Financing Basics: Rate vs Payment, Points, and Pre-Approval

Most buyer stress comes from one thing: mixing up the *interest rate* with the *monthly payment* and the *cash needed to close*. They're related, but they're not the same. This guide breaks down the basics so you can make decisions with less guessing—and so your offer is positioned to win when it matters.

Rate vs payment: what actually changes your monthly number:

Your **monthly payment** is usually a combination of:

• Principal + Interest (the loan)
• Property taxes
• Homeowners insurance
• HOA dues (if applicable)

A lower rate helps, but taxes, insurance, and HOA can move the payment just as much—especially in the desert where HOA communities are common.

- Rate affects the *interest portion* of your payment.
- Taxes and insurance can change year to year.
- HOA dues are separate and often increase over time.
- A slightly higher price at a lower rate can still be a higher payment if HOA/taxes are higher.

Pre-approval: what it is (and what it isn't):

A **pre-approval** is a lender's review of your income, assets, credit, and debt—so you know what you *should* qualify for. A **pre-qualification** is usually a lighter estimate based on what you report. In a competitive market, a strong pre-approval makes your offer feel safer to a seller.

- A good pre-approval should match your **offer price** and loan type (conventional, jumbo, FHA/VA, etc.).
- If your down payment funds include a gift, sale of another asset, or business funds, tell the lender early.
- Ask your lender how quickly they can close on *your* loan type (timelines matter in an offer).

Cash to close: the number buyers underestimate:

*Cash to close** is not just your down payment. It often includes:
• Closing costs
• Prepaid items (insurance, prepaid interest, tax/insurance reserves)
• Any appraisal gap or negotiated items (if relevant)
Planning for cash to close early prevents last-minute surprises.

Points: when they help (and when they don't):

Points are an optional fee paid to reduce the interest rate. Whether it makes sense depends on how long you expect to keep the loan and how much the buy-down costs.

- If you expect to refinance or sell sooner, points may not be worth it.
- If you plan to keep the loan long-term, points can reduce the payment and total interest over time.
- Ask for a break-even comparison: "How many months until the savings beats the cost?"

Rate locks: timing and what to ask:

Locking a rate means the lender commits to a rate for a set period (often 30–60 days, sometimes longer). Lock timing is strategy—there isn't one universal "right" answer.

- Ask what lock periods are available and whether extensions cost extra.
- Ask whether your lender offers a float-down option (not always available).
- If you're writing an offer with a tight closing time, confirm your lender can support that timeline before you commit.

Debt-to-income (DTI): why it matters even if you have a down payment:

You can have a strong down payment and still be limited by **DTI**. DTI, Debt-to-Income, compares your monthly debt obligations to your gross monthly income. The takeaway: approvals are about *payment* affordability, not just assets.

Financing terms that can strengthen your offer:

When multiple offers exist, sellers often choose the offer that feels most certain to close.

- A lender with a strong reputation and responsive communication.
- A pre-approval that clearly matches the offer amount and loan program.
- A realistic financing timeline (not too long, not overly aggressive).
- Organized documents so underwriting doesn't stall mid-escrow.

Simple next step if you want to get specific

If you tell me (1) the price range, (2) whether you're financing or paying cash, and (3) whether you're looking at HOA communities, I can help you anticipate the main payment drivers and the questions to ask your lender so your offer is set up correctly.

Text/call Tracy Scott: (760) 840-7441 | info@tracyascott.com