



## **Phyllis Byrne, Mortgage Loan Officer**

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### **Commonly Asked Questions When Applying For A Mortgage or Choosing a Buyer**

When I first meet with a client there are certain questions everyone seems to ask. Here are a few of them. Sellers, these are helpful tools to weed through offers you receive to help you analyze a bit deeper.

#### **How much can a buyer afford?**

A quick, "back of the envelope", way to estimate how much you would be approved for, is to multiply your gross annual income by 3.5 and then by 4. So if your income was \$100,000, you could be approved for a loan amount between \$350,000 and \$400,000. If you have very little in the way of monthly payments on your credit report it would be the four times number.

But that is just the mortgage. You want to look at the total payment which has real estate taxes, home insurance maybe mortgage insurance and if a condo, homeowners association dues. You want the total payment to be about a third of your monthly gross income. Any of these items can impact the approved amount. If you are approved for a house and start looking at condos, the approved amount may go down.

At the end of the day the most important thing is that you are comfortable with the monthly payment and still have money for the things you enjoy.

#### **How much do I have to put down?**

If you do not want to pay mortgage insurance you should put down at least 20%. If you are buying a condo or investment property you get a much better rate with 25% down. For a primary residence with a conventional loan under \$417,000 you must put 5% down. If it is a conventional loan over \$417,000 but under \$625,500 you must put 10% down. If it is an FHA loan you have to put 3.5% down. FHA loans go to \$625,500. On investment properties you have to put 20% down. Multifamily homes have different down payments.

#### **I have enough money for the down payment but am short for closing costs. Can I put them into my mortgage? What is the impact on the seller?**

You can get a seller's concession. You are allowed to get up to 3% or 6% of the mortgage amount, based on the loan type and amount you put down. The seller's concession is included in the sales price. So if

the agreed upon sales price is say \$200,000 you add the seller's concessions making the sales price \$206,000. If you are putting down, say 20%, it is 20% of \$206,000 and the mortgage is 80% of the \$206,000. The house must appraise at \$206,000. Why do they call it a seller's concession? When you get to the closing table the contract shows the sales price as \$206,000 but the seller only receives the \$200,000. The \$6000 goes to pay the buyer's closing costs. The seller must pay the transfer taxes and commission on the sales price of \$206,000 even though he'll only get \$200,000. Not all sellers want to do this and if you are in a multiple bid situation, you as a buyer, could be at a disadvantage.

**My parents are going to give me a gift to help with my purchase. Is there anything I need to be aware of?**

You can receive gifts from family members. You cannot receive gifts from friends. Fiancés and cousins are considered family. If you are planning on putting less than 20% down, the borrower must have 5% of their own funds in the purchase or they must get an FHA loan. If the borrower is putting more than 20% down, the gift can be any amount. There are some tax implications with gifts and should be checked with an accountant. The giver of the gift will be expected to sign a gift letter, specifying the relationship, that it is a gift and does not expect to be repaid. The source of the gift will have to be documented.

**I do not trust banks. I have my down payment in cash in a safe deposit box. When do I have to put it in the bank?**

You cannot use cash in real estate transactions. All funds used in a real estate transaction must be sourced. You will have to provide account statements for the full period, either 30 days or a quarter. Sometimes 60 days are required. Any deposits into those accounts must be explained and may require the bank statement if they were transferred from another bank. If making transfers, withdraw and deposit the same amount. Do not add or subtract from the withdrawal before depositing the funds. They must match.

**I am selling my home and buying a new one. If I close on the one I am buying before the sale of my current home, can I put the minimum down and then pay the principle down after I close on the sale of my current home?**

Yes. You can put the minimum down with the purchase and put the rest of the monies down after you close on the house you are selling. There is no prepayment penalty. When you put the additional monies down, if it is more than 20% in total, you can have the mortgage insurance removed. We also allow you to have the loan re-amortized which means you can have the payment recalculated with the lower principle. If you do not request this, the term will shorten according to the amount of the additional funds.