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Initiating the Mortgage Process

Inform Yourself First

First-time and experienced buyers alike may find themselves overwhelmed by the mortgage process. With so many options – each offering unique advantages and disadvantages – determining the early steps to take can be baffling.

Before initiating the mortgage process, you'll want to be fully educated. Whether you peruse Web sites or attend a mortgage seminar, there are many ways to find out what to expect. And as always, your REALTOR® can answer any questions you may have, as can financial planners, mortgage brokers, or lenders.

What's in a Price?

As you initiate the mortgage process, you'll want to ensure that your monthly payments fit into your budget. Are you aware that the price isn't the only factor contributing to the amount of your monthly payments? In actuality, the price is comprised of principal, interest, taxes and insurance, which combined, are commonly called PITI. To determine your average monthly payment, lenders suggest devoting no more than 28 percent of your gross income to PITI. Of course, how much home you can afford depends greatly on other factors as well: your income, credit, savings and financing, to name a few variables.

Applying for a Mortgage

Prior to applying for a loan, you'll need several items, including **pre-approval information** (if applicable), **the ratified sales contract**, **earnest money** and a **home inspection** report.

A ratified sales contract is proof that both buyer and seller have agreed on the final purchase deal. It serves as the final contract subsequent to the purchase agreement and any counteroffers. This contract specifies the amount of your downpayment, the purchase price, the type of mortgage you're seeking, and your proposed closing and occupancy dates.

When you visit your lender, you'll need to complete a Uniform Residential Loan Application. This document asks detailed questions about you, your income, your assets and liabilities, your credit history, and the property you plan to buy. Check with your lender about the additional documentation you'll be required to supply, which can include paycheck stubs, tax returns, bank account statements and other articles.

Decisions to Make

Once you've arrived at the application stage, you'll need to know what **type of mortgage** you want and the mortgage amount.

Keep in mind that the type of mortgage you select directly affects the home price you can afford and the amount of your mortgage payments. Your ratified sales contract may depend on your ability to secure approval for the kind of loan you choose.

You've probably already estimated how much money you want to borrow. The best way to determine the exact amount of your mortgage is to base the figure upon the purchase price of the home and the amount of your downpayment. If you're using your pre-qualification from a lender to determine the amount of your loan, remember that pre-qualification is only a ballpark figure and not equivalent to being pre-approved.

Know Your Rights: The Real Estate Settlement Procedures Act

Under the Real Estate Settlement Procedures Act (RESPA), you're protected from abuses during the residential real estate purchase and loan process. You're also entitled to better information because the law requires the involved parties to disclose costs of settlement services.

RESPA is intended to assist you in obtaining fair settlement services through the disclosure of applicable costs and information, protect you by eliminating kickbacks and referral fees that would unfairly increase the costs of services, and prohibit other practices that increase the cost of services.

Your REALTOR® can inform you of RESPA's provisions in more detail. If you encounter any practices that seem unethical or in violation of RESPA, consult your REALTOR®.

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