How to get a mortgage

9 steps to buying a house

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For most people, buying a house takes years of planning and preparation. The whole process can be overwhelming, especially for first-time homebuyers. Step-by-step, we'll guide you through the important decisions that go into homeownership. When it's over, you could have the keys to your dream house and the biggest investment you make in your lifetime.

- **Step 1:** Check your financial and credit history
- **Step 2:** Determine your mortgage budget
- **Step 3:** Research mortgage loan options
- **Step 4:** Get preapproved for a mortgage

1. Check your financial and credit history

Your financial history and credit score affect your overall loan options, and a higher credit score will usually get you a lower interest rate. To avoid any surprises down the road, know what your credit score is before you start the mortgage preapproval process. Most mortgage lenders like to see credit scores in the mid 700s for a conventional home loan, but you might be able to qualify for an FHA or other government-backed loans with a lower credit score.

In addition to your credit score, you'll need to figure out your debt-to-income ratio (DTI)—simply divide your total monthly debts by your total monthly income. A lot of lenders don't like to see a potential borrower's DTI above 36 percent, though some will approve loans for borrowers with DTI ratios up to 43 percent or higher.

You should stay current on all your bills and pay down your credit card balances as much as possible before you start trying to get a mortgage. Lenders expect you to have a solid employment history and enough cash on hand for a down payment. If you're already a homeowner, you might need to buy and sell a house at the same time to have enough liquid assets for a new home.

2. Determine your mortgage budget

When you buy a house, total upfront costs include your down payment, closing costs, various fees and your first month's mortgage payment. A down payment is the amount of money you pay upfront to secure a mortgage. Many buyers put down about 20 percent, but how much you need to save for a down payment will depend on the total price of the home you buy and the type of mortgage loan you get. Keep in mind that if you make a lower down payment you could have to pay an annual private mortgage insurance (PMI) premium. If a portion of your down payment will be coming from a friend or relative as a cash gift, you'll need to have the funds electronically transferred or have copies of the checks or a signed gift letter.

Put **20%** or more down to avoid paying private mortgage insurance

Your maximum monthly mortgage budget should be less than 25 percent of your total household monthly income. For example, if you make $3,000 a month and your spouse makes $2,750 per month, then your total income is $5,750 and your budget for maximum monthly mortgage payments should be $1,438.

Remember that monthly mortgage payments include principal and interest on the loan, plus you'll be responsible for property taxes, mortgage insurance and other expenses, so it's helpful to use an online tool to calculate how much you can afford. Don't forget about all the regular ongoing costs of homeownership, like utilities, furnishings, maintenance, repairs and sometimes homeowners association (HOA) fees.

3. Research mortgage loan options

Your finances, as well as your budget, will likely determine the type of mortgage loan that is best for you. FHA, VA and USDA loans are insured by a government agency and come with lower down payments and more lenient credit score requirements than most conventional loans.

Mortgage interest rates can be either fixed or adjustable. Adjustable-rate mortgages (ARMs) may start low and change over the term of the loan, causing your monthly mortgage payments to fluctuate. Fixed-rate mortgages lock in the same interest rate during the life of the loan. The most common type of home loan is the fixed-rate mortgage since it provides a lower monthly payment for the same loan amount.

The term of the loan is how long you have to pay off the loan. Most homebuyers get a 15-year or a 30-year mortgage, but some mortgage lenders may offer other terms. A longer loan term will generally mean lower monthly payments. However, a shorter loan term will mean you'll pay less in interest over the life of the loan.

4. Get preapproved for a mortgage loan

Many home sellers will require a preapproval letter before they'll accept an offer. Preapproval means your lender has reviewed your financial statements, income records and credit history and then decided that you can afford a house. You'll need to provide information relating to your income, assets and personal history, plus a photo ID, Social Security number and tax records. Getting preapproved can take as little as three days or as long as several weeks, and will usually be valid for up to 90 days.

Preapproval does not guarantee you will receive financing from a mortgage lender, but it is a good early step. In fact, it's sometimes risky to look at houses before getting preapproved because sellers might not take you seriously, and, in a lot of housing markets, you have to act fast when you find an affordable house in a nice neighborhood.

5. Find your house

After you're preapproved, it's time to start looking for your new home. A good place to start searching is on a real estate website. As you compare one house against another, it's often worth it to drive through the neighborhood at different times to see what traffic and neighbor interactions are like. Consider what your daily commute will be like. Don't forget to check neighborhood crime stats and school ratings if you have children.

Remember to think about the monthly payments you'll be making rather than the total loan amount, and don't try to buy more house than you can afford. Keep in mind that you don't have to take out a massive loan just because you qualify for one.

6. Compare mortgage lenders

To get the best possible rate on your mortgage, you should compare Loan Estimates from at least three potential mortgage lenders. There usually isn't a fee to get a Loan Estimate, but some banks might charge $15–$50 to pull your credit report as part of the application process. Review the loan amount, interest rate, projected monthly payments and origination fee information that will be provided with each mortgage Loan Estimate you receive.

7. Submit your mortgage application

If you're already preapproved for a mortgage, the steps to complete a mortgage application are familiar, but this time it really counts. When you submit your mortgage application, your loan officer will deliver a file with all of your financial information to an underwriter. No matter what kind of mortgage you apply for, underwriting is often the most stressful part of the mortgage application process. Approval takes anywhere from a few days to several weeks but can be easily delayed if there is even a single missing document.

Average approval time is
18-45 days after applying

The underwriter first evaluates your credit and job histories, debts, assets, income and savings to determine how likely you are to repay the loan. A home survey is then required to record the legal property lines of the house, and a title search company will verify there aren't any liens, claims, judgments or unpaid taxes or dues on the property already and provide insurance. Next, an appraisal will confirm that the value of the house you want to buy matches the amount you're asking to borrow. Finally, if everything checks out, the mortgage will be approved and you can start preparing for closing.

8. Prepare for closing

After you've been officially approved for the loan to get the house you want, you're in the homestretch. There's not much for you to do except wait and prepare for closing day:

- **Request and review closing documents**
  You are legally required to receive your closing disclosure at least three business days before closing on a house. Your closing disclosure lists all the final terms of the mortgage loan, total closing costs and other details of the final transaction. You'll want plenty of time to review all contractual documents, including:
  - **Promissory note:** The legal document that requires you to repay your mortgage loan.
  - **Deed of Trust:** Sometimes called the mortgage or security instrument, this document gives your lender the legal right to foreclose on the property if you stop making payments on it.
  - **Initial Escrow Disclosure:** This will specify charges that you are obligated to pay into escrow, including insurance premiums and estimated taxes, each month as part of your mortgage agreement.
- **Decide if you want to pay upfront or use discount points**
  Mortgage points, or discount points, are fees that you pay to your lender directly at closing to lower your interest rate. One mortgage point is equal to one percent of your loan amount, so one discount point on a $200,000 mortgage is $2,000. Figure out how long it will take you to break even by dividing the cost of your points by how much you'll save every month. The number you end up with is the number of months it will take you to break even. If you plan on staying in your home for longer than that period, then it's worth paying the upfront discount points to save over the life of your loan.
- **Find out if you're eligible for a home buyer rebate**
  Also known as a commission rebate, a home buyer rebate is available in some states for up to 1 percent of a home's selling price. The rebate comes out of the buyer's agent's commission, so see if your agent is willing to provide this rebate at closing. It's worth asking about if you're not sure—on a $300,000 house, the rebate can be up to $3,000.

- **The final walk-through**

  The final walk-through is usually done within 24 hours before your scheduled closing. Hopefully, there aren't any surprises at this point, as you'll be checking for things like confirming the previous owner has moved out and double checking that the property is in the condition you and the seller previously agreed upon.

9. Close on your house

Closing is the final step in financing any property. Sometimes called settlement, closing is when you sign all the documents that officially complete the mortgage loan transaction. You should be prepared to pay 2–5 percent of the total price of the property in closing costs and fees, and possibly more if you require private mortgage insurance (PMI).

Closing costs average
2-5% of a home's price

Be sure to bring your home inspection reports, a copy of your contract with the seller and any other paperwork that your lender required to approve your mortgage, a government-issued photo ID and proof of homeowners insurance.

Your loan officer, real estate agent, closing agent and an attorney could be present, as well as the seller, seller's real estate agent, seller's attorney, plus a title company representative. It's very likely that you never have this group of people in the same room at the same time again, so now is the time to ask any questions you still have. Remember, you absolutely should understand 100 percent of every document you sign. It's not too late to back out at closing if something doesn't feel quite right.

Bottom line: What do I need to get a mortgage?

To get a mortgage, you really just need a good credit score, your finances in order, enough savings to cover the upfront costs and a good loan officer. Be sure to spend enough time researching your mortgage loan options, and don't be afraid to ask for questions when you don't understand something.

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Ready to compare mortgage lenders?

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