



Qualifying for Your Mortgage

Understanding Mortgage Basics

One of the first questions home buyers ask themselves when buying a home is “Can I afford it?” Most people do not have enough cash to purchase a home outright, so they borrow money from a lending institution in the form of a mortgage loan. Another concern buyers have is whether they have enough cash for their down payment. With Homewise, the buyer generally contributes a minimum of 2-5% of the sales price toward the down payment, and the mortgage loan and any financial assistance cover the balance of the cost of the home. Other loan programs may have different down-payment requirements. Through mortgage financing, the buyer gives the lender a mortgage lien on the property. This lien secures the debt and gives the lender the right to foreclose if payments are not made on the loan as agreed.

Your monthly mortgage payment

$$\underline{\hspace{2cm}} + \underline{\hspace{2cm}} + \underline{\hspace{2cm}} + \underline{\hspace{2cm}} = \text{PITI}$$

Key Terms

- P** _____ The amount borrowed, or unpaid balance.
- I** _____ The fee charged for borrowing money.
- T** _____ In New Mexico, this is paid to the County.
- I** _____ Financial protection for you and/or the lender (Including the two types listed below).
 _____ A type of insurance policy that combines liability coverage and hazard insurance.
 _____ Insurance that protects lenders against loss if a borrower defaults.
 _____ The holding of money in an account by a lender into which a homeowner pays money for taxes and insurance; also, the holding of documents and money by a neutral third party prior to closing.

Where do Your Payments Go?

Look at an Amortization Schedule!

This chart is part of an amortization schedule for a \$200,000, 30-year, fixed-rate mortgage at 5% interest. The monthly payment is \$1,073.64. The chart shows how much of your monthly payment repays the principal and how much goes to pay the interest.

Annual Interest Rate: **5%**

Loan Amount: **\$200,000**

Payment Amount (P&I): **\$1,073.64**

Total Interest: **\$186,511**

Number of Monthly Payments: **360**

Payment Number	Principal Portion	Interest Portion	Principal Balance
1	\$240.31	\$833.33	\$200,000.00
2	\$241.31	\$832.33	\$199,518.38
3	\$242.32	\$831.33	\$199,276.06
4	\$243.33	\$830.32	\$199,032.74
5	\$244.34	\$829.30	\$198,788.40
6	\$245.36	\$828.28	\$198,543.04
7	\$246.38	\$827.26	\$198,296.66
8	\$247.41	\$826.24	\$198,049.25
9	\$248.44	\$825.21	\$197,800.81
10	\$249.47	\$824.17	\$197,551.34
11	\$250.51	\$823.13	\$197,300.83
12	\$251.56	\$822.09	\$197,049.27
(Payments 13 through 348 are not shown)			
349	\$1,021.39	\$52.26	\$11,520.08
350	\$1,025.64	\$48.00	\$10,494.44
351	\$1,029.92	\$43.73	\$9,464.52
352	\$1,034.21	\$39.44	\$8,430.31
353	\$1,038.52	\$35.13	\$7,391.79
354	\$1,042.84	\$30.80	\$6,348.95
355	\$1,047.19	\$26.45	\$5,301.76
356	\$1,051.55	\$22.09	\$4,250.21
357	\$1,055.93	\$17.71	\$3,194.27
358	\$1,060.33	\$13.31	\$2,133.94
359	\$1,064.75	\$8.89	\$1,069.19
360	\$1,069.19	\$4.45	\$0.00

Making Payments Work for You: Prepayments

Prepayment Chart

This table illustrates how both the total amount of interest paid and the length of time it takes to pay off a mortgage of \$200,000 at 5% interest can be significantly reduced by making extra payments toward the principal of that mortgage. This is referred to as 'prepayment'. For example:

To pay off a \$200,000 Mortgage

Prepayment	Years to Payoff	Total Interest	Interest Savings
None	30 years	\$186,511	\$0
\$75 Per Month	25 years + 11 months	\$157,128	\$29,883
One Extra Mortgage Payment Per Year	25 years + 2 months	\$151,330	\$35,181

HELPFUL TIP

1) Always pay your mortgage by the first of the month. 2) Consider Automatic Payments so you'll never be late. 3) Prepayments—make additional payments on your mortgage so that your principal decreases more quickly. When making a prepayment use a separate check and write 'For Principal Only' in the check's note section. Always check with your lender for details on how to do this correctly!



Making Payments Work: Private Mortgage Insurance (PMI)

Beware of companies that charge a fee for their assistance with cutting your interest payments through bi-weekly payments. By paying bi-weekly, you'll make 26 half payments, or 13 full payments each year – one more full payment than you would make by sending the lender one monthly payment in order to pay down your principal balance more quickly. However, some companies charge a fee to set up this service, or add a fee to your bi-weekly payments. Evaluate whether the benefits of this service will outweigh the added costs, and be sure to read the fine print to understand the terms of any agreement that changes the payment of your mortgage loan. It is always your responsibility to make sure your payments are made and received on time.

A No-Added-Cost Option Available to You. Instead of the option above, you can contact your lender or loan servicer on your own and send in prepayments as it is convenient for you, or inquire about whether they have a bi-weekly payment plan without having to hire the services of any outside company to arrange that for you.

Saving Money On Private Mortgage Insurance

Private Mortgage Insurance (PMI) is required on most Conventional Loans with down payments of less than 20%. On a \$200,000 home, you would be required to pay PMI if your down payment was less than 20%, or \$40,000 ($\$200,000 \times 0.20 = \$40,000$). The relationship between the down payment and PMI payments on a \$200,000 home is as follows:

Down Payment	PMI Monthly Payment
\$40,000	-0-
\$30,000	\$ 87.83
\$20,000	\$ 93.00
\$10,000	\$148.83

PMI may be canceled on Conventional Loans once your equity has reached 20% and you've met certain other conditions. Keep an eye on your amortization schedule, prepay as often as possible, and contact your lender to request PMI cancellation when you believe your equity has reached 20%. The lender will consider your equity and the current market value of the home when determining whether to cancel PMI. PMI or your Mortgage Insurance Premium works differently for government loans, such as FHA, VA, or RDS/RHS loans. Talk to your lender for further details.



HELPFUL TIP

Homewise may be able to offer financial assistance to help you eliminate or reduce PMI payments. This financial assistance, made in the form of a second mortgage, counts toward part of your down payment for the purpose of eliminating or reducing added PMI payments on your loan.