

FINANCING



5+ Key Components To Most Adjustable Rate Mortgages

1. Index rate

The rate to which the interest rate on an adjustable rate loan is tied. One of the more popular indexes used is the 1-year U.S. Treasury bill.

2. Margin

The amount added to the index rate that represents the lender's cost of doing business.

3. Interest Rate Cap Per Adjustment

The maximum amount a borrower's interest rate may increase or decrease at time of adjustment.

4. Life Cap

This is the ceiling that the note rate cannot exceed over the life of the loan.

5. Amortization

A period of time in which gradual repayment of debt occurs by means of systematic payments of principle and/or interest. At the end of the time period the balance is zero.

6. Others:

- ✓ Convertibility Option
- ✓ Pre-Payment Option
- ✓ Payment Cap Option
- ✓ Deferred Amortization



5 Questions To Ask Yourself When Shopping For The Best Loan

- 1.** How long will I own this property?
(The shorter the stay the more you should search for minimal closing costs at the cost of a slightly higher rate).

- 2.** Is there a type of loan that makes me feel most comfortable?
Some people want to know that their payment (P&I) will never change (fixed rate).

- 3.** Does it matter to me who services the loan (where and to what group am I making my monthly payment)?

- 4.** If given the choice, do I want to do my own escrow accounts or would I prefer the lender handle this matter?

- 5.** Do I want a "brand name" lender (one I know) or am I willing to try a company that's new to me?

* See "**14 General Questions To Ask All Lenders**"



6 Ideas On How To Buy A Home With Little Or No Money Down

- 1. Zero down payment, or little down
 - ✓ VA
 - ✓ FHA
 - ✓ Conventional

- 2. Government Assistance Loans
(check with Local Municipal Housing Agency)

- 3. Seller Financing...second mortgage, or whole thing

- 4. Gift from family or friend

- 5. Lease Option...Rent Credit

- 6. Partnership Program



6 Items That Combine To Make Up Your Monthly Mortgage Payment

- 1. Principle balance: this represents the money you originally borrowed and are paying back over the life of the loan.*

- 2. Interest on loan amount*

- 3. Real estate taxes: Normally, 1/12 of the most recent tax bill**

- 4. Insurance (Home Owners): Normally, 1/12 of the yearly policy amount**

- 5. Private Mortgage Insurance (PMI)***

- 6. Assessments (if any, condo, townhome, single family home)

* Almost every borrower's payment will include both principle and interest.

** Most borrowers have payments that will include principle, interest, taxes and insurance (unless the lender doesn't require escrows of real estate taxes and insurance).

*** Some borrowers who have less than 20% down are required to pay Private Mortgage Insurance (PMI). Depending on the type of dwelling you purchase you may or may not be required to pay assessments.



6 Of The Most Popular Mortgage Options

1. **30-year conventional fixed rate loan**

Benefits include:

- ✓ Monthly payments for principle and interest remain the same over the life of the loan (no surprises)
- ✓ Lower monthly payments when amortized over a 30-year payment period (360 payments)

2. **15-year conventional fixed rate loan** (also available in 10 & 20-year payment schedules)

Benefits include:

- ✓ Monthly payments of principle and interest remain the same over the life of the loan (no surprises)
- ✓ Substantial savings of interest over the life of the loan (example: \$100,000 loan at 8% amortized over a 30-year period the total interest paid is \$164,166.27. The same loan amount, same interest rate amortized over a 15-year period is \$72,017.41. The money saved in interest is \$92,148.86.)
- ✓ Payments are approximately 25-30% higher when amortized over a shorter period of time (15-year amortization vs.a 30-year amortization)

3. **No-Point / Zero Closing Cost Loans**

Benefits include:

- ✓ Less cash needed at closing. The interest rate will usually be 1/2 to 3/4 of a percent higher when compared to loans that have points to pay at closing

4. **7-year fixed rate balloon with a 30-year amortization**

Benefits include:

- ✓ Slightly lower rate and/or less fees than the conventional 30-year fixed rate loan
- ✓ Payment of principle and interest remains the same over the 7-year period of time
*Remember, at the end of the 7 years, you will need to pay off the remaining balance with either a lump sum of cash or re-finance the remaining loan amount

5. **Adjustable Rate Mortgages (ARM)**

There are many options with adjustable rate mortgages; the most popular tends to be the 1-year adjustable rate mortgage with a 30-year amortization schedule.

Benefits include:

- ✓ Lower interest rate for the 1st year
- ✓ Easier to qualify for the loan amount
- ✓ You can qualify for a larger loan amount
- ✓ In a market when rates are going down, a year ARM offers the ability to adjust downward at the 1 year anniversary of your loan

6. **Federal Housing Administration (FHA)**

There are many loan products available

- ✓ Easier to qualify for loan programs than conventional financing
- ✓ Less down payment needed



9 Things Most Lenders Focus On When Evaluating A Property For Lending Purposes

- 1. Type of property (residential, commercial, agricultural, condo, PUDs, zero lot line, etc.)
- 2. Location (urban, suburban, rural)
- 3. Area Zoning
- 4. Value Range
- 5. Neighborhood (homogeneous/heterogeneous)
- 6. Actual Age/Effective Age/Remaining Economic Life
- 7. Condition (repairs and predications)
- 8. Special clearances (code compliance, well and septic certifications, road maintenance, roofing, plumbing, electrical, structural reports)
- 9. Overall Marketability of Property



12 Things To Consider When Getting A Fixed Rate Loan

- 1. Interest rate.
- 2. Total number of points (including loan origination fee).
- 3. Annual percentage rate.
- 4. Length (repayment term) of loan.
- 5. How long is the rate quote guaranteed? Explain.
- 6. Is the loan assumable? If yes, explain.
- 7. Is there a pre-payment penalty? If yes, explain.
- 8. Is PMI coverage required? If yes, explain details including initial premium and renewal charges.
- 9. What will my payment (P&I) be?
- 10. What are the estimated closing costs of this loan?
- 11. What fees, if any, do we pay at application? When are the other fees paid?
- 12. Will my monthly payments include escrow payments? Taxes? Insurance?



14 General Questions To Ask All Lenders*

- 1. Based on our situation, what looks to be the best program for us? Why?
- 2. What is the projected time for processing and closing a loan?
- 3. If PMI (Private Mortgage Insurance) is required, when and how does it go away?
- 4. What about your...Rates - Terms - Fees...are they all negotiable?
- 5. What standard underwriting guidelines do you follow? Are there any special underwriting guidelines?
- 6. What is your most popular loan program? Why?
- 7. Who services your loans?
- 8. Six months to a year from now, what will make this loan look good/bad to most borrowers?
- 9. What are your standard and special fees?
- 10. What, if any, escrow requirements exist?
- 11. What if rates go down during the "lock-in" period?
- 12. Who is our contact person after application for progress reports?
- 13. What do you need from us to get our loan approved?
- 14. Do you have any concerns about our ability to get a quick loan approval?

*Also see... "**26 Questions To Ask When Getting An ARM Loan**" and "**12 Questions To Ask When Getting A Fixed Rate Loan**"



26 Questions To Ask When Getting An ARM Loan

- 1. Initial Interest Rate
- 2. Actual Note Rate
- 3. Total number of points (including loan origination fee)
- 4. Annual Percentage Rate
- 5. Length of loan
- 6. Index used
- 7. Today's value of said index
- 8. Margin used
- 9. Is there a payment cap? Explain.
- 10. Does the loan have any potential deferred interest? If yes, explain.
- 11. Does the loan have the standard positive amortization? If no, explain.
- 12. How often is the rate subject to change?
- 13. Is there a per adjustment interest rate cap? If yes, what is it?
- 14. Is there a lifetime interest rate cap? If yes, what is it?
- 15. Are the caps based on the note rate, or the initial interest rate? Explain.
- 16. How long is the rate quoted guaranteed? Explain.
- 17. Is the loan assumable? If yes, explain.
- 18. Is there a prepayment penalty? If yes, explain.
- 19. Is there a conversion feature? If yes, explain.
- 20. Is PMI coverage required? If yes, explain details including initial premium and renewal charges.
- 21. What will be my initial payment (P&I) be?
- 22. Under a worst case scenario, show monthly payments for the next ____ years.
- 23. What are the estimated closing costs of this loan?
- 24. What fees, if any, do we pay at application? When are the other fees paid? Explain.
- 25. Will my monthly payments include escrow payments (taxes & insurance, etc.)? Explain.
- 26. Please explain all other details of this program that we have not addressed.



CASH STRAPPED?

Down Payment Obstacles Can Be Overcome With Some Creativity!

You have the monthly income and you have good credit. Now there's only one thing standing in the way of you purchasing your first home - the cash.

If you have relatives who'll give you the cash you need, great. (U.S. tax law currently permits an individual to give a gift of up to \$10,000 per year to someone without triggering the gift tax). Studies show approximately 15% of first-time buyers receive financial assistance from a relative.

If you aren't likely to receive a gift or an inheritance when you're ready to buy, there are a few other options you can consider:

SELLER FINANCING

If you can qualify for an 80 or 90 percent mortgage, but are missing some of the down payment, consider asking the seller to take back a second mortgage for the amount you need. If you have 15 percent of the purchase price (plus some cash for closing costs), you might ask the seller to take back another 5 percent so you can qualify for an 80 percent loan-to-value mortgage and avoid Private Mortgage Insurance.

MORTGAGES

Consult with your lender to see what the limitations will be for that second loan. You might also ask the seller to take back the entire mortgage (if he or she doesn't need the cash for another purchase) which may be easier and cheaper than using a conventional lender.

LEASE WITH AN OPTION TO BUY

If you find a house you like, ask the seller if you can rent with an option to buy. Typically, the seller will take a portion of the monthly rent check and credit it toward the down payment. How much is the credit? Anywhere from zero to 100 percent (but 33 to 50 percent is typical). You may have to put up a non-refundable option fee but the amount of the fee is negotiable. You should consult with an attorney to protect your interests.

ZERO DOWN PAYMENT LOANS



Evaluating Yourself From A Lender's Point Of View ...5 Critical Areas To Consider

- 1. Ability to repay the loan
 - ✓ Income
 - ✓ Employment

- 2. Assets
 - ✓ Liquid (savings, checking, CDs, etc.)
 - ✓ Other (personal property, real estate, etc.)

- 3. Liabilities
 - ✓ Revolving and installment accounts
 - ✓ Child support and alimony payments
 - ✓ Pledged assets, unsecured loans

- 4. Attitude toward repayment
 - ✓ Credit report
 - ✓ Explanation of derogatory items (judgments, late payments, tax liens, collections, etc.)
 - ✓ Mortgage history rating

- 5. Qualifying ratios
 - ✓ Normally, your total monthly housing payment should not be more than 28% of your total gross monthly income
 - ✓ Normally, your total monthly housing payment plus your other monthly recurring debts combined should not be more than 36% of your total monthly gross income



Home Loan Application Checklist

HOME FINANCING INFORMATION

MONTHLY INCOME

Borrower Co-borrower

Base pay		
Commissions		
Bonuses		
Tips		
Overtime		
Part-time		
Savings interest		
Dividends		
Rental from real estate		
Alimony, child support		
Other		

ASSETS

Note: Have account numbers or other ID ready for the lender.

Checking and savings accounts: _____

 Stocks, bonds _____
 Real estate _____
 Vested interest in retirement fund _____
 Life insurance net cash value _____
 Automobiles _____
 Furniture, personal property _____
 Other _____

LIABILITIES

Note: Be ready with documentation of loans, account numbers, terms of loans and balances.

Installment loans, including
 charge accounts _____
 Stock pledges _____
 Real estate loans _____
 Auto loans _____
 Alimony, child support,
 maintenance payments _____

ANTICIPATED MONTHLY HOUSING COSTS

First mortgage _____
 Other financing _____
 Property taxes _____
 Hazard insurance _____
 Mortgage insurance _____
 Utilities _____

PURCHASE INFORMATION

Purchase price _____
 Estimated closing costs _____
 Insurance, taxes held in escrow _____
 Downpayment _____

REFERENCES AND HISTORY

Note: Offer the lender a list of credit references including creditors' names and addresses, account numbers, highest balances, and "paid-in-full" dates.



5 Types Of Mortgages That Will Help You Save Thousands*

- 1. Bi-Weekly**
... save on interest

- 2. 10 and 15-year Loan versus 30-year Loan**
... save on interest

- 3. GEM or Growing Equity Mortgage**
... save on interest

- 4. No Pre-Payment Penalty Loan**
... save on penalties

- 5. Private Financing**
... save on closing costs

* See "**6 Of The Most Popular Mortgage Options"**



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