

Home Loans

This document gives a **very** brief overview of what home loans are, how to qualify, why pre-approval is an important first step to home buying, just what is a mortgage is, and how it impacts you.

Buying a home is big investment and an exciting milestone. Whether you are new to this or an experienced home buyer, you're going to need some help with this part. Working with a Home Loans Loan Officer is the best way to facilitate a smooth transaction from contract to closing.

Here are some definitions that help explain the process (https://www.diffen.com/difference/Loan_vs_Mortgage)

Mortgages are types of loans that are secured with real estate or personal property.

A **loan** is a relationship between a lender and borrower. The lender is also called a creditor and the borrower is called a debtor. The money lent and received in this transaction is known as a loan: the creditor has "loaned out" money, while the borrower has "taken out" a loan. The amount of money initially borrowed is called the **principal**. The borrower pays back not just the principal but also an additional fee, called interest. Loan repayments are usually paid in monthly installments and the duration of the loan is usually pre-determined.

There are many kinds of loans, but one of the most well-known types is a **mortgage**. Mortgages are secured loans that are specifically tied to real estate property, such as land or a house. The property is owned by the borrower in exchange for money that is paid in installments over time. This enables borrowers (mortgagors) to use property sooner than if they were required to pay the full value of the property upfront, with the end goal being that the debtor eventually comes to fully and independently own the property once the mortgage is paid in full.

Did you know most home buyers get preapproved for mortgage financing before they start shopping? ([CMG Home Loans](#))

Preapproval is an important first step. Getting preapproval will help to map out your home-buying journey. Here are a few reasons why preapproval is so important:

1. It sets our budget- we know the range you can afford and can filter our search accordingly.
2. It gives us the advantage of a strong offer- it will ensure our offer is not contingent on getting approved for a loan.
3. It shows the seller you mean business- having the preapproval shows the seller you've already started the financing process and you are serious about purchasing a home.

How to Qualify for a home loan: (<https://www.lendingtree.com/home/mortgage/>)

Lenders look at four aspects of your finances to assess whether you meet the minimum mortgage requirements for a mortgage preapproval:



1. YOUR CREDIT SCORES

You'll need to get your credit score up to 620 or higher to qualify for a conventional loan. Keep your credit balances low and pay everything on time to avoid drops in your score. Δ If you can boost your score to 780, you'll get the best interest rates possible with a conventional loan.



2. YOUR DEBT COMPARED TO YOUR INCOME

Conventional lenders set a maximum 43% DTI ratio, but you may get an exception if you have lots of extra savings and a high credit score. Lenders divide your monthly income by your monthly debt (including your new mortgage payment) to determine your debt-to-income (DTI) ratio.



3. YOUR INCOME AND EMPLOYMENT HISTORY

A steady employment history for the last two years shows lenders you have the stability to afford a regular monthly payment. Keep copies of your paystubs, W-2 and federal tax returns handy – you'll need them during the mortgage process.



4. YOUR DOWN PAYMENT AND SAVINGS FUNDS

The minimum down payment is 3% with a conventional loan, but it can pay to put down more if you're able. If you've had rough patches in your credit history, mortgage reserves – which are just extra funds in the bank to cover mortgage payments – may mean the difference between a loan approval and denial. Δ You'll snag the best conventional mortgage rate if you have a 780 credit score and a 25% down payment.