FREQUENTLY ASKED MORTGAGE QUESTIONS

What is a Mortgage?

Good question! A mortgage is a loan you use to purchase a home. It's a legal agreement in which a mortgage lender pays for your house in full with the expectation that you will repay them back (with interest) over a set period of time. Mortgages allow homebuyers to purchase homes even if they don't have all the money immediately available to purchase them upfront.

Let's go over a few more common terms you'll hear:

Loan Officer. The mortgage adviser in charge of your file. They'll help you from beginning to end.

Interest Rate. The amount of money paid for the ability to borrow money. Expressed in percentage form.

Closing. Closing encompasses the final steps in the transfer of property ownership. The buyer signs all final documents and the seller receives funds.

Credit Score. A number that represents a consumer's credit worthiness. Lower scores pose a greater risk of default (no longer being able to pay your mortgage). Higher scores tell lenders that you're less likely to default.

Pre-approval vs. pre-qualification: what's the difference?

A pre-qualification is just your mortgage adviser's estimate on your ability to buy a home. It's based on your credit score and some other self-reported details. A pre-qual may give you a good idea on which loan program fits you best, and maybe even how much you'll qualify for.

A final approval comes after an Underwriter has reviewed all of your documents and validates the information.

At Velocity Credit Union, pre-qualifications are completely free for borrowers. While they are typically valid for 30 days, they can be updated upon request.

What are the qualification requirements to get a mortgage?

There are three main factors that come into play when being approved for a mortgage:

Credit score. Each loan program has a minimum credit score requirement in order to qualify. Higher credit scores can allow you to qualify for lower interest rates, too. The minimum credit score for a home purchase at Velocity is 640.

Down payment. Some loan programs require you to make a down payment of a certain amount. You may qualify for a home loan with as little as 3% down payment.

Debt-to-income ratio (DTI). Your debts should only make up a certain percentage of your income, because you're about to incur a large and important debt by purchasing a home.

Conventional, FHA, USDA, VA — what are the differences

These are all examples of home loan programs from which homebuyers can choose. At Velocity we offer Conventional mortgages. Let's take a quick look at what makes each unique.

Conventional. Lower rates and fees for borrowers making a down payment with good credit

FHA. Popular with first-time homebuyers due to lower down payment and credit score requirements. Requires private mortgage insurance (PMI) for the life of the loan.

USDA. Zero-down options for rural borrowers in small towns

VA. Competitive rates, zero-down options, and no private mortgage insurance (PMI) requirement for veterans, active service members, and their surviving spouses.

Do I have to make a 20% down payment to buy a home?

No! There are loan options available that allow for 3% down. A 20% down payment will reduce your monthly payments and the total amount of interest you pay over the life of the loan, but it's definitely not required for all borrowers.

How do I figure out how much I can afford?

As a general rule, most homeowners should aim for a mortgage payment at or below 30% of their gross household income. Use our mortgage calculator for an estimate on your total monthly payment. It'll include principal, interest, taxes, and insurance. Your monthly payment may also include Homeowners Association (HOA) fees as well. HOA fees vary from community to community.

What kinds of fees come along with getting a mortgage?

Lenders may have their fees structured or named differently from one another, but you should generally expect these:

Origination fee
Processing fee
Underwriting fee
Document preparation fee
Appraisal fee
Title fees
Credit report fee

After applying, you can ask your adviser for a sample closing sheet with fees included.

When is the best time to lock my interest rate?

Rates fluctuate daily, and no one can predict an exact time to lock the lowest possible rate. If you're comfortable with the monthly payment at a certain rate, you should go ahead and lock. Your mortgage adviser will help explain more about rate locks as you reach that point in the process.

Should I start with a realtor or mortgage lender first?

We recommend getting pre-qualified with a mortgage lender first. Once you're pre-qualified for a mortgage, you'll be able to shop with confidence. You'll know exactly how much you're able to purchase.

Online-only lenders vs. local lenders: which is best?

Online lenders have their merits, but when it comes to personalized service and speed to respond, an experienced local mortgage adviser can't be replaced. If you have a trickier financial situation, an online lender's algorithm may turn you down without exploring every avenue to make your dream of homeownership a reality. Sometimes, the opposite happens with online-only lenders — borrowers will get approval even when they shouldn't.

Most homebuyers would agree that finding a perfect mix of convenient technology and face-to-face human help is the best way to a smooth closing.

What's an escrow account and how does it work?

By definition, an escrow is a bond, deed, or other document kept safe by a third party and taking effect only when a specified condition has been fulfilled. In the mortgage space, we use escrow accounts for two different purposes: The first time you use an escrow account is after an offer is accepted. You put cash into an escrow account to prove you're serious about the purchase. Your money is kept safe in escrow, and then it's released to the home seller when your loan funds. The second time you'll use an escrow account is for the payment of taxes and insurance after you purchase the home. Each month, you'll pay a portion of your annual property taxes and homeowners insurance into the account. When taxes and insurance are due, your mortgage company will draw funds out of the account and pay them for you.

How long does it take to close on a mortgage?

From application to loan funding, the average time it takes to close on the purchase of a home is 30 days. Refinances are typically faster. We take our borrowers' closing timelines seriously, and we work hard to close on time.

What are mortgage points?

Mortgage points, or discount points, are a way to prepay interest to get a lower interest rate on your mortgage.

Each mortgage point equals 1% of your home's value. That means if you're getting a $250,000 loan and have one discount point, you'll pay $2,500. In most cases, a point can reduce your interest rate by one-eighth to one-quarter of a percent.

What is a Jumbo loan?

A jumbo loan, also known as a jumbo mortgage, is a type of financing that exceeds the limits set by the Federal Housing Finance Agency (FHFA). Also called non-conforming conventional mortgages, jumbo loans are considered riskier for lenders because these loans can't be guaranteed by Fannie Mae and Freddie Mac, meaning the lender is not protected from losses if a borrower defaults.

The maximum amount for a conforming loan in 2023 is $726,200 in most counties, as determined by the Federal Housing Finance Agency (FHFA). Loan amounts above this limit are considered jumbo loans.

Can my family gift me funds for a down payment?

Yes. Through Conventional financing programs, families are allowed to gift down payment and closing cost funds. There is no minimum or maximum allowed amount, although 5% of your own funds are required through Conventional financing. Additionally, through Conventional financing, if your family gifts funds are over 20%, your own fund contribution is not required. Please contact a Velocity mortgage loan originator for specific loan program requirements.

Will Velocity CU service my loan?

Velocity has the availability to service or sell servicing rights on all loans. While there is no commitment to service any loan, most of our loans are retained for servicing.

Why is my credit score different from what I see online?

There are various credit reporting services available throughout the market. Most mortgage lenders utilize FICO scoring model. The qualifying score is based on the lower of the mid-score for each borrower.

How can I get a copy of my credit report for free?

So that you may remain informed on the data within your credit report, the federal government allows you to access your file free once per year through sources such as annualcreditreport.com, among others.

What property types are available to finance?

There are many residential property types such as single family, duplex, 1-4 units, low- to high-rise condos, and townhomes.

Velocity Credit Union does not provide financing for manufactured homes, barndominiums, or land at this time.

Please contact a Velocity mortgage loan originator for more details on financing residential property.

Can I get a mortgage loan through Velocity if my home is not in Texas?

No, at this time Velocity only lends on homes in the state of Texas.

Does the home need to be my primary property or can it be an investment property?

Velocity only lends on homes that will be your primary property or second home. At this time, Velocity does not lend on properties that earn income, such as an investment property or a property used for short-term rentals.

What is PMI (Private Mortgage Insurance)?

Private mortgage insurance, also called PMI, is a type of mortgage insurance you might be required to pay for if you have a conventional loan and make a down payment of less than 20%. The premium is added to your monthly mortgage payment and automatically ends when your loan-to-value ratio is reduced to 78%. PMI protects the lender — not you — if you stop making payments on your loan.

What is Earnest Money?

Earnest money is put down before closing on a house to show you're serious about purchasing. It's also known as a good-faith deposit. Earnest money protects the seller if the buyer backs out. It's typically around 1–3% of the sale price and is held in an escrow account until the deal is complete. The exact amount depends on what's customary in your market. If all goes smoothly, the earnest money is applied to the buyer's down payment or closing costs.

If the deal falls through due to a failed home inspection or any other contingency listed in the contract, the buyer's earnest money is returned. The practice of depositing earnest money can decrease the likelihood of a buyer placing offers for multiple homes, then walking away after the seller takes the home off the market.

Still have questions? Contact Mortgage Loan Originator Pamela Mills

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