the Christine Estes group

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# Master the Mortgage Maze!

Dear Friend,

Mortgage rates have been on the rise, but historically speaking, they are still at record lows. Thanks to the past few years of incredible rates, lenders have produced a multitude of creative financing options for purchasing or refinancing a mortgage.

This vast variety of mortgage options is the theme for my Client Appreciation Program this month. If a lack of knowledge about mortgage options has been the barrier between you and a new home or refinanced mortgage, the enclosed article can get you started on the path to home ownership. As the article explains, shopping for mortgages doesn't have to feel like wandering through a labyrinth in the dark. If you do your research and ask the right questions, you can easily whittle down your options to the most practical and affordable mortgages that fit your situation.

On the back of the article is an overview of some of the more commonly-used terms in mortgage and lending, as well as a chart of how the loan process works. By studying up on your lending lingo, you'll find that the mortgage industry isn't as mysterious as it can sometimes seem. Buying a home is one of the biggest financial decisions you'll ever make; choose carefully, and then enjoy the pride of ownership that comes with owning a home!

And of course! If you would like a referral to an excellent resource in the mortgage industry, please just give me a call and I would be happy to introduce you.

Please do turn this letter over for some other powerful advice on how to protect your identity and what to do if your wallet is stolen…

Sincerely,

***Knowledge really is power…***whenever you come across people who need a service provider, or who are thinking about buying or selling a home, and would appreciate the excellent service that I'm committed to, please call or email with their name, mailing address and business number. I will gladly follow up and help them in every way that I can!

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At some time or other, we have all seen or heard advice about how to protect ourselves from identity fraud. For how many of us, though, is this advice something we're going to get around to doing? Or have we already done it? (I can finally say that Stu and I have copied the contents of our wallets… about 3 minutes ago!!!)

Here are some highlights of simple things to do:

- Consider having only initials and lastname preprinted on your checks instead of your full name. And never include your home phone number or social security number.
- Instead of signing the back of your credit cards, write "Photo ID required."
- Instead of putting your full account number on the checks you send for payment, just use the last 4 numbers (the company you're paying knows what the whole number is)
- Place the contents of your wallet on a copy machine; know who to call and what the account numbers are if there's an issue.
- Carry a copy of your passport when it makes sense too.
- Never carry the original or a copy of your Social Security Number.
- Consider buying a shredder so that you're not throwing out any papers that have your personal information on them.

And here's some powerful advice if you do lose your wallet. Not only cancel your credit cards immediately, but also call the three national credit reporting organizations immediately to place a fraud alert on your name and Social Security number.

Here is the contact information needed there:

- Equifax: 1-800-525-6285
- Experian: 1-888-397-3742
- TransUnion: 1-800-680-7289
- Social Security Administration fraud hotline: 1-800-269-0271

And last but not least, if you'd like to minimize the number of credit card offers you get in the mail – so you can minimize the amount of shredding that you're doing! – simply call 1-800-5-optout to get your name removed from credit card solicitation lists for the next five years.

Now that we've talked about some preventive maintenance tips for our identity, I will ask you to keep an eye out for my mailing in October – it will be full of good reminders on preventive maintenance tasks for our homes as we head into the Fall…

# The Mortgage Smorgasbord


## A guide to knowing your mortgage numbers.

You've found your house, you've made an offer, but now you've got to decide how to pay for it. With all the options available today, trying to decide on a mortgage can be harder than choosing between cheesecake and apple pie at a Swedish buffet. You'll get the best deal if you know your options — here's a guide to the basics of the mortgage miscellany:

### Fixed-Rate Mortgages

Looking for stability? Found your dream home and plan to stay there for the next 15 years? Investigate a fixed-rate mortgage. Whether you go with a 15-, 30- or the new 40-year fixed-rates, these types of mortgages are like getting an insurance policy on your interest rate — the rate stays the same, so your monthly payment also stays constant. The downside of this most common type of mortgage? While the rates never go up, they also never go down, unless you refinance.

### Adjustable Rate Mortgages

Adjustable rate mortgages, or ARMs, have become increasingly popular over the last few years because they start with an attractive, lower fixed-rate, and after an initial period, they adjust according to a specified index. They can look confusing, what with the 3/1, 5/1, 7/1, 10/1 and a handful of other options, but they're easy to read. The first number indicates how many years your interest rate is fixed; the second number indicates how often the rate adjusts after that initial period is over. For example, in a 5/1 ARM, your interest rate stays the same for the first five years, and then adjusts every year after that, up to a cap that you and your lender agree on.

The downfall of these low-rate wonders? After your initial fixed-rate period is over, if interest rates rise, so does your monthly payment. If you can live with that, or if you expect to move in the next few years, then an ARM can save you money over the short term.

### Interest-Only Mortgages

Another increasingly popular mortgage option is an interest-only mortgage. This type of mortgage is best for people whose income comes from infrequent commissions or bonuses, or for those who expect to earn a lot of money over the next few years. With interest-only loans, you pay only the interest on your mortgage for a fixed period of time (usually 5 or 7 years). At the end of this period, you can refinance, pay off the mortgage in a lump sum, or start paying off principal (in addition to your interest payments).

### Balloon Mortgages

These mortgages are similar to an ARM, in that you get a low initial interest rate, but after a set number of years — usually 5 or 7 — the mortgage ends and you have to either pay off the remainder (with a "balloon" payment, hence the name) or reset the mortgage at current interest rates. Payments are amortized over 30 years at an interest rate that's typically lower than a fixed-rate mortgage, so if you plan to move before the balloon maturity date you can usually save money. But if you plan on staying put, and interest rates rise dramatically over the next few years, your payments after a reset could increase substantially as well.

### Low-Doc / No-Doc Mortgages

If you are self-employed or have bad credit but a lot of cash, a low-doc or no-doc mortgage is a good option. When considering you for a low-doc mortgage, lenders typically look for two of three requirements: assets, income and credit. If you meet two of the three, for the price of a slightly higher interest rate you can get easy mortgage approval without having to provide a lengthy financial history.

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# SORTING OUT THE ACRONYMS: A Guide to General Mortgage Terms

With all the complicated terminology, acronyms and industry lingo used in the mortgage industry, even the expert linguist can sometimes find themselves baffled. Collected below are a few of the more common terms used in lending today. If you feel like you and your lender are speaking different languages, reading the definitions listed below can help you get on the same page. In addition, look to the bottom of the page for a visual map on how the lending process works. Most importantly, when discussing mortgages, make sure you talk to a professional that you can trust.

### APR (Annual Percentage Rate)

APR is a number that the Federal government calculates to show the total yearly cost of a mortgage as expressed by the actual rate of interest paid. This number is calculated using a standard formula, which includes the base interest rate, points and any other add-on fees and costs of your mortgage.

### Conventional Loan

Any non-government loan program is a conventional loan, most of which are provided by banks, savings and loans, mortgage bankers and mortgage brokers (basically, the private sector).

### FHA (Federal Housing Administration)

An agency of the Department of Housing and Urban Development. The FHA guarantees certain loan programs for all Americans; insures loans that are made by approved lenders to qualified borrowers; and allows low income and/or low down payment loan borrowers the opportunity to purchase a home that they might not have been eligible for under conventional loan programs.

### GFE (Good Faith Estimate)

Within 72 hours of signing a residential loan application, the federal government requires that a good faith estimate is sent to the borrower, outlining the costs and charges a borrower is likely to incur in connection with the loan closing. However, the GFE is not a guarantee that the applicant will be approved for the loan or that the final amount will be the same figure; the amount (interest rate, terms, conditions) may change pending final loan approval and down payment terms.

### MIP (Mortgage Insurance Premium)

The amount that the FHA charges up front when they insure a loan under one of their programs. The FHA pays the money into a fund where the money is held until it is needed in the event of a default by a buyer.

### PMI (Private Mortgage Insurance)

If a mortgage loan exceeds 80% of the sales price of a home, lenders require insurance coverage that will protect them in the event that a buyer defaults on their loan. The cost of PMI is typically charged to the borrower when the loan to value ratio is greater than 80%.

### Points

An upfront cash payment required by the lender as part of the charge for a loan, expressed as a percent of the loan amount; e.g. "3 points" means a charge equal to 3% of the loan balance.*

### Preapproved

A general term that means that a borrower has completed a loan application and provided their debt, income, and savings information which an underwriter has reviewed and approved.

### Prequalification

A preliminary step in the loan application process, a prequalification is a lender's written opinion of the ability of a borrower to qualify for a particular loan amount. The amount prequalified by the lender is determined based on inquiries into the borrower's debt, income and savings, and may or may not require a credit check.

### Ratios

Ratios are used in the lending industry to determine the probability of a borrower being able to repay a loan—usually this ratio compares the borrower's fixed monthly expenses to his gross monthly income. Certain lenders have different ratio requirements; for example, the FHA requires that a monthly mortgage payment is no more than 29% of monthly gross income (before taxes), and that the total of mortgage payment and non-housing debts is less than 41% of income.

In lending these two figures are represented as 29/41: 29 is the Front-End Ratio (monthly mortgage payment (principal, interest, taxes and homeowners insurance) divided by gross monthly income before taxes); 41 is the Back-End Ratio (monthly mortgage payment plus non-housing debts, such as car loans and credit card debt divided by gross monthly income before taxes).

### TLS (Truth in Lending Statement)

A federal law that requires lenders to fully disclose, in writing, the fees, terms and conditions associated with the loan, including the annual percentage rate (APR) and other charges.

### VA (Veterans Administration)

The department of the federal government that handles all programs associated with veterans of the U.S. military; in the mortgage industry, the agency guarantees loans that are made to veterans (similar to mortgage insurance), thereby encouraging lenders to make mortgages to veterans.

* definition from www.mtgprofessor.com/glossary.htm

## The Loan and Lending Process