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Chicago City Market Centers

Mortgage 101

We all know about predatory lending and subprime loans. How bad did it get? Picture an adjustable-rate loan with a 6-month 'teaser' rate and then rates that change monthly with virtually no cap on how high they could go. Buyers were being approved based on the low 'teaser' rate – and had no hope of making the payment when it fully adjusted. The good news: most types of predatory loans have now been outlawed. The bad news: fewer options exist right now, particularly for people who have credit problems.

1. Your Pre-Approval

Credit Score. Most lenders regard a credit score (called a FICO) above 750 as good – and anything below 700 as a problem. Talk with your lender about what your score is—and potentially how to improve it.	Documented vs. Stated Income. Many people (like realtors) are in jobs that don't have a regular paycheck. In the past such borrowers just went 'Stated Income' and had no problem. Right now Stated Income is not so readily available..	Debt / Income Ratios. A PITI/PITA max of 28% of income without considering other debt or 36% when all other debt payments are added used to be the standard limit, but now you'll find more flexibility often exists.

Conforming. Unless theirs is a jumbo purchase, people with at least 5% down and good credit typically apply for what is called a 'conforming' loan (it conforms to Fannie May / Freddie Mac standards).	FHA. 'Modernized FHA' is the replacement for subprime loans—and, by all counts, a big improvement. Anyone who doesn't qualify for a 'conforming' loan will want to investigate this.	Jumbo. For loans too large to meet 'conforming' guidelines, lenders have 'jumbo' loans. The interest rate may be higher, but typically the down payment requirements stay the same.

2. Down Payment / Earnest Money

30 years ago you COULD buy with less than 20% down, but few did. Why? With less than 20% down, you had to pay PMI (Private Mortgage Insurance), and most hated that idea. The alternative that lenders developed was for the buyer to take out TWO loans—one for 80%, the other for up to 20%. But, as of Jan '07, depending on family income, PMI charges are now tax-deductible, and PMI may no longer be so objectionable.

Choices	NOTES
20% down. With 20% (or more) down you avoid PMI and have a lower monthly payment.	
80 / 10 / 10. Here your cash down payment is 10%, and you avoid PMI by taking out a 2nd mortgage for 10%. (Since the first mortgage 80%, this combination is called 80 / 10 / 10.	
5% down – with PMI. Right now few , if any, enders are offering an 80/15/5 package. What is more readily available is a 5% and a 95% single mortgage (with mortgage insurance required)—but even here not every buyer or property will qualify.	
3.5% down FHA. It used to be that you could go as low as 0% down conventional (Fannie Mae / Freddie Mac). Now few lenders would consider this—and so FHA is now the best option for borrowers with limited down payment or lower credit scores.	
Seller Assistance on Closing Costs. Typically in Cook County a buyer's closing costs are about 2%. Most lenders allow rolling closing costs into the mortgage; we would negotiate the 2% as part the price and then specify on the contract a 2% closing cost credit from the seller	
Earnest Money. A $1,000 initial earnest money typically accompanies a buyer's offer. A later increase to 2% is the minimum many sellers will accept, 3% is the norm, and 5% is the most buyers typically pledge. Whatever it is, it counts toward down payment and closing costs.	

3. Choosing the Right Type of Loan

When you talk with a lender, you may hear the term **PITI** (Principle, Interest, Taxes and Insurance) or, for condo's, **PITA** (A=assessments)—this is your monthly payment We recommend you that you sit with a good lender to explore LOTS of loan options so that you understand what is the best fit for you.

Category	**Current rates/costs per 1,000**			**NOTES**
	Type	Rate	$/1,000/month	
20- or 30-fixed-rate AMORTIZING. Fixed-rate, amortizing were once the only option. Amortizing loans eventually pay off the principal, but note that very little of that occurs early on—and so if you think you will sell or refinance quickly, you may prefer Interest-Only (I.O.).	20-yr fixed: 30-yr fixed:	_______% _______%	$______/1,000/mo. $______/1,000/mo	
	Type	Rate	$/1,000/month	
Amortizing ARM's. (Adjustable Rate Mortgages). Historically, most buyers chose loans like a 5-1 ARM (the 5 in 5-1 means the rates can't change for 5 years—and the 1 means that then they can't go up by more than 1% per year). But, in a time when the difference between fixed and ARM's is low, fewer people choose that option.	5-1 ARM: 7-1 ARM:	_______% _______%	$______/1,000/mo $______/1,000/mo	
	Type	Rate	$/1,000/month	
Interest-Only (I.O.) ARM's. Since an <u>amortizing</u> loan pays off very little principal in the first few years, an INTEREST-ONLY (I.O.) ARM might be the right choice for you.	5-1 ARM I.O.:	_______%	$______/1,000/mo	

4. Recommended Lenders / Loan Officers

It's important to explore all your options with a *<u>good</u>* lender. The key question no longer is "What's your rate?"—now it's "What the best fit for me?" You don't want a risky loan, and you will need a SOLID pre-approval so that you won't get any nasty surprises later.

Mortgage BANKERS are, we think, the single most important resource to be aware of. They are like mortgage <u>brokers</u> in that they work with many individual banks, but they are a step above other mortgage brokers in that they have been licensed to underwrite and fund their own loans. Two of the leading Mortgage Banks in Chicago are:

- **Guaranteed Rate**, located at 3940 N Ravenswood, Chicago, IL 60613. Contact Brian Weis (phone: 773-290-0591; fax: 773-516-5732).
- **A and N Mortgage Services**, Inc, located at 1535 N Dayton, Chicago, IL 60622. Contact Susie Cohn (phone: 312-543-2438, fax: 312-664-5831).

But, if either the client or the property has any kind of 'kink' to it (e.g., a 'jumbo' loan), you may find it best to work with a bank who holds their own paper (meaning they service their own loans rather than sell them). Why? Because, at least in some respects, they can be more aggressive than if they knew they had to sell every loan they took. In Chicago, banks that service their own loans include Harris, Northern Trust, and Bank of America. The loan officer we recommend you call to see if this is a better option is:

- Tammy Hajjar of **Bank of America** (2073 N Lincoln Ave, Chicago IL 60614). Her cell is the best way to reach her (773-726-4374) and her fax is: 866-408-4189).

In some cases, buyers are finding that the only way to get a loan is to turn to a 'hard-money lender' (someone who loans their own money and therefore doesn't have the same need to follow typical guidelines).

- Peter Argiannas at **Gold Coast Bank** (phone 312-587-3200) is a great contact for buyers with high income / high credit/.
- Josh Manchester at **Hawthorne Financial** (630-649-2920) might be particularly good to contact if you need construction financing or a rehab loan.