«f80»

TYPICAL LOAN CHOICES

A mortgage broker conducts a thorough assessment of a homeowner's financial situation in order to determine the best mortgage option. Here are a few of the most common home loan choices:

FIXED RATE MORTGAGE

The 30-year fixed rate loan is by far the most popular home loan. It spreads the cost of a home—including finance charges—over 30 years, with a fixed monthly payment for the life of the loan. While few homeowners stay in a home for 30 years, this loan is preferred for its unchanging rate and payment. A down payment of between 5 and 20 percent is required for most fixed rate loans.

Other fixed rate options—10-year, 15-year and 20-year fixed rate loans—are an attractive choice for many homebuyers. These loans (paid off in 10, 15 and 20 years, respectively) can save up to a third of the overall cost of a 30-year loan—simply by requiring a slightly increased monthly mortgage payment.

"BALLOON" MORTGAGE

The balloon mortgage is a fixed-rate loan with a twist. This loan is amortized over 30 years and has a regular monthly payment, but ends after five or seven years. At that time, the homeowner must pay off the loan or refinance it at current market rates. Some balloon loans may even "roll over" to a fixed rate for the remainder of the 30-year term. The primary advantage of this type of loan is the lower initial rate—typically a half percentage point lower for seven-year balloons, and up to three quarters or more percentage points lower for balloons due in five years. It is an attractive option for homebuyers who plan to sell their home before the five or seven-year term is up.

ADJUSTABLE RATE MORTGAGE

As its name suggests, the interest rate on an adjustable rate mortgage changes over time. While the terms for adjustable rate mortgages vary considerably, their primary benefit is a lower payment in the early years of a loan, due to an interest rate that is two or more percentage points below that of a fixed-rate loan. Typically, at the end of the first six months or year and either bi-annually or annually thereafter, the payment on an adjustable loan changes, based on changes to applicable interest rates. Adjustable rate mortgages include price protections for borrowers such as an annual cap on loan rate increases, and a lifetime cap five or six percent above the starting rate.

CONVERTIBLE MORTGAGE

A convertible loan combines the best features of fixed and adjustable mortgages. The loan is an adjustable rate loan—allowing for a low initial rate and then offering the option of converting to a fixed rate during a specified period. This feature removes the element of uncertainty often associated with adjustable rate loans by locking in a specified fixed rate after the initial term. The borrower is spared the unnecessary inconvenience of re-financing or requalifying for a new loan.

FIXED INITIAL RATE MORTGAGE

This loan is the opposite of a convertible mortgage. It begins with a fixed rate for a specified term of three, five or seven years. At that time it converts to an adjustable rate. The advantage of this loan is that it offers the certainty of a fixed rate initially, at a rate lower than that offered on a fixed rate mortgage.

SPECIALIZED LOANS

If a borrower's employment history is too brief, or his or her credit debt too high, or if the borrower wants to qualify for a more expensive home than a lender is willing to approve, then a mortgage broker may be able to provide alternative mortgage sources. The trade-off for one of these more specialized loans is a slightly higher interest rate, higher loan fees, or both.

THE LOAN PROCESS

TIME LINE

The loan process can take from 30 to 90 days, depending on delays and requirements of a finance or sale. The steps to closing a loan are listed here.

PREQUALIFICATION

Consumers should visit a mortgage broker even before they begin shopping for a home in order to get "prequalified" for a loan. This visit guides the borrower in deciding how much he or she can reasonably spend on a home. While prequalification is not an absolute guarantee from a lender, it offers the borrower several advantages. First, it helps the homebuyer identify possible problem areas that may surface in the mortgage process. It also allows the homebuyer to shop comfortably for homes in the approved range. Finally, it demonstrates a buyer's commitment in negotiations with a seller.

To prequalify a borrower, a mortgage broker will ask certain questions, such as:

- What is your household income (from employment, investments, child support, etc.)?
- What is your total debt?
- What are your monthly payment obligations?
- Are you currently employed, and do you have an established pattern of regular employment?
- Have you ever been through a bankruptcy?
- Do you have a history of meeting past obligations?

The prequalification process is an abbreviated form of formally qualifying for a loan. During the actual loan qualification process, the questions may be much more detailed.

QUALIFYING FOR A LOAN

When the loan qualification process begins, the borrower must provide documentation of his or her financial, employment and debt status.

Some requirements may include:

- Proof of employment and salary, including pay stubs from an employer;
- At least two years of tax records;
- Proof of bank balances and credit accounts;
- An explanation for missed payments on a mortgage or any credit account;
- Proof of resolving any past credit problems which appear on a credit report; and
- A demonstrated history of meeting past obligations through credit card, rent and/or other credit records.
- The names of past landlords may also be required.

UNDERWRITING

When a borrower has completed the loan application and provided necessary documents, the mortgage broker then sends the loan package to “underwriting.” This is where the lender examines a borrower’s income, credit and financial history and determines how much money to lend based on perceived risk. For example, someone with a high debt level will qualify for a lower loan amount than another person in the same income bracket—although this could change based on down payment and credit history. A borrower with a bankruptcy on his or her record may be required to take a loan with a higher interest rate. Or in the case of a borrower who is self-employed, great care is taken to verify income.

THE APPRAISAL

An appraisal is required in order to determine the actual value of a home. The mortgage broker hires a certified appraiser to complete a comprehensive evaluation of a home, the land on which it sits, and special features of the home. The appraiser researches the value of comparable homes in the neighborhood to help in determining a home’s true value.

By establishing a home’s true worth, an appraiser guides the lender in determining how much money to lend. Most lenders will lend the borrower only a percentage of the home’s value, generally 80 to 95 percent, with a down payment or existing equity making up the difference. Then, in case the homeowner ceases making payments, the bank is protected from a total loss.

THE CLOSING

When the loan is approved, final loan documents are drawn up, which may include the title report; settlement statement showing total loan costs; loan amortization schedule showing the overall cost of the loan; deed of trust describing the property and the terms of the loan agreement; final Truth-in-Lending Statement and final Good Faith Estimate disclosing all charges and fees; and other pertinent documents. When the paperwork is completed, the borrower is scheduled to sign official documents and pay any required fees or down payments, and within a few days the sale/new loan is recorded by the county. The loan process is now complete.

LOAN FEES

LOAN DISCOUNT FEE

A fee is charged by some mortgage lenders to cover the cost of arranging a loan. The fee can range from several hundred dollars to several thousand. This fee may vary, depending on the loan rate offered by the lender.

POINTS

Except in the cast of a “no points” loan, points are included in the normal origination fees for any home purchase or refinanced loan. A point is defined as one percent of the loan amount. In the case of a $150,000 loan, one point would amount to $1,500. A lender may charge up to several points for a loan.

APPRAISAL FEE

The appraisal fee is another standard cost of a new loan. A typical appraisal fee is $250 to $350, and may increase depending on the size and uniqueness of the property.

OTHER FEES

In addition to the appraisal fee, credit report fee and points, several other fees are charged at the time a loan closes. They may include flood certification, tax service, reconveyance fees, notary fee, title insurance, document preparation, and recording fees to be paid to the title company. Additionally, the homeowner may be required to pay an installment on property taxes and homeowners insurance. In certain instances, the lender keeps the tax and insurance money in an “impound account,” from which it makes regular payments on the homeowner’s property taxes and homeowners insurance.

Mortgage brokers must provide borrowers with a Good Faith Estimate—itemizing all fees and charges—within three business days of when a loan application is accepted. A lender provides a second Good Faith Estimate along with a Truth-in-Lending Statement that calculates the annual percentage rate.

NO POINTS, NO FEES

A lender may offer “no points” and/or “no fees” on any type of loan, saving the borrower out-of-pocket expenses. However, a no points loan doesn’t necessarily relieve a borrower of the other requirements such as the appraisal fee, credit report fee, title fee or down payment. A mortgage lender must charge a slightly higher interest rate on this type of mortgage loan (a fraction of a percentage) in order to compensate for waiving the points and fees.

MORTGAGE TERMS

Affordable Housing Loans

There are many special programs available to certain limited-income and first-time homebuyers, making access to mortgage loans easier. The terms on these loan programs include less cash and lower income requirements, and the ability to demonstrate a good credit history through nontraditional sources like utility records and landlords. Mortgage brokers can help borrowers find affordable housing programs suited to their individual needs.

Bankruptcy

Experiencing a bankruptcy within the last 24 months makes it virtually impossible to qualify for a traditional mortgage loan. Depending on the circumstances of the bankruptcy, the wait may be even longer. However, a borrower with a steady income and/or stable employment history may be able to qualify for a mortgage despite a bankruptcy. A less traditional lender may be willing to provide a loan to this borrower—even though the borrower has been determined to be a “high risk”—in return for a higher interest rate.

Credit Report

A credit report helps determine a borrower's “credit worthiness.” A credit history is generally acceptable if over the last 12 months the borrower has had no payments on revolving and installment accounts that are 60 days or more late; two or less 30-day late payments on such accounts; and no late first or second mortgage or rental payments. Unavoidable credit problems may be allowed, if the borrower can provide a good reason for the problems. Outstanding balances and unresolved credit problems must be taken care of before most lenders will provide a new mortgage. A consumer can help speed up the mortgage process by ordering a copy of his or her credit report before applying for a loan, and resolving outstanding problems. A mortgage broker can help the borrower obtain this report, or the borrower may order a free credit report by writing directly to TRW, P.O. Box 949, Allen TX 75002-0949.

LTV

The “loan-to-value” (LTV) ratio reflects the difference between how much money a lender is willing to lend and the appraised value of a home. A common ratio for a loan is 80 to 95 percent. The gap between the loan amount and the home's purchase price must be made up through a down payment, with other loans secured against the property, or with existing equity in the home.

Mortgage “Locks”

At any time in the loan process, a borrower may be able to “lock in” the current interest rate, which ensures that a loan will be provided at that rate if it closes in a specified number of days (usually 30, 45, or 60). The advantage of accepting a rate lock is that in case rates go up, a borrower who has arranged a rate lock will not pay the higher rate. Some lenders may charge a small fee to “lock in” a rate, which is typically then credited to the borrower's closing costs.

Since there is no guarantee which way rates will go, a rate lock offers the borrower the only protection against rising rates.

How to Select a Mortgage Broker

One of the most important decisions a borrower will make in the mortgage process is who to call for help. Here are some recommended tips for finding a qualified mortgage professional:

- Ask whether the broker belongs to the California Association of Mortgage Brokers. This indicates adherence to stringent legal and ethical guidelines. Most mortgage brokers are also licensed by the California Department of Real Estate.

- Find out how many lenders the broker represents. Most mortgage brokers deal with 50 to 200 different lenders, but concentrate on seven to 10, offering consumers the best possible choice.

- Inquire about the average time to close a loan, so that all parties know up front what to expect. Average time is 30 to 90 days.

- Ask for the names of former clients and talk to one or two.

- Avoid mortgage brokers who fail to demonstrate a professional demeanor and attitude.

- Inquire about the broker's ability to lock in an interest rate. Will the borrower receive the rate quoted in an advertisement, the rate on the day of loan application, or the rate on the day the loan is made?

- Request an accounting of all fees, whether charged by the broker or the lender.

Although the mortgage process is not a simple one, it can be made much less complex and more efficient with the right help. By choosing a mortgage broker, you can demand greater choice, better control over the mortgage process, and the right home loan every time.

Join the scores of homeowners who are choosing the independent home loan source—mortgage brokers—where choice is limited only by your imagination!