Mortgage FAQ

1. What types of mortgages do you offer?

We offer conventional mortgages, FHA loans, VA loans, USDA loans, jumbo loans, adjustable-rate mortgages (ARMs), fixed-rate mortgages (15, 20, and 30-year terms), interest-only mortgages, and construction loans. Each has different requirements, rates, and benefits.

2. What is the difference between a fixed-rate and adjustable-rate mortgage?

A fixed-rate mortgage maintains the same interest rate throughout the loan term, providing predictable monthly payments. An adjustable-rate mortgage (ARM) has an interest rate that changes periodically based on market conditions, typically starting with a lower rate that adjusts after an initial fixed period (e.g., 5/1 ARM has 5 years fixed, then adjusts annually).

3. What credit score do I need to qualify for a mortgage?

Minimum credit scores vary by loan type: Conventional loans typically require 620+, FHA loans accept 580+ (500-579 with 10% down), VA loans have no minimum but lenders typically want 620+, and USDA loans require 640+. Higher scores qualify for better rates. Scores of 740+ typically receive the best rates.

4. How much down payment do I need?

Down payment requirements vary: Conventional loans require 3-20%, FHA loans require 3.5% (580+ credit score) or 10% (500-579 credit score), VA loans require 0% for eligible veterans, USDA loans require 0% for eligible rural properties, and jumbo loans typically require 10-20%. Larger down payments result in lower monthly payments and may eliminate PMI.

5. What is PMI and when is it required?

Private Mortgage Insurance (PMI) protects the lender if you default. It's required on conventional loans with less than 20% down payment. PMI costs 0.5-1.5% of the loan amount annually, added to monthly payments. You can request PMI removal once you reach 20% equity, and it automatically terminates at 22% equity.

6. How do I remove PMI from my mortgage?

You can request PMI removal once you reach 20% equity through payments or appreciation. Requirements include: current on payments, good payment history (no 30-day late payments in past year), no subordinate liens, and possibly a new appraisal (at your expense, $300-$500). PMI automatically terminates at 22% equity based on the original amortization schedule.

7. What is the mortgage application process?

The process includes: 1) Pre-qualification (estimate based on basic info), 2) Pre-approval (verified documentation, credit check), 3) House hunting with pre-approval letter, 4) Purchase agreement, 5) Formal application, 6) Processing and underwriting (2-4 weeks), 7) Appraisal and inspection, 8) Final approval, 9) Closing (signing documents, paying closing costs). Total timeline is typically 30-45 days from application to closing.

8. What documents do I need to apply for a mortgage?

Required documents include: 2 years of tax returns, 2 months of pay stubs, 2 months of bank statements, W-2s for past 2 years, proof of other income (bonuses, alimony, etc.), photo ID, Social Security card, employment verification, list of assets and debts, gift letter if receiving down payment assistance, and divorce decree or bankruptcy papers if applicable.

9. How long does mortgage approval take?

Pre-approval takes 1-3 days with complete documentation. Full approval after application takes 30-45 days on average. Factors affecting timeline include: documentation completeness, appraisal scheduling (1-2 weeks), underwriting workload, and complexity of your financial situation. You can expedite by providing complete, accurate documentation upfront.

10. What is pre-qualification vs. pre-approval?

Pre-qualification is an informal estimate based on self-reported information, takes minutes, and doesn't verify details. Pre-approval involves credit check, income verification, asset verification, and provides a conditional commitment letter. Pre-approval is stronger for making offers and shows sellers you're a serious buyer. Pre-approval is valid for 60-90 days.

11. Can I get pre-approved for a mortgage online?

Yes, you can complete the pre-approval process online by submitting your application and uploading required documents through our secure portal. You'll receive a pre-approval letter within 1-3 business days. Some lenders offer instant pre-qualification, but full pre-approval requires document verification.

12. What are closing costs and how much are they?

Closing costs are fees for processing your mortgage, typically 2-5% of the loan amount ($4,000-$15,000 on a $300,000 loan). They include: origination fees, appraisal ($300-$500), title insurance ($500-$2,000), title search ($200-$400), attorney fees ($500-$1,500), recording fees ($100-$250), credit report ($25-$50), survey ($300-$500), and prepaid items (property taxes, homeowners insurance, interest).

13. Can closing costs be rolled into the mortgage?

You cannot roll closing costs into the loan amount on a purchase, but you can: negotiate seller concessions (seller pays up to 3-6% of purchase price toward your closing costs), choose a higher interest rate in exchange for lender credits, or use a no-closing-cost mortgage (higher rate, lender covers costs). On refinances, you can sometimes roll costs into the new loan amount.

14. What is an origination fee?

An origination fee is charged by the lender for processing your loan application, typically 0.5-1% of the loan amount ($1,500-$3,000 on a $300,000 loan). It covers underwriting, document preparation, and administrative costs. Some lenders charge a flat fee instead. This fee is negotiable and may be waived for preferred customers.

15. What is an appraisal and why is it required?

An appraisal is an independent assessment of the property's market value, required by lenders to ensure the property is worth the loan amount. A licensed appraiser inspects the property and compares it to recent sales of similar properties. Cost is $300-$500 for single-family homes, $600+ for multi-unit properties. Takes 1-2 weeks to complete.

16. What happens if the appraisal comes in low?

If the appraisal is below the purchase price, you have several options: 1) Negotiate a lower purchase price with the seller, 2) Increase your down payment to cover the difference, 3) Challenge the appraisal with comparable sales data, 4) Request a second appraisal (at your expense), or 5) Walk away from the deal (if you have an appraisal contingency). The lender will only loan based on the appraised value, not the purchase price.

17. What is title insurance and why do I need it?

Title insurance protects you and the lender from financial loss due to defects in the property title (liens, encumbrances, ownership disputes). Lender's policy (required) protects the lender's interest; owner's policy (optional but recommended) protects your equity. One-time premium paid at closing: $500-$2,000 depending on property value. Coverage lasts as long as you own the property.

18. What is escrow and how does it work?

An escrow account holds funds for property taxes and homeowners insurance. Your monthly mortgage payment includes principal, interest, taxes, and insurance (PITI). The lender collects 1/12 of annual taxes and insurance each month and pays these bills when due. At closing, you'll prepay 2-3 months into escrow. The lender reviews the account annually and adjusts your payment if needed.

19. Can I waive the escrow account?

You may be able to waive escrow if you have 20%+ equity and good credit. Some lenders charge a fee (0.25% of loan amount) or slightly higher interest rate to waive escrow. You'll be responsible for paying property taxes and insurance directly and on time. Failure to pay can result in foreclosure or lender-placed insurance.

20. What is the debt-to-income ratio and why does it matter?

Debt-to-income (DTI) ratio compares your monthly debt payments to gross monthly income. Front-end DTI (housing expenses only) should be ≤28%; back-end DTI (all debts) should be ≤43% for conventional loans, ≤50% for FHA. Calculate: (Total monthly debts / Gross monthly income) × 100. Lower DTI improves approval chances and rates. Pay down debts or increase income to improve DTI.

21. How much house can I afford?

General rule: home price should be 2.5-3 times your annual income. Monthly payment (PITI) should not exceed 28% of gross monthly income. Consider: down payment, closing costs, emergency fund (3-6 months expenses), ongoing maintenance (1-2% of home value annually), HOA fees, utilities, and other debts. Use our mortgage calculator to estimate payments and affordability.

22. What is the difference between interest rate and APR?

Interest rate is the cost of borrowing the principal, affecting your monthly payment. APR (Annual Percentage Rate) includes the interest rate plus other costs (origination fees, points, mortgage insurance) expressed as a yearly rate. APR is higher than the interest rate and provides a more complete picture of loan cost. Use APR to compare loans with different fee structures.

23. Should I pay points to lower my interest rate?

Discount points are prepaid interest: 1 point = 1% of loan amount, typically reduces rate by 0.25%. Calculate break-even: (Cost of points) / (Monthly savings) = Months to break even. Pay points if you plan to keep the loan longer than the break-even period (typically 5-7 years). Points are tax-deductible in the year paid on purchase loans.

24. What is a rate lock and when should I lock my rate?

A rate lock guarantees your interest rate for a specified period (30-60 days), protecting you from rate increases during processing. Lock when: rates are favorable, you have a purchase agreement, and closing is within the lock period. Longer locks may cost more. If rates drop significantly, ask about a float-down option (may have fee). Rate locks typically expire if closing doesn't occur within the lock period.

25. Can I refinance my mortgage?

Yes, refinancing replaces your current mortgage with a new one, potentially lowering your rate, changing your term, or accessing equity. Consider refinancing when: rates drop 0.5-1% below your current rate, you want to switch from ARM to fixed-rate, you want to eliminate PMI, or you need cash for home improvements. Closing costs are 2-5% of loan amount; break-even is typically 2-3 years.

26. What is a cash-out refinance?

A cash-out refinance replaces your mortgage with a larger loan, giving you the difference in cash. You can borrow up to 80% of home value (minus existing mortgage). Use funds for: home improvements, debt consolidation, education, or investments. Rates may be slightly higher than rate-and-term refinances. You'll pay closing costs on the new loan amount.

27. What is a streamline refinance?

Streamline refinances are simplified refinancing programs for FHA, VA, and USDA loans with reduced documentation and no appraisal required. Benefits: faster processing (2-3 weeks), lower costs, no income verification, no credit check (for some programs). Requirements: current on payments, must lower payment or switch from ARM to fixed-rate, seasoning period (6-12 months of payments).

28. How soon can I refinance after buying a home?

Conventional loans: typically 6 months, but some lenders allow immediate refinancing. FHA streamline: 210 days (7 months) and 6 payments. VA streamline (IRRRL): 210 days and 6 payments. Cash-out refinance: typically 6-12 months. Waiting longer (12+ months) may qualify for better rates and terms. Consider closing costs and break-even period.

29. What is loan-to-value (LTV) ratio?

LTV ratio compares the loan amount to the property's appraised value: (Loan amount / Property value) × 100. Example: $240,000 loan on $300,000 home = 80% LTV. Lower LTV means more equity and better loan terms. LTV affects: interest rates, PMI requirements, loan approval, and refinancing options. Aim for 80% LTV or lower to avoid PMI.

30. What is a jumbo loan?

A jumbo loan exceeds conforming loan limits set by FHFA ($766,550 in most areas for 2024, higher in expensive markets). Jumbo loans have: stricter requirements (higher credit scores 700+, lower DTI, larger down payments 10-20%), higher interest rates (0.25-0.5% above conforming), more documentation, and larger reserves (6-12 months). Used for luxury homes and expensive markets.

31. What is an FHA loan?

FHA loans are government-insured mortgages with: lower down payments (3.5% with 580+ credit score), more lenient credit requirements (580+ score), higher DTI allowed (up to 50%), and lower closing costs. Downsides: required mortgage insurance (upfront 1.75% + annual 0.45-1.05%), loan limits ($498,257-$1,149,825 depending on area), and property must meet FHA standards.

32. What is a VA loan?

VA loans are available to eligible veterans, active military, and surviving spouses with: no down payment required, no PMI, competitive interest rates, limited closing costs, and more lenient credit requirements. Requires Certificate of Eligibility (COE) and VA funding fee (1.25-3.3% of loan amount, can be financed, waived for disabled veterans). Property must meet VA minimum property requirements.

33. What is a USDA loan?

USDA loans are for rural and suburban properties with: no down payment required, low interest rates, income limits (typically 115% of area median income), and property must be in eligible rural area. Requires upfront guarantee fee (1% of loan amount) and annual fee (0.35% of loan balance). Property must be primary residence and meet USDA property standards.

34. Can I use gift money for my down payment?

Yes, you can use gift funds from family members (parents, siblings, grandparents, spouse, domestic partner) for down payment and closing costs. Requirements: gift letter stating funds are a gift (not a loan), documentation of donor's ability to give (bank statements), and paper trail showing transfer. Some loan types require minimum borrower contribution (3-5%).

35. What is a co-borrower vs. co-signer?

Co-borrower (co-applicant) has ownership rights and appears on the title, shares responsibility for payments, and their income/credit are considered for qualification. Co-signer has no ownership rights, is responsible for payments if borrower defaults, but their income/credit help borrower qualify. Co-signers are typically used when the primary borrower has insufficient income or credit.

36. Can I buy a home with a co-borrower?

Yes, co-borrowers (spouse, partner, family member, friend) can help you qualify by combining incomes and credit. Both parties: appear on the loan and title, are equally responsible for payments, and must meet lender requirements. Lender uses the lower credit score for rate determination. Co-borrowing increases buying power but requires trust and clear agreements.

37. What happens if I miss a mortgage payment?

Missing payments has serious consequences: 15 days late: grace period ends, late fee charged (typically 4-5% of payment). 30 days late: reported to credit bureaus, credit score drops 50-100+ points. 60-90 days late: additional late fees, more credit damage. 120+ days late: foreclosure process may begin. Contact your lender immediately if you're struggling; they may offer forbearance, modification, or repayment plans.

38. What is forbearance?

Forbearance is a temporary pause or reduction in mortgage payments during financial hardship (job loss, medical emergency, disaster). Lender agrees not to foreclose during forbearance period (typically 3-12 months). You must repay missed payments later through: lump sum, repayment plan, loan modification, or deferral. Interest continues to accrue. Contact your lender before missing payments to request forbearance.

39. What is a loan modification?

A loan modification permanently changes your loan terms to make payments more affordable. Modifications may: lower interest rate, extend loan term, convert ARM to fixed-rate, or add missed payments to loan balance. Requires proof of hardship and financial documentation. May impact credit score. Alternative to foreclosure for borrowers who can't afford current payments but can afford modified payments.

40. What is the foreclosure process?

Foreclosure timeline varies by state (3-18 months): 1) Miss payments (30-120 days), 2) Notice of Default (after 90-120 days), 3) Pre-foreclosure period (30-120 days to cure default), 4) Notice of Sale (auction scheduled), 5) Foreclosure auction, 6) Eviction if property sells. Judicial foreclosure (court process) takes longer than non-judicial. Foreclosure severely damages credit (200-300 point drop) and remains on report for 7 years.

41. Can I avoid foreclosure?

Yes, options include: 1) Loan modification (permanent payment reduction), 2) Forbearance (temporary payment pause), 3) Repayment plan (catch up over time), 4) Refinance (if you have equity), 5) Short sale (sell for less than owed, lender approval required), 6) Deed in lieu of foreclosure (voluntarily transfer property), 7) Bankruptcy (Chapter 13 can stop foreclosure). Contact your lender and HUD-approved housing counselor immediately.

42. What is a short sale?

A short sale occurs when you sell your home for less than the mortgage balance with lender approval. Process: 1) List property, 2) Receive offer, 3) Submit short sale package to lender, 4) Lender reviews (30-90 days), 5) Approval or denial, 6) Close sale. Lender may forgive deficiency or pursue deficiency judgment. Less damaging to credit than foreclosure (50-150 point drop). May have tax implications on forgiven debt.

43. What is mortgage insurance?

Mortgage insurance protects the lender if you default. Types: PMI (private mortgage insurance) for conventional loans with <20% down, FHA mortgage insurance (upfront + annual), VA funding fee, and USDA guarantee fee. PMI costs 0.5-1.5% annually, FHA insurance costs 0.45-1.05% annually. PMI can be removed at 20% equity; FHA insurance is permanent on loans with <10% down originated after 2013.

44. What is homeowners insurance and is it required?

Homeowners insurance protects your property and belongings from damage, theft, and liability. Required by all mortgage lenders. Coverage includes: dwelling, personal property, liability, and additional living expenses. Cost varies by location, home value, and coverage ($800-$3,000+ annually). Shop around for best rates. Lender requires proof of insurance at closing and continuous coverage. Paid through escrow or directly.

45. What is flood insurance?

Flood insurance covers flood damage (not covered by standard homeowners insurance). Required if property is in FEMA-designated flood zone and you have a federally-backed mortgage. Cost varies by flood zone and coverage ($400-$2,000+ annually). Available through National Flood Insurance Program (NFIP) or private insurers. Even if not required, consider purchasing if near water or in flood-prone area.

46. Can I pay off my mortgage early?

Yes, most mortgages allow early payoff without penalty. Benefits: save on interest, build equity faster, reduce financial stress, and own home outright sooner. Methods: extra principal payments, bi-weekly payments, lump sum payments, or refinance to shorter term. Check your loan documents for prepayment penalties (rare on modern mortgages). Consider opportunity cost of paying off low-rate mortgage vs. investing.

47. What is a prepayment penalty?

A prepayment penalty is a fee charged if you pay off your mortgage early (typically within first 3-5 years). Rare on modern mortgages but may appear on: some ARMs, subprime loans, or in exchange for lower rates. Penalty is typically 2-5% of loan balance or 6 months of interest. Check your loan documents. Federal law prohibits prepayment penalties on FHA, VA, and USDA loans.

48. What is an assumable mortgage?

An assumable mortgage allows a buyer to take over the seller's existing mortgage, keeping the same rate and terms. Benefits: lower rates (if original rate is lower than current rates), lower closing costs, and faster closing. FHA, VA, and USDA loans are assumable; most conventional loans are not. Buyer must qualify with lender. Seller remains liable unless released by lender. Assumption fee: $500-$1,000.

49. What is a reverse mortgage?

A reverse mortgage (HECM - Home Equity Conversion Mortgage) allows homeowners 62+ to convert home equity into cash without selling. No monthly payments required; loan is repaid when you sell, move, or pass away. Requirements: 62+ years old, own home outright or have significant equity, live in home as primary residence, and maintain property. Proceeds can be: lump sum, monthly payments, line of credit, or combination. High fees and interest rates.

50. How does divorce affect my mortgage?

Divorce impacts mortgages in several ways: 1) Both parties remain liable unless one refinances in their name only, 2) Court may order one spouse to pay but lender can pursue both, 3) Selling and splitting proceeds is cleanest option, 4) One spouse can buy out the other (requires refinancing), 5) Missed payments by ex-spouse damage both credit scores. Include mortgage terms in divorce decree. Consult attorney and lender about options.

51. Can I get a mortgage if I'm self-employed?

Yes, but requirements are stricter: 2 years of tax returns, profit/loss statements, business bank statements, 1099s, and CPA letter. Lenders average 2 years of income (after deductions). Challenges: income fluctuations, business deductions reduce qualifying income, and more documentation required. Tips: minimize deductions before applying, maintain good credit (700+), save larger down payment (20%+), and keep business/personal finances separate.

52. What is a construction loan?

A construction loan finances building a new home. Types: construction-to-permanent (converts to mortgage after completion) or construction-only (separate mortgage needed). Features: short-term (6-12 months), interest-only payments during construction, funds disbursed in stages (draws), higher rates than traditional mortgages, and requires detailed plans and budget. Requirements: 20-25% down, good credit (680+), qualified builder, and detailed construction timeline.

53. What is a bridge loan?

A bridge loan is short-term financing (6-12 months) to bridge the gap between buying a new home and selling your current one. Use proceeds for down payment on new home before old home sells.

Features: higher interest rates (2-3% above mortgage rates), interest-only payments, and requires equity in current home (20%+). Alternatives: home equity loan, contingent offer, or rent-back agreement with buyer.

54. What is a home equity loan?

A home equity loan (second mortgage) provides a lump sum based on home equity, with fixed rate and term (5-30 years). Borrow up to 85% of home value minus first mortgage. Uses: home improvements, debt consolidation, education, or emergencies. Interest may be tax-deductible if used for home improvements. Requires good credit (680+), sufficient equity, and low DTI. Risk: foreclosure if you default.

55. What is a HELOC?

A Home Equity Line of Credit (HELOC) is a revolving credit line secured by home equity. Features: variable rate, draw period (5-10 years, interest-only payments), repayment period (10-20 years, principal + interest), and borrow as needed up to credit limit. Borrow up to 85% of home value minus first mortgage. Uses: ongoing expenses, emergencies, or projects. Interest may be tax-deductible for home improvements.

56. What is the difference between a home equity loan and HELOC?

Home equity loan: lump sum, fixed rate, fixed payment, fixed term, and predictable costs. HELOC: revolving credit line, variable rate, flexible borrowing, interest-only during draw period, and payment varies with balance. Choose home equity loan for: one-time expense, predictable payments, and rate stability. Choose HELOC for: ongoing expenses, flexibility, and lower initial payments. Both use home as collateral.