



WALICK & VOLK

Mortgage Guide

**Everything you need to
know about the
mortgage process.**

**Learn the different loan
programs to choose
which best suits you.**



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Hello!

My name is Ron Cahalan and for decades, I have provided a level of value to clients that is uncommon in the mortgage business. A house is likely going to be one the biggest purchases you're ever going to make. It can be very nerve wracking diving head-first without any knowledge of the process.

Choosing a mortgage isn't as simple as it sounds. That's because there are many different mortgage types and they are all made up of different components.

Getting a home loan doesn't have to be intimidating - especially when you understand the basics like options, features and cost of each loan program. I have developed this guide to help you understand and educate yourself on the ins and outs of the mortgage process and the different loan types that are available.

Please reach out if you have any questions. I am always here to help.

The Mortgage Road Map

01

Application

The first step is submitting all necessary documentation and discussing budget.

02

Pre-approved

Your lender will issue a pre-approval with your qualified and discussed upon amount.

03

House Hunting

Find a property you'd like to purchase and submit an offer.

04

Under Contract

You and the seller will come to an agreement on the terms and conditions of the sale.

05

Appraisal

An appraisal will be ordered to confirm the properties value.

10

Homeownership!

The best part of the whole process!! Congrats on becoming a homeowner.

09

Clear to close

Your lender will clear your file for closing and a closing date will be set. At closing is where you receive your new keys!

08

Satisfy Terms

If you have any conditions assigned by underwriting, make sure you satisfy and complete them.

07

Underwriting

Your file will be sent to underwriting where you will receive an official approval or denial of your loan.

06

Processing

Your lender will prepare and process the file for underwriting. This step may require more documents.

Getting Qualified

As a perspective buyer, it's important to understand the process of qualifying for a mortgage. The four main elements of qualification are gross annual income, assets and liabilities, credit score, and down payment size.

01. Gross Annual Income

Typically, most lenders will need to see your gross income and a stable job history for a minimum of two years.

If you work a W2 salary, we will go off of your current salary wage. If you work a W2 hourly job, your income must be averaged out over the last two years.

Don't worry if you are self employed, you can still qualify, but lenders go off of your NET income.

02. Assets and Liabilities

Your overall worth when it comes to borrowing money is based on your assets and your liabilities combined. So if you have more assets than liabilities your ability to pay your mortgage will look more favorable.

Lenders will see how your income compares to your current debt and your new debt (your new mortgage payment) and determine your DTI (Debt to income) ratio.

Different programs have different DTI limits.

03. Credit Score

Your credit is one of the most important parts of the qualifying process. Different loan programs have different credit score minimums but of course the better the score, the better chances of approval terms. Your credit history is always an important part of qualifying. Late payments, collections accounts, etc. are always taken into consideration when applying.

04. Down Payment Amount

Lenders will take into consideration the down payment amount you are willing to offer. Different loan program require different down payment amounts but of course the larger the down payment, the easier it is to qualify.

What is a Conventional Loan?

A conventional mortgage is a home loan that isn't insured by a government agency. Virtually every type of mortgage lender offers conventional loans, and they are ideal for borrowers with a strong credit profile, stable income and minimal debt

Conventional loans can come with a fixed or adjustable rate, and they can be conforming, meaning they fall within the loan limits set by the Federal Housing Finance Agency (FHFA), or non-conforming in that they exceed these limits.

In 2024, the conforming loan limit is \$766,550 in most areas, and \$1,149,825 in pricier markets.

Some conventional loan programs allow you to put down as little as 3 percent to 5 percent, but the tradeoff is you'll need to pay for private mortgage insurance (PMI), a cost added on to your monthly mortgage payment. PMI protects the lender — not you — if you default on

your loan, and you'll need to pay this until you accumulate 20 percent equity in your home. If you can make at least a 20 percent down payment upfront instead, you won't have to pay this expense.



- **Minimum Down Payment amount: 3 to 5%**
- **Minimum Credit Score: 620**

What is an FHA Loan?

An FHA loan is a government-backed mortgage insured by the Federal Housing Administration. FHA home loans require lower minimum credit scores and down payments than many conventional loans, which makes them especially popular with first-time homebuyers. In fact, according to FHA's 2021 Annual Report, more than 84.6 percent of all FHA loan originations were for borrowers purchasing their first homes.

FHA loans come in 15-year and 30-year terms with fixed interest rates. The agency's flexible underwriting standards are designed to help give borrowers who might not qualify for private mortgages a chance to become homeowners.

But there's a catch: Borrowers must pay FHA mortgage insurance, which is designed to protect the lender from a loss if the borrower defaults. Mortgage insurance is required on most loans when borrowers put down less than 20 percent but ALL FHA loans require the borrower to pay two mortgage insurance premiums no matter the down payment amount:

- **Upfront mortgage insurance premium:** 1.75 percent of the loan amount, paid when the borrower gets the loan. The premium can be rolled into the financed loan amount.
- **Annual mortgage insurance premium:** 0.15 percent to 0.55 percent, depending on the loan term (15 years vs. 30 years), the loan amount and the initial loan-to-value ratio, or LTV. This premium amount is divided by 12 and paid monthly.
- **Minimum Down Payment amount: 3.5%**
- **Minimum Credit Score: 580**

What is a VA Loan?



A VA loan is guaranteed by the U.S. Department of Veterans Affairs. The loan itself isn't actually made by the government, but the fact that it's backed by a government agency makes lenders feel more comfortable offering these loans because they take on less risk than with a conventional mortgage.

As a result, it's possible to get a VA loan without a down payment, and sometimes with looser credit standards. While you still need to meet certain requirements, and the lender still needs to approve you, if you qualify for a VA loan, it can help you attain homeownership with less money than you'd need in the bank otherwise.

Basically, you fill out paperwork from the VA that verifies your eligibility for the program. You also receive what's known as your entitlement, which is the dollar amount guaranteed on each VA loan. Lenders might be willing to loan up to four times the amount of your entitlement.

With all of that in place, it's possible to get a VA loan with no money down. VA loans also don't require private mortgage insurance (PMI), but you will pay a VA funding fee when you close, which will be a percentage of the loan's total value. That fee helps keep the program running for future borrowers.

- **Minimum Down Payment amount: 0%**
- **Minimum Credit Score: 580**
- **Only eligible to active duty military, honorably discharged veterans, retired veterans, and deceased veteran's spouses.**

What is a USDA Loan?

A USDA home loan is a no-down-payment mortgage for low- and moderate-income homebuyers in largely rural areas. USDA loans are part of a national program created by the U.S. Department of Agriculture to help create loans for first-time homebuyers or people who don't meet conventional mortgage requirements.

The benefits of a USDA mortgage include no down payment and looser credit requirements. Some drawbacks are that the property must be located in a USDA-approved rural areas and borrowers cannot exceed income limits.

The USDA defines these rural areas as “open country or any town, village, city, or place, including the immediate adjacent densely settled area, which is not part of or associated with an urban area.”

The population requirements differ depending on the characteristics of the property, but the maximum population limit for any USDA loan is 35,000. Even if you're buying in a town that has a lower population than that, you won't qualify for a USDA mortgage if the area is within a metropolitan statistical area (MSA). It also must be in an area with “a serious lack of mortgage credit for lower and moderate-income families,” according to the USDA website.

- **Minimum Down Payment amount: 0%**
- **Minimum Credit Score: 580**
- **Only eligible to borrowers living in a rural area with a population of less than 35,000 people.**

Mortgage Payment Breakdown

It is important to know that when you make a monthly payment it is not simply just a small percentage of your mortgage that goes back into what you owe. There are a number of other sources where that payment disburses to every month.

01. Principal Amount

The basic mortgage payment consists of two components: principal and interest. Principal is the loan amount you initially borrow from a lender to buy your home. It's factored into your monthly payment and paid off throughout the life of your loan.

02. Interest

Interest is the percentage of the principal you pay over the life of the loan to your mortgage company as a fee for lending the money. The amount that goes to interest will continue to decrease as you pay down your loan. Luckily, you'll potentially be able to claim a mortgage interest deduction on your taxes to further offset the interest you owe each year.

03. Property Taxes

No matter where you live, you'll pay a property tax on your home. The amount you pay is based on a percentage of your property value, which can change from year to year. The actual amount you pay depends on several factors, including the assessed value of your home and local tax rates. Typically, every county has its own taxation system.

If the assessed value – not necessarily the same as the market value – of your property increases, the taxes you pay on your property will increase with it.

04. Insurance

- **Homeowners insurance:** Homeowners insurance works as a safety net to protect your home and finances in the event of an environmental disaster or an accident on your property. If something were to happen, your homeowners insurance would typically cover the cost of repairs to bring your property value back to where it was before.
- **Mortgage insurance:** Mortgage insurance doesn't apply to everyone, but if you can't make a sizable down payment on your home, you'll likely have to pay a premium. Since low down payments are risky for lenders, they might require mortgage insurance to cover their investment if the loan goes into default. Depending on the type of home loan you have, you might pay private mortgage insurance (PMI) or a mortgage insurance premium (MIP).

The Costs Of *Buying a Home*

Earnest Money Deposit

Earnest money is put down before closing on a house to show you're serious about purchasing. When a buyer and seller enter into a purchase agreement, the seller takes the home off the market while the transaction moves through the entire process to closing.

Earnest money protects the seller if the buyer backs out. It's typically around 1 – 3% of the sale price and is held in an escrow account until the deal is complete. The exact amount depends on what's customary in your market. If all goes smoothly, the earnest money is applied to the buyer's down payment or closing costs.

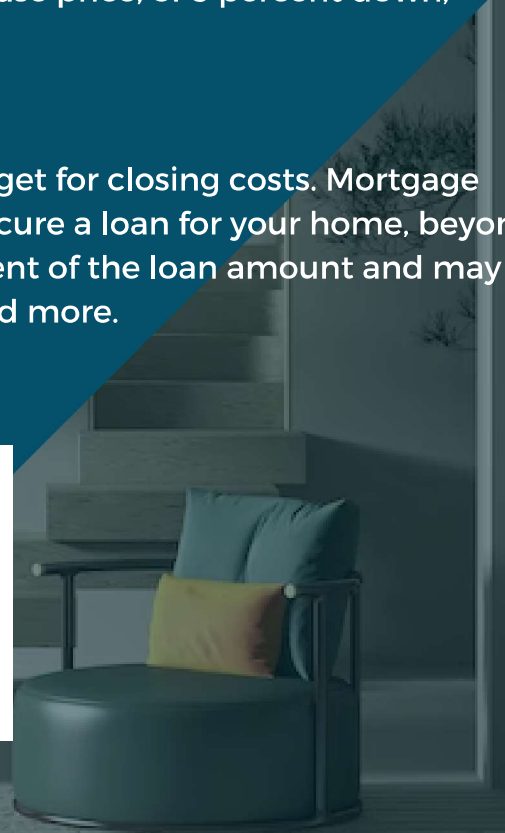
The Down Payment

A home down payment is the part of a home's purchase price that you pay upfront and does not come from a mortgage lender via a loan. Suppose you want to buy a house priced at \$300,000. If you were to put \$9,000 toward the purchase price, or 3 percent down, you'd take out a mortgage for the remaining \$291,000

Closing Costs

When you buy or refinance a home, you will need to budget for closing costs. Mortgage closing costs are fees and expenses you pay when you secure a loan for your home, beyond the down payment. These costs are generally 3 to 5 percent of the loan amount and may include title insurance, attorney fees, appraisals, taxes and more.

Additional fees you'll want to consider is transfer tax's, new home warranties, appraisals, inspections, property taxes, and sales tax. These fees vary depending on where you're purchasing.



Mortgage Terms

and what they mean:

Amortization

The gradual repayment of a mortgage loan, both principle and interest, by installments.

Annual Percentage Rate (APR) The cost of credit, expressed as a yearly rate including interest, mortgage insurance, and loan origination fees. This allows the buyer to compare loans, however APR should not be confused with the actual note rate.

Equity

The amount of financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on the mortgage.

Escrow

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit of funds or documents into an escrow account to be disbursed upon the closing of a sale of real estate

Loan To Value (LTV)

The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a \$100,000 home with an \$80,000 mortgage has an LTV of 80 percent.

Mortgage Insurance Premium (MIP)

The amount paid by a mortgagor for mortgage insurance.

Private Mortgage Insurance (PMI)

Mortgage insurance provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

Rate Lock

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate and lender costs for a specified period of time

Track Your Monthly Budget

Before applying for a mortgage, budgeting your monthly expenses is important. A lender will approve you for the top amount that your income can qualify you for but not everyone is comfortable spending that much monthly on a mortgage payment. Budgeting your monthly expenses will help you know what kind of costs you can actually afford and it will keep you on top of all of your expenses.

Monthly Income

Pay	<input type="text"/>
Pension/ Social	<input type="text"/>
Disability	<input type="text"/>
Interest/Dividends	<input type="text"/>
Other	<input type="text"/>
Total Monthly Income	<input type="text"/>

Monthly Expenses

Rent/Mortgage	<input type="text"/>
Rent/Home Insurance	<input type="text"/>
Car Payments	<input type="text"/>
Car Insurance	<input type="text"/>
Life Insurance	<input type="text"/>
Medical Insurance	<input type="text"/>
Utilities	<input type="text"/>
Phone Bill	<input type="text"/>
Subscriptions	<input type="text"/>
Groceries	<input type="text"/>
Childcare	<input type="text"/>
Pet and Food Care	<input type="text"/>
Debt Payments	<input type="text"/>
Savings and Contributions	<input type="text"/>
Total Income	<input type="text"/>
	-
Total Expenses	<input type="text"/>
	=
Disposable Income	<input type="text"/>

Mortgage *Checklist*

Preparation is everything. These are the documents you'll want to have ready to complete your loan application. Below is the information that is typically required throughout the loan process.



Copy each of the following for each applicant:

- Drivers license
- Social security card
- W-2's from all employers for the past 2 years
- Paycheck stubs for the past 30 days
- 2 years of tax returns complete
- Bank statements for the past two months
- 401(k) and profit sharing statements
- Complete quarterly or semi-annual statements for IRA's, CD's, money market fund, stocks, proof, in the form of a bank statement, that any earnings resulting from investments was deposited and has cleared

For purchase transactions (some of these won't be applicable until you have a property under contract):

- The Purchase Contract
- Copy of your canceled Earnest Money Deposit Check

Mortgage Guide

Thank you for trusting me with
one of the biggest purchases
in your life.

As your mortgage advisor, we
have your best interest at
heart from start to finish.

You can trust us to guide you
through this process so that
you have the best experience
possible.

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