

Obtaining Your Mortgage Loan

Qualifying for a mortgage loan in today's market may be tougher than it was just last year. Lenders have tightened underwriting requirements for the loan approval process and, in many instances, eliminated "stated income" and "no down payment" loans. Many borrowers took advantage of these so-called "subprime" loans over the last few years, but today are among those reported to be having trouble making their monthly mortgage payments.

Here's what you need to know about obtaining a mortgage in today's market:

Understand Interest Rates

Fortunately, interest rates are at their lowest levels in many years, hovering around 6 percent for a traditional 30-year, fixed-rate mortgage; and about 5.5 percent for a one-year adjustable-rate mortgage, or ARM. To put the numbers into perspective, interest rates are relatively close to where they were when the most recent housing boom began in 2000. By contrast, they climbed as high as 9 percent during the last housing slow-down in the 1990s, and hit 12 percent in the 1980s.

Understand Points

Points are a form of pre-paid interest that you may be required to pay your lender upon the closing of your loan transaction, above your other fees and interest. There are either origination points, which cover your lender's fees, or discount points, known as "buyback" points, which are paid in exchange for lowering your monthly interest rate. With either option, one point is equal to 1 percent of your loan amount. For example, one point on a loan for a home in California at \$500,000 would equal \$5,000. Points may sometimes be charged based on your credit worthiness and your debt-to-income ratio.

Get Pre-Approved

Getting pre-approved for a home loan will allow you to take a written letter of pre-approval from a lender as you shop around for your new home. The pre-approval letter may indicate to a seller that you are a serious buyer. When you go to a lender for pre-approval, you may be asked to produce income statements, and have your credit and debt information carefully scrutinized – be prepared, and collect all documents ahead of time to facilitate the process. When you are attempting to get pre-approved or apply for a mortgage, lenders will review your credit report, which provides a snapshot of your borrowing and repayment history, as well as any outstanding debt. A common credit score also is called a FICO score. (FICO stands for Fair Isaac Corp., the company that developed the scoring method.) FICO scores range from 300 to 850 points, and are rated poor, fair, good, or excellent, depending on your debt load and repayment history. A score closer to 850, or excellent, will not only help you qualify for a loan more easily, but may lower your points and fees.

(continued on back)



Understand Different Loans

FIXED-RATE LOAN: These loans are designed for those with solid credit histories, relatively low debt, and who plan to remain in their homes for several years. Fixed-rate loan payments are predictable and stable since the interest rate is set for the full length, or term, of the loan. Using a fixed interest rate of 6 percent, a 30-year loan of \$400,000, on a \$500,000 home, with a down payment of 20 percent, will produce a monthly payment of \$2,400.

ADJUSTABLE-RATE LOAN: Also known as an ARM loan, these are typically offered at a lower initial interest rate than traditional fixed-rate loans, and can lower your monthly payments for a specified time, which can range from a few months to a few years. Your interest rate, however, will adjust at the end of the specified time period and will readjust periodically thereafter. Depending on market conditions, the rate could be higher or lower than your initial rate. A 30-year loan of \$400,000 on a \$500,000 home, with a down payment of 20 percent, at an adjustable rate of 5.5 percent for the first 12 months, will produce an initial monthly payment of \$2,270.

JUMBO LOAN: These loans are for buyers who need to borrow amounts greater than \$417,000 for a single family home. Jumbo loans carry more risk and, in turn, often come with higher interest rates. A 30-year loan of \$420,000 for a home priced at \$525,000, with a down payment of 20 percent at a fixed interest rate of 6.7 percent, would produce a monthly payment of \$2,710.

LOANS FOR FIRST-TIME BUYERS: There are several programs available that offer loan assistance options for first-time-home buyers. FHA-Insured Loans, for example, are insured by the federal government against default, and are designed to help qualified borrowers who can't afford the down payment required by certain lenders. FHA loans provide up to approximately 97 percent financing (meaning the buyer puts down 3 percent), but you may be required to cover other costs, such as mortgage insurance premiums, and you'll need to meet certain credit qualifications. VA Loans are guaranteed by the U.S. Dept. of Veterans Affairs, and offer low- to no-down payment options for qualified first-time buyers who can provide proof of military service. You also may want to check with your city government for referrals to local, state and federal programs that offer home buyers' assistance for qualified buyers.