take a careful look at your family budget and your housing needs before you decide how much you can really afford. | |
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| **Pick a mortgage to fit your finances** |
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| |  |  |  | | --- | --- | --- | | clear | • | Fixed rate mortgages have a set monthly payment that remains constant through the life of the loan. The interest rates tend to be a bit higher on fixed rate loans. | | clear | clear | clear | | clear | • | Adjustable rate mortgages give you a lower initial interest rate with the risk of it rising in years to come. If interest rates decrease you will have an advantage over fixed rate borrowers. Setting a rate cap about 5-6% above your initial rate will protect you from extreme jumps in interest rates. | | clear | clear | clear | | clear | • | Short term mortgages are loans with terms less than 30-years long. While these mortgages offer lower interest rates, they have higher monthly payments and more difficult qualification standards. | | clear | clear | clear | | clear | • | Long term mortgages are loans with terms of 30-years or more. These mortgages have slightly higher interest rates but lower monthly payments, allowing for easier qualification. | |
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| Improving your finances before you start to shop can help you save thousands on your mortgage. Reducing your loan rate by just half a point can potentially save you a whopping $22,000 over the life of a $200,000 loan. |