Mortgage Facts:
How to Get the Best Home Loan Deal

By BizMove Management Training Institute

Table of Contents

1. The Single Most Critical Factor in Getting the Best Mortgage Deal

Once you consider applying for a Mortgage Loan, one of the first things you need to do is shop around and choose a lender. Choosing a reliable lender that offers good rates is the single most critical factor in getting a good Mortgage deal.

Only by obtaining several quotes that are specific to your situation and location you will be really able to discover the best rate that is available to you. How many quotes? go for at least 3 quotes from different lenders, less than that will not do the job.

Now, usually shopping around for three quotes can be a tedious and time consuming task, however, you can make it easier and more effective by using a free online quoting service such as RateIt-Site (If the link doesn't work, copy and paste the following URL into a browser: **www.liraz.com/rate-site)**.

Rateit-Site will provide you with several competing offers from reliable lenders that offer low rates in your area thus enabling you to compare and pinpoint on the best rate that is available for your location.

Home loans are available from several types of lenders: commercial banks, mortgage companies, and credit unions. Different lenders may quote you different prices, so you should contact several lenders to make sure you're getting the best price. You can also get a home loan through a mortgage broker. Brokers arrange transactions rather than lending money directly; in other words, they find a lender for you. A broker's access to several lenders can mean a wider selection of loan products and terms from which you can choose. Brokers will generally contact several lenders regarding your application, but they are not obligated to find the best deal for you unless they have contracted with you to act as your agent. Consequently, you should consider contacting more than one broker, just as you should with banks or thrift institutions.

Whether you are dealing with a lender or a broker may not always be clear. Some financial institutions operate as both lenders and brokers. And most brokers' advertisements do not use the word "broker." Therefore, be sure to ask whether a broker is involved. This information is important because brokers are usually paid a fee for their services that may be separate from and in addition to the lender's origination or other fees. A broker's compensation may be in the form of "points" paid at closing or as an add-on to your interest rate, or both. You should ask each broker you work with how he or she will be compensated so that you can compare the different fees. Be prepared to negotiate with the brokers as well as the lenders.

Go to Top

2. Essential Information You Should Obtain From Your Mortgage Lender

Be sure to get information about mortgages from several lenders or brokers. Know how much of a down payment you can afford, and find out all the costs involved in the loan.

Knowing just the amount of the monthly payment or the interest rate is not enough. Ask for information about the same loan amount, loan term, and type of loan so that you can compare the information. The following information is important to get from each lender and broker:

Rates

* Ask each lender and broker for a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.

* Ask whether the rate is fixed or adjustable. Keep in mind that when interest rates for adjustable-rate loans go up, generally so does the monthly payment.

* If the rate quoted is for an adjustable-rate loan, ask how your rate and loan payment will vary, including whether your loan payment will be reduced when rates go down.

* Ask about the loan's annual percentage rate (APR). The APR takes into account not only the interest rate but also points, broker fees, and certain other credit charges that you may be required to pay, expressed as a yearly rate.

Points

Points are fees paid to the lender or broker for the loan and are often linked to the interest rate; usually the more points you pay, the lower the rate.

* Check your local newspaper for information about rates and points currently being offered.

* Ask for points to be quoted to you as a dollar amount--rather than just as the number of points--so that you will actually know how much you will have to pay.

Fees

A home loan often involves many fees, such as loan origination or underwriting fees, broker fees, and transaction, settlement, and closing costs. Every lender or broker should be able to give you an estimate of its fees. Many of these fees are negotiable. Some fees are paid when you apply for a loan (such as application and appraisal fees), and others are paid at closing. In some cases, you can borrow the money needed to pay these fees, but doing so will increase your loan amount and total costs. "No cost" loans are sometimes available, but they usually involve higher rates.

* Ask what each fee includes. Several items may be lumped into one fee.

* Ask for an explanation of any fee you do not understand.

Down Payment

Some lenders require 20 percent of the home's purchase price as a down payment. However, many lenders now offer loans that require less than 20 percent down--sometimes as little as 5 percent on conventional loans. If a 20 percent down payment is not made, lenders usually require the home buyer to purchase private mortgage insurance (PMI) to protect the lender in case the home buyer fails to pay. When government-assisted programs such as FHA (Federal Housing Administration), VA (Veterans Administration), or Rural Development Services are available, the down payment requirements may be substantially smaller.

* Ask about the lender's requirements for a down payment, including what you need to do to verify that funds for your down payment are available.

* Ask your lender about special programs it may offer.

If PMI is required for your loan,

* Ask what the total cost of the insurance will be.

* Ask how much your monthly payment will be when including the PMI premium.

* Ask how long you will be required to carry PMI.

Go to Top

3. How to Get the Best Mortgage Deal

Once you know what each lender has to offer, negotiate for the best deal that you can. On any given day, lenders and brokers may offer different prices for the same loan terms to different consumers, even if those consumers have the same loan qualifications. The most likely reason for this difference in price is that loan officers and brokers are often allowed to keep some or all of this difference as extra compensation.

Generally, the difference between the lowest available price for a loan product and any higher price that the borrower agrees to pay is an overage. When overages occur, they are built into the prices quoted to consumers. They can occur in both fixed and variable-rate loans and can be in the form of points, fees, or the interest rate. Whether quoted to you by a loan officer or a broker, the price of any loan may contain overages.

Have the lender or broker write down all the costs associated with the loan. Then ask if the lender or broker will waive or reduce one or more of its fees or agree to a lower rate or fewer points. You'll want to make sure that the lender or broker is not agreeing to lower one fee while raising another or to lower the rate while raising points. There's no harm in asking lenders or brokers if they can give better terms than the original ones they quoted or than those you have found elsewhere.

Once you are satisfied with the terms you have negotiated, you may want to obtain a written lock-in from the lender or broker. The lock-in should include the rate that you have agreed upon, the period the lock-in lasts, and the number of points to be paid. A fee may be charged for locking in the loan rate. This fee may be refundable at closing.

Lock-ins can protect you from rate increases while your loan is being processed; if rates fall, however, you could end up with a less favorable rate. Should that happen, try to negotiate a compromise with the lender or broker.

When buying a home, remember to shop around, to compare costs and terms, and to negotiate for the best deal. Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information both on interest rates and on points for several lenders. Since rates and points can change daily, you'll want to check your newspaper often when shopping for a home loan. But the newspaper does not list the fees, so be sure to ask the lenders about them.

Go to Top

4. Can You Afford This Loan?

Focus on a mortgage that is affordable for you given your other priorities, not how much you qualify for.

Lenders will often tell you how much you are qualified to borrow – that is, how much they are willing to loan you. Several online calculators will compare your income and debts and come up with similar answers based on standard ratios. But how much you could borrow is very different from how much you can afford to repay without stretching your budget for other important items too thin. Lenders do not take into account all your

To know how much you can afford to repay, you’ll need to take a hard look at your family’s income, expenses and savings priorities to see what fits comfortably within your budget. Also, remember that your monthly payment could change in the future, depending on what type of mortgage loan you have. Consider how future, higher mortgage payments will fit in with your budget.

Tip: Don’t forget other mortgage and home-related costs when determining your ideal payment. Homeowner’s insurance, property taxes, and possibly private mortgage insurance or homeowners association fees are typically added to your monthly mortgage payment, so be sure to include these costs when calculating how much you can afford. There may also be costs for repairs and maintenance of your home. You can get estimates from your insurance agent, local tax assessor, homeowners association, and lender. Knowing how much you can comfortably pay each month will also help you estimate a reasonable price range for your new home.

Tip: Don’t sacrifice savings in order to buy a bigger house. When reviewing your budget to determine an affordable mortgage payment, don’t forget about your savings. You likely will still need to save for emergencies, retirement, college for the children, and other priorities even after you’re a homeowner. Consider adding more money to your emergency fund or household fund to avoid going into debt to pay for sudden repairs, expensive replacements, or other necessities.

Before applying for a mortgage loan, make sure you have enough money to cover your monthly expenses. If you're spending less each month than you take home, and the additional debt load will not cut into the amount you've set aside for savings, only then should you consider taking on additional debt.

If you are applying for an ARM, you will need to think carefully about your ability to make future monthly payments once the loan "resets," or adjusts to a new rate after the initial payment period.

Remember...

* Don't sign a contract until you have read it, your questions have been answered and all blank spaces have been filled in.

* Make sure the loan payment and terms you were quoted agree with the loan payment and terms stated in your loan agreement or note.

* You have the legal right to cancel a credit transaction on a refinanced or consolidation loan within three business days from the day the transaction is completed or closed.

* You have the right to change your mind on a home purchase mortgage loan at any time prior to the loan closing.

* You can lose your home if you don't make the payments on your mortgage or home equity loan.

Go to Top

5. What if You Have Credit Problems

Don't assume that minor credit problems or difficulties stemming from unique circumstances, such as illness or temporary loss of income, will limit your loan choices to only high-cost lenders. If your credit report contains negative information that is accurate, but there are good reasons for trusting you to repay a loan, be sure to explain your situation to the lender or broker. If your credit problems cannot be explained, you will probably have to pay more than borrowers who have good credit histories. But don't assume that the only way to get credit is to pay a high price. Ask how your past credit history affects the price of your loan and what you would need to do to get a better price. Take the time to shop around and negotiate the best deal that you can.

Whether you have credit problems or not, it's a good idea to review your credit report for accuracy and completeness before you apply for a loan. To order a copy of your credit report, contact:

* Equifax: (800) 685-1111

* TransUnion: (800) 916-8800

* Experian: (888) 397-3742

Go to Top

6. Mortgage Shopping Worksheet

The Mortgage Shopping Worksheet that follows may help you shop and compare so you get the best deal available. Take it with you when you speak to each lender or broker and write down the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

Basic Information on the Loans

Type of Mortgage: fixed rate, adjustable rate, conventional, FHA, other? If adjustable, see below

Minimum down payment required

Loan term (length of loan)

Contract interest rate

Annual percentage rate (APR)

Points (may be called loan discount points)

Monthly Private Mortgage Insurance (PMI) premiums

How long must you keep PMI?

Estimated monthly escrow for taxes and hazard insurance

Estimated monthly payment (Principal, Interest, Taxes, Insurance, PMI)

Fees

Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents.

Application fee or Loan processing fee

Origination fee or Underwriting fee

Lender fee or Funding fee

Appraisal fee

Attorney fees

Document preparation and recording fees

Broker fees (may be quoted as points, origination fees, or interest rate add-on)

Credit report fee

Other fees

Other Costs at Closing/Settlement

Title search/Title insurance - For lender

Title search/Title insurance - For you

Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow

State and local taxes, stamp taxes, transfer taxes

Flood determination

Prepaid Private Mortgage Insurance (PMI)

Surveys and home inspections

Total Fees and Other Closing/Settlement Cost Estimates _________________

Other Questions and Considerations about the Loan

Are any of the fees or costs waivable?

Prepayment penalties

Is there a prepayment penalty?

If so, how much is it?

How long does the penalty period last? (for example, 3 years? 5 years?)

Are extra principal payments allowed?

Lock-ins

Is the lock-in agreement in writing?

Is there a fee to lock-in?

When does the lock-in occur-at application, approval, or another time?

How long will the lock-in last?

If the rate drops before closing, can you lock-in at a lower rate?

If the loan is an adjustable rate mortgage:

What is the initial rate?

What is the maximum the rate could be next year?

What are the rate and payment caps each year and over the life of the loan?

What is the frequency of rate change and of any changes to the monthly payment?

What is the index that the lender will use?

What margin will the lender add to the index?

Credit life insurance

Does the monthly amount quoted to you include a charge for credit life insurance?

If so, does the lender require credit life insurance as a condition of the loan?

How much does the credit life insurance cost?

How much lower would your monthly payment be without the credit life insurance?

If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?

Go to Top

7. Frequently Asked Mortgage Questions

1. What happens after I apply for a loan?

Unless the lender denies your application, you should look for these four important documents either at or shortly after application:

* Good Faith Estimate (GFE) disclosure. Generally, the lender is required to send to you the GFE within three business days after your application. It explains the basic loan terms and the costs you are likely to pay at the closing for the loan. If you decide to proceed with the loan, this form should give you a reliable estimate of most of the costs involved.

* Truth-In-Lending disclosure. Generally, the lender is required to send you an initial Truth-In-Lending disclosure statement no later than three business days after your application. It will include the following information:

* Mortgage Servicing Disclosure. For many mortgage loans, the lender must provide you with the Mortgage Servicing Disclosure at the time your mortgage application is submitted or send it within three business days. This statement will tell you whether the lender may sell the servicing rights of its loans. If the servicing rights are sold, you will be dealing with a different servicer once you begin making payments on your loan.

* Settlement Cost booklet. The booklet will include information on the various stages of the home-buying process, home sale and purchase agreements, the Good Faith

Estimate, required settlement services to close your loan, and the HUD-1 Settlement Statement that you will receive at closing.

In some cases you may receive additional information that will allow you to shop for loans with different lenders to find the loan most appropriate to your needs:

The only fee a lender or mortgage broker can charge you before you receive the GFE and indicate intent to proceed with the loan is a fee for running your credit report.

After you receive your Good Faith Estimate your lender will verify information in your application before it will make a decision to give you the loan. Your lender will likely ask you for documents to verify your financial situation, such as paystubs or copies of your recent income tax returns as well as other information.

In addition, certain tasks related to the property may need to occur, such as a property appraisal. You may need to obtain homeowner's insurance and possibly other property insurance, such as flood insurance.

2. What's the difference between being prequalified and preapproved for a mortgage?

Prequalification is a lender's estimate of how much you could be eligible to borrow based on information you supply. Prequalification does not mean you will get the loan. Prequalifications are usually free.

Preapproval usually means that the lender is ready to make you a mortgage loan based on the information and documentation you provided at the time you requested a preapproval. The preapproval will say how long it is valid for and may contain some other conditions for you to get the loan. Your lender may not require that you pay any fees except the cost of a credit report at this time.

3. What is the difference between an interest rate and an APR?

There are many costs associated with taking out a mortgage. These include the interest rate, points, fees, and other charges.

The interest rate is the cost of borrowing money expressed as a percentage rate. It does not reflect fees or any other charges you may have to pay for the loan.

An Annual Percentage Rate (APR) is a broader measure of cost to you of borrowing money. The APR reflects not only the interest rate but also the points, broker fees, and certain other charges that you have to pay to get the loan, including certain of your closing costs. For that reason, your APR is usually higher than your interest rate.

TIP: Take care when comparing the APRs of adjustable-rate loans. For adjustable rate loans, the APR does not reflect the maximum or even the likely interest rate your loan may carry. This is important to keep in mind when comparing the APRs of fixed-rate loans with adjustable-rate loans, or among different adjustable-rate loans. Don't look at the APR alone in determining what loan makes the most sense for your circumstances.

4. What is a payoff amount? Is my payoff amount the same as my current balance?

Your payoff amount is how much you will actually have to pay to satisfy the terms of your mortgage loan and pay off your debt. Your payoff amount is different from your current balance, which is the amount you owe as of the date of your statement. Your payoff amount also includes the payment of any interest you owe through the day you intend to pay off your loan, and it may include other fees you have incurred and not paid.

If you are paying off your loan early, you may have to pay a pre-payment penalty. If you are considering paying off your mortgage, you can request a payoff amount from your lender or servicer. If your loan is a “closed-end” loan secured by your “principal dwelling,” once you request a payoff amount servicers must provide you with an accurate statement of the total amount that would be required to satisfy your obligation in full as of a specified date. You can have only one principal dwelling at a time, so this does not include a vacation or other second home.

5. A person I hired to help with my mortgage advised me to stop making payments on my mortgage loan so I could qualify for a loan modification. Do I have to do this?

If anyone tells you to stop making mortgage loan payments, they may be trying to scam you. Not making your mortgage loan payments could hurt your credit score and limit your options.

6. What documents will my lender or mortgage broker request after I have found the right loan for me?

The documents a lender or mortgage broker may require will vary. Your lender or mortgage broker should give you a specific list of what it will need. In general, most request the following:

* A purchase contract, if you have one for the home you are buying

* Social Security numbers or individual taxpayer identification numbers for all borrowers

* Your home addresses for at least the past two years

* Current names, account numbers, and balances of all checking, savings, money market, retirement, and credit card accounts

* The address of your bank branch

* Checking and savings account statements for the past two to three months

* Your most recent pay stubs, W-2s, or other proof of employment and income verification

* Federal income tax returns for the past two years

* Evidence of any other income you receive (child support orders, Social Security award letters)

* Balance sheets and tax returns if you are self-employed

* Divorce settlement papers if applicable

* Canceled checks for rent or utility bill payments, to show payment history and amount of revolving debt

* Information on other consumer debts, such as credit cards, car loans, furniture loans, student loans, and department store credit cards

* Gift letters, if you are using gifts from parents, relatives or organizations to help cover the down payment or closing costs; gift letters state that the money you received is a gift and will not have to be repaid

TIP: A lender or mortgage broker is not permitted to require you to provide any documents to verify your application information as a condition of providing you a Good Faith Estimate. A lender may, however, ask for this information. Lenders and mortgage brokers cannot charge you any fees, except a credit report fee, before you receive a GFE and indicate your intent to proceed with the loan.

7. What are discount points or points?

One “point” equals one percent of the loan amount. For example, on a $100,000 loan, each point costs you $1,000. What is commonly referred to as a “discount point” in the mortgage industry is a point you pay the lender or broker to reduce the interest rate on a loan. In general, the more discount points you pay, the lower the rate. Other fees that do not lower your interest rate may also take the form of points, so be sure to clarify the type of point you are paying.

TIP: You can ask your broker or lender to tell you the dollar amount you will pay in points. If you don’t understand the reason you are paying points for your loan, ask your housing counselor, trusted financial advisor, lender or broker. The best way to avoid problems is not to sign anything you don’t understand.

TIP: Points may be tax deductible. For more information on how to deduct points from your taxes, visit the Internal Revenue Service’s website.

TIP: Determine if paying points makes sense for your situation. How long do you plan to stay in the home? The longer you plan on living in your home, the more sense it may make to pay points. On the other hand, if you’re not sure you will stay in your home for more than a few years, paying points may make less financial sense.

Consult with your lender, trusted financial advisor or housing counselor to determine if paying points benefits your long-term goals.

8. What is a short sale?

A short sale is a sale of your home for less than what you owe on your mortgage. A short sale is an alternative to foreclosure, but requires you to leave your home.

If your lender or servicer acting on the lender's behalf agrees to a short sale, you may be able to sell your home to pay off your mortgage, even if the sale price or proceeds turn out to be less than the balance remaining on your mortgage.

If you live in a state in which you are responsible for any deficiency between the sale price for your home and the amount you still owe on your mortgage loan, you will want to ask your lender or servicer acting on your lender's behalf to waive the deficiency before you go through with a short sale. The deficiency is the difference between the amount owed on a loan and the total amount collected from the sale proceeds. In some states, after a short sale, your lender could sue you to collect the amount of the deficiency. Getting a waiver of deficiency means that the lender waived the right to collect this amount. If the lender waives of the deficiency, get the waiver in writing and keep it.

If you choose this option, a U.S. Department of Housing and Urban Development (HUD)-approved housing counselor can help you plan your next steps. Borrowers who are seeking short sales should also ask about help with relocation expenses, either under the federal government's Home Affordable Foreclosure Alternatives Program (HAMP) under other private programs sometimes called "cash-for-keys."

9. What is the difference between a fixed-rate and adjustable-rate mortgage (ARM) loan?

With a fixed rate mortgage, the interest rate is set when you take out the loan and will not change.

With an adjustable rate mortgage (ARM), the interest rate may go up or down. Many ARMs will start at a lower interest rate than fixed rate mortgages. This initial rate may stay the same for months or years. When this introductory period is over, your interest rate will change and the amount of your payment will likely go up.

Part of the interest rate you pay will be tied to a broader measure of interest rates, called an index. Your payment goes up when this index of interest rates moves higher. When interest rates decline, sometimes your payment may go down, but that is not true for all ARMs. Many ARMs will limit the amount of each adjustment, and set a maximum or "cap" on how high your interest rate can go over the life of the loan. Some ARMs also limit how low your interest rate can go.

TIP: Know how your ARM adjusts. Before taking out an adjustable rate mortgage, find out:

* How high your interest rate and monthly payments can go with each adjustment

* How frequently your interest rate will adjust

* How soon your payment could go up

* If there is a cap on how high your interest rate could go

* If there is a limit on how low your interest rate could go

* If you will still be able to afford the loan if the rate and payment go up to the maximums allowed under the loan contract

TIP: Don't assume you’ll be able to sell your home or refinance your loan before the rate changes. The value of your property could decline or your financial condition could change. If you can’t afford the higher payments on today’s income, you may want to consider another loan.

10. What is a second mortgage loan or "junior-lien"?

A second mortgage or junior-lien is a loan you take out using your house as collateral while you still have another loan secured by your house. Home equity loans and home equity lines of credit (HELOCs) are common examples of second mortgages. Some second mortgages are “open-end” (meaning you can continue to take cash out up to the maximum credit amount and, as you pay down the balance, can draw again up to the same limit) and other second mortgage loans are “closed-end” (in which you receive the entire loan amount upfront and cannot redraw after that).

The term “second” means that if you can no longer pay your mortgages and your home is sold to pay off the debts, this loan is paid off second. If there is not enough equity to pay off both loans completely, your second mortgage loan lender may not get the full amount it is owed. As a result, second mortgage loans often carry higher interest rates than first mortgage loans.

By taking out a second mortgage, you are adding to your overall debt burden. Anytime you add on to your overall debt burden, you make yourself more vulnerable in case you then experience financial difficulties that affect your ability to repay your debts. It is important to know that a major risk with home equity loans or home equity lines of credit is that if you cannot repay a home equity loan or home equity line of credit, you could potentially lose your home because you are using the equity in your home as collateral.

Tip: Be careful using home equity to consolidate higher interest debts. When you use home equity to pay off other debts you really aren’t paying them off. You are merely taking out one loan to repay another. The interest rates may be lower in the short term, but that’s only because you are using your home as collateral. The risk is that if you can’t repay your home equity loan, you could lose your home.

Plus, if you take on more debt, that could make repaying that new debt and existing loans difficult. For example, taking out a mortgage to pay off a five year car loan may have you making payments and paying additional interest for ten, fifteen, or even thirty years. Be careful about trading short-term debt for long-term debt at a higher cost to you.

11. Where can I get money for a down payment?

If you do not have cash for a down payment, there are several options available.

* You can put off buying a home and start saving until you have enough money for a down payment.

* Gifts from parents or others can also be used as down payments, as long as you can present a signed statement saying the money is a gift and not a third-party loan.

* You can also consult with your financial advisor about withdrawing up to $10,000 from a traditional or Roth individual retirement account (IRA), without penalty. Generally, if you are under age 59 and a half, you would have to pay a 10 percent tax penalty on early withdrawals. However, if the money is used to buy, build, or rebuild a home, the penalty may be waived. Consult a trusted tax or financial advisor before making any withdrawal to see if this makes the most financial sense for you.

* In some cases, you can borrow money to make a down payment. However, you should carefully consider that option since borrowing your down payment would increase your overall debt and your monthly payments.

* Sometimes local non-profit or government organizations can offer you a second mortgage on special terms to replace a down payment. For eligible servicemembers or family members, VA loans do not require a down payment.

TIP: Think twice before using retirement savings on your down payment. The biggest benefit of saving in an IRA is the tax-free growth of investment earnings. If you remove the principal to fund your down payment, you'll have less money in the retirement account to earn tax-free interest. Your savings will not grow as quickly. Consult a trusted financial or tax advisor to see if this makes the most financial sense for you.

12. How can I tell who owns my mortgage?

You can send a written request to your servicer asking for information about the identity of the mortgage loan note holder. The servicer is obligated to provide you, to the best of its knowledge, with the name, address, and telephone number of the owner of your loan. In addition, whenever the owner of your loan transfers it to a new owner, the new owner is required to send you a notice telling you its name, address, and telephone number, along with other information.

13. I lost my job and can't make my mortgage loan payments. What can I do?

If you're unemployed, there are federal programs – Home Affordable Unemployment Program or the Hardest Hit Fund – that are designed to help homeowners who have lost their jobs. Foreclosure prevention counseling and homeless counseling services are available free of charge through the U.S. Department of Housing and Urban Development (HUD)'s Housing Counseling Program. Find out if you qualify for one of these programs or what other options you might.

If you are facing imminent foreclosure or have been served with legal papers, you may also need to consult an attorney.

14. What is a subprime mortgage?

A subprime mortgage carries an interest rate higher than the rates of prime mortgages. Prime mortgage interest rates are the rates at which banks and other mortgage lenders may lend money to customers with the best credit histories. Prime mortgages can be either fixed or adjustable rate loans. More often, subprime mortgage loans are adjustable rate mortgages (ARMs). A subprime mortgage is generally a loan that is meant to be offered to prospective borrowers with impaired credit records. The higher interest rate is intended to compensate the lender for accepting the greater risk in lending to such borrowers. The interest rate on subprime and prime ARMs can rise significantly over time.

TIP: Remember that lenders and brokers generally are not obligated to offer you the best deal available. Just because you are offered a subprime mortgage does not mean you won't qualify for a prime mortgage with another lender. You may also qualify for an FHA loan.

15. What is private mortgage insurance? How does PMI work?

Private mortgage insurance (PMI) protects the lender if you stop making payments on your loan. Lenders may require you to purchase PMI if your down payment is less than 20 percent of the sales price or the appraised value of the home. PMI premiums are added to your monthly mortgage payment. You may be able to cancel private mortgage insurance after a few years based on certain criteria, such as paying down your loan balance to a certain amount.

TIP: If you are making a down payment of less than 20 percent, be sure you know if PMI is required and how much the PMI will add to your monthly payments. Not making on-time payments may delay when you can cancel your PMI. Before you commit to paying for mortgage insurance, find out the specific requirements for cancellation.

16. What is the most important thing for me to do when I get my closing papers?

Carefully review all documents that you receive at or before the closing to make sure that the terms of your mortgage have not changed. For example, compare the closing cost items listed on your Good Faith Estimate (GFE) to those on the HUD-1 Settlement Statement by using the Comparison Chart on page three of the HUD-1 and make sure your closing costs have not increased more than is allowed. Ask about any fee you do not understand. You should also review the initial and final Truth-in-Lending disclosures to ensure that the payments are what you expected. Your note will also further describe your legal obligations.

TIP: Make sure you keep the GFE for the loan you select to compare it with your final settlement costs. You can use the GFE and the Comparison Chart on the HUD-1 to see if there have been changes in fees. Ask your lender for an explanation of any changes you see and do not sign papers you do not understand.

17. What is negative amortization?

Amortization means paying off a loan with regular payments. Negative amortization means that even when you pay your minimum payment, because you are not paying the interest, the amount you owe will still go up. Your lender may offer you the choice to make a minimum payment that doesn't cover the interest you owe. The unpaid interest gets added to the amount you borrowed, and the amount you owe increases.

Tip: Try to avoid paying interest on interest.

Certain loans have payment options that let you pay only a portion of the amount of interest you owe each month. If you only pay some of the interest, the amount that you do not pay may get added to your principal balance. Then you end up paying not only interest on the money you borrowed, but interest on the interest you are being charged for the money you borrowed. This dramatically increases the amount of debt you have and the cost of the loan. To keep your debt from growing, try to pay down all of the interest and at least some of the principal you owe.

18. What are closing costs?

Generally, closing costs are fees and costs associated with obtaining the mortgage loan. You pay most of these expenses when signing the final loan documents, or when you "close" the deal. Some common closing costs include:

* Underwriting and/or processing fees

* Appraisal fees

* Pest inspection fees

* Title insurance

* Title inspection and recording fees

Your lender is required to provide you with disclosures about these and other costs after application and again at closing. You may request a statement of these closing costs the day before closing.

TIP: You can save money by shopping for providers of some of the services required by the lender or by negotiating with your lender. You can use the phone book, word of mouth, or the Internet to find service providers. You can obtain multiple estimates for these service providers to compare with estimates quoted by the lender. For example, you may be able to save a substantial amount of money by shopping for title insurance providers.

19. I applied for a mortgage loan and my lender denied my application. What can I do?

Don't be discouraged. Another lender may approve you for a loan. Meanwhile, you should request an explanation from your lender as to why your application was denied. The lender is required to provide you this explanation in writing if you request it, and must to give you copies of the credit score upon which the denial was based.

In addition, you may want to examine your credit by obtaining a credit report at no cost to you if you have not already done so to make sure there are no mistakes.

20. I applied for a mortgage loan and my lender denied my application. What can I do?

Don’t be discouraged. Another lender may approve you for a loan. Meanwhile, you should request an explanation from your lender as to why your application was denied. The lender is required to provide you this explanation in writing if you request it, and must to give you copies of the credit score upon which the denial was based.

In addition, you may want to examine your credit by obtaining a credit report at no cost to you if you have not already done so to make sure there are no mistakes.

21. What happens if I walk away at closing on my first home instead of accepting the loan? Do I have to sign the documents at the closing of my first home purchase?

You do not have to sign anything unless you are satisfied with the terms. You should never sign anything if you do not understand the terms or if you cannot pay back the loan.

If you are borrowing money to buy a home, you likely have a contract with the seller. That contract may limit the amount of time you have to close the sale. That contract may also subject you to legal action if you break the promises you made in it.

Review your contract or seek the advice of an attorney to determine what options you have if you decide to walk away from a particular loan offer. You may be able to secure a new loan or extend the period in which you must close the sale. However, if you cannot do so, you may lose the deposit you paid to the seller when you entered into an agreement to buy their home. The seller may have other legal rights against you.

TIP: If you have a contract with the seller, review the “mortgage clause” in your sales contract. This will tell you whether your deposit will be refunded if the sale is cancelled, if you are unable to get a loan.

TIP: If you are in the process of refinancing your existing mortgage, you do not have any contractual obligation to sign the documents.

22. I disagree with my servicer about the amount they say that I owe. What can I do?

If you disagree with your servicer about how much you owe, you can start by sending your servicer a QWR explaining why you think that it made a mistake. You can use this sample QWR letter to make the request.

Remember to:

* Make sure that your QWR is sent to the address that the servicer uses for receiving QWRs

* Send the QWR separate from your mortgage payment

* Send the QWR certified mail, return receipt requested so you will have confirmation that your QWR arrived

* Continue to make your scheduled mortgage payments

Go to Top

8. Home Loan Glossary

Adjustable-rate loans, also known as variable-rate loans, usually offer a lower initial interest rate than fixed-rate loans. The interest rate fluctuates over the life of the loan based on market conditions, but the loan agreement generally sets maximum and minimum rates. When interest rates rise, generally so do your loan payments; and when interest rates fall, your monthly payments may be lowered.

Annual percentage rate (APR) is the cost of credit expressed as a yearly rate. The APR includes the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay.

Conventional loans are mortgage loans other than those insured or guaranteed by a government agency such as the FHA (Federal Housing Administration), the VA (Veterans Administration), or the Rural Development Services (formerly know as Farmers Home Administration, or FHA).

Escrow is the holding of money or documents by a neutral third party prior to closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Fixed-rate loans generally have repayment terms of 15, 20, or 30 years. Both the interest rate and the monthly payments (for principal and interest) stay the same during the life of the loan.

The interest rate is the cost of borrowing money expressed as a percentage rate. Interest rates can change because of market conditions.

Loan origination fees are fees charged by the lender for processing the loan and are often expressed as a percentage of the loan amount.

Lock-in refers to a written agreement guaranteeing a home buyer a specific interest rate on a home loan provided that the loan is closed within a certain period of time, such as 60 or 90 days. Often the agreement also specifies the number of points to be paid at closing.

A mortgage is a document signed by a borrower when a home loan is made that gives the lender a right to take possession of the property if the borrower fails to pay off the loan.

Overages are the difference between the lowest available price and any higher price that the home buyer agrees to pay for the loan. Loan officers and brokers are often allowed to keep some or all of this difference as extra compensation.

Points are fees paid to the lender for the loan. One point equals 1 percent of the loan amount. Points are usually paid in cash at closing. In some cases, the money needed to pay points can be borrowed, but doing so will increase the loan amount and the total costs.

Private mortgage insurance (PMI) protects the lender against a loss if a borrower defaults on the loan. It is usually required for loans in which the down payment is less than 20 percent of the sales price or, in a refinancing, when the amount financed is greater than 80 percent of the appraised value.

Thrift institution is a general term for savings banks and savings and loan associations.

Transaction, settlement, or closing costs may include application fees; title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorneys' fees; recording fees; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act, the borrower receives a good faith estimate of closing costs at the time of application or within three days of application. The good faith estimate lists each expected cost either as an amount or a range.

Go to Top

Special Bonus:

9. Sixty One Ways to Save Money

Here is a list of tips and ideas that will help you save money in various areas of your life:

Airline Fares

1.You may lower the price of a round trip air fare by as much as two-thirds by making certain your trip includes a Saturday evening stay over, and by purchasing the ticket in advance.

2.To make certain you have a cheap fare, even if you use a travel agent, contact all the airlines that fly where you want to go and ask what the lowest fare to your destination is.

3.Be flexible, if possible. Consider using low fare carriers or alternative airports and keep an eye out for fare wars.

Car Rental

1.Since car rental rates can vary greatly, shop around for the best basic rates. Ask about any additional charges (extra driver, gas, drop-off fees) and special offers.

2.Rental car companies offer various insurance and waiver options. Check with your automobile insurance agent and credit card company in advance to avoid duplicating any coverage you may already have.

New Cars

1.You can save thousands of dollars over the lifetime of a car by selecting a model that combines a low purchase price with low financing, insurance, gasoline, maintenance, and repair costs. Ask your local librarian for new car guides that contain this information.

2.Having selected a model, you can save hundreds of dollars by comparison shopping. Call at least five dealers for price quotes and let each know that you are calling others.

3.Remember there is no "cooling off" period on new car sales. Once you have signed a contract, you are obligated to buy the car.

Used Cars

1.Before buying any used car:

- Compare the seller's asking price with the average retail price in a "bluebook" or other guide to car prices found at many libraries, banks, and credit unions.

- Have a mechanic you trust check the car, especially if the car is sold "as is."

2.Consider purchasing a used car from an individual you know and trust. They are more likely than other sellers to charge a lower price and point out any problems with the car.

Auto Leasing

1.Don't decide to lease a car just because the payments are lower than on a traditional auto loan. The leasing payments may be lower because you don't own the car at the end of the lease.

2.Leasing a car is very complicated. When shopping, consider the price of the car (known as the capitalized cost), your trade-in allowance, any down payment, monthly payments, various fees (excess mileage, excess "wear and tear," end-of- lease), and the cost of buying the car at the end of the lease. Keys to Vehicle Leasing: A Consumer Guide, published by the Federal Reserve Board and Federal Trade Commission, is a valuable source of information about auto leasing.

Gasoline

1.You can save hundreds of dollars a year by comparing prices at different stations, pumping gas yourself, and using the lowest-octane called for in your owner's manual.

2.You can save up to $100 a year on gas by keeping your engine tuned and your tires inflated to their proper pressure.

Car Repairs

1.Consumers lose billions of dollars each year on unneeded or poorly done car repairs. The most important step that you can take to save money on these repairs is to find a skilled, honest mechanic. Before you need repairs, look for a mechanic who:

- is certified and well established;

- has done good work for someone you know; and

- communicates well about repair options and costs.

Auto Insurance

1.You can save several hundred dollars a year by purchasing auto insurance from a licensed, low-price insurer. Call your state insurance department for a publication showing typical prices charged by different companies. Then call at least four of the lowest-priced, licensed insurers to learn what they would charge you for the same coverage.

2.Talk to your agent or insurer about raising your deductibles on collision and comprehensive coverages to at least $500 or, if you have an old car, dropping these coverages altogether. Taking these steps can save you hundreds of dollars a year.

3.Make certain that your new policy is in effect before dropping your old one.

Homeowner/Renter Insurance

1.You can save several hundred dollars a year on homeowner insurance and up to $50 a year on renter insurance by purchasing insurance from a low-price, licensed insurer. Ask your state insurance department for a publication showing typical prices charged by different licensed companies. Then call at least four of the lowest priced insurers to learn what they would charge you. If such a publication is not available, it is even more important to call at least four insurers for price quotes.

2.Make certain you purchase enough coverage to replace the house and its contents. "Replacement" on the house means rebuilding to its current condition.

3.Make certain your new policy is in effect before dropping your old one.

Life Insurance

1.If you want insurance protection only, and not a savings and investment product, buy a term life insurance policy.

2.If you want to buy a whole life, universal life, or other cash value policy, plan to hold it for at least 15 years. Canceling these policies after only a few years can more than double your life insurance costs.

3.Check your public library for information about the financial soundness of insurance companies and the prices they charge. The July 1998 issue of Consumer Reports is a valuable source of information about a number of insurers.

Checking

1.You can save more than $100 a year in fees by selecting a checking account with a low (or no) minimum balance requirement that you can, and do, meet. Request a list of these and other fees that are charged on these accounts.

2.Banking institutions often will drop or lower checking fees if paychecks are directly deposited by your employer. Direct deposit offers the additional advantages of convenience, security, and immediate access to your money.

Savings and Investment Products

1.Before opening a savings or investment account with a bank or other financial institution, find out whether the account is insured by the federal government (FDIC or NCUA). An increasing number of products offered by these institutions, including mutual stock funds and annuities, are not insured.

2.To earn the highest return on savings (annual percentage yield) with little or no risk, consider certificates of deposit (CDs) and treasury bills or notes.

3.Once you select a type of savings or investment product, compare rates and fees offered by different institutions. These rates can vary a lot and, over time, can significantly affect interest earnings.

Credit Cards

1.You can save as much as a thousand dollars or more each year in lower credit card interest charges by paying off your entire bill each month.

2.If you are unable to pay off a large balance, pay as much as you can and switch to a credit card with a low annual percentage rate (APR). For a modest fee, RAM Research Corp. (800-344-7714) will send you a list of low-rate cards. You can obtain a list of low-rate cards by accessing "www.ramresearch.com.cardtrack" on the Internet.

3.You can reduce credit card fees, which may add up to more than $100 a year, by getting rid of all but one or two cards, and by avoiding late payment and over-the-credit limit fees.

Auto Loans

1.If you have significant savings earning a low interest rate, consider making a large down payment or even paying for the car in cash. This could save you as much as several thousand dollars in finance charges.

2.You can save as much as hundreds of dollars in finance charges by shopping for the cheapest loan. Contact several banks, your credit union, and the auto manufacturer's own finance company.

First Mortgage Loans

1.Although your monthly payment may be higher, you can save tens of thousands of dollars in interest charges by shopping for the shortest-term mortgage you can afford. On a $100,000 fixed-rate loan at 8% annual percentage rate (APR), for example, you will pay $90,000 less in interest on a l 5-year mortgage than on a 30-year mortgage.

2.You can save thousands of dollars in interest charges by shopping for the lowest-rate mortgage with the fewest points. On a 15-year, $100,000 fixed-rate mortgage, just lowering the APR from 8.5% to 8.0% can save you more than $5,000 in interest charges. On this mortgage, paying two points instead of three would save you an additional $1,000.

3.If your local newspaper does not periodically run mortgage rate surveys, call at least six lenders for information about their rates (APRs), points, and fees. Then ask an accountant to compute precisely how much each mortgage option will cost and its tax implications.

4.Be aware that the interest rate on most adjustable rate mortgage loans (ARMs) can vary a great deal over the lifetime of the mortgage. An increase of several percentage points might raise payments by hundreds of dollars per month.

Mortgage Refinancing

1.Consider refinancing your mortgage if you can get a rate that is at least one percentage point lower than your existing mortgage rate and plan to keep the new mortgage for several years or more. Ask an accountant to calculate precisely how much your new mortgage (including up-front fees) will cost and whether, in the long run, it will cost less than your current mortgage.

Home Equity Loans

1.Be cautious in taking out home equity loans. These loans reduce the equity that you have built up in your home. If you are unable to make payments, you could lose your home.

2.Compare home equity loans offered by at least four banking institutions. In comparing these loans, consider not only the annual percentage rate (APR) but also points, closing costs, other fees, and the index for any variable rate changes.

Home Purchase

1.You can often negotiate a lower sale price by employing a buyer broker who works for you not the seller. If the buyer broker or the broker's firm also lists properties, there may be a conflict of interest, so ask them to tell you if they are showing you a property that they have listed.

2.Do not purchase any house until it has been examined by a home inspector that you selected.

Renting a Place to Live

1.Do not limit your rental housing search to classified ads or referrals from friends and acquaintances. Select buildings where you would like to live and contact their building manager or owner to see if anything is available.

2.Remember that signing a lease probably obligates you to make all monthly payments for the term of the agreement.

Home Improvement

1.Home repairs often cost thousands of dollars and are the subject of frequent complaints. Select from among several well established, licensed contractors who have submitted written, fixed-price bids for the work.

2.Do not sign any contract that requires full payment before satisfactory completion of the work.

Major Appliances

1.Consult Consumer Reports, available in most public libraries, for information about specific brands and how to evaluate them, including energy use. There are often great price and quality differences among brands.

2.Once you've selected a brand, check the phone book to learn what stores carry this brand, then call at least four of these stores for the prices of specific models. After each store has given you a quote, ask if that's the lowest price they can offer you. This comparison shopping can save you as much as $100 or more.

Electricity

1.To save as much as hundreds of dollars a year on electricity, make certain that any new appliances you purchase, especially air conditioners and furnaces, are energy-efficient. Information on the energy efficiency of major appliances is found on Energy Guide Labels required by federal law.

2.Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to $100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

Home Heating

1.A home energy audit can identify ways to save up to hundreds of dollars a year on home heating (and air conditioning). Ask your electric or gas utility if they can do this audit for free or for a reasonable charge. If they cannot, ask them to refer you to a qualified professional.

Local Telephone Service

1.Check with your phone company to see whether a flat rate or measured service plan will save you the most money.

2.You will usually save money by buying your phones instead of leasing them.

3.Check your local phone bill to see if you have optional services that you don't really need or use. Each option you drop could save you $40 or more each year.

Long Distance Telephone Service

1.Long distance calls made during evenings, at night, or on weekends can cost significantly less than weekday calls.

2.If you make more than a few long distance calls each month, consider subscribing to a calling plan. Call several long distance companies to see which one has the least expensive plan for the calls you make.

3.Whenever possible, dial your long distance calls directly. Using the operator to complete a call can cost you an extra $6.

Food Purchased at Markets

1.You can save hundreds of dollars a year by shopping at the lower-priced food stores. Convenience stores often charge the highest prices.

2.You will spend less on food if you shop with a list.

3.You can save hundreds of dollars a year by comparing price-per-ounce or other unit prices on shelf labels. Stock up on those items with low per-unit costs.

Prescription Drugs

1.Since brand name drugs are usually much more expensive than their generic equivalents, ask your physician and pharmacist for generic drugs whenever appropriate.

2.Since pharmacies may charge widely different prices for the same medicine, call several. When taking a drug for a long time, also consider calling mail-order pharmacies, which often charge lower prices.

Funeral Arrangements

1.Make your wishes known about your funeral, memorial, or burial arrangements in writing. Be cautious about prepaying because there may be risks involved.

2.For information about the least costly options, which could save you several thousand dollars, contact a local memorial society, which is usually listed in the Yellow Pages under funeral services.

3.Before selecting a funeral home, call several and ask for prices of specific goods and services, or visit them to obtain an itemized price list. You are entitled to this information by law and, by using it to comparison shop, you can save hundreds of dollars.

Go to Top

# # # #