

## Questions You Need to Ask When Obtaining Home Financing

While it is natural to feel nervous during the process to obtain a home mortgage, and tempting to take the first approval that comes your way, that is not the best way to conduct business. Remember, the home buyer is the client in the mortgage process, and you have every right to choose the best deal. When shopping for a mortgage there are several questions that you should ask the lender.

**How much will the loan cost?** It is important to know exactly how much you will spend each month to service the loan. Do not ask for the lowest monthly payment, as this can lead to a disastrous loan situation, with adjustable rate mortgages and balloon payments. Ask to see, in writing, what the amount of your payment will be each month, and how it breaks down. Depending on how your loan is structured, you can expect to pay interest, principal, and possibly property taxes and private mortgage insurance. These numbers can add up quickly, so it is important to have a handle on them before you start shopping.

**What is the least expensive method of closing the loan, a higher interest rate or higher closing costs?** Banks, like any other business, are in the business of making money, and they are going to get their money one way or the other. Sometimes you can trade a higher interest rate for lower closing costs, or vice versa, but it can be difficult to determine which is the better deal. While some part of the decision may involve how much money you have available at closing, other considerations include how long you plan to live in the home, and how good your credit is.

**Are there any programs available to help save me money?** There are a variety of programs established by the federal government that are aimed to make home buying more affordable. They include the first time buyer program, as well as a program for veterans. Ask specifically if there are any programs that you qualify for.

**Who do you work for?** It is easy to determine who the lender works for if you visit a bank for a home loan, but if you go to a mortgage broker it makes sense to ask who his boss is. You can use this information to confirm that the lender is licensed to do business in your state.

**Is the interest rate that you offered me fixed or variable?** While a variable interest rate can seem attractive at the time, a fixed rate guarantees you the same monthly payment over the life of the loan. If interest rates drop significantly, you can always refinance the loan to that lower interest rate, often reducing the length of the loan at the same time.

**How much can I afford?** Mortgage lenders use a complex formula that takes into account your existing debt and your income to determine how much they will loan you. This is an important question that you need to have answered before shopping for a home.

While these are all important questions to ask your mortgage lender, they do not tell the entire story. While the lender may tell you that you can borrow a particular amount, you are under no obligation to borrow that entire amount, and often it is a bad idea to borrow the full amount. While the bank takes into account your monthly debt, they do not take into consideration things such as the amount you spend on fuel each month, how much you like to shop, or if your child will need braces in two years. These concerns are up to you. Do not borrow so much money that your monthly payment will leave you unable to live. Do not use an interest only loan to buy more house than you can truly afford. When you are in your new home, you will be responsible for maintenance and repairs, and if anything, your expenses will be more, not less, than they were in your previous home. Because of the current mortgage situation, lenders are looking much more carefully at who they lend money to, but this does not mean that you should not look carefully at your lender as well.

### About the Author

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