

# Loan Recommendation

Years you plan to stay in the house	Recommended program
1-3	3/1 ARM, 1 year ARM or 6 month ARM
3-5	5/1 ARM
5-7	7/1 ARM
7-10	10/1 ARM, 30 year fixed or 15 year fixed
10+	30 year fixed or 15 year fixed

Loan Programs	Advantages	Disadvantages
<b>Fixed Rate Mortgages</b> 30 year fixed 15 year fixed	<ul style="list-style-type: none"> <li>• Monthly payments are fixed over the life of the loan</li> <li>• Interest rate does not change</li> <li>• Protected if rates go up</li> <li>• Can refinance if rates go down</li> </ul>	<ul style="list-style-type: none"> <li>• Higher interest rate</li> <li>• Higher mortgage payments</li> <li>• Rate does not drop if interest rates improve</li> </ul>
<b>Adjustable Rate Mortgages</b> 10/1 ARM 7/1 ARM 3/1 ARM 1 year ARM 6 month ARM 1 month ARM	<ul style="list-style-type: none"> <li>• Lower initial monthly payment</li> <li>• Lower payment over a shorter period of time</li> <li>• Rates and payments may go down if rates improve</li> <li>• May qualify for higher loan amounts</li> </ul>	<ul style="list-style-type: none"> <li>• More risk</li> <li>• Payments may change over time</li> <li>• Potential for high payments if rates go up</li> </ul>
<b>Balloon Mortgages</b> 7 year 5 year	<ul style="list-style-type: none"> <li>• Lower initial monthly payment</li> <li>• Lower payment over a shorter period of time</li> <li>• Many balloon mortgages offer the option to convert to a new loan after the initial term.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk of rates being higher at the end of the initial fixed period</li> <li>• Risk of foreclosure if you cannot make balloon payment or if you cannot refinance or if you cannot exercise the conversion option</li> </ul>
<b>First Time Buyer Programs</b>	<ul style="list-style-type: none"> <li>• Lower down payment</li> <li>• Easier to qualify</li> <li>• Sometimes you may get lower rates</li> </ul>	<ul style="list-style-type: none"> <li>• May be subject to income and property value limitations</li> <li>• Some programs which have government subsidies may have a recapture tax if you sell the house too early.</li> </ul>
<b>Stated Income Programs</b>	<ul style="list-style-type: none"> <li>• Don't need to verify income</li> <li>• Faster approval</li> </ul>	<ul style="list-style-type: none"> <li>• Higher rates</li> <li>• Higher down payment</li> </ul>

No point, No fee Programs	<ul style="list-style-type: none"> <li>• No closing costs</li> <li>• Less money required to close</li> </ul>	<ul style="list-style-type: none"> <li>• Higher rates</li> <li>• Higher payments</li> </ul>
Imperfect Credit Programs	<ul style="list-style-type: none"> <li>• Potential for reestablishing credit if you pay your mortgage on time.</li> <li>• When used for debt consolidation, you may be able to reduce your monthly debt payment</li> </ul>	<ul style="list-style-type: none"> <li>• Higher rates</li> <li>• Terms may not be as favorable</li> <li>• Harder to get long term fixed loans</li> <li>• Loans may have prepayment penalties</li> </ul>
Home Equity Line of Credit	<ul style="list-style-type: none"> <li>• You only borrow what you need</li> <li>• Pay interest only on what you borrow</li> <li>• Flexible access to funds</li> <li>• Interest may be tax deductible</li> </ul>	<ul style="list-style-type: none"> <li>• Rates can change. The maximum interest rate is normally high.</li> <li>• Payments can change</li> <li>• Harder to refinance your first mortgage</li> </ul>
Home Equity Fixed Loan	<ul style="list-style-type: none"> <li>• Fixed payments</li> <li>• Interest may be tax deductible</li> </ul>	<ul style="list-style-type: none"> <li>• Higher interest rates than on 1<sup>st</sup> mortgages</li> <li>• Harder to refinance your first mortgage</li> </ul>

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## Most Mistake You Need To Be Ware Of!

### When you Buying a home

1. **Looking for a home without being pre-approved.** As a potential buyer competing for a property, you'll have a better chance of getting your offer accepted by being as prepared as possible. Consider this hierarchy of preparedness:
  - Neither pre-qualified nor pre-approved
  - Pre-qualified
  - Pre-approved

The benefits available at each level can be easily understood when viewed from the seller's perspective. Imagine you're a seller in receipt of multiple offers to purchase your property. A buyer is asking you to take your property off the market for at least the next two to three weeks while they apply for a loan. As the seller, let consider the type of buyer you'd prefer to deal with.

#### **Pre-qualified**

This buyer has met with a mortgage broker (or lender) and discussed their situation. The buyer has informed the broker regarding their income, expenses, assets and liabilities. The broker may also have seen their credit report. The buyer provided you with a letter from the broker stating an opinion of what the buyer can afford.

#### **Pre-approved**

This buyer has provided a broker written evidence of income, expenses, assets, liabilities and credit. All information has been verified by a lender. As a result, much of the paperwork for this buyer's loan has been completed. This buyer will probably be able to close quickly. They provide you with a letter (pre-approval certificate) from the lender. You're as certain as possible that this buyer can close.

As a potential buyer, you can see that being pre-approved will give you the best chance of getting your offer accepted. This is critical in a competitive situation.

2. **Making verbal agreements.** If you're asked to sign a document containing instructions contrary to your verbal agreements--don't! For example, the seller verbally agrees to include the washing machine in the sale, but the written purchase contract excludes it. The written contract will override the verbal contract. More importantly, your state may require that contracts for the sale of real property be in writing. Do not expect oral agreements to be enforceable.
3. **Choosing a lender just because they have the lowest rate.** While the rate is important, consider the total cost of your loan including the APR, loan fees, discount and origination points. When receiving a quote from a lender or broker, insist that the discount points (charged by the lender to reduce the interest rate) be distinguished from origination points (charged for services rendered in originating the loan).

The cost of the mortgage, however, shouldn't be your only criterion. Have confidence that the company you select is reputable and will deliver the loan with the terms and costs they promised. If in the final hours of the transaction you determine that the lender has suddenly increased their profit margin at your expense, you won't have time to start again with a different lender. Ask family and friends for referrals. Interview prospective mortgage companies.

4. **Not receiving a Good Faith Estimate.** Within three business days after the broker or lender receives your loan application, you must receive a written statement of fees associated with the transaction. This is both the law and the best way to determine what you'll pay for your loan. Bring the Good Faith Estimate (GFE) with you when you sign loan documents. You should not be expected to pay fees which are substantially different from those contained in your GFE.
5. **Not getting a rate lock in writing.** When a mortgage company tells you they have locked your rate, get a written statement detailing the interest rate, the length of the rate lock, and program details.
6. **Buying a home without professional inspections.** Unless you're buying a new home with warranties on most equipment, it's highly recommended that you get property, roof and termite inspections. This way you'll know what you are buying. Inspection reports are great negotiating tools when asking the seller to make needed repairs. When a professional inspector recommends that certain repairs be done, the seller is more likely to agree to do them.

If the seller agrees to make repairs, have your inspector verify that they are done prior to close of escrow. Do not assume that everything was done as promised.

7. **Not shopping for home insurance until you are ready to close.** Start shopping for insurance as soon as you have an accepted offer. Many buyers wait until the last minute to get insurance and do not have time to shop around.

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## When you Refinancing your home

1. **Refinancing with your existing lender without shopping around.** Your existing lender may not have the best rates and programs. There is a general misconception that it is easier to work with your current lender. In most cases, your current lender will require the same documentation as other companies. This is because most loans are sold on the secondary market and have to be approved independently. Even if you have made all your mortgage payments on time, your existing lender will still have to verify assets, liabilities, employment, etc. all over again.
2. **Not doing a break-even analysis.** Determine the total cost of the transaction, and then calculate how much you will save every month. Divide the total cost by the monthly savings to find the number of months you will have to stay in the property to break even. **Example:** if your transaction costs \$2000 and you save \$50/month, you break even in  $2000/50 = 40$  months. In this case you'd refinance if you planned to stay in your home for at least 40 months.

**Note:** This is a simplified break-even analysis. If you are refinancing considering switching from an adjustable to a fixed loan, or from a 30-year loan to a 15-year loan, the analysis becomes much more complex.

3. **Not getting a written good-faith estimate of closing costs.** See item number four above.
4. **Not providing documents to your mortgage company in a timely manner.** When your mortgage company asks you for additional documents, provide them immediately. They are doing what's necessary to get your loan approved and closed. Delays in providing documents can result in a costly delay.
5. **Not getting a rate lock in writing.** When a mortgage company tells you they have locked your rate, get a written statement which includes the interest rate, the length of the rate lock and details about the program.
6. **Pulling cash out of your credit line before you refinance your first mortgage.** Many lenders have cash-out seasoning requirements. This means that if you pull cash out of your credit line for anything other than home improvements, they will consider the refinance to be a cash-out transaction. This usually results in stricter requirements and can, in some cases, break the deal!
7. **Getting a second mortgage before you refinance your first mortgage.** Many mortgage companies look at the combined loan amounts (i.e., the first loan plus the second) when refinancing the first mortgage. If you plan on refinancing your first loan, check with your mortgage company to find out if getting a second will cause your refinance transaction to be turned down.

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## Getting a home-equity loan/line

1. **Getting too large a credit line.** When you get too large a credit line, you can be turned down for other loans because some lenders calculate your payments based upon the available credit--not the used credit. Even when your equity line has a zero balance, having a large equity line indicates a large potential payment, which can make it difficult to qualify for other loans.
2. **Not understanding the difference between an equity loan and an equity line.** An equity **loan** is closed--i.e., you get all your money up front and make fixed payments until it is paid in full. An equity **line** is open--i.e., you can get numerous advances for various amounts as you desire. Most equity lines are accessed through a checkbook or a credit card. For both equity loans and lines, you can only be charged interest on the outstanding principal balance.  
Use an equity loan when you need all the money up front--e.g., for home improvements, debt consolidation, etc. Use an equity line when you have a periodic need for money, or need the money for a future event--e.g., children college tuition in the future.
3. **Getting a home-equity loan from your local bank without shopping around.** Many consumers get their equity line from the bank with which they have their checking account. By all means, consider your bank, but shop around before making a commitment.
4. **Assuming that your home-equity loan is fully tax-deductible.** In some instances, your home-equity loan is NOT tax deductible. Do not depend on your mortgage company for information regarding this matter--check with an accountant or CPA.
5. **Getting a home-equity line of credit when you plan to refinance your first mortgage in the near future.** Many mortgage companies look at the combined loan amounts (i.e., the first loan plus the second) when refinancing the first mortgage. If you plan on refinancing your first, check with your mortgage company to find out if getting a second will cause your refinance to be turned down.
6. **Getting a home-equity line to pay off your credit cards when you're spending is out of control!** When you pay off your credit cards with an equity line, don't continue to abuse your credit cards. If you can't manage the plastic, tear it up!