Cardillo Realty Group
Brokered By JP & Associates Realtors

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Serving Collin County, Rockwall County,
and the surrounding North Dallas, Texas area.

Very Important First Step for Buying a Home;
Proof of Funds / Pre-approval Letter

In today's housing market sellers require that buyers include documentation of their ability to pay for the home with all offers. That is why it is very important to select a lender / bank that you are comfortable with and work closely with them to help facilitate your purchase. There are basically two ways to pay for a home and two ways to document the ability to pay…

1. Cash Purchase - "Proof of Funds"; The buyer is planning to pay for the home entirely with money they already have and not by borrowing any funds from a bank. The bank that currently holds the buyers money will provide a letter that states that they currently have money secured at their facility which is available to use for a purchase. The funds can't be tied up as an investment, they must be immediately available for the buyer's use.
2. Loan Purchase – "Pre-approval Letter"; The buyer is planning to apply a certain amount of cash toward a "down payment" and then borrow money from a bank to pay the remainder of the cost of the home. The buyer will then pay back the bank in pre-arranged smaller payments over time. The lending institution (sometimes a bank, sometimes a loan broker) with screen the buyer first, asking questions about income and current other debt responsibility of the buyer. It is very important that the buyer be completely truthful and accurate during the pre-screening process, otherwise final approval may not follow the early screening process. The buyer will then receive written pre-approval, which is basically a promise by the lender that they will provide funds on behalf of the buyer.

Buyers should provide contact information for their bank / lender to their real estate agent so that the two can work closely together during the search and home purchase process. When the buyer finds a home that they would like to make an offer on, the real estate agent can then quickly contact the bank / lender directly and get required documentation to present with an offer. The documentation should be specific to the home and the buyer's current offer. For example… If the buyer is able to pay "up to $200,000 for a home", is interested in a home that is listed at $150,000 and is planning to offer $145,000 we will present documentation in the amount of the offer, $145,000. We would NOT present the buyer's full ability to pay a higher amount.

The lending agent or bank can answer specific questions about fees they charge and other costs that will be due at closing… be sure to ask questions ! They work for you and should be available to answer your questions. Don't be afraid to ask lots of questions up front. They are all very familiar with first time buyers and should be able to explain everything in simple terms, but if you are not sure about something, don't be afraid to ask.

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Things you should find out from lender;

- What is the total amount you are approved for?
- What is the total monthly payment cost at different price points?
    - After all, just because you get approved for $200,000 doesn't mean you are comfortable spending ALL of that money on a home.
    - The monthly cost is commonly referred to as PITI… Principle, Interest, Taxes, and Insurance. When you make your monthly mortgage payment it will include charges for the Principal (part of the money you borrowed toward the home), Interest, Property Taxes, and Homeowner's Insurance. All of the principal and interest goes to the bank. They put the tax and insurance money into an escrow account and pay those for you at the end of each year. You can elect to pay the taxes and insurance yourself and not pay with the mortgage, but some people get into trouble at the end of the year if they can't come up with that once a year lump sum.
- What will my down payment be?
    - Different loans require different down payment amounts, usually stated in terms of percentage. For example, the very common FHA 203B loan requires 3.5% down payment.
- What fees do you charge and how much will I need to bring to closing ("Cost at Closing")
    - This cost will include your down payment, fees to the mortgage company, and fees to the title company. A very rough rule of thumb calculation is about 3% plus the down payment.
    - YOU DO NOT PAY THE REAL ESTATE COMMISSIONS, the seller pays the commissions from their sale funds.
- What should I do financially (and NOT do) now that I am pre-approved for a loan?
    - Once you are approved for a loan you should not make any large purchases, establish any lines of credit, change jobs, or materially change anything about your financial picture. In some cases you should not even make positive changes, such as paying off some loans or making a large deposit. Before making any financial moves you should consult with the loan agent you are working with.