Prairie Savings and Loan Mortgage Facts

Becoming a first-time homeowner is fun and exciting. Your bankers at Prairie Savings and Loan are eager to help you get started. This fact sheet summarizes what you need to know to successfully apply for a home mortgage.

Let’s start with the basics. The amount of money you borrow is known as the principal, and the money you pay to a financial institution for lending you the money is the interest. Part of your monthly payment goes to paying the interest, and part goes to paying off the principal. With most mortgages, your early payments primarily pay off the interest. Then, over time, more of your payments go to paying off your principal. The more principal you pay off, the more equity you have in your home.

# Types of Loans

Before you begin the process of applying for a loan, you need to understand the various types of loans. The two major categories are:

* Fixed-rate mortgage: A fixed-rate mortgage maintains the same rate throughout the entire payment period. This means your monthly payment will never change. The advantage of a fixed-rate mortgage is stability; your payment is the same every month. However, interest rates for a fixed-rate mortgage are slightly higher than for other types of loans.
* Adjustable-rate mortgage (ARM): The interest rate for an adjustable-rate mortgage changes throughout the course of the payment period. Most commonly, the interest rate for an ARM changes yearly, although some start out at a single rate for several years, and then adjust. The advantage of ARMs is that they typically start out at a lower rate than fixed-rate mortgages. However, over the long term, you can end up paying a much higher interest rate as the ARM adjusts to reflect prevailing interest rates.

In addition to deciding between a fixed-rate and an adjustable-rate mortgage, you also need to decide between a government-insured loan or a conventional, uninsured loan. Mortgages insured by the Federal Housing Administration (FHA) are designed to reimburse the lender in case the borrower defaults on the loan. From the borrower’s perspective, the advantage of an FHA-insured loan is the ability to make a smaller down payment (as low as 3.5%) than with a conventional loan. Also, it is typically easier to qualify for an FHA-insured loan than for a conventional loan. However, the borrower also needs to pay for mortgage insurance on top of a regular mortgage payment. Loan programs offered by other agencies vary in the terms and conditions imposed on the borrower. For example, loans insured by the U.S. Department of Veterans Affairs (VA) require no down payment at all.

# Qualifying for a Home Loan

The loan agents at Prairie Savings and Loan considers several factors when evaluating a loan application. The most important considerations are:

* Credit score
* Basic income
* Debt-to-income ratio
* Minimum down payment

To verify information on income and debt, we request numerous supporting items as part of your application. You will need to provide:

* Social Security number
* Proof of employment history for the last three years
* Pay stubs
* Tax documents for the last two years
* W-2 statements
  + Tax returns
  + Proof of current residence
* Bank account information
* Credit report
* Real estate contract
* Letters documenting any financial gifts from family or friends that will help fund your house purchase
* Itemized list of monthly expenses

If you are considering buying a rental property, you will likely need to provide additional documentation. Please see your loan agent at Prairie Savings and Loan for details.

# Loan-Approval Process

The steps in the loan-approval process are:

1. Application: Complete the online form.
2. Supporting documents: Supply the required documentation.
3. Preapproval: Get preapproved for a specific amount.
4. Preclosing: Work with your loan agent and real estate agent to prepare for the closing, providing additional information as necessary.
5. Closing: Sign the paperwork and officially become a homeowner.

Even before you find a home you want to buy, it’s a good idea to fill out an application so your loan agent can preapprove you for a certain amount. That way you’ll know *exactly* how much you can afford to spend as you begin looking at properties.

# Getting Started

The staff of Prairie Savings and Loan is ready to make your dream of home ownership a reality. Talk to your loan agent today about how to get started.

Prepared by: Student Name