

Good Faith Estimate

The Good Faith Estimate (GFE) is a required letter that the potential borrower receives from the lender. Pre-approval letters are generally sent with the Good Faith Estimate after the lender has checked your credit, income, and past debt. Covered in the Good Faith Estimate are the expected closing costs, monthly payments, and interest rates for the loan. The reason for getting the Good Faith Estimate and the pre-approval letters is that you will know exactly what to expect from the loan. Also, sometimes there are extra benefits for receiving the letters.

In order to find out the maximum possible price of the loan, you must discuss your debt-to-income (DTI) ratio along with the Good Faith Estimate. Knowing the maximum loan amount you can receive will save you time when looking at various houses on the market. It is also important so you do not waste your time looking at other properties that are too low. Knowing the maximum price gives you a price window where you would like to spend. Along with knowing the maximum price you can afford, you will also be able to determine the monthly payments. Included with the monthly payments are the property taxes, insurance, principal, and interest, plus any private mortgage insurance. You do have the option of lowering your monthly payments, if they are too high, by adjusting the sales price.

Along with finding out how much your monthly payments can be, another reason to receive the GFE is that you can find out how good or bad your credit score is. If your credit score is not as high as you might think it should be, you could have time to fix it by getting the GFE. This extra time you could receive by knowing your credit score could save you a lot of money on the interest rate. It is advisable to know your credit score by getting a credit report before finding it out in the GFE letter. Credit reports can be attained easily online through various companies. Getting the credit report will allow you to see any lingering charges that you may or may not know about that could be bringing down your score. Promptly clean up the problems affecting your credit score before moving forward with the loan process.

The last reason for getting a Good Faith Estimate and pre-approval letters is to show the seller that there are lender(s) that are comfortable lending you money. This last step could very well be the difference between getting the house you want the most and settling for another house later. There are a lot of sellers who will not even take offers without pre-approval and GFE letters. These letters also are pertinent when negotiating the final price with sellers. Without the letters, sellers are more likely to not accept as low of offers than with the letters. The logic behind this is that with the letters the seller believes that he/she will receive the whole amount without any hassles. In the case that there might be multiple offer situations, your offer will be much more solid with the pre-approval letters.

Overall, these letters will allow you to know your monthly payments, interest rates, and maximum price. They will inform you on your credit score if you do not know it. Lastly, they will give you more negotiating leverage and inform the seller that you are a legitimate buyer.

About the Author

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