

THINK PINK.

Loan Education Made Easy: Mortgages



CCCU.COM



At some point in your life, you will have to take that next big leap in your financial journey – whether going back to school, starting a business, or purchasing a home. It can be overwhelming, to say the least. With so much conflicting financial advice out there, it's tough to know what you can trust.

At City & County Credit Union, our goal is to be your trusted guide – giving you the resources and tools you need to make informed decisions about your finances. We recognize that taking out a loan is a big decision, so we have created a comprehensive resource that covers everything you might need to know about the process.

Your Essential Ebook for Financial Empowerment

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Loan 101

Before we get into the mortgage application process, let's go back to the basics.



WHAT IS A LOAN?

A [loan is a form of credit](#) in which a party borrows a sum of money that must be repaid in the future, usually with interest or finance charges added by the lender. This payment is made in addition to the principal value borrowed. Loans can be either for a specific, one-time amount or as an open-ended line of credit with a predetermined limit.

ELEMENTS OF A LOAN

There are many things that determine the size of a loan and the amount of time a borrower has to pay it back. The most common components of a loan include:

- ◆ **Principal:** The amount of money borrowed that must be repaid.
- ◆ **Interest:** The cost of borrowing money, typically expressed as a percentage.
- ◆ **Repayment term:** The period over which the loan must be repaid. This is usually measured in months or years.
- ◆ **Payment amount:** The amount that the borrower must pay at specified intervals.
- ◆ **Fees:** Additional charges associated with the loan, like origination fees, application fees, or prepayment penalties.

- ◆ **Collateral:** Assets or property pledged by a borrower to secure the loan in case of default.
- ◆ **Credit score:** The borrower's credit history and creditworthiness may determine the interest rate or other loan terms.

SECURED VS. UNSECURED LOANS

Loans are typically broken down into two categories – secured and unsecured. A secured loan requires collateral, like a home or a car, to secure the loan. If the borrower defaults on the loan, the lender can seize the collateral to cover their losses. On the other hand, unsecured loans don't require collateral and are based solely on the borrower's creditworthiness. These are typically more difficult to obtain and may have higher interest rates.

HOW DO INTEREST RATES AFFECT LOANS?

Interest rates play a huge role in determining the overall cost of a loan to the borrower. Loans with [higher interest rates](#) usually have higher monthly payments or take longer to pay off than loans with lower interest rates. This means that the higher the interest rate, the more money the borrower will ultimately pay back to the lender.

For example, a \$10,000 loan with a 5% interest rate would cost you \$188.71 a month for 60 months. The same loan with a 10% interest rate would cost you \$212.13 per month. As you can see, even though the difference in interest rates is only 5%, it results in a significant difference in monthly payments and the total amount paid over the life of the loan.



Pro tip: Choosing the loan with a lower interest rate can save you thousands of dollars in the long run.

SIMPLE VS. COMPOUND INTEREST

Simple interest is calculated only on the initial principal amount of a loan, whereas compound interest is calculated on both the principal amount and any accumulated interest. In simple interest, the interest paid each period remains the same, whereas in compound interest, the interest paid increases over time. As a result, loans with compound interest can accrue more interest over time than loans with simple interest.

TYPES OF LOANS

People rely on loans for a wide variety of reasons, including making a major purchase, investing, renovating, consolidating debt, or pursuing a business venture. They enable existing companies to expand their operations and promote money supply growth in an economy. The most common types of loans include:



Personal Loans

These loans are typically unsecured and are used for many purposes, like paying for unexpected expenses, consolidating debt, or making a large purchase.



Auto Loans

These are secured loans used to purchase a vehicle.



Mortgages

Mortgages are loans used to purchase property or refinance a home.



Student Loans

These loans are used to cover education expenses, from tuition to books or housing.



Business Loans

These loans are used to finance business ventures, such as purchasing equipment or expanding the business.



Home Equity Loans

This type of loan allows homeowners to borrow money from a financial institution by using their home's equity as collateral.

This ebook provides comprehensive information on mortgages, including a detailed step-by-step guide to the entire process. However, before diving into the process, it's important to understand the various factors that lenders consider when evaluating loan applications.

WHAT ARE LENDERS LOOKING FOR?

Before granting a loan, top lenders typically look for a few key factors to determine a borrower's creditworthiness.

Credit Score

Your credit score is determined by your past borrowing and repayment history. Missed payments have the potential to harm your score significantly.

Income

Some lenders may set a specific income threshold for larger loans. In the case of home mortgages, they may even require several years of stable employment.

Debt-to-Income Ratio

Lenders may also evaluate your debt-to-income ratio, which compares your total monthly debt payments with your gross monthly income.

LET'S TALK PRE-APPROVAL

Loan pre-approval is an evaluation of your financial situation to determine whether you are eligible for a loan and how much you may be able to borrow. It's like a financial checkup that helps you understand your borrowing potential and takes the guesswork out of the loan application process. Think of it like a golden ticket that gives you an idea of what kind of loan you might qualify for and helps you shop around for the best loan offers.

It's important to keep in mind that pre-approval is not a guarantee that you'll be approved for a loan. Pre-approval often requires a hard credit check, which can lower your credit score. So, make sure that you only allow checks on loans that you're serious about pursuing.

But don't worry – once you've been pre-approved, you'll have a better understanding of what to expect when it comes to loan approval and can make informed decisions when it comes to borrowing.

We'll elaborate a bit more on the pre-approval and application process later. Now, let's talk about what you can do to get prepared!



From Start to Finish: Step-by-Step Through the Loan Application Process

If you're ready to start the loan application process, congratulations! This is a big step that's worth celebrating. It's also important that you are prepared and informed about what's to come. But don't worry, you're not alone. We'll walk you through the essential steps to take when applying for a loan so you can approach the process with confidence and ease.

STEP 1:

Understand Mortgages



Before jumping into the application process, it's important to understand the loan type you are applying for and determining if it will best suit your needs and overall objectives.

MORTGAGES

A mortgage is a type of loan that can help you purchase a new home or refinance your existing property. Unlike other types of loans, mortgages are secured loans – meaning that the property being purchased or refinanced is used as collateral.

Mortgages typically have longer repayment terms compared with other loans, ranging from 15 to 30 years. This allows borrowers to spread their payments out over a longer period and make monthly payments more manageable.

MORTGAGES VS. HOME EQUITY LINES OF CREDIT (HELOCs)

Mortgages and HELOCs are both types of loans that allow you to borrow money against the value of your home, but they differ in some key ways.

A mortgage is a loan used to purchase a home, while a HELOC allows you to borrow against the equity you've built up in your home. With a

mortgage, you typically make regular payments to pay back the loan amount, plus interest, over a set period of time, which can be anywhere from 10 to 30 years.

In contrast, a HELOC is a revolving line of credit, similar to a credit card, where you can borrow and repay funds as needed during a set time period, called the "draw period." HELOCs often have variable interest rates and may have a "balloon payment" due at the end of the draw period, which means you need to pay back the full remaining balance in one lump sum.

While both mortgages and HELOCs can be useful ways to finance a home, it's important to understand the differences between them and to carefully consider which option is best for your individual financial situation.

NOW THAT YOU KNOW MORE ABOUT MORTGAGES – LET'S MOVE ONTO STEP 2

With your newfound knowledge on mortgages, you're ready to move onto the second step! Keep in mind that your exact loan process can vary depending on the institution and your financial situation. However, these next steps are a general guide to help you navigate the most common elements of the loan application process.

STEP 2:

Check Your Credit Score



Before applying for a mortgage, it's important to know where you stand in terms of your credit score. A credit score is a number that ranges from 300 to 850 and is a measure of your creditworthiness. Generally, borrowers need a credit score of [at least 620](#) to even qualify for a mortgage.

You can check your credit score for free with many online services and review your credit report for any errors or inaccuracies. By taking steps to improve your credit score, you can be more confident in your loan application and increase your chances of getting approved with the best possible terms.

WITH A CREDIT SCORE IN MIND – YOU'RE READY TO DO RESEARCH

After checking your credit score, you're ready to move on to step 3 and research potential lenders. If your credit score is not where you want it to be, don't lose hope! It may take some time and patience to improve it, but it's a worthwhile venture. Plus, keep in mind that some lenders may be willing to consider other factors when evaluating your loan application.

TIPS TO IMPROVE YOUR CREDIT SCORE

The higher your credit score, the more likely you are to be approved for a loan and receive favorable terms. If you need to [boost your credit score](#), try some of these tips:

- ◆ **Pay bills on time:** Late payments negatively impact your credit score, so it's important that you pay your bills on time, every time.
- ◆ **Monitor credit reports:** Regularly check your credit report for any errors or inaccuracies. If you spot any errors, dispute them with the credit card company.
- ◆ **Keep credit usage low:** The amount of credit you're using compared with your credit limit (your credit usage), can impact your credit score. Try to keep your usage below 30%.
- ◆ **Avoid opening too many accounts:** Opening too many credit accounts at once can lower your score. Apply for credit only when you need it.

STEP 3:

Research Lenders



When it comes to applying for a loan, finding the right lender is crucial. The process of researching and comparing lenders can be overwhelming, but taking the time to find the right one can save you money in the long run. Below are some of the main things to look for when selecting your future lender.

COMPARE LOAN PRODUCTS

When researching lenders, check each of the financial institutions' websites for information about their loan products, interest rates, fees, and repayment terms. Make a list of the lenders that offer the type of loan you need and jot down their rates and terms.



Pro tip: Make sure to read the fine print carefully to understand all fees and charges associated with the loan.

Additionally, take the time to read [customer reviews and ratings](#) of each lender. Customer feedback can provide valuable insights into the lender's customer service, the loan application process, and overall experience.

Once you've narrowed the list down to a few lenders, compare their [interest rates and repayment terms](#). Because interest rates vary significantly from lender to lender, carefully compare them to ensure you get the best deal. As mentioned, a lower rate can save you thousands of dollars in the long run.

On top of interest rates, compare the repayment terms offered by each lender. Some may offer more flexible repayment options, like the ability to make bi-weekly payments or early repayments without penalty.



*Pro tip: According to [Bankrate](#), the national average 30-year fixed mortgage APR is 6.89%. The average 15-year fixed mortgage APR is 6.15%.
*As of April 2023**

ANALYZE RATES AND TERMS

CONSIDER OTHER ELEMENTS

Before selecting a lender, it's important to look at the factors beyond the interest rates and repayment terms. Some lenders may offer loans with no fees, while others may rack up charges for origination fees, prepayment penalties, or other hidden fees that add to the total cost of the loan.

When shopping for loans, it's also a good idea to inquire about any additional perks or benefits the lender may offer. When it comes to mortgages, for example, some lenders may waive closing costs or contribute a certain amount of money towards them, while others may offer Realtor or real estate agent services to their lenders. Additionally, some lenders may provide flexible repayment options or financial education resources that could be beneficial to you.



Pro tip: Use the [CCCU loan calculators](#) to help calculate your potential loan payments!

PICKED OUT A LENDER? YOU'RE READY FOR STEP 4

By carefully considering all of these factors before selecting a lender, you can ensure that you're getting the best deal possible. Not to mention, finding the right financial institution can make the rest of your loan application process smoother and more efficient, giving you confidence and comfort to trust them with your financial well-being.

STEP 4:

Gather Your Documents



Before applying for a loan, it's important to have all of the required information and documentation at your fingertips. From proof of income to tax returns and bank statements, collecting these materials can be the difference between getting approved or being left waiting on the sidelines.

MORTGAGE DOCUMENTATION CHECKLIST

Use this handy checklist to get organized and ensure that you're fully prepared for the loan application process.

- Personal identification:** You will need to provide a government-issued ID, like a driver's license or passport.
- Proof of income:** This can include pay stubs, W-2 forms, or tax returns. Lenders will need to see that you have a steady source of income to ensure that you will be able to repay the loan.
- Employment history:** Lenders may want to know about your employment history, like how long you have been employed. This will help them assess your financial stability.

Bank statements: You might need to collect recent bank statements to show lenders your current financial situation and overall account balances.

Property information: Provide a copy of the sales contract or a property listing for the home you're purchasing. Most realtors can help you to gather these documents.

It's important to understand that different lenders may require different sets of documentation. Be sure to check the lender's website or reach out to their customer service team to understand exactly what you'll need to provide.

IF YOUR DOCUMENTATION IS READY - IT'S TIME TO APPLY!

Don't let the hassle of gathering documents hold up your loan application process. Trust us, your future self will thank you for taking the time to gather all of the required documentation and paperwork ahead of time.

STEP 5:

Consider Pre-Approval Application



Remember when we talked about pre-approvals earlier? Now's the perfect time to consider applying for one! Getting pre-approved for a loan can be a smart move that helps you understand your borrowing potential and prepare for the loan application process.

To get started, you'll need to fill out an application that provides information about your income, employment, debts, and credit history. After submitting your application, the lender will evaluate your financial situation and provide you with a pre-approval decision.



Pro tip: Having a pre-approval in hand can give you an advantage when placing an offer on a home. The seller will know your serious and could be what sets you apart from other buyers.

Once you've been pre-approved, you'll still need to complete the full loan application, which may require additional documentation and a more thorough credit check. So, while pre-approval can be helpful, it's important to remember that it's just the first step in the loan application process!

STEP 6:

Fill Out the Loan Application



After you found your new home and your offer was accepted by the seller, you're ready to fill out the full loan application! Make sure to provide detailed and accurate information to avoid any delays down the road.



Pro tip: It's essential to disclose any outstanding debt or financial obligations when filling out your loan application.

Finally, take a few minutes to review the application before submitting it. Double-check that all the information is correct and that you've provided all the required documentation. If you're unsure about any aspect of the application, don't hesitate to reach out to the lender's customer service team for assistance!

By taking the time to fill out the application accurately and thoroughly, you can increase your chances of getting approved for the loan you need to achieve your financial goals.

NOW WE WAIT FOR APPROVAL

After submitting your loan application, the lender will typically review the information you provided and make a decision about whether to approve or deny your loan. The amount of time it takes to receive a decision can vary depending on the lender and the type of loan you're applying for. Some lenders may be able to provide an instant decision, while others may take several days or even weeks to review your application.



Pro tip: If the lender reaches out for additional information or documentation, submit it as soon as possible! Delaying to provide the requested information can slow down the process and may even result in your loan being denied.

During this time, try to be patient and avoid applying for other loans or credit cards. Applying for multiple loans simultaneously can negatively impact your credit score and make it more difficult to get approved.



YAY! YOU'RE APPROVED – TIME TO REVIEW THE TERMS

Congratulations on being approved for a loan! This is a significant achievement and a step toward achieving your financial goals. But before signing on the dotted line, you need to take the time to carefully review all of the terms and conditions associated with your newly approved loan.

STEP 7:

Review the Terms



Once approved for a loan, take time to review the terms and conditions. Taking out a loan is a big commitment, and it's important to understand all the terms and conditions of the loan agreement before you sign on the dotted line. Not only do you need to consider the interest rate and repayment terms, but you also need to think about what will happen if you can't make your payments on time.

Defaulting on a loan can have serious consequences, including damage to your credit score, legal action, and even wage garnishment. That's why it's crucial to have a solid plan for repaying your loan and to be realistic about what you can afford. And if you're not sure whether you'll be able to make the payments, it may be worth considering

a cosigner to help you qualify for the loan and ensure that you can meet your financial obligations.

By taking the time to fully understand the commitment of the loan agreement and the potential consequences of defaulting or needing a cosigner, you can make a more informed decision about whether a loan is right for you.

If you have any questions or concerns about the loan terms and conditions, don't hesitate to reach out to the lender for clarification. Remember, you have the right to understand all the terms and conditions before agreeing to the loan!



MORTGAGE COSTS TO CONSIDER

When it comes to purchasing a home, there are several expenses that you may encounter, including closing costs, inspection fees, and other related expenses. The good news is that many of these expenses are flexible and can be negotiated to better suit your budget.

Closing costs, for example, can be negotiated with the seller or lender to help reduce the amount you

will be required to pay. Additionally, inspection fees may be negotiable, especially if you are purchasing a fixer-upper or a property that requires significant repairs.

Working with a knowledgeable real estate agent or broker can help you better understand the different expenses that you will encounter and how to negotiate them to save you money in the long run.

Remember, flexibility is key when it comes to securing a mortgage that meets your needs and fits your budget!

ALL SET? SIGN THE LOAN AGREEMENT!

After carefully reviewing the terms and conditions of the loan and ensuring that you're satisfied with them, sign the loan agreement and return it to your lender. Some lenders may require the agreement to be signed in person, while others may allow you to sign it electronically. Make sure you follow the lender's instructions for returning the agreement and keep a copy of the signed agreement for your records.



Pro tip: Signing a loan agreement is a significant commitment – make sure you understand all the terms and conditions before agreeing to borrow.

STEP 8:

Receive the Funds



All that's left is for you to receive the loan funds! Once the lender accepts your signed agreement, they will begin the process of disbursing the money into your account. This process typically takes a few business days, but it could take longer depending on the lender or type of loan.

When financing a mortgage, your lender will typically transfer funds directly to the Title Company or seller's financial institution. Make sure you understand the disbursement process before closing day to be prepared.

KEEP EVERYTHING HANDY FOR TAX SEASON

When it comes to loans, taxes can play an important role in how much you end up paying over the life of the loan. For example, all student loan interest paid is tax deductible – this means that you can reduce your taxable income by the amount of interest you paid on your student loans over the year!

In general, any time you're dealing with a loan that involves taxes, you should keep detailed records of all the interest, fees, and other expenses you've paid, as well as any tax-related documentation you receive from your lender. This can include things like 1098-E forms for student loans or 1098 forms for mortgage interest.

By keeping good records and staying informed about the tax implications of your loans, you can save money and avoid any potential headaches come tax time.

TIPS FOR SETTING UP PAYMENTS AND STARTING OFF ON THE RIGHT FOOT

Congratulations on getting approved for a loan! But now that the excitement has worn off, it's time to get serious about paying it back. One of the easiest ways to do this is to set up automatic payments. This way, you can relax knowing your payments are being made on time and without any extra fees.

It's also a good idea to create a budget that includes your loan payments and other expenses. This way, you can see where your money is going and make any necessary adjustments. And if you really want to take control of your financial future, check your credit report regularly and make sure everything is accurate.

All Done!

Applying for a loan can be a complex and challenging process, but with the right guidance and knowledge, it can also be a rewarding experience. We hope that this guide has helped you understand the loan application process and provided you with the tools you need to make informed decisions about borrowing.

Remember to always borrow responsibly, carefully review the terms and conditions of any loan offer, and make sure you have a solid plan for repayment. With these tips in mind, you'll be well on your way to achieving your financial goals.

Think Pink

At City & County Credit Union, we understand that big life milestones often come with big expenses, and that's why we're here to help. With [over 90 years](#) of experience, we have been proud to provide our members with the financial tools they need to achieve their goals. Whether you're looking to buy a new car, purchase a home, or invest in your education, we offer a wide range of loans to help you get there.

WHY CCCU?

Our online application process is simple and convenient, allowing you to apply from the comfort of your own home. Alternatively, you can apply by phone or in person at any of our offices. Our team of experts will work with you every step of the way, providing guidance and support to ensure that you have a clear understanding of the terms and conditions of your loan.

In addition to our exceptional loan products and personalized service, City & County Credit Union also offers a wide range of additional benefits, including [free financial education resources and tools](#) to help you manage your finances more effectively. As a member-owned institution, we are committed to helping our members achieve financial wellness and security.



MORTGAGES MADE EASY

We believe in putting our members first, which means offering competitive rates, flexible repayment options, and personalized service to meet your unique needs. As a nonprofit organization, we're committed to making the process as easy and transparent as possible for our members.

That's why we offer a variety of home loan programs to fit your situation, including:

- ◆ **Home Purchase:** Affordable down payments as low as 3% and free pre-approval.
- ◆ **Heroes & Experts Program:** Qualified community members who serve the public can enjoy exclusive perks like down payments as low as 1%.
- ◆ **Traditional Refinance:** With 10-, 15-, 20-, or 30-year terms, this is the perfect option to upgrade your loan to fit your current needs.
- ◆ **Rapid Refi:** Save on closing costs by locking into a low-rate refinance with a 15-year term and only \$999 in closing costs (with no additional out-of-pocket expenses).



Start the Process With Our Team Today

So, if you're looking for a lender that values your needs and is committed to helping you achieve your goals – look no further than City & County Credit Union. With competitive rates, flexible repayment options, and personalized service, we're here to help you every step of the way. Apply for a loan with us today to experience the difference that City & County can make in your financial journey.

GET STARTED

Insured by NCUA. Equal Housing Opportunity. For more information on Mortgage program details, contact City & County Credit Union.