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MORTGAGE 101

WHAT IS A MORTGAGE?

A mortgage is a loan secured from a bank for the purchase of your new home. You will repay the bank the loan (with interest) over the term of your mortgage.

WHAT AVENUES ARE AVAILABLE TO ME TO SECURE A HOME MORTGAGE?

There are three basic channels for obtaining home mortgage financing available to consumers. Each has differences in approach and structure.

1. Commercial and Savings Banks are direct lenders and can be approached individually for mortgages. They underwrite and fund their own loans and have specific programs depending on their own requirements.

2. Mortgage Banks are banks solely in the business of offering home mortgages. They underwrite and fund their own loans but have relationships with many commercial and savings banks and are able to offer programs from multiple sources.

3. Mortgage Brokers are companies that do not fund their own loans but rather arrange loans for their clients through commercial and savings banks. Mortgage brokers are typically paid commissions for their services by the banks they arrange loans through. The banks, not the mortgage brokers, underwrite and fund the loan.

WHO PAYS THE COST FOR THE SERVICE OF OBTAINING MORTGAGES?

All costs involved in the mortgage process are outlined in the Good Faith Estimate supplied by your banker or mortgage broker. Whether you use a banker or broker, there is usually no direct charge to the client for the mortgage professional. Application, appraisal and bank attorney fees are different for all lenders and should be reviewed with a mortgage professional before applying.

WHAT ARE THE TYPES OF MORTGAGES?

There are a few different types of mortgages to choose from. Your mortgage professional will be your guide in choosing the correct mortgage for your financial situation.

TYPES OF MORTGAGES:

a. Fixed Rate – the interest rate is fixed for the entire term of the loan.

b. Adjustable (ARM) – the interest rate changes over the term of the loan in increments of one month, six months, 12, 18, etc.

c. Hybrid-Fixed – this is the most popular loan, especially in New York City. The interest rate is fixed for 3, 5, 7 or 10 years and then switches (typically) to a one year adjustable schedule. This is the most attractive option for people who do not plan on owning their apartment for the entirety of a 30 year mortgage. Also, the shorter term the fixed portion is, the lower the interest rate tends to be. A five year fixed portion is popular in New York City.

JARGON is nobody's friend. The good news is that there is not much terminology in mortgages that is beyond everyday language. Here are two key terms that you need to understand:

GOOD FAITH ESTIMATE

A Good Faith Estimate is given to you at the outset of the application process and is the estimate of your closing costs (which can become rather pricey). It is important to build your closing costs into your financial picture for this transaction.

AMORTIZATION

Amortization provides for paying off a debt in installment payments. A portion of each payment is applied first to the payment of interest; the remainder reduces the principal amount of the loan. The interest is always applied against the outstanding principal balance unpaid at the time of an installment payment only. The rate of interest is an annual percentage rate as specified by the note and mortgage. The interest rate is calculated by multiplying the annual percentage rate by the unpaid principal balance and dividing the result by 12 to determine the amount of interest due and payable for each monthly installment.

After deducting the interest, the remainder of the payment reduces the principal balance. Therefore, the amount of interest paid with each installment declines because the interest rate is applied against a smaller and smaller amount of principal. In this way, the loan is amortized, so the final payment in a fully amortized mortgage will pay any remaining interest and principal.

OKAY, I understand the types and jargon, but what are the steps to actually GETTING a mortgage?

FIRST STEP:
PRE-QUALIFY – no cost to the client from most mortgage professionals

- In NYC, banks want to know not only your financials, but also the building's. You will talk to your mortgage professional and they will get basic information from you.
- Each bank has its own loan criteria regarding which buildings they will lend on. A mortgage professional can reduce the risk of being turned down for a loan because the building in which you are purchasing does not meet the bank's criteria. The mortgage professional will research the building to find banks that will be compatible.
- Your mortgage professional will advise you of the maximum amount that you will be able to borrow for various types of properties. This can vary depending on whether you buy a co-op, condo or townhouse.

SECOND STEP:
PRE-APPROVAL – no cost to the client from some mortgage professionals

- In essence, pre-approval "officially" lets everyone involved know that you are qualified for a certain amount of money. This protects against wasting time and energy for buyers, sellers and brokers.
- This step is more formal and the approval comes from the bank, not just your mortgage broker.
- You will submit documentation to support information from the pre-qualification, such as W-2s, pay stubs, tax returns and asset statements. These are standard document requests; nothing should be surprising after speaking with your mortgage professional.
- Your mortgage professional will run a credit report. Your score comes from three separate agencies and ranges from 450 to 850. Anyone who scores below 620 will have difficulty securing a loan; a score closer to 800 will allow you access to better mortgages with better rates.
- The bank will then issue you an official interest pre-approval commitment letter which confirms the terms of the loan the bank will provide to you. All that needs to be added is the property that you will be buying. That is done after the contract is in place and the building is approved.
- This process and the results are FLUID! Pre-approval provides you with the maximum monetary amount that you will qualify for. You can decide not to use the whole amount.
- Receiving pre-approved from the bank DOES NOT guarantee that you will pass your co-op board review. Board approval is less of an issue when purchasing a condo.
- Being able to tell a seller that you are already approved for financing gives you an edge over other buyers who have not started the process. This edge cannot be overstated: bidding on desirable properties in New York City can move extremely quickly.

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THIRD STEP:
Place the bid

Your bid on the apartment is accepted – hooray! Now it is time to move onto the full mortgage application.

FOURTH STEP:
The mortgage application process

- This is what you paid for with the application & appraisal fee.
- At this stage of the mortgage application your real estate attorneys enter the process. Lawyer fees are separate and will vary from firm to firm.
- Your mortgage professional will engage a real estate appraisal firm to provide an appraisal of the property.

Once you are officially approved, your commitment letter will be updated to include your property. Now you are ready to proceed with board interviews, etc.

FIFTH STEP:
Board interviews (mostly applicable to co-op buyers)

This is your formal interview and should be taken very seriously.

SIXTH (AND FINAL) STEP:
The closing

- The bank delivers the money.
- Buyers, sellers, lawyers, brokers, and others are all present at the closing; it is truly the grand finale of the process.
- You sign all legal documents for payment and foreclosure terms on your new home.
- Finally, the deal is done.

CONGRATULATIONS, YOU ARE A HOMEOWNER!