HOW TO FIND THE RIGHT LENDER

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How To Find the Right Lender

Introduction

By Frank Crowley

As a home buyer, one of the most important parts of the process is getting the mortgage. Unless you have cash for your home purchase, you will need to get financing through a lender. As with all the other areas of real estate, there are millions of Americans in the lending business. The business is highly competitive and thoroughly regulated. Don't fool yourself; there is great money to be made in lending, especially mortgages, and that's why people do it.

As with all aspects of a free enterprise capitalistic society, people have different intentions for their work. Trying to find an ethical provider to give you a loan without taking you to the cleaners can be a long arduous task.

This task begins with knowing what you should be looking for. A home buyer needs to know various aspects of the home mortgage industry and what products may be offered. The home buyer needs to investigate different agencies and what effects laws and regulations can have on the final amount paid on a mortgage. They need to find an outstanding decent honest ethical human being who will give a loan without adding on hidden fees, extra charges or taking advantage of your uninformed knowledge. Most of all, the educated consumer needs to recognize a loan that doesn't offer the best rates possible.

I have compiled this information intended to educate home buyers who are looking to finance a home. I have studied the issues and learned for myself and will now guide my clients towards the right lenders who will give the best rates with the lowest fees. Home owners know that a home is an investment which earns value as well as any other investment in America. After five to ten years of ownership, a homeowner will have enough equity built up in their home that they will be able to upgrade to a larger more luxurious home. Having the best overall rate on a mortgage; application fees, closing costs and total amount paid over the life of a loan, that investment will show the most returns for your investment.

Knowing that the mortgage and the payment schedule is an integral part of creating the valued investment, I will help you choose the best lenders available. I will provide you with all the research information that I have gathered and you can investigate the details for yourself or you can trust my efforts and let me guide you to the best lender for your needs.

This package is intended as a guide to help my clients navigate through the vast amounts of information available to mortgage hunters. Just as it is important to know the price of the house you are buying, the total price of the mortgage is just as important. You wouldn't enter into a purchase contract without knowing the final dollar amount you would pay. The same philosophy should hold true on your mortgage. Because the total interest payments will be as much or more than the amount you borrow, you should be very certain of that amount before the closing. You can negotiate with lenders, because they need your business. Just as home prices can be negotiated using bull dog like tactics, so can mortgages.

As soon as we have pre-qualified you for a home, I can start searching for the perfect home under your criteria. Now let's learn how to shop for a lender.

Ask questions

You can call or go on-line; any lender will start the qualification process immediately. With a small amount of personal information, they can run a credit report and begin researching your ability to repay a loan. This is where your credit report and FICO score come into play. See; Pre-approval for a Mortgage, pg 5. See also; Credit Repair: The Truth About What Can and Cannot be Done,., pg. 6. See also; Tips on buying a Home, pg. 8.

During this conversation you should begin asking questions. The lender may act like they can't answer at this time, until they find out more about your qualifications, just remember their answer.

1. **Are you a direct lender or a broker**? *Answer; what their answer is and your response depend on your standing in the credit field. A first time borrower or a person who is not sure of their credit ability may want to search for a broker. A direct lender, also called a banker will have stricter guidelines and expect better credit scores.*

   You can research this topic at: The Mortgage Professor, http://www.mtgprofessor.com/Default.htm
   Or link to Attachment A Choosing a Broker vs. a Lender *pages 8 - 10.*

2. **What rates are available**? *Answer; These change everyday. Also, the final rate you will receive is based on your FICO score.*
   a. **Is the rate guaranteed?** *The answer should be a yes or no. Long winded answers may mean no.*

3. **What terms are available**? *Answer; every term from 15 years to 50 should be available. The terms of the loan should be your choice.*

4. **What fees will be associated with the qualification process**? *Answer; you should only pay for a credit report up front. The future fees will be listed on the California Mortgage Loan Disclosure Statement.*

   b. **What are the discount/origination fees on the underlying loan?** *Answer; Hopefully none. These fees are charged by some lenders and should be part of the points charged. It is then charged as a percentage of the loan.*

5. **How much are they going to charge in closing/settlement costs to get it done?** *Answer; The answer to this question can be long and confusing. The Mortgage Professor has very thorough answers. I highly recommend visiting his website and reading many of the articles and information he provides.*

6. **Can I get the fees returned if I choose not to use your service**? *Answer; Not the credit report fee but you can get a copy of that report. You can't use it with your next application, but you can use it to check whether or not future creditors are being honest with you. If you pay upfront fees, it is a sign that the lender is looking to make his living in an area other than giving loans. Ask before you pay any fees if you can have them returned and get it in writing.*

A local broker/realtor has given me permission to use one of his articles within my paper. I trust this person and will suggest you make him one of your choices when applying for a mortgage. Please let him know I sent you.

Questions You Should Ask Prospective Loan Providers
Mortgage
by Dan Melson

Questions you must ask every provider about every loan when you are shopping. Permission is hereby granted to print this out and use it for non-commercial purposes so long as no alterations are made and copyright is preserved.

(Disclaimer: This list is trying to be as exhaustive as possible, but is likely missing some important questions. If you have one that I missed, send it to me: (dm@searchlightcrusade.net)

Is there a prepayment penalty?

If so, for how long and under what terms?

What is the interest rate?

What is the amortization period?

Is there a possibility that the note will be due in full before the amortization pays it off? (Vaguely equivalent to "is there a balloon?" but a broader question)

Is the payment interest only, or principal and interest?

(if interest only) how long is it interest only, and what happens afterward?

Is there any possibility of negative amortization (the balance increasing) if I make the minimum payment? (See my post on the Negative Amortization Loan linked at the bottom of this article)

Is the nominal rate different from the real rate of interest I would be charged?

How long is the rate fixed for?

(If fixed for less than the full period of the loan) What is the rate based upon when it adjusts, what is the margin, and how often does it adjust?

What is the industry standard name for this loan type?

Is the rate you are quoting me based upon full documentation, stated income, NINA or EZ Doc?

(If full or EZ doc) Assuming I have other monthly payments of $X (where $X is your other monthly payments), how much monthly income do I have to

document in order to qualify? (If this is more than you make, Warning!)

How many points TOTAL will I have to pay to get that rate.

How many points of origination will I be charged?

How many discount points will I have to pay?

What are the closing costs I will have to pay?

(because they are allowed to omit third party costs from all estimates and totals, you must add the answers to the next three questions to the previous question unless the provider specifically includes them)

How much will the appraisal fee be?

How much will total title charges be?

How much will the escrow fee be.

Who will my title company be?

Who will my escrow company be?
(If escrow company is not owned by title company, i.e. same name, be prepared for unknown additional title charges).

How much, total, will I be expected to pay out of my pocket?

How much, total, will be added to my mortgage balance?

With everything added to my mortgage balance, what will my payment be?

How long of a rate lock is included with this quote?

What do you need in order to lock this loan?

If I say I want this right now, will you personally guarantee this rate with those closing costs, and will you cover the difference (if any) between the quote and the actual final cost?

If you don't deliver this loan to the specifications you indicate, will you promise in writing to release the appraisal so that I don't have to pay for two appraisals?

After you have finished talking to this person, go check out the numbers. If you have a calculator that can handle mortgage calculations, use it. If you're able to do the calculations yourself, even better. Otherwise, do a web search for payment calculators or mortgage calculators or amortization calculators, and try out a couple of different ones (because some web calculators on lenders sites are programmed to lie!). This is math – there is only one right answer! The numbers should come out the same except for rounding errors! If the difference is more than five dollars in any case, that's a red flag!

Because the loan rates you get with your loan will be based upon your FICO score, it is important to know your score. Learn about the different mortgages by reading these full attachments;

Attachment B - "Your First Steps Towards Home Ownership" by The Mortgage Bankers Association, Pages 11 - 18,
Online version, www.homelearningcenter.com

Attachment C – " Shopping for a loan". By the U.S. Department of Housing and Urban Development, Pages 20 - 22,
Online version, U.S. Department of Housing and Urban Development

Choose the type and terms of your desired loan

The type and term of your note is perhaps the most important decision in shopping for your mortgage. Instead of looking at the amount of the monthly payment, consider mixing in the total amount you will pay during the length of your loan. Additionally, as we are seeing in the foreclosure debacle, consider planned and unplanned changes in the near future. Adjustable Rate Mortgages are called that because they adjust. Remember, if the economy turns sour your lender will try to make up some of his lost profits by adjusting your mortgage. That doesn't seem to be fair, and it isn't. Just when the economy turns south, who feels it more than the consumer, the bank dives in and changes your monthly payment. The bottom line; ARM's are a gamble. You are gambling that you will be able to re-finance your home before the rate rises. Are you ready to lose?
Of course, the smaller monthly payment afforded with the ARM may be just the opening into the housing market you need.
Investigating the various loans available is paramount in making a logical decision. Please study the available loans and terms associated with them.
See attachment C from the U.S. Department of Housing and Urban Development. Page 19.

Pre-approval for a Mortgage

By REBECCA FAIRLEY RANEY
The New York Times
Published: July 20, 2006

Before you make an offer on a house, you need to know whether a lender rates you as a good credit risk or a bad one.

In fact, many real estate agents will request that buyers check their credit before they tour the first house. That process is called pre-approval or pre-qualifying for a loan, and it can help buyers and their agents get a good idea of exactly how much money they can afford to pay for a house.
“It allows the Realtor to zero in on price points on properties,” said Charles M. Staro, chief executive of the New York State Association of Realtors. “Unless they've got someone who's qualified, they're not going to waste their time.”

The credit score is the primary piece of information that banks review to make this assessment. If you have ever bought a car or opened a credit card account, then the credit bureaus have already calculated a score for you. That number can range between 200 and 850, and the higher the score, the better. A score near the top means that you pay your bills on time and do not sustain large balances on your credit cards, and that you have been responsible with your credit over time.

While lenders say that they do not use a single box score to separate a good risk from a bad risk, if your credit score is too low, you run the risk of not qualifying for the best interest rate available. In that case, you can end up paying hundreds of dollars a month more for your mortgage, and you may not be able to afford the house you want.

Craig Watts, public affairs manager for the Fair Isaac Corporation, which invented the standardized FICO credit score, recommends that consumers check the score six months before buying a house. That way, you have time to improve the score if you need to.

“The encouraging word is that every score can be rehabilitated,” he said.

Aside from diligently paying bills on time and keeping credit card balances low, Mr. Watts recommends against opening new credit accounts in the months before buying a house.

“Forget the airline miles. Forget the 10 percent discount at the retail counter,” he said. “Don't succumb to temptation, and you will have a spartan credit report and a stellar credit score.”

These actions will improve other assessments made by lenders as well. They also assess buyers’ histories of bankruptcies, tax liens, income and bank account activity to determine their ability — and their willingness — to pay the loan.

Locking In a Rate

Once you have qualified for a loan and made an offer on a house, your next decision involves whether to request that the bank lock in a specific interest rate on a loan. Lending experts say that when interest rates are changing rapidly, paying to secure a specific a rate is a good strategy.

Doug Perry, senior vice president of the consumer markets division of Countrywide

Home Loans, among the nation's top lenders, said that fees to lock depend upon how many days or weeks the customer needs to lock the rate. The base fee can differ from customer to customer, but typically, he said, the difference between a 30-day lock and a 15-day lock is one-eighth of a percent of the total value of the mortgage. The shorter the period between loan approval and closing the deal on the house, the better.

"The terms can change dramatically during the course of that period," Mr. Perry said. The fee for locking, he said, "represents an expense for a lender. The lender hedges it. The longer you want to lock, the higher the expense."

The key on getting the best deal for locking a rate is to check with several lenders.

"Shop around and ask questions," said Jeanne Hogarth, manager of consumer education and research for the Federal Reserve Bank.

"If you get a quarter-point fee from one institution, you have no idea if that's good or bad until you ask another bank."

Read The Note

By Frank Crowley

When it comes time to sign your mortgage papers, Called the signing. It is the homeowners responsibility to protect themselves, their credit and their money and actually read the note they are about to sign.

Of all I have learned during my time in real estate, I am most shocked that there seems to be so little protection for the consumer in this part of the home buying process. I believe that the present foreclosure debacle within America is due to lenders changing the terms of the loan (note) from the time of shopping to the time of signing.

Credit Repair: The Truth About What Can and Cannot be Done

By Edward Jamison, Esq.

Contrary to what the credit bureaus would like you to believe, credit repair does work and can work for 100% of people in most circumstances. This is, of course, provided you are getting the best advice and have an experienced professional working on your case.

Any one with a credit score below 720 can benefit long-term from the advice and information provided through credit repair; however, there are times when your own limitations make adhering to this advice impossible. The two limiting factors are: (1) your financial situation and (2) the time frame within you need to reach your results. It is possible to remove anything from a credit report, even accurate items, if the creditor does not adhere to the law the outlines what needs to be done and by when. Just because you have a certain type of account removed at one time does not mean other, similar items are going to be able to be removed, even with the same circumstances. A hit-or-miss aspect exists in credit repair, because credit repair relies not only on the strategies of the person attempting to repair the credit, but also on the effectiveness or ineffectiveness of the creditors and credit bureaus in adhering to the laws. Sometimes you want the credit bureaus and credit bureaus to follow the law, sometimes you don't-it all depends on your particular situation.

The reason credit repair has received such a bad name is due to the abundance of scam artists who flock to the easy money made available by people desperate for this type of service.

This unfortunate reality leads the credit bureaus and the FTC to make blanket, untrue statements such as, "Credit repair does not work ever and there is nothing a credit repair company can do for you that you can't do for yourself." Given that more than 90% of credit repair companies are scam artists, promising the world and then disappearing when you pay, the credit bureaus and the FTC are forced to make such bold statements. It would be impossible for them to explain the truth to consumers without causing them to make a bad choice that would result in the getting scammed.

As a result, the credit bureaus and the FTC must adhere to the "credit repair does not work" position.

As I have stated, credit repair does work, but…don't let anyone tell you that credit repair is effective every time. Its success varies with the number of players in the game, some of whom never perform consistently. Even if you have a true master of credit repair on your side, you have to take into account that sometimes the other players perform in a way that throws your master of his game. Take Shaquille O'Neal. Although he has the ability to win every game for his team, there are going to be times when the other team has a formation that takes him off his game and causes his results to be less than optimal. Given that fact, you still cannot predict to any level of certainty whether or not he will perform well or poorly the next time he faces that team. Credit repair is similar. Sometimes the opposing side shows up strong, other times they don't. Even if you follow the same approach with every situation that arises when doing credit repair, your results will still vary due to the other players involved. So the next time someone tells you they can get everything repaired on your credit, run the other way, because, at best, the pendulum will swing widely both ways for the same situation.

Credit repair limitations occur almost 100% of the time under the following situations. These situations make it nearly impossible for credit repair to help someone needing results within six months to a year. Please keep in mind even when you can't be helped in the short term, the advice that can be given now, if coming from a professional, can prevent you from making a mistake in the near future that may worsen your situation. Here are examples of situations where not much can be done with-in a six to twelve month period.

1. If more than 50% of the negative accounts showing on the credit report appear as unpaid collections, charge-offs, repossessions, or foreclosures and you do not have the money to either pay the accounts in full or settle them. Due to the negative accounts remaining unpaid, these items will simply reappear on your report once removed. Any negatives, even unpaid accounts, can be removed-but, unless the negative account is current, paid or settled, it will simply reappear in 10-90 days.

The only way to prevent this is to bring the account current by paying the past due amount, or, in the case of a collection, charge-off, repossession, or foreclosure, pay the balance in full or settle it for pennies on the dollar. Unpaid accounts that do not have collection, charge-off, repossession or foreclosure status require only that the past due balance be paid to be considered current. Unless the negative account is a public record, the only way to keep it from being re-reported is to make sure the status is "current, paid, settled, transferred or sold." In other words, if deleted, any negative account that does not show one of those five statuses will most likely get re-reported, unless the account is a public record.

Public records are the only negative items that do not need to be paid to prevent re-reporting.

Because they are only reported once, public records, such as unpaid judgments and tax liens, can remain unpaid and yet will not reappear once they are removed. In fact, the only time they reappear is when the initial reason for removal was the public record agency failing to respond the credit bureaus' verification request with-in the 30 day period outlined by the Fair Credit Reporting Act, in which case the credit bureau would reinsert the public record if and when the public record agency responds to the credit bureaus after that 30 day period.

2. Credit repair is nearly impossible if you can't pay your minimum monthly payments and you keep adding new late payments to your report. This is a "spinning wheels" scenario that rarely yields much improvement to your credit score.

In conclusion, you can repair your credit if you hire a pro and listen to his or her professional advice. The effectiveness of the credit repair depends not only on the skill of the professional you hire and your ability to cooperate with his or her advice, but also, a little luck.

www.jamisonlawgroup.com
www.creditreportingparadigm.com
www.getcreditsavvy.com

Tips on buying a Home

By Michelle Morris

- Your credit report should have 5 OPEN lines of credit with 2 year history with available credit of at least 2000.00 per line. (3-4 is also okay but 5 is preferred)
- Never go over 50% of your "AVAILABLE CREDIT" on any one given credit card- this will pull on your credit scores.
- Always pay your payments on time- 30 day late will cause your credit to decrease greatly.
- When you buy a home there are NON RECURRING and RECURRING Closing costs – have around 7K saved up for these and reserves.
- Keep your taxes, pay-stubs and W2's, all bank statements and all stocks, bonds and IRA statements in file folders we will need later.
- If you are getting any gift money from relatives get in your bank account ASAP and get it seasoned for 2 months before you purchase. It is easier and less documentation.
- You will need at least 2 months PITI (Principal, Interest, Taxes and insurance) in reserve after you close to show the lender at the close of escrow- Above and beyond the Closing cost money
- Do Not have anyone pull your credit- do not apply for new credit cards during the process and do not co-sign for anyone before or during the home buying process.
- Employment for 2 years is preferred in the same line of work- (you can have multiple jobs as long as they are related)
- If you are W-2 and switching to self –Employed anytime soon buy first—you have to prove a 2 year history of self employment when you switch from W-2 to Self Employed.
- Do not go out and buy a car or add any debt during the process.
- Do not consolidate credit cards onto a lower interest rate card- they pull your credit and drop your score.
- Lender base everything on risk factors- the lower the risk factors the better rates and programs available to you- so good credit, good employment, reserves in the bank are very important.
- If you are thinking about purchasing within the next few months or years it is best to contact me to review your individual variables and to make sure we set you up to get the best possible rate on your Home Loan!

Please feel free to call me anytime for your FREE evaluation and consultation!

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Attachment A

Choosing a Broker vs. a Lender

By BOB TEDESCHI
Published: July 20, 2006
The New York Times

Homebuyers could be forgiven for not understanding the difference between mortgage brokers and mortgage bankers. They both sell loans. Why choose one over the other?

To an increasing degree, mortgage specialists say borrowers should not, in fact, necessarily choose one over the other – at least on the basis of the title alone. "The lines between these functions have been blurring for years," said

Keith Gumbinger, a vice president at HSH Associates, a financial publisher based in Pompton Plains, N.J. "We suggest people shouldn't worry about the functionality, and instead treat all the potential mortgage outlets in the same way. No matter who you're working with, you're shopping for two things: price and customer service."

Mr. Gumbinger and mortgage industry executives said the better that borrowers understand how mortgage lenders and brokers operate, and the better they understand their own credit characteristics, the more likely they will find a loan provider to satisfy both criteria.

Mortgage brokers play a pivotal, if often misunderstood, role in the borrowing process. Brokers track the continuously changing wholesale mortgage market, looking for loan terms that will benefit their clients, yes, but also loans that benefit their own businesses.

Brokers may, for instance, find a good loan for a borrower, but their primary objective is to make a profit off the transaction. If a borrower's credit characteristics make him an ideal candidate for a loan that they can sell to the borrower at a profit, the brokers may work especially hard to earn the borrower's business.

On the other hand, the borrower's credit might qualify him for a sub prime (or high-interest) loan that the broker has little experience with, and little interest in selling. Or, the borrower's application might require extra paperwork to shore up a weak credit or employment history.

Brokers will generally have access to a wider array of loan products than mortgage bankers, and so they will often be better able to serve such applicants. But if the applicant does not fit the broker's typical portfolio, he may compete less vigorously for the borrower's business, pricing the loan higher than other lenders with the time or willingness to serve such applicants.

Of course, the same is true for mortgage bankers, who in years past sold only loans funded directly by their financial institutions. But over the past decade, Mr. Gumbinger said, mortgage banks and their loan officers have begun acting like brokers, selling loans on behalf of other institutions when their own products do not suit an applicant's needs. Like brokers, lenders who do this will build profit into the price they quote borrowers, just as they would when selling their own institution's loan directly.

For those hoping to get the best price and service, Mr. Gumbinger said, shopping around is a must, and an open mind helps. "You'll probably find that the least expensive loan comes from places you've never heard of," he said. "The lower the overhead costs for the broker, the more likely you'll find lower prices."

But lower-cost brokers frequently do not have money to advertise widely, Mr. Gumbinger added. "That's why referrals become so important," he said.

Even with a solid referral, though, borrowers should approach prospective lenders with a good sense of what they want. "Tell them you're buying a home in this specific location, your credit score is 760, you're looking for a 7/1 ARM with no points, and you don't want to spend more than $1,000 in broker fees. Then ask what kind of rates they can offer today."

The more precisely borrowers know their circumstances and can define themselves for the broker or lender, the more efficient the process will be for everyone involved, Mr. Gumbinger said. "And it'll also make it easier to spot a good deal."

Some mortgage brokers simplify the process further, by guaranteeing their fees at the start of the process, rather than exposing borrowers to surprise costs at the closing. These businesses are easily found through the Upfront Mortgage Brokers, a nonprofit group consisting of brokers who pledge, among other things, to guarantee their fees and disclose the wholesale cost of the loans they sell.

A state-by-state list of Upfront Mortgage Brokers and a more in-depth explanation of the organization can be found at www.mtgprofessor.com.

A corresponding list and full description of Upfront Mortgage Lenders, who disclose and guarantee their fees early in the negotiation process, also appears on the site, although borrowers looking for just the list can save themselves a few clicks. The only lenders who currently participate in the program are Eloan.com and Amerisave.

Attachment B

Your First Steps toward Homeownership

The Mortgage Bankers Association
www.homeloanlearningcenter.com

Getting Started

Many people don't even consider buying a home because they're afraid they can't afford it. But for most people, homeownership is within reach — especially with special programs for first-time homebuyers. In fact, for many, homeownership is as affordable as renting — in some cases even more affordable.

Know Your Finances

There's no substitute for being prepared, and that means having a real budget. Be honest. Be realistic. Know how much is coming in every month — and how much is going out. It will not only help you, but also help professionals, like your lender, do the best they can for you.

Choose a Lender Before You Shop for a Home

Mortgages are complicated financial transactions, but lenders are experienced in explaining the ins and outs of home loans to first-time homebuyers like you. Here's what
a lender will do for you, in addition to lending you money:

- Help you determine just how much house you can afford
- Identify the different types of mortgages that meet your specific financial needs.

What's more, if you choose your lender early in the process, you'll already have a strong working relationship when it actually comes time to apply for your mortgage.

There's nothing worse than falling in love with a house you can't afford — unless it's bypassing a house you could have afforded. That's why it's so important for you to have a good idea of how much house you can afford. Most people can't do that alone.

If you work with a lender before you decide on a home, you'll know whether you qualify for a mortgage large enough to finance the home you want — and if you don't
qualify; you'll know what steps to take to get you there in the near future.

Which Mortgage Is Right for You?

Okay, you've chosen a lender. You have your eye on a home. What type of mortgage should you get?

Not long ago, there was only one kind of mortgage: 30-year fixed-rate (the borrower has 30 years to pay back the mortgage, and the interest rate is fixed). While it is still
the most common home loan, there are now several other kinds of mortgages that may better fit your situation.

Many different factors can, and should, influence your selection of a mortgage. As you read about the different mortgages that are generally available and discuss specific options with your lender, keep the following five factors in mind:

- Your current financial situation and resources
- How you expect your finances to change in the future
- How long you intend to keep the home you're buying
- How comfortable you might be with the idea of your mortgage payment changing from time to time
- How rapidly you want to build equity

Common Mortgage Choices

Fixed-Rate Mortgages

With this type of mortgage, the interest rate is fixed for the entire term of the loan. Your monthly payments for interest and principal never change. Changes in property taxes and homeowners insurance, usually a part of your monthly payment, may increase or decrease that payment amount, but generally your mortgage payment will be very stable.

Key Advantage: Predictability. Essentially, you know what your mortgage payments will be for the life of the mortgage.

Key Disadvantage: Higher interest rate (compared to initial rates of adjustable-rate mortgages).

Types of Fixed-Rate Mortgages

30-Year Fixed Rate Mortgage. This very conventional loan offers the lowest monthly payments of any of the common fixed-rate loans.

Why this loan: For people planning to remain in the home for many years and wishing to keep housing expenses consistent.

15-Year Fixed Rate Mortgage. This loan has a shorter life — 15 years. Because the loan is shorter, you'll pay less than half the total interest of a 30-year mortgage. However, because you repay the loan in half the time, the monthly payments are higher than those of a 30-year mortgage.

Why this loan: For people who can afford the higher monthly payments, it allows you to own your home before your children start college or before you reach retirement.

Bi-weekly Mortgage. This is usually a 30-year fixed rate mortgage. What's different is that payment for half the monthly amount is made every two weeks. In this way, you make the equivalent of 13 months worth of payments every year. Also, because your payments are applied to the loan every 14 days, the principal amount decreases faster, saving even more in interest costs. As a result, your loan term can shorten to 18 or 22 years, providing a substantial decrease in total interest costs.

Government-Backed Mortgages

Most mortgage lenders offer special mortgages backed by agencies of the U.S. government (and many state and local governments as well) that can make getting a first mortgage easier.

While most are not open to everyone, they can provide significant benefits to those who qualify.

FHA (Federal Housing Administration) Mortgages

These are government-insured loans, primarily for first-time homebuyers, offering a lower down payment than a conventional mortgage — as little as three percent. Their guidelines let more people qualify, and down payments may be borrowed from a relative. Each area of the country has a designated maximum loan amount, as determined by the Department of Housing and Urban Development.

VA (Department of Veterans Affairs) Mortgages

These government-insured loans are available to veterans of the armed services, those currently on active duty or in the reserves, and widows or widowers of veterans.

Like FHA loans, VA loans have guidelines that allow more people to qualify. In addition, VA loans that do not require a down payment are available. There are limits on the size of VA loans, but they are large enough to cover the purchase of moderately priced homes virtually everywhere.

RHCDS (Rural Housing and Community Development Service)

This service provides home financing to qualified borrowers who are unable to obtain home financing elsewhere. If you are a farmer, or live in a rural area, ask your mortgage lender if you qualify.

Other special loan programs administered by housing finance administrations, other state and local government agencies or even private organizations may be available in your area. Like FHA and VA loans, these programs can offer lower down payments and less stringent qualification guidelines.

Why this loan: For people who are paid every two weeks and are willing to make a half payment from each paycheck, this loan offers rapid building of equity.

Adjustable-Rate Mortgages

Adjustable-rate mortgages (ARMs) have an interest rate that changes at specified intervals. If interest rates go up during that time, so will your monthly mortgage payment.
By the same token, if rates go down, your mortgage payment will also drop.

With an ARM, you and your lender share the potential risks of changes in interest rates. As a result, an ARM offers an initial interest rate that can be as much as two to three percent lower than a comparable fixed-rate mortgage.

Developed when interest rates were high, ARMs remain a good choice for those who expect their income to increase, who don't expect to be in their home for a long time, and generally when interest rates are relatively high.
However, because the interest rate can increase, you must have the resources to keep up with possible changes in your mortgage payment.

Key Advantages: Lower initial interest rate compared to fixed-rate mortgages, which can make homeownership more affordable and make qualifying for a mortgage easier. If interest rates decline, your mortgage payments decline as well.

Key Disadvantages: The potential for higher monthly payments if interest rates increase.

A Little More about ARMs

There are four basic "ingredients" in all ARMs, and different mortgages combine them in different ways.
While your lender can tell you more about the ARMs available in your area, here are some helpful definitions.

Initial Interest Rate. The benchmark for your loan, it will typically be two to three percent lower than a comparable fixed-rate mortgage.

Index. The economic indicator used to determine changes to your ARM's interest rate. Your loan is "tied" to this index. As that number rises and falls, so does your interest rate. An example of an index commonly used for ARMs is the yield on a one-year Treasury Bill (T-Bill); ask your lender for more detailed information.

Margin. The percentage points the lender adds to the index to establish the actual interest rate of your ARM. The margin remains fixed.

Adjustment Interval. The time between changes in your ARM's interest rate. If your ARM has an adjustment interval of three years, your rate — and your monthly payment — will be changed every three years, based on the current index plus your margin. Typical ARM adjustment intervals are one year, three years and five years.

In addition, an ARM may contain certain safeguards that limit the risk of sharply higher payments. One type of safeguard, called a periodic cap, limits the amount by which the interest rate can change at each adjustment. This may be combined with a limit on how much the rate can change over the life of the mortgage, called the lifetime cap.

For example, if your ARM has a periodic cap of two percent and a lifetime cap of five percent, your interest rate will not change by more than two percent at any single adjustment, and will never be more than five percent above your initial interest rate.

A payment cap is another type of safeguard that limits the increase in your monthly payment to a specific dollar amount (for example, $300). While this is more easily understood, it has a definite downside: it can prevent your monthly payment from increasing enough to match a rapidly increasing interest rate. If this happens, your payments will not be "keeping up" with the loan schedule (that is, you are neither reducing the principal nor paying the entire monthly interest figure). That could result in higher payments, more payments or a balloon payment later on.

Other Mortgage Options*

Lenders have developed a number of hybrid mortgages to assist you in reaching your goal. They might include any combination of features of both fixed-rate and adjustable mortgages.

Start as ARM, convert to fixed rate. This is an ARM with an option to convert to a fixed-rate mortgage after a set period, usually 5 or 7 years. You get the advantage of a lower initial interest rate, with the option of locking in predictable payments at a later time, without refinancing. There is usually a fee to be paid when the loan converts, and the new rate is slightly higher than the going rate for fixed rate loans.
Of course, if interest rates have risen to a higher level when the option to convert is available, you may want to allow the mortgage to remain an ARM.

Balloon Mortgage. This offers relatively low, fixed payments similar to a standard 30-year fixed-rate mortgage, but after a few years — usually five to seven — the mortgage term ends with a single large payment (the "balloon"). Borrowers also generally have the option to refinance to a fixed-rate loan at the end of the term. At this time, you must make the balloon payment, sell the house or refinance. Because the term is actually quite short, the total interest paid is significantly less than a conventional mortgage, making this a good choice if you don't plan to stay in the home for very long. However, if the house does not appreciate, you run the risk of owing more money at the time of sale. In other words, by selling before the balloon comes due, the large lump sum payment is avoided.

Buy-down Mortgage. Involves an initial lump sum payment made by any party (builder, seller, etc.) to reduce the interest rate actually paid, and thus reduce the monthly payments on a home mortgage loan, either for the entire term or for an initial period of years. One of the most commonly used programs is the "3-2-1" buy down, in which the effective rate of the mortgage is reduced by three percent the first year, two percent the second year and one percent the third year. In the fourth and later years, the borrower pays the contract interest rate. People who expect their income to increase dramatically in the near future may find this attractive.

What's Wrapped into Your Monthly Mortgage Payment?

Principle and interest; that's the quick answer most people offer. But there's more than that in virtually every mortgage payment, no matter what type of loan you get.
Before we break out these other parts of your monthly mortgage payment, let's clearly define principal and interest.
Principal is the amount of money you borrowed. It begins, generally, as the sale price of the home you purchased minus the down payment you made. With every payment you make, this figure will decrease. In the case of a 30-year fixed-rate mortgage, a proportionally small amount of your payments the first few years goes toward reducing the amount of principal.
Interest is what you pay in order to borrow the money — it is "the cost" of money.

So, what are the parts of your mortgage payment that are not principal and interest? In most cases a portion is paid into a special escrow account, sometimes required by the lender and sometimes voluntary, that the lender maintains on your behalf to pay for things like homeowners insurance, property taxes and mortgage insurance. (This is the element of the monthly payment that can fluctuate even in a fixed-rate mortgage). Some people would rather pay their taxes and insurance themselves, putting money aside every month to do it and gaining interest for themselves on those funds.

Together, all the elements are commonly referred to as PITI (Principal-Interest-Taxes-Insurance). Currently, most states permit lenders to collect two months of estimated annual real estate taxes and insurance payments at the closing. Afterwards, your monthly payment will include one-twelfth of the annual total for taxes, insurance and other anticipated charges (your lender may collect an additional amount to ensure that a two-month cushion is maintained in the account). Your tax and insurance bills are then paid by the lender, creating less paperwork for you. However, some people do prefer to pay their taxes and insurance themselves.

Comparing Mortgages

The total cost of a mortgage involves more than just the interest payments you make. There are also origination fees, discount points and other miscellaneous costs.

What’s more, there can be other terms and conditions that may affect the ultimate cost of your mortgage. When you compare different mortgages, be sure that you take into account all the factors that can influence your final costs.

Understanding Discount Points

What is a point? A point is equal to one percent of the total amount of a mortgage. That is, one point on a $100,000 mortgage is $1,000 (one percent of $100,000).

Generally, you will pay all points at closing.

Most lenders offer mortgages with several combinations of points and interest rates. Generally, the lower the interest rate, the more points you will pay at settlement. (Interest rates affect your monthly mortgage payment, while the points affect the amount of cash you must have at the settlement.)

For example, if a loan with the current market interest rate has two points, a loan with an interest rate that’s one-half percent higher than the market rate may have no points. Your choice among the various interest rate/points options will depend on how much cash you have available for the closing and settlement.

What interest rate will you pay?

As you discuss different mortgages with your lender, there are other conditions and terms that you should keep in mind. The most important of them is how and when the actual interest rate you will pay is determined.

Most lenders will quote a rate and fee at the time you apply for a loan, and then guarantee — or lock — the quote for a specified time. While this protects you from paying more for your mortgage if interest rates rise, it also means you will pay the quoted rate even if interest rates fall.

Lock periods usually run from 10 to 60 days. Longer periods are sometimes available for an additional fee. You will want your lock period to be long enough to get you through closing and settlement.

Some lenders give you the option of letting the interest rate for your mortgage float, so the rate can change between the time you apply and the time you close (the rate is usually set after some specified period, but before the actual closing).

www.homeloanlearningcenter.com

Attachment C

U.S. Department of Housing and Urban Development;

Shopping for a Loan

Disclaimer
Your choice of lender and type of loan will influence not only your settlement costs, but also the monthly cost of your mortgage loan. There are many types of lenders and types of loans you can choose. You may be familiar with banks, savings associations, mortgage companies and credit unions, many of which provide home mortgage loans. You may find a listing of some mortgage lenders in the yellow pages or a listing of rates in your local newspaper.
Mortgage Brokers; Some companies, known as "mortgage brokers" offer to find you a mortgage lender willing to make you a loan. A mortgage broker may operate as an independent business and may not be operating as your "agent" or representative. Your mortgage broker may be paid by the lender, you as the borrower, or both. You may wish to ask about the fees that the mortgage broker will receive for its services.
Government Programs; You may be eligible for a loan insured through the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs or similar programs operated by cities or states. These programs usually require a smaller down payment. Ask lenders about these programs. You can get more information about these programs from the agencies that run them. (See Appendix to this Booklet.)
CLOs; Computer loan origination systems, or CLOs, are computer terminals sometimes available in real estate offices or other locations to help you sort through the various types of loans offered by different lenders. The CLO operator may charge a fee for the services the CLO offers. This fee may be paid by you or by the lender that you select.
Types of Loans; Loans can have a fixed interest rate or a variable interest rate. Fixed rate loans have the same principal and interest payments during the loan term. Variable rate loans can have any one of a number of "indexes" and "margins" which determine how and when the rate and payment amount change. If you apply for a variable rate loan, also known as an adjustable rate mortgage ("ARM"), a disclosure and booklet required by the Truth in Lending Act will further describe the ARM. Most loans can be repaid over a term of 30 years or less. Most loans have equal monthly payments. The amounts can change from time to time on an ARM depending on changes in the interest rate. Some loans have short terms and a large final payment called a "balloon." You should shop for the type of home mortgage loan terms that best suit your needs.
Interest Rate, "Points" & Other Fees; Often the price of a home mortgage loan is stated in terms of an interest rate, points, and other fees. A "point" is a fee that equals 1 percent of the loan amount. Points are usually paid to the lender, mortgage broker, or both, at the settlement or upon the completion of the escrow. Often, you can pay fewer points in exchange for a higher interest rate or more points for a lower rate. Ask your lender or mortgage broker about points and other fees.
A document called the Truth in Lending Disclosure Statement will show you the "Annual Percentage Rate" ("APR") and other payment information for the loan you have applied for. The APR takes into account not only the interest rate, but also the points, mortgage broker fees and certain other fees that you have to pay. Ask for the APR before you apply to help you shop for the loan that is best for you. Also ask if your loan will have a charge or a fee for paying all or part of the loan before payment is due ("prepayment penalty"). You may be able to negotiate the terms of the prepayment penalty.

Lender-Required Settlement Costs. Your lender may require you to obtain certain settlement services, such as a new survey, mortgage insurance or title insurance. It may also order and charge you for other settlement-related services, such as the appraisal or credit report. A lender may also charge other fees, such as fees for loan processing, document preparation, underwriting, flood certification or an application fee. You may wish to ask for an estimate of fees and settlement costs before choosing a lender. Some lenders offer "no cost" or "no point" loans but normally cover these fees or costs by charging a higher interest rate.
Comparing Loan Costs; Comparing APRs may be an effective way to shop for a loan. However, you must compare similar loan products for the same loan amount. For example, compare two 30-year fixed rate loans for $100,000. Loan A with an APR of 8.35% is less costly than Loan B with an APR of 8.65% over the loan term. However, before you decide on a loan, you should consider the up-front cash you will be required to pay for each of the two loans as well.
Another effective shopping technique is to compare identical loans with different up-front points and other fees. For example, if you are offered two 30-year fixed rate loans for $100,000 and at 8%, the monthly payments are the same, but the up-front costs are different:
Loan A - 2 points ($2,000) and lender required costs of $1800 = $3800 in costs.
Loan B - 2 1/4 points ($2250) and lender required costs of $1200 = $3450 in costs.
A comparison of the up-front costs shows Loan B requires $350 less in up-front cash than Loan A. However, your individual situation (how long you plan to stay in your house) and your tax situation (points can usually be deducted for the tax year that you purchase a house) may affect your choice of loans.
Lock-ins. "Locking in" your rate or points at the time of application or during the processing of your loan will keep the rate and/or points from changing until settlement or closing of the escrow process. Ask your lender if there is a fee to lock-in the rate and whether the fee reduces the amount you have to pay for points. Find out how long the lock-in is good, what happens if it expires, and whether the lock-in fee is refundable if your application is rejected?
Tax and Insurance Payments; Your monthly mortgage payment will be used to repay the money you borrowed plus interest. Part of your monthly payment may be deposited into an "escrow account" (also known as a "reserve" or "impound" account) so your lender or servicer can pay your real estate taxes, property insurance, mortgage insurance and/or flood insurance. Ask your lender or mortgage broker if you will be required to set up an escrow or impound account for taxes and insurance payments.
Transfer of Your Loan; while you may start the loan process with a lender or mortgage broker, you could find that after settlement another company may be collecting the payments on your loan. Collecting loan payments is often known as "servicing" the loan. Your lender or broker will disclose whether it expects to service your loan or to transfer the servicing to someone else.
Mortgage Insurance; Private mortgage insurance and government mortgage insurance protect the lender against default and enable the lender to make a loan which the lender considers a higher risk. Lenders often require mortgage insurance for loans where the down payment is less than 20% of the sales price. You may be billed monthly, annually, by an initial lump sum, or some combination of these practices for your mortgage insurance premium. Ask your lender if mortgage insurance is required and how much it will cost. Mortgage insurance should not be confused with mortgage life, credit life or disabilities insurance, which are designed to pay off a mortgage in the event of the borrower's death or disability.
You may also be offered "lender paid" mortgage insurance ("LPMI"). Under LPMI plans, the lender purchases the mortgage insurance and pays the premiums to the insurer. The lender will increase your interest rate to pay for the premiums -- but LPMI may reduce your settlement costs. You cannot cancel LPMI or government mortgage insurance during the life of your loan. However, it may be possible to cancel private mortgage insurance at some point, such as when your loan balance is reduced to a certain amount. Before you commit to paying for mortgage insurance, find out the specific requirements for cancellation.
Flood Hazard Areas; Most lenders will not lend you money to buy a home in a flood hazard area unless you pay for flood insurance. Some government loan programs will not allow you to purchase a home that is located in a flood hazard area. Your lender may charge you a fee to check for flood hazards. You should be notified if flood insurance is required. If a change in flood insurance maps brings your home within a flood hazard area

after your loan is made, your lender or servicer may require you to buy flood insurance at that time.

U.S. Department of Housing and Urban Development
451 7th Street, S.W., Washington, DC 20410
Telephone: (202) 708-1112 Find the address of a HUD office near you

Other areas to search for information on helping to find the best lender by the FTC;
The **Federal Trade Commission** works to prevent unfair business practices. For more information, including brochures and procedures for filing a complaint against a nonbank lender, call toll-free 877-FTC-HELP (877-382-4357) or go to www.ftc.gov.

The **U.S. Department of Housing and Urban Development** (HUD) enforces fair lending practices involving home loans backed by the federal government, including Federal Housing Administration (FHA) loans. HUD also maintains a list of approved housing counseling agencies that can give advice. Call toll-free 800-569-4287, go to www.hud.gov, or write to HUD, 451 7th Street, SW, Washington, DC 20410.

The **Federal Consumer Information Center** is a clearinghouse for free and low-cost booklets published by various federal agencies on topics such as getting a mortgage or home equity loan. One such brochure is "Looking for the Best Mortgage: Shop, Compare, Negotiate," published by 11 federal agencies, including the FDIC. For a free catalog, call toll-free 888-878-3256. Or, read or order the publications online at www.pueblo.gsa.gov.
Your state government's consumer protection or Attorney General's office can respond to your questions or concerns about a lender. Check your local phone book or other directories

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How to Choose the Right Lender

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