Mortgage FAQ

1. What is the difference between a pre-qualification and a pre-approval?

A pre-qualification is an informal confirmation from your lender that says you can afford a specified mortgage payment using unconfirmed financial information.

A Pre-approval is a written agreement from your lender saying they have determined the maximum loan amount you can receive based on full verification of your financial information.

The pre-qualification is one of the first steps of the home buying process while a pre-approval can occur once you have submitted a full loan application & supporting documentation.

2. What is the benefit of being pre-qualified or pre-approved for a mortgage?

Sellers will find your offer more appealing if you are pre-qualified or pre-approved. It lets the sellers know that you have your financing in order. A pre-qualification or pre-approval can also make it easier when negotiating the listing price of a home.

3. Can I borrow funds to use towards my down payment?

In most cases, you can borrow funds to use as your down payment. However, if you take a loan out for a down payment, that loan must be secured by an asset that you own such as a car or another home. If you are planning on using these types of funds for a down payment, make sure to disclose the details of this loan to your Loan Officer so they can include this expense when completing your application.

4. Can I use gift funds as a source of down payment?

If the gift donor is related to you or your co-borrower, gift funds are an acceptable source of down payment for most loan programs. We will ask you to provide us with the name, address and phone number of the gift donor as well as the donor's relationship to you. Prior to closing we will verify receipt of these gift funds.

5. Is cash on hand an acceptable source of assets to use either when purchasing or refinancing a home?

Cash in a mortgage transaction is unacceptable since all funds used must be tracked and documented.
If you have cash on hand that you intend to use in a mortgage transaction, you should consult with your loan officer prior to applying for your loan. It is best to deposit cash into your bank account at least 2 months before applying for your loan.

6. What is an escrow account?

An escrow account requires the borrowers to make monthly payments toward home related insurance and real estate taxes as part of the regular monthly mortgage payment. Bills for insurance and/or taxes are sent directly to your lender who makes the required payments. An escrow account may not be required in all cases.

7. What is Private Mortgage Insurance and when is it required?

PMI or Mortgage Insurance should not be confused with Homeowners insurance. PMI protects the lender against losses that can occur when a borrower defaults on a mortgage. Mortgage Insurance makes it possible to buy a home with less than 20% down payment by protecting the lender against the additional risk associated with low down-payment lending.

The mortgage insurance premium is based on type of loan, a loan to value ratio, and the coverage amount required by the lender. Typically, the premium is included in your monthly payment.

It may be possible to cancel private mortgage insurance at some point such as when your loan balance is reduced to a certain amount. Talk to your Home Federal Mortgage Loan Officer to find out details on when PMI may be cancelled on your loan.

8. What is the difference between an appraisal and a home inspection?

An appraisal determines the value of the property that you are purchasing, refinancing or building. An appraiser will inspect both the interior and exterior of the home. After the appraiser inspects your property, they will compare your home details with other homes that have sold recently in the same neighborhood. These homes are used to compare to the components of your home. The appraiser will make adjustments (up or down) to the comparable home sales price depending on how they compare with your property. A value will be determined once the appraiser has made all the appropriate adjustments. It is not uncommon for the appraised value to be exactly the same or close to the purchase price of the home that is stated in your purchase agreement.

A home inspection has a different purpose than an appraisal. While an appraisal might note some obvious interior or exterior damage, a home inspection is an extremely detailed report regarding the mechanicals and overall functionality of the home. It is designed to inform you of possible defects with the home. As a buyer, an inspection is your opportunity to gain knowledge of the major systems, appliances, fixtures and overall condition of the home before you purchase.

9. What is the difference between an APR and an interest rate?

The interest rate is the cost to borrow the money that has been disbursed in the loan. The APR is the total cost over the life of the loan including costs, points, mortgage insurance and fees.

10. How often do mortgage rates change?

Since the secondary market rates are tied to the live market, these rates can change at any time. It is important to have a conversation with your lender about what information is needed to be able to lock in your rate.