


HOW TO CHOOSE A MORTGAGE LOAN THAT'S RIGHT FOR YOU

Shopping for a mortgage doesn't have to be painful or overwhelming. We've put together some tips and information to help you through the process.

How Much Can I Afford?

It's important to have a clear picture of what your current financial situation looks like. What size of monthly payment is consistently affordable? What size of downpayment is possible?

Remember, when determining your finances, make sure to leave some room in your budget for living life.



**There are few
times in life when
shopping wisely
matters so much.**

Get Preapproved

Before house-hunting comes loan-hunting.

Getting a mortgage preapproval letter before you start looking at houses will give you an edge when bidding against other buyers. The letter shows the seller that you're a serious buyer whose loan is likely to close. It's evidence that a lender has evaluated your finances and figured out how much you can afford to borrow, and therefore how much house you can afford.

Getting preapproved now will also save time later. When you're ready to make an offer on a home, lenders will already have the information they need to process your home loan.



Shopping for a home may be exciting and fun, but serious homebuyers need to start the process with a lender, not an open house.

Where Do I Find A Lender?

The following are the most common types of home lenders:

Banks and mortgage bankers:

Perhaps the most common of all financial institutions are banks. Banks get their money from investors and its own customers. Banks will often offer different types of mortgage loans for qualified borrowers.

Credit unions:

Credit unions are very similar to banks, except that they are owned by their account holders, known as members. These institutions usually require membership and get funds from their members.

Mortgage lenders:

A mortgage lender is a financial institution, similar to a bank, that originates and funds loans in their own name. Mortgage lenders exist for the sole purpose of making loans against real estate. Unlike banks and credit unions, most lenders do all their own loan processing, underwriting and closing functions "in-house."



Mortgage brokers, whose job it is to connect borrowers with lenders, are involved in more than 50% of U.S. real estate loans. Brokers have access to many lenders, as well as many different loan programs.

In some cases, especially when your credit isn't perfect, a mortgage broker can shop around to find a home loan that isn't offered by a bank, credit union, or even a lender.

What Types of Mortgages Are Available?

Not all home loans are the same. Knowing what kind of loan is most appropriate for you will help you in your mortgage journey. There are many variations and they're often tough to compare effectively. Interest rates and fees among lenders not only are different but are expressed differently. Lower charges for some aspects may be balanced by higher charges for others. Be sure to have all of the fees listed separately.

Fixed-Rate Mortgage (FRM)

Fixed-rate mortgages are popular because they're relatively simple and low- risk. The most common types are 15- and 30-year FRMs, although other terms are available.

Advantages

- Stable monthly payments
- Rising interest rates have no effect on the cost of borrowing
- The opportunity to make extra payments on the principal can significantly reduce the length and cost of the loan
- The mortgage is paid in full by the end of the term

Disadvantages

- Falling interest rates have no effect on the cost of borrowing
- The interest charged is generally higher for FRMs, because lenders assume the risk of any gap between your long-term rate and what they could get on a new mortgage in a tight money market
- Penalties for paying off the loan early are often included, which can be hefty



Adjustable-Rate Mortgage (ARM)

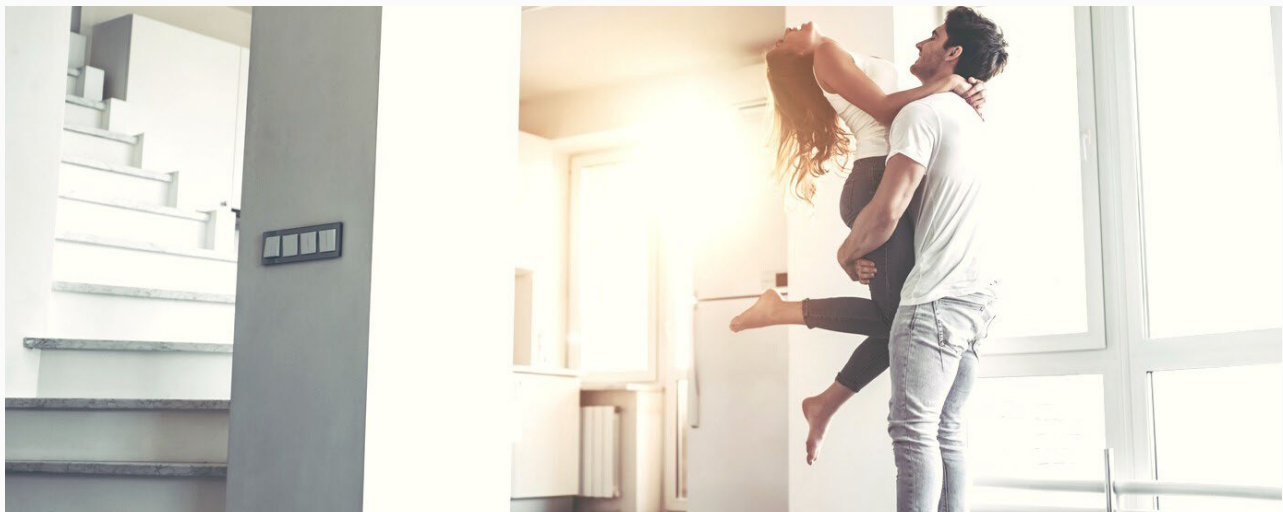
Adjustable-rate mortgages are those in which the interest rate is altered periodically during the life of the loan. For most ARMs, the rate is fixed initially, commonly for one, three or five years, and adjusts for the remaining years. ARMs require knowledge and attention on the part of the borrower.

Advantages

- Monthly payments go down if interest rates fall
- Falling interest rates reduce the overall cost of the loan
- The starting rate charged by lenders is generally less than for FRMs, because the borrower assumes the risk of unfavorable changes in the money market

Disadvantages

- Monthly payments may go up significantly, sometimes leading to default
- Caps on the monthly amount to safeguard the borrower can result in payments lower than the amount due, so the outstanding balance increases every month
- Making extra payments to principal does not shorten the term of the mortgage and is therefore less helpful than with FRMs
- Re-financing to avoid huge hikes may incur pre-payment penalties and may be impossible if the property has insufficient equity



Interest-Only and Negative-Amortization Loans

Payments on interest-only loans cover only the interest on the amount borrowed. The principal does not lessen during the term of the mortgage. Payments on negative-amortization loans cover neither the full amount of the interest nor the principal. Unpaid interest is added to the balance owed, which increases steadily.

Advantages

- Monthly payments are lower
- It is possible to carry a more expensive property than otherwise affordable

Disadvantages

- Equity does not build up in the property
- If the house drops in value from the time of purchase, on selling, the owner must pay the difference between the price received and the amount owed



A variety of mortgages are available with varying down payment and eligibility requirements. Here are the main categories:

- **Conventional mortgages** are not guaranteed by the government. Some conventional loans targeted at first-time buyers require as little as 3% down.
- **FHA loans** are insured by the Federal Housing Administration and allow down payments as low as 3.5%.
- **USDA loans** are guaranteed by the U.S. Department of Agriculture. They are for rural home buyers and usually require no down payment.
- **VA loans** are guaranteed by the Department of Veterans Affairs. They are for current and veteran military service members and usually require no down payment.

The type of mortgage that's best for you depends on your goals of ownership and the amount of risk you like and can afford.

What Do I Need to Know About the Mortgages Offered?

The advertised interest rate is not the end of the story. Important information to compare includes how often interest is calculated, the number of payments per annum, adjustment frequency for ARMs and additional fees and penalties. Also consider the following aspects.

Interest and Annual Percentage

Comparison of the interest rate and the annual percentage rate (APR) is a clue to the value offered by the lender. The APR includes all of the costs associated with the mortgage, expressed as an annual rate. If it's the same as the advertised interest rate, the interest rate is too high. If the APR is much more than the interest rate, the loan charges are too high.

Rates and Points

It's possible to get a lower interest rate by paying a lump sum at the outset of the mortgage. This sum is calculated on the basis of points. Each point is 1% of the loan amount. Buying a lower interest rate can save money in the long run. Note that points paid are tax-deductible.



Make sure you understand the options and features. This will help you choose a mortgage that best suits your needs.

Associated Costs

Lenders are required by law to list their fees in a Good Faith Estimate. These charges include everything from the property appraisal to the recording fee. Many are valid, and others are an attempt at profit-making and can be negotiated away. Avoid lenders who won't guarantee their estimates.

Loan Rate Locks

If interest rates are on the rise, they may be higher by the time the deal closes. Locking the agreed rate for 30 days, usually offered free, protects you against increases. Since you're not obliged to conclude the arrangement with the lender, you can re-negotiate if rates go down in the interim.

Pre-Payment Penalties

Pre-payment penalties are assessed as a percentage of the loan amount or as a number of months of interest, usually six. If you wish to sell or re-finance the property before the mortgage term expires, you may owe many thousands of dollars. Pre-payment penalties are outlawed in some states, and there are lots of lenders that don't use them. Other lenders will try to entice you to accept one by offering a lower interest rate.



What To Do Next

Compare mortgage rates and other loan terms such as fees, time to close, the availability of online application and loan tracking, and customer service offerings. Taking the time to make an informed decision can save you thousands of dollars over the life of your loan.

When you buy a home or refinance your mortgage, it's a big financial decision, so it makes sense to find the best mortgage lender you can. I'd love to work with you and am here to provide answers to any questions you may have.

