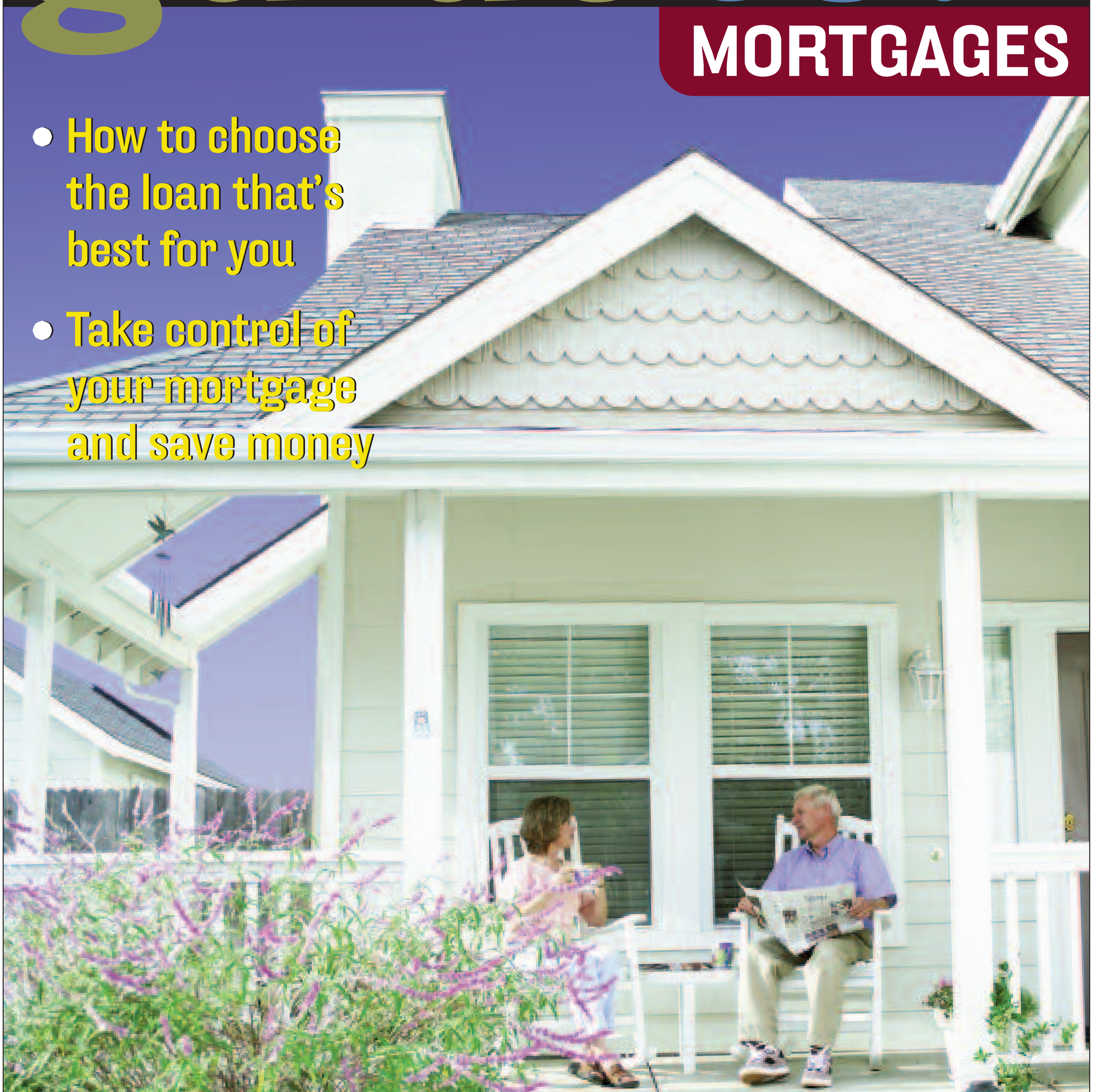
guide to:

MORTGAGES

- How to choose the loan that's best for you
- Take control of your mortgage and save money



The LendingTree Smart Borrower Center offers a range of articles about mortgages and home equity loans and can help you decide which type of loan best meets your needs.

Guide to

Mortgages

There are many different *mortgage* products available today, and choosing the best one can be almost as challenging as finding the right house. This guide explains common types of mortgages to help you decide which one will best meet your financial needs.

Before you get a mortgage, consider:

- what you can afford to pay each month based on your current income. (see *Worksheet 1: How Much House Can You Afford?*)
- whether you expect your income to rise, fall or stay the same over time.
- whether you plan to stay in the house long-term or move in a few years.
- your tolerance for risk.
- whether you expect interest rates to rise, fall or stay about the same.

TYPES OF MORTGAGES

Understanding the pros and cons of different types of mortgages is the first step in finding the loan that's right for you. Here's a look at the options available.

Fixed rate mortgages

With a fixed rate mortgage, the interest rate and monthly payments stay the same for the life of the loan.

These mortgages are usually fully amortizing, meaning that your payments combine interest and *principal* in such a way that the loan will be fully paid off in a specified number of years. A 30-year term is the most common, although if you want to build *equity* more quickly, you might opt for a 15- or 20-year term, which usually carries a lower interest rate. For homebuyers seeking the lowest possible monthly payment, 40- and 50-year terms are available with a higher interest rate.

Consider a fixed rate mortgage if you:

- are planning to stay in your home for several years.
- want the security of regular payments and an unchanging interest rate.
- believe interest rates are likely to rise.

Adjustable rate mortgages (ARMs)

With an *adjustable rate mortgage* (ARM), the interest rate changes periodically, and payments may go up or down accordingly. Adjustment periods on an ARM can vary, but it's usually one year.

All ARMs are tied to an index, which is an independently published rate (such as those set by the Federal Reserve) that changes regularly to reflect economic conditions. Common indexes you'll encounter include COFI (11th District Cost of Funds Index), LIBOR (London Interbank Offered Rate), MTA (12-month Treasury Average, also called MAT) and CMT (Constant Maturity Treasury). At each adjustment period, the lender adds a specified number of percentage points, called a *margin*, to determine the new interest rate on your mortgage. For example, if the index is at 5 percent and your ARM has a margin of 2.5 percent, your "fully indexed" rate would be 7.5 percent.

While you don't need to understand the economic theory behind your mortgage's index, you should ask your lender for a chart or graph of its historical rates so you get an idea of how quickly it can change. Mortgages that are tied to fast-moving indexes tend to have smaller margins, but your rate may change more frequently or drastically.

ARMs usually have *caps* that prevent the rate or payment from rising beyond a certain level between adjustment periods, as well as over the life of the loan. Typical rate caps might be 2 percent in any year, and 6 percent overall.

Using the cap information above as an example, if your initial interest rate is 4.5 percent, even if your index rate rose 2.5 percent, the highest your rate would rise to would be 6.5 percent. However, you don't escape the rest of the rate increase; your rate would likely rise the other half percent immediately in the second year, to 7 percent. Over the life of your loan, your rate would not be able to rise to more than 10.5 percent.

ARMs usually offer a lower initial rate than fixed rate mortgages, and if interest rates remain steady or decrease, they may be less expensive over time. However, if interest rates increase, you'll be faced with higher monthly payments in the future.

Consider a traditional adjustable rate mortgage if you:

- are planning to be in your home for less than three years.
- want the lowest interest rate possible and are willing to tolerate some risk to achieve it.
- believe interest rates are likely to go down.

Option ARMs

Also called "flex ARMs," these are adjustable rate mortgages with a twist. Each month, rather than paying a set amount, you'll receive a statement with up to four payment options, ranging from a small minimum to a fully amortized payment. You select the amount you want to pay each month.

Option ARMs entice borrowers by offering initial low minimum payments, but after an introductory period, the required minimum can rise substantially. In addition, if you choose the minimum payment, you won't cover all the interest you owe for a payment period. This unpaid interest is added to your loan amount, meaning that even if you've made a payment, you could owe more on your loan, not less, than when your loan began. This is called *negative amortization*, and is something you should avoid.

Consider an option ARM if you:

- want flexibility because you have a fluctuating income – for example, if you're self-employed or work on commission.
- are financially disciplined and won't be tempted to simply pay the minimum every month.

Hybrid mortgages

A hybrid mortgage combines the features of fixed rate and adjustable rate loans. It starts off with a stable interest rate for several years, after which it converts to an ARM, with the rate being adjusted every year for the remaining life of the loan.

Hybrid mortgages are often referred to as 3/1 or 5/1, and so on. The first number is the length of the fixed term – usually three, five, seven or ten years. The second is the adjustment interval that applies when the fixed term is over. So with a 7/1 hybrid, you pay a fixed rate of interest for seven years; after that, the interest rate will change annually.

Consider a hybrid mortgage if you:

- would like the peace of mind that comes with a consistent monthly payment for three or more years, with an interest rate that's only slightly higher than an annually adjusted ARM.
- are planning to sell your home or refinance shortly after the fixed term is over.

Interest-only and balloon mortgages

Unlike an amortized mortgage where you pay a combination of interest and principal each month, with an interest-only mortgage you pay only interest for a fixed period – usually from five to 10 years. This means the principal never goes down, and after this period has elapsed you have to either pay the entire principal off or start paying down the principal, which results in much higher monthly payments.

Balloon mortgages also offer low regular payments for a number of years (often just slightly below what you'd pay for a 30-year fixed rate mortgage). After this fixed period, the principal must be repaid as a lump sum, which generally means refinancing. Because very little of the principal has been paid down, once again, your payments will increase.

These loans can be helpful temporarily, but they don't allow you to build equity in your home, and they can cause serious financial strain when the principal comes due.

Consider an interest-only or balloon mortgage if you:

- are buying a home with the expectation of an improvement in your financial situation – for example, you have a large debt that will be paid off in a few years.
- want to stay in your current home but are experiencing a temporary financial squeeze – for example, you are going back to school, or taking a few years off to stay home with your children.

SPECIAL TYPES OF MORTGAGES

Some types of government-insured loans are available to borrowers who have special circumstances. These may be structured as either fixed rate or adjustable rate loans.

VA home loans

VA (Veterans Administration) loans are available to those who have served in the armed forces for a required period of time. They are provided through private lenders, but because the federal government guarantees a portion of the principal, they can be obtained with little or no down payment. (For information visit http://www.homeloans.va.gov)

FHA-insured mortgages

FHA-insured loans are also obtained through an approved private lender and are guaranteed by the Federal Housing Administration, part of the Department of Housing and Urban Development (HUD). You pay an insurance premium, but your total monthly payment may still be lower than what you would otherwise be able to secure, especially for borrowers with less than stellar credit and without a high income. (For complete information visit http://www.hud.gov)

Freddie Mac

Freddie Mac, a corporation chartered by the federal government, also has many products designed for people who might find it difficult to obtain a conventional mortgage. Some are aimed at certain professions – such as police officers, firefighters, teachers and health care workers – while others are open to everyone. Freddie Mac products are available through a network of approved lenders. (For complete information visit http://www.freddiemac.com)

Low down payment options

There are many special programs available for those who have trouble coming up with a 20 percent down payment on a home. A lender may approve a mortgage with a low down payment if you agree to pay for *private mortgage insurance (PMI)* to cover the amount of the loan in the case of default. The cost of PMI varies but, in general, it's about one-half of one percent of the mortgage amount per year, or $1,000 for a $200,000 loan. That would add $83 per month to your mortgage payment. It's possible to pay private mortgage insurance by financing it when you set up your mortgage, Going this route will generally increase your interest rate—possibly by one-half of 1 percent.

Another option is a second trust or "piggyback" loan. It involves paying part of the down payment by taking out a second loan that closes at the same time as your mortgage. The most common piggyback loan is an 80/10/10. It provides 80 percent of the financing through a first mortgage and the remaining 20 percent is equally divided between a second, piggyback, loan (10 percent) and the down payment (10 percent).

There are also down-payment assistance programs that enlist the participation of nonprofit organizations to help low-income families cover the cost of a down payment. Contact your lender or REALTOR®, for information on these or other low down payment programs.*

* REALTOR® – A registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics.

COMPARING RATES, POINTS AND FEES

Choosing the best mortgage isn't simply a matter of picking the one with the lowest monthly payment, or even the best posted rate.

Suppose one lender offers a mortgage at 6 percent, plus two *points*, while another offers a similar product at 6.5 percent, but no points. Or perhaps one lender offers a mortgage with a manageable monthly payment, but you discover later that you also have to pay private mortgage insurance that adds hundreds of dollars to the annual cost. In each case, it's important to do the math to determine which is the better deal.

Mortgages may express their interest rates in various ways, and may carry hidden fees. Homeowners need to consider all of these as they shop around for the best loan.

Introductory rates

Many adjustable rate mortgages offer low introductory or "teaser" rates. It's important to remember that these rates usually apply for only a few months, after which they go up significantly. If you take advantage of introductory rates, you will need to budget for the inevitable rise in your monthly payment. If you agree to a loan with an introductory rate, make sure you understand how long the rate will last. Some rates are good for only 30 days; make sure you read all disclosures so you're not surprised when your mortgage bill arrives.

Discount points

Discount points are fees paid up front to obtain a lower interest rate. One point equals one percent of the loan amount and will typically lower the rate by 0.25 percent. Paying points may be worthwhile if you plan on keeping your mortgage for an extended period of time. If you intend to hold the mortgage for only a few years, however, the cost may exceed the benefit you'll receive from a lower rate.

For example, if you are considering a $150,000 mortgage at 7 percent, you may be able to lower the rate to 6.5 percent by purchasing two points at a cost of $3,000 (two percent of $150,000). Next, find out how much you'll save per month by paying points. In this example, if the loan is a 30-year fixed mortgage, the difference in monthly payments is $50 per month. Divide your cost by the monthly savings ($3,000 ÷ $50) to determine your break-even point (60 months, or 5 years). This means you will have to stay in your mortgage at least 5 years to recoup the cost of paying for points.

You can use the Discount Points calculator in the LendingTree.com Smart Borrower Center to help you do the math to decide whether paying points makes sense for you.

Private mortgage insurance

If you are borrowing with a down payment of less than 20 percent, you may be required to have private mortgage insurance (PMI), which protects the lender if you are unable to pay back the loan. In this case, you may be required to pay annual or monthly premiums, or have a one-time fee added to your loan amount. Be sure to include this expense in your comparison. You should notify your lender to cancel the insurance once you have paid 20 percent of the principal on the loan.

Fees

Mortgage lenders may charge for a range of services, including fees for processing your application, conducting a title search, having your home appraised, obtaining your credit report, and other administrative or legal services. Borrowers may choose to pay these costs by adding the amount to their loan principal. In other cases, lenders may waive the fees in exchange for a higher interest rate.

Lenders may give different terms for these fees, or may combine several under a single name, making it difficult to know what you're paying for. Your lender must provide you with a written *good faith estimate* (GFE) of these costs within three days of receiving your loan application. Your lender is also required to provide you with a *Truth in Lending* (TIL) form. Read this closely; it will tell your annual percentage rate, if your loan is adjustable or not, and if there is a pre-payment penalty associated with your loan.

Annual percentage rate (APR)

To help homebuyers evaluate mortgages on a level field, the federal government requires lenders to publish the loan's *annual percentage rate* (APR). This figure is designed to express the true cost of the loan by taking into account the base interest rate and several other fees charged by the lender. (Not all fees associated with a mortgage are included in the APR.)

Unfortunately, comparing mortgage costs over the medium and long term is not as simple as looking at the APR. You should not, for example, look only at the APR when comparing mortgages with different terms, such as a 15-year versus a 30-year mortgage. Nor is it possible to project future costs of an adjustable rate mortgage. Nevertheless, the APR is a useful starting point for comparing the cost of loans.

LOCK-INS

Once you've decided on a lender and a mortgage that suits your needs, you should request a lock-in, or rate commitment. This is a lender's promise to hold a certain interest rate and number of points for a specified period, often 30 to 60 days. Sometimes you can lock in only the rate and let the points "float" or move up and down with the market. Depending upon the lender, you may be able to lock in when you apply for the mortgage, during processing, when it gets approved, or at some later date.

The benefit of a lock-in is that it protects you against rate increases while your application is being processed. Some lenders charge a fee for locking in (generally, the longer the guaranteed period, the higher the fee), but this may be refundable if you go ahead with the loan. Be sure to get the rate commitment in writing.

CREDIT SCORES AND MORTGAGES

When lenders review your application and set the interest rate for your mortgage, one of the most important factors they consider is your credit score.

The three major credit bureaus – Equifax, TransUnion and Experian – collect information on consumers from financial institutions and other sources. If you have a good credit history – you pay your accounts on time and don't overextend your borrowing – that information is in their files. On the other hand, if you've missed payments on your car loan, maxed out your credit cards or had your credit accounts turned over to a collection agency, that will also be reflected in your credit file.

To generate your credit score, the bureaus take the information in your file and run it through a mathematical formula. Your score will fall somewhere between 300 to 850, although most are in the 600s and 700s. A high credit score means you will likely have no trouble being approved for a mortgage and securing a low interest rate. A lower score, however, makes it harder to find a lender, and your interest rate may be higher if you do qualify.

Let's say you are looking for a $200,000 fixed-rate mortgage with a 30-year term. Here's an illustration of how your credit score may affect your interest rate and payment:

Credit Score	Interest rate	Monthly payment
800	6%	$1,200
750	6.25%	$1,230
690	6.5%	$1,265
630	7.3%	$1,370
580	8.8%	$1,580
520	9.6%	$1,700

HOW LENDERS CHECKING YOUR CREDIT AFFECTS YOUR SCORE

Some borrowers worry about shopping around for the best loan because they are worried how it will affect their credit score. Lenders are interested in the number of inquiries to your credit report because multiple inquiries are an indication that you are requesting new credit. The credit scoring agencies have found that borrowers who request credit frequently tend to be higher-risk borrowers. Thus, frequent inquiries on your credit report that result from frequent requests for new credit (credit cards, loans, etc.) can lower your credit score.

However, credit reporting agencies understand that borrowers need to shop around to find the best loan, which can create multiple inquiries over a short period of time. To address this, the scoring formula doesn't penalize borrowers for shopping around. The score is set up to take into account that even though you are looking for only one loan, multiple lenders may request your credit report. Here's what Fair Isaac, the company behind your FICO score, says about rate shopping:

*"The score ignores all mortgage and auto inquiries made in the 30 days prior to scoring. So if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping. In addition, the score looks on your credit report for auto or mortgage inquiries older than 30 days. If it finds some, it counts all those inquiries that fall in a typical shopping period as just one inquiry when determining your score. For FICO scores calculated from older versions of the scoring formula, this shopping period is any 14-day span. For FICO scores calculated from the newest versions of the scoring formula, this shopping period is any 45-day span. Each lender chooses which version of the FICO scoring formula it wants the credit reporting agency to use to calculate your FICO score."**

In any event, inquiries are likely to be an issue only if there is little other information in your file. If you have a long credit history and several current accounts, a single inquiry will not significantly affect your score.

Since your credit score is so important, it's wise to check your own file regularly to ensure that the information is accurate. You can do so for free using the Annual Credit Report Request Service: call 1-877-322-8228 or visit www.annualcreditreport.com.

You might consider staggering your annual requests. For example, you can request an annual copy of your Equifax report in January, your TransUnion report in May, and your Experian report in September. That way you'll receive an up-to-date credit report every four months. Or you can request your:

Free Credit Report and Score from www.lendingtree.com

PROTECT YOURSELF

A mortgage loan is secured with your most valuable possession, so it's important to be aware of circumstances that can put your home in jeopardy. Here are some common pitfalls to avoid:

Predatory lending

Predatory lending is any practice in which lenders fool or bully people into taking out loans that are ultimately unaffordable. Lenders may charge unnecessary fees and excessive interest, or convince homeowners to continually refinance to obtain a lower monthly payment in exchange for a higher interest rate and longer term.

Teaser rates

A "teaser rate" is a very low starting interest rate on an ARM. However, the rate is applicable for only a short time.

Lenders may offer an initial rate that is below the fully indexed rate. While teaser rates can reduce housing costs in the early years of a mortgage, your payments can rise significantly at the first adjustment date. Always understand what your index rate is, so you know whether what you're offered is too good to be true.

Steering

Some predatory lenders use "bait-and-switch" tactics to steer you into a higher-rate loan when you could qualify for a lower-interest one.

Negative amortization

Some mortgages that offer very low monthly payments do not cover all of the interest owing on the mortgage. This means that over time, your principal will go up rather than down, a situation called *negative amortization*. While this type of mortgage may be helpful in the short term for people in specific circumstances, they can be devastating to those who enter them unwittingly.

KEEPING YOUR MORTGAGE ON TRACK

One of the most confusing stages of the mortgage process comes after your application is pre-approved and before the loan closes.

Once lenders have checked your credit and agreed to lend you money, they still must review the paperwork you've provided to make sure everything in the application can be validated with supporting documentation. This can be complicated, time-consuming and occasionally fraught with surprises. If an unforeseen problem arises – especially one that's the result of incorrect information – you may be faced with alternatives such as: The lender may not approve the full amount you requested, your interest rate and/or closing costs may be adjusted or in some instances, the loan application may be declined.

You can avoid delays and disappointments by anticipating these common issues:

- **Your down payment is not "seasoned".** Many people believe that the source of their down payment – whether it came from years of diligent savings or was a gift from Mom and Dad – is unimportant. Lenders, however, have found that borrowers tend to be lower risk if their down payment comes out of their own pockets. As a result, these home buyers often receive the best possible rates.

  Your mortgage lender will usually ask for your asset statements covering the last two months. Any money that has been in your account for the entire 60 days is considered "seasoned" – that is, the lender will assume that it is yours. If a large lump-sum deposit was made during this period, however, you'll be asked to document where it came from. If you sold stocks or cashed in bonds to raise the cash, for example, make sure you keep the statements from those transactions.

  Receiving family help with your down payment will certainly not prevent you from getting a good mortgage, but you must disclose the gift to the lender. The person supplying the money may have to supply a letter confirming that the money is indeed a gift, not a loan, as well as bank statements indicating that the giver is in a financial position to make such a gift.

- **You do not have enough reserve assets.** Anyone can run into short-term financial trouble from a job loss, medical expenses, or other unforeseen life event. In the event of such a crisis, your lender wants to know whether you have assets you can draw on to continue to pay your mortgage.

  In general, you should have enough liquid assets to cover at least two or three months of mortgage, tax and insurance payments. For some loan programs, a lender may require you to have enough to cover as much as six months. Liquid assets are those than can be easily converted to cash – such as stocks, bonds or mutual funds, as opposed to non-liquid assets such as equity in a car, boat or real estate. Borrowers with a lot of liquid assets may be able to secure better loan terms than those with fewer assets. Keep in mind, if the assets you are using are from a 401K account, you can use only 70 percent of the vested value to put towards your mortgage.

When documentation of your reserve assets is required, statements from your investment accounts are usually sufficient. Again, lenders will check to make sure these assets are seasoned, and not funds that you've shuffled from a family member or friend.

- **Your appraisal comes in low.**
  If you're applying for a mortgage, lenders will usually require an appraisal of your new home's value. They want to determine the ratio of your requested loan to the value of the house.

  Let's say you've found the perfect home and you've submitted a conditional offer that matches the seller's asking price of $320,000. You intend to finance 80 percent of that amount, or $256,000. Then the lender does an appraisal and determines that the home's true market value is just $305,000. Now the most you can borrow at an 80 percent loan to value ratio is $244,000. Even if you are able to come up with the $12,000 shortfall, you should strongly consider whether you want to pay more for a home than the lender considers it is worth.

  A low appraisal won't necessarily scuttle your mortgage loan request, however. You may be able to convince the seller to lower the price, or ask the lender to agree to a second opinion on the appraised value. If these methods fail, you may still be approved for a loan that represents more than 80 percent of the home's value, but you will likely be required to pay for private mortgage insurance or consider other loan options that may have higher rates and/or fees.

- **You fail to disclose debts or other obligations.**
  To see whether you have enough cash flow to cover all of your monthly payments, lenders look at your debt-to-income ratio. Most lenders like to see that your total debt payments including mortgage, property taxes, insurance, car loans and credit cards do not exceed 36 percent of your pre-tax income. If your debt-to-income ratio exceeds 36 percent, you may still qualify for a mortgage, however you will likely be charged a higher interest rate.

  If you have any loans or other financial obligations, such as alimony or child support payments, you must disclose these to your lender. If you are dishonest about your debts because you want to stay under the required threshold, you risk having your mortgage application turned down. (Note that if you are receiving alimony or child support payments, you are not obligated to disclose this, unless you are using this income source to qualify for the loan.)

- **The title search comes back with a blemish.**
  Before approving your mortgage application, the lender will do a title search on the property you are buying. This involves checking the necessary legal documents to make sure that the seller actually owns the home, and that there are no liens or unpaid taxes that would prevent a clean transfer of the title to you. If the title search turns up a problem, your closing may be delayed until the

issue is resolved.

- **You have neglected to obtain adequate homeowners or flood insurance coverage.** Any property that is mortgaged needs to be insured to protect the lender as well the homeowner. Before closing, you will need to show your lender that you have adequate homeowner's insurance covering fire and other hazards. In some areas, you may be required to have flood insurance as well. Make sure to ask about the coverage you need so you can update your policy if necessary.

- **You changed or modified your loan request.** Unless you are willing to accept delays, it's important not to make changes to your loan request after submitting the application. For example, you might decide to add $10,000 to the principal, or you might request a home-equity line of credit to go along with your primary mortgage. Both of these actions – even if you are not intending to draw on the line of credit immediately – may affect your loan qualification by increasing your debt to income ratio. They may also push your total loan amount over 80 percent of the home's value. As a result, the lender will have to reassess your application, and this may slow down the process.

Why closing costs may be higher than your good-faith estimate

Lenders are required by law to give you a good-faith estimate of the costs associated with your mortgage within three days of your application. Before closing, you'll receive another document that outlines the actual settlement costs. The final price tag is usually very close to the estimate, but occasionally it may be different.

While lenders can quote a firm amount for their own fees (usually called origination fees), they cannot necessarily do the same for services done by third parties. For example, the appraisal, title search, title insurance, prepaid property taxes, recording and legal fees are all out of the lender's direct control. Lenders do their best to estimate these expenses accurately, but the exact final cost may sometimes vary slightly from their initial estimate.

WORKSHEET 1:

How Much House Can You Afford?

Before getting pre-approved for a mortgage, home buyers need to determine how much they can afford without overextending themselves.

Start by recording your income and expenses related to other debts:

Annual income (before taxes)

Employment income:

Investment income:

Other income:

TOTAL

Annual debt expenses

Vehicle payment:

Student loans:

Credit card payment:

Other debt:

TOTAL

Now, use the Home Affordability calculator in the LendingTree.com Smart Borrower Center to get an estimate of the mortgage amount you can comfortably carry. (Lenders often recommend this be somewhere between 25 and 33 percent of your gross income.)

Remember, however, that in addition to your mortgage payment, you'll also need to cover homeowner's insurance and property taxes, as well as private mortgage insurance if your down payment is less than 20 percent. Ask your real estate agent and lender to help you estimate these costs.

Annual new home costs

Mortgage payments:

Homeowner's insurance:

Property taxes:

Private mortgage insurance:

TOTAL

WORKSHEET 2:

What to Ask Your Lender

It's crucial that you understand the terms of your contract before you sign. Have this worksheet with you when you talk to prospective lenders and use it to help you compare their offers.

What is the base interest rate and the APR, and how will it change over the term of the loan?				
Is this the best rate that I qualify for?				
Do I have to pay points to achieve this rate?				
Will you lock in the interest rate and points you have quoted, and is there a charge? Will you put this in writing?				
What is the term of the loan?				
Will there be a lump sum payment (a balloon) due at the end of the term?				
What is the minimum down payment you require?				
What will my monthly payment be?				
Will I need to pay private mortgage insurance?				
Is there a penalty if I pay off the mortgage before the end of the term?				
What fees are associated with the mortgage, and what is your good faith estimate of their total?				
What documentation do I need to provide (employment record, homeowners' insurance, etc.)?				
How long will the approval process take?				

Mortgage Roadmap

1. Check your credit

Your prospective lenders will be doing this, so it's a good idea to look at your own credit report several months before applying for a mortgage. Fix any errors and put off large purchases to ensure your credit score is as high as possible.

LendingTree links:
Free online credit report
Why should I check my credit report?
Correcting your credit report

2. Determine what you can afford to borrow

Determine your annual income, your current level of debt and the fixed costs of a new home, including property taxes and insurance. Consider the down payment you've saved and determine the size of the loan you can comfortably afford.

LendingTree links:
Calculating your debt-to-income ratio
Down-payment assistance programs
Calculator: How much will your payments be?
Calculator: What price home can you afford?

3. Determine what type of mortgage is right for you

Consider your individual financial goals, how long you plan to be in the home and your comfort level with risk. Look at the variety of mortgages available (including fixed rate versus adjustable rate) and determine the one that's right for you.

LendingTree links:
How to choose the right loan
Finding the best mortgage

4. Pre-qualify for a mortgage

You can get pre-qualified at LendingTree.com.

Request a mortgage now.

5. Compare the offerings

When comparing your offers, don't simply look at the interest rate – make sure you understand exactly what up-front and ongoing fees you'll be charged.

LendingTree links:
Discount points
Calculator: Which loan is better?

6. Get pre-approved

Getting pre-approved can give you negotiating leverage when shopping for a home. Supply all the necessary documentation and have your income, assets and credit information verified and have your loan approved, subject to an appraisal of the property and other conditions.

LendingTree links:
Checklist: Documentation for your lender
Qualifying for a home loan

7. Lock in rate and points

Determine whether you want to lock in the interest rate and points, the length of the guarantee, and the fee for this lock-in.

LendingTree links:
Setting the mortgage terms

Glossary

Adjustable rate mortgage (ARM): A mortgage in which the interest rate is adjusted periodically based on an index.

Amortization: The gradual reduction of a debt by periodic payments of interest and principal that are large enough to pay off a loan at maturity. The loan is repaid through regular, monthly payments of principal and interest paid for a predetermined amount of time.

Annual percentage rate (APR): The annual cost of a loan to a borrower. Like an interest rate, the APR is expressed as a percentage of the loan amount. Unlike an interest rate, however, it includes other charges or fees to reflect the total cost of the loan. The Federal Truth in Lending Act requires that every consumer loan agreement disclose the APR in large, bold print. Since all lenders must follow the same rules to ensure the accuracy of the APR, borrowers can use the APR as a good basis for comparing the cost of loans.

Caps: Consumer safeguards that limit the amount the interest rate may change per year and/or over the life of a loan. Payment caps limit the amount monthly payments on an ARM may change.

Good Faith Estimate (GFE): This document sets out all the costs associated with a mortgage, including the interest rate, lender fees, title charges, pre-paid interest and insurance. The government requires that your lender give you a GFE within three days of receiving your loan application. The GFE is only an estimate; some fees can change before closing. The lender fees, however, should not change; ask your lender to guarantee those fees in writing.

Home equity: The difference between the market value of a home and any outstanding mortgage balance. A person who has a $50,000 mortgage on a $150,000 home has accumulated $100,000 in home equity.

Index: A published interest rate against which lenders measure the difference between the current interest rate on an adjustable rate mortgage and that earned by other investments (such as one-, three-, and five-year U.S. Treasury Security yields, the monthly average interest rate on loans closed by savings and loan institutions, and the monthly average Costs-of-Funds incurred by savings and loans). This is used to adjust the interest rate on the mortgage up or down.

Margin: The amount a lender adds to the index on an adjustable rate mortgage to establish the adjusted interest rate.

Mortgage: A lien or claim against real property given by the buyer to the lender as security for money borrowed. Under government-insured or loan-guarantee provisions, the payments may include escrow amounts covering taxes, hazard insurance, water charges, and special assessments. Mortgages generally run from 10 to 30 years, during which the loan is to be paid off.

Negative amortization: Occurs when your monthly payments are not large enough to pay all the interest due on the loan. This unpaid interest is added to the unpaid balance of the loan. The danger of negative amortization is that the buyer ends up owing more than the original amount of the loan.

Glossary

Points: A borrower may lower the interest rate on a loan at closing by buying points. Each point is equal to 1 percent of the loan amount -- for example, two points on a $100,000 mortgage would cost $2,000. Also referred to as discount points. Points may be tax deductible; consult a tax advisor for details.

Principal: The amount of debt, not counting interest, left on a loan.

Private mortgage insurance (PMI): Insurance that is usually required by the mortgage lender if the borrower has a down payment of less than 20 percent of the home's value. PMI requires an initial premium payment of one to five percent of the mortgage amount and may require an additional monthly fee.

Truth in Lending (TIL): A federal law requiring disclosure of the annual percentage rate to homebuyers shortly after they apply for the loan. The form is often referred to as the "TIL" and it also lists the total finance fees, the amount financed, the total amount you'll pay over the life of the loan, the total number and amount of your payments, and when they're due each month. It contains other important details, such as whether the mortgage is assumable if you sell the home, and whether there is a penalty for prepaying the mortgage.

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Additional Resources

WHERE TO LEARN MORE

www.LendingTree.com/smartborrower

The LendingTree Smart Borrower Center offers a range of articles about mortgages and refinancing and can help you decide which type of loan best meets your needs.

Additional sources of information:
The Federal Reserve Board:
www.federalreserve.gov/consumers.htm

Federal Citizen Information Center:
www.pueblo.gsa.gov

Department of Housing and Urban Development:
www.hud.gov

Center for Responsible Lending:
www.responsiblelending.org