CHOOSING A LENDER

A lender is critical to the cost and success of the home purchase. For one thing, the lender holds the purse strings. For another, this level of service can make the difference between a happy new homeowner and a disappointed would-be buyer who missed out on a home.

Beyond finding a good interest rate, the buyer will rely on a lender to lock in the rate fast. If the buyer wants that 6 percent rate, the buyer needs to jump on it because rates can change like the wind. The buyer is also relying on the lender to close on the loan on time; the buyer could lose a house if there is a hang-up for some reason beyond the buyer's control. And many fees are determined by the lender, fees that can be negotiable if the buyer knows what to ask.

It is helpful if the buyer gathers all of the required documentation in a neat package before starting to talk to lenders.

Ask Away

Buyers should compare three or more lenders before making a decision. A buyer will want to compare rates, fees, and points, but will also want to know a slew of other things. They should not be afraid to ask. Lenders know buyers have options so being forthright should not be a problem.

When the buyer asks the questions below, they should listen carefully to see if the lender is answering in a straightforward way, without using jargon that the buyer does not understand. When asking about fees, make sure they include them all voluntarily. If the lender is trying too hard to push the buyer in a certain direction, the buyer should go elsewhere. The buyer should always make sure to get a Good Faith Estimate that defines settlement costs. That, together with the Truth in Lending document, will give the buyer a picture of the total amount being borrowed and the annual percentage rate.

Questions to ask potential lenders.

- What are your loan programs? Do you offer VA loans (for example)?
- What is the par rate for a 30-year fixed loan? (The lender should quickly have the answer.)
- Could you estimate closing costs for my loan?
- Can you estimate and explain your fees?
- Explain an APR and what is it for this loan?
- What is your income from this loan?
- Would you get approval for my loan locally?
- Here's my timeline. Are you certain you can get this done in time for closing?
- Can I see a Good Faith Estimate?

Additional questions for online lenders.

- Is there someone I can talk to whenever I need to?
- How are you keeping my information secure?

Additional questions for mortgage brokers.

- How do you get paid, in points or commission?
- How much will you make on this loan from the lender?
- Name some of your top lenders.

Important Lending Information

LOAN PRE-APPROVAL

A pre-approval is defined as a "commitment from a lender to loan a certain amount of money to a buyer at a designated interest rate and for a specified period of time, thus giving the buyer an advantage in competing to purchase real estate or a home." The pre-approval is meant to take place before a buyer finds a specific home to purchase.

A pre-approval is important because it not only shows the seller that a buyer is in a financial position to purchase the home, it also shows the seller that the buyer is serious about purchasing the home. Pre-approval also gives the buyer peace of mind in knowing that the home is something that the buyer can afford. Therefore, when a buyer submits a pre-approval letter along with an offer to purchase, it makes a seller feel more confident that the buyer can afford the home. It also puts the buyer in a better position should there be multiple offers on a particular home.

DOCUMENTS NEEDED FOR A LOAN PRE-APPROVAL

The following documents are needed to start and complete the pre-approval process:

- Credit report (obtained by lender)
- Tax returns for the past two years
- W-2's for the past two years
- Most recent pay stubs
- Savings and checking account statements
- Asset accounts statements
- Proof of other income
- Verification of current and previous residency
- Employment history

CREDIT SCORE

The following are ways to improve a buyer's credit score:

1. *Pay bills on time.* Payment history makes up roughly 35% of the total credit score. Recent payment history is weighed more heavily than what happened years ago, so buyers need to start paying bills on time in order to improve their credit score.
2. Keep balances low on credit cards. High outstanding debt will work against the buyer when trying to improve their credit score.
3. *Don't close unused accounts or open new accounts.* This could backfire and lower the buyer's credit score instead of raising it.
4. *Pay off debt instead of transferring it to another account.* Having fewer cards with debt looks better than having the same amount of debt spread out over more cards, which may lower the buyer's credit score.
5. *Have credit cards but use them sensibly.* Having credit cards and installment loans will help the buyer's credit score, as long as the payment history is clean. Having a credit history allows lenders to see how well the buyer manages their money and can offer insight into how the buyer will manage future loans.