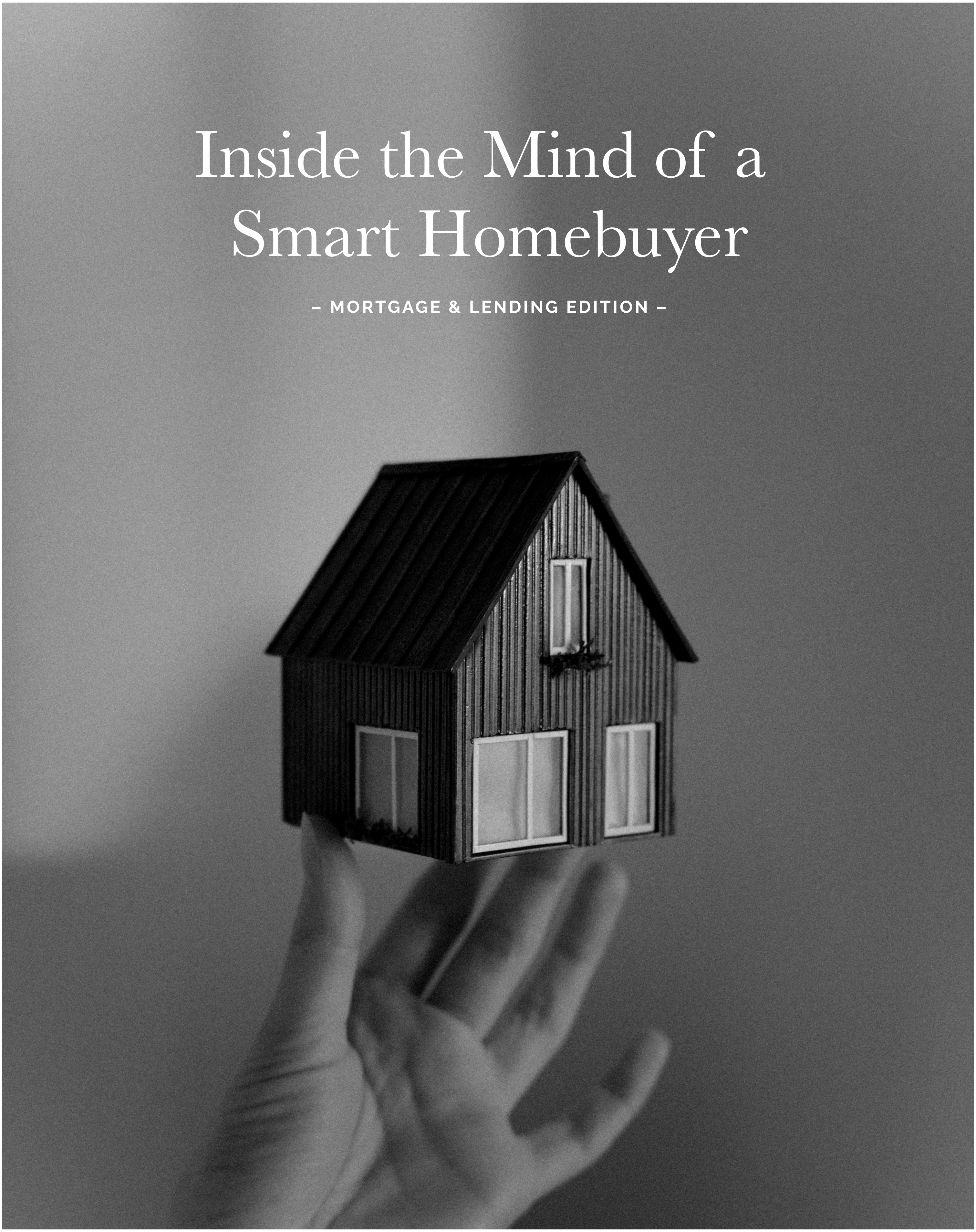
Inside the Mind of a Smart Homebuyer

– MORTGAGE & LENDING EDITION –

The Questions That Matter

Buying a home is a major life decision. Home buying may take 6 months or more, so you need to make sure this decision fits in with your personal plans and goals.

Over the last 2 weeks, we have provided you with a list of key areas for you to think about as you start your homebuying journey, and some answers.

Last week, we covered key questions on personal finances and budgeting. This week, we're continuing the series with the next topic: Mortgage & Lending.

A mortgage is likely the largest financial commitment of your life. These questions and pointers can help you understand loan options, true costs, and risks before committing to a long-term mortgage.

1

What type of mortgage and loan term best fit my financial goals (fixed vs. adjustable, 15–30 years)?

Choosing the right mortgage depends on how long you plan to stay in the home, your income stability, and your tolerance for risk. Key tradeoffs to understand:

- Fixed-rate loans offer stable payments and are ideal if you plan to stay 7+ years.
- Adjustable-rate mortgages (ARMs) often start 0.5–1% lower but can increase later.
- 30-year loans have lower monthly payments.
- 15-year loans build equity faster but can raise monthly payments by ~40–50% or higher.

The goal is not the “lowest rate,” but the loan structure that best supports your long-term financial flexibility.

2

2. What is the true cost of the loan, including APR, fees, PMI, and discount points?

The interest rate alone doesn't tell the full story. The Annual Percentage Rate (APR) reflects the true cost of borrowing by including lender fees, points, and certain closing costs. Your total loan cost may include:

- Lender fees & closing costs: typically 2–5% of the loan amount
- PMI: often 0.5–1% of the loan annually if down payment is under 20%
- Discount points: ~1% of loan per point to reduce your rate

Comparing APRs across lenders helps reveal the real cost of borrowing over time.

3

3. How long will approval take, and what could delay or jeopardize my loan?

Mortgage approval typically takes 30–45 days, but delays are common. Common issues that cause delays or can derail the process:

- Incomplete documentation
- Sudden credit changes
- Large unexplained deposits
- Job changes, or
- New debt

Lenders closely review income stability, assets, credit history, and property details. To reduce risk, respond quickly to lender requests, avoid major financial changes before closing, don't open new credit, and keep documentation organized. A smooth approval process isn't just about qualification - it's about consistency and financial discipline from application to closing.

4

4. How do escrow, taxes, insurance, and PMI affect my monthly payment over time?

Your monthly mortgage payment often includes more than principal and interest. Escrow accounts collect property taxes and insurance monthly, spreading large annual costs across the year. Typical add-ons include:

- Property taxes: ~1–1.5% of home value annually
- Homeowners insurance: often $100–200/month but could be higher depending on location and coverage
- PMI: if required, can add hundreds per month
- Escrow adjustments: payments can rise year to year

Non-mortgage costs can add 25–40% to your payment, even with a fixed-rate loan.Over time, these non-loan components can increase even if your interest rate stays the same, making it essential to budget beyond today's payment and plan for gradual increases.

5

5. Can I remove PMI, make extra payments, or refinance if interest rates change?

Many loans offer flexibility, but the rules vary. PMI can often be removed once you reach sufficient equity, though the process differs by loan type and may save you $150–300 per month. Some mortgages allow extra payments without penalties, helping you reduce interest and build equity faster. Refinancing may be an option if interest rates fall or your financial profile improves, but it comes with costs and resets timelines.

Understanding these options upfront ensures you’re not locked into a loan that limits your ability to adapt as circumstances change.

6

6. What happens if the appraisal comes in lower than the purchase price?

A low appraisal means the lender values the home below the agreed purchase price, and may not finance the fill purchase price. This can require: (a) renegotiating the price, (b) increasing your down payment, (d) disputing the appraisal with comparables, or (d) walking away if contingencies allow.

Appraisal gaps are more common in competitive markets and can test a buyer's flexibility. Knowing your options ahead of time helps you respond calmly and protect your financial position rather than feeling pressured to overpay.

Haus

Homeowners Association Of The United States

Join Us!

HOMEOWNERSASSOCIATIONAMERICA.ORG