1. What's a mortgage?

A mortgage is a loan that helps you buy a home. It's a contract between you (the borrower) and a lender (like a bank, mortgage company, or credit union) to lend you money to buy a home. You repay the money based on the agreement you sign. But if you default (that is, if you don't pay off the loan or, in some situations, if you don't make your payments on time), the lender may have the right to take the property. Not all mortgage loans are the same.

2. What should I do first to get a mortgage?

Figure out the down payment you can afford. The amount of your down payment can determine the details of the loan you qualify for. The CFPB has tips about how to figure out a down payment that works for you.

Get your annual credit reports. Review your reports and fix any errors on them. If you find errors, dispute them with the credit bureau involved. And tell the lender about the dispute, if it's not resolved before you apply for a mortgage.

Get quotes from several lenders or brokers and compare their rates and fees. Find out all the costs of the loan. Knowing just the amount of the monthly payment or the interest rate isn't enough. Even more important is knowing the APR — the total cost you pay for credit, as a yearly rate. The interest rate is a very big factor in calculating the APR, but the APR also includes costs like points and other credit costs like mortgage insurance. Knowing the APR makes it easier to compare "apples to apples" when you're choosing a mortgage offer.

3. How do mortgage brokers work?

A mortgage broker is someone who can help you find a deal with a lender and work out the details of the loan. It might not always be clear if you're dealing with a lender or a broker, so if you're not sure, ask. Consider contacting more than one broker before deciding who to work with — or whether to work with a broker at all.

A broker can have access to several lenders, so they might be able to give you a wider selection of loan products and terms. Brokers also can save you time by managing the loan approval process. But don't assume they're getting you the best deal. Compare the terms and conditions of loan offers yourself.

You often pay brokers in addition to the lender's fees. Brokers are often paid in "points" that you'll pay either at closing, as an add-on to your interest rate, or both. When researching brokers, ask each one how they're paid so you can compare offers and negotiate with them.

4. Can I negotiate some of the terms of the mortgage?

Yes. Ask lenders or brokers if they can give you better terms than the original ones they quoted, or whether they can beat another lender's offer. For example, you might

- ask the lender or broker to waive or lower one or more of its fees, or agree to a lower rate or fewer points
- make sure that the lender or broker isn't agreeing to lower one fee while raising another — or to lower the rate while adding points

5. Should I choose the lender advertising or offering the lowest rates?

Maybe not. When you're shopping around, you may see ads or get offers with rates that are very low or say they're fixed. But they may not tell you the true terms of the deal as the law requires. The ads may feature buzz words that are signs that you'll want to dig a little deeper. For example:

- Low or fixed rate. A loan's interest rate might be fixed or low only for a short introductory period — sometimes as short as 30 days. Then your rate and payment could increase dramatically. Look for the APR: under federal law if the interest rate is in the ad, the APR also should be there. Although the APR should be clearly stated, check the fine print to see if instead it's buried there, or has been placed deep within the website.
- Very low payment. This might seem like a good deal, but it could mean you would pay only the interest on the money you borrowed (called the principal). Eventually, though, you would have to pay the principal. That means you would have higher monthly payments (because now payments include both interest and an additional amount to pay off the principal) or a "balloon" payment — a one-time payment that is usually much larger than your usual payment.

You also might find lenders that offer to let you make monthly payments where you pay only a portion of the interest you owe each month. So, the unpaid interest is added to the principal that you owe. That means your loan balance will increase over time. Instead of paying off your loan, you end up borrowing more. This is known as negative amortization. It can be risky because you can end up owing more on your home than what you could get if you sold it.

6. How do I decide which offer is the best one?

Find out your total payment. While the interest rate determines how much interest you owe each month, you also want to know what you'd pay for your total mortgage payment each month. The calculation of your total monthly mortgage payment considers these factors, sometimes called PITI:

- principal (money you borrowed)

- interest (what you pay the lender to borrow the money)
- taxes
- homeowners' insurance

PITI sometimes includes private mortgage insurance (PMI) but not always. If you must pay PMI, ask if it is included in the PITI you're offered. FHA mortgage insurance is typically required on an FHA loan, including a premium due upfront and monthly premium.

7. I've had some credit problems. Will I have to pay more for my mortgage loan?

You might, but not necessarily. Prepare to compare and negotiate, whether you've had credit problems. Things like illness or temporary loss of income don't necessarily limit your choices to only high-cost lenders. If your credit report has negative information that's accurate, but there are good reasons for a lender to trust you'll be able to repay a loan, explain your situation to the lender or broker.

But, if you can't explain your credit problems or show that there are good reasons to trust your ability to pay your mortgage, you will probably have to pay more — including a higher APR — than borrowers with fewer problems in their credit histories.

8. What will help my chances of getting a mortgage?

Give the lender information that supports your application. For example, steady employment is important to many lenders. If you've recently changed jobs but have been steadily employed in the same field for several years, include that information on your application. Or if you've had problems paying bills in the past because of a job layoff or high medical expenses, write a letter to the lender explaining the causes of your past credit problems. If you ask lenders to consider this information, they must do so.

9. What if I think I was discriminated against?

Fair lending is required by law. A lender may not refuse you a loan, charge you more, or offer you less-favorable terms based on your

- race
- color
- religion
- national origin (where your ancestors are from)
- sex
- marital status
- age

- whether all or part of your income comes from a public assistance program

10. Why am I getting mailers and emails from other mortgage companies?

Your application for a mortgage may trigger competing offers (called “prescreened” or “preapproved” offers of credit). But you may want to use them to compare loan terms and shop around.

11. Can I trust the offers I get in the mail?

Review offers carefully to make sure you know who you’re dealing with — even if these mailers might look like they’re from your mortgage company or a government agency. Not all mailers are prescreened offers. Some dishonest businesses use pictures of the Statue of Liberty or other government symbols or names to make you think their offer is from a government agency or program. If you’re concerned about a mailer you’ve gotten, contact the government agency mentioned in the letter.

12. What should I watch out for during closing?

The “closing” (sometimes called “settlement”) is when you and the lender sign the paperwork to make the loan agreement final. Once you sign, you get the mortgage loan proceeds — and you’re now legally responsible to pay back the loan.

Scammers sometimes send emails impersonating your loan officer or another real estate professional, saying there’s been a last-minute change. They might ask you to wire the money to cover closing costs to a different account. Don’t do it — it’s a scam.

If you get an email like this, contact your lender, broker, or real estate professional at a number or email address that you know is real and tell them. Scammers often ask you to pay in ways that make it tough to get your money back. No matter how you paid a scammer, the sooner you act, the better.