



**Serving Summit and Park
Counties Since 1998**

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

It's important to be prequalified before placing an offer on a property.

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

If a loan will be used, the sellers (and the 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, offers without a prequalification letter carry less weight in a multiple-bid scenario.

Prequalification also avoids buyers assuming they're more qualified than they are. Without being prequalified, buyers may be shopping in a price range beyond 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 property 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.

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 W-2s, pay stubs, and 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 important for the homebuyer to provide their documents on time for a seamless purchase process!

Debt-to-Income Ratio

Using the documents 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.

When buying a new home, lenders evaluate affordability using two core concepts: debt-to-income (DTI) ratio and PITI costs. Together, these help determine how much home a buyer can reasonably afford without becoming financially overextended.

Debt-to-Income (DTI) Ratio Overview

DTI measures how much of your gross monthly income goes toward debt payments and is one of the most important factors in mortgage approval. Lenders typically look at two ratios:

- Front-end DTI: Percentage of income used for housing costs only (PITI), often capped at around 31%
- Back-end DTI: Percentage of income used for all monthly debts (housing + car loans, student loans, credit cards), commonly capped around 43%-49% (sometimes higher with strong credit)
- Lower DTI = lower risk to the lender and often better loan terms

PITI Costs (Your Monthly Housing Payment)

PITI represents the full monthly cost of owning the home, not just the mortgage payment:

- Principal: The portion of your payment that reduces the loan balance
- Interest: The cost of borrowing the money
- Taxes: Property taxes, typically escrowed monthly
- Insurance: Homeowners insurance (and sometimes mortgage insurance)
- Lenders use PITI to calculate the front-end DTI and assess housing affordability

How DTI and PITI Work Together

Lenders combine these two metrics to ensure the home fits within a borrower's overall financial picture:

- PITI must fall within acceptable front-end DTI limits
- Total monthly debts, including PITI, must stay within back-end DTI limits
- Buyers who understand both can better estimate a safe price range before shopping

Working with a good loan officer will determine what price point is practical and comfortable to you.

Finding Your Lender

Typically, a good Realtor will have at least 3 or 4 lenders to recommend to potential home buyers.

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

Shopping with 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 unfamiliar 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?

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 during busy times of the year, with the most significant obstacle often being the appraisal process timeline.

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

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

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



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