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Loan Considerations for a Real Estate Purchase in Summit County and Fairplay

In the current real estate market in Summit and Fairplay, it's essential to be prequalified before placing an offer on a home.

Being prequalified will avoid several issues that may arise during the purchase process.

If a loan will be used for the home's purchase, the sellers (and listing agent) will want a prequalification letter attached to the purchase offer.

If a prequalification letter isn't attached to the offer, the sellers will expect to see a provision in the purchase offer stating the buyers will supply a prequalification letter within 24 to 48 hours. Becoming prequalified in this short time frame is stressful for everyone involved! Additionally, in a multiple-bid scenario, offers without a prequalification letter carry less weight.

Prequalification also avoids buyers assuming they're more qualified than they are. Without being prequalified, buyers may be shopping in a price range out of their financial range or may not be qualified to purchase a home in the first place.

What A Lender Will Ask From You to Become Prequalified

Becoming prequalified is a simple process.

Prequalification is not as stringent as the actual loan approval. It's a fast process, usually completed within 24 hours or less.

Prequalification entails the loan officer conditionally qualifying you ahead of time for a loan.

The prequalification is not an approval for a loan. It's an initial assessment of your financial situation and whether you'll qualify for a loan to meet your financial considerations for a home in a given price range. The actual approval will come about during the loan underwriting process when a home is under contract.

The loan officer typically won't be pulling your credit report.

They'll be asking for your income from all sources and also your debt obligations.

The loan officer may need to pull your credit report if you have any of the following conditions:

- Delinquencies
- Collections
- Bankruptcy

Having any of these conditions doesn't mean you won't be prequalified. The loan officer needs to put these into context.

When the loan officer has done a preliminary review of your eligibility, and you're prequalified for a loan, they'll issue a prequalification letter for the amount you've qualified for.

Finder Your Lender

Typically, a qualified real estate agent will have at least 3 or 4 lenders to recommend to potential home buyers. (Contact us for lender recommendations.)

It's important to shop the loan, just like you would a car; interest rates, terms, and loan costs will vary.

Shopping multiple lenders in a similar time frame is typically seen as a one-time pull on your credit score. The financial institutions can see the buyer making numerous loan inquiries for the same loan and usually won't keep hitting the buyer's credit score with hard pulls.

It's also vital when financing real estate in Summit County or Fairplay that the lender is familiar with the area and has performed loans up here before. Without

experience in the area, home purchases in this area can go awry because of the inexperience of a lender who's not familiar with this market.

Here are some things to ask a lender when searching for a real estate mortgage in Summit County:

- Loan Type and Length
- Interest Rate and Annual Percentage Rate
- Fees
- Closing Costs
- Prepayment Penalties?
- What happens to the locked interest rate for the loan if interest rates go down?

What Your Lender Will Ask From You During the Loan Process

- Permission to pull your credit history
- Your taxes going back two years
- Income records such as W2s, pay stubs, proof of additional income
- Bank and/or asset statements
- Debts and liabilities
- An outline of any gift monies to be used for the home purchase

It's essential for the homebuyer to provide their docs on time for a seamless purchase process!

Debt-to-Income Ratio

Using the docs provided to the loan officer, the lender will compute the buyer's Debt-to-Income ratio to determine if the buyer's income ratio is enough to cover the home's cost and other recurring debt.

Lenders and loan types will vary in determining the percentage of debt to income for the homebuyer.

It's not just the cost of the borrowed money that's used in the formula for the Debt-to-Income ratio. The other factors in the formula are typically referred to as "PITI".

PITI includes:

- Principal
- Interest
- Taxes
- Insurance

At the time of writing, conventional loans are usually operating with a maximum of 36% of gross income to pay the PITI, and 43% total of gross income for the PITI, plus all other recurring debts like car payments, student loans, etc.

For example, if gross income is \$6,000 a month, then the home's maximum PITI would be \$2,160 a month. The remaining other maximum recurring payments amount would be \$420. The total of these two is \$2,580, which equals 43% of \$6,000.

Closing Notes for the Prequalification and Loan Process

Typically, a financed real estate transaction in the area will take 5 – 6 weeks or more. It could be longer in busy times of the year, with the most significant obstacle often being the appraisal process time frame.

Note – Loans can sometimes fail during the underwriting process because of innocent actions by the home buyer. While the home purchase is being completed by the loan underwriters, don't make any large purchases or close any accounts.

Having your prequalification in place will make for a smooth and simplified purchase process.

If you have any questions, please email me at Christopher@summithomesre.com or call me at 970-485-9225.



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