What'$ Your Rate?

WHAT'$ YOUR RATE?

ARTICLES & INFORMATION: FINANCING

PLEASE BE SURE TO PERSONALIZE AND EDIT THE HIGHLIGHTED INFORMATION BEFORE USING. (DATES, COMPANY INFORMATION, ETC.)

FIRST STEPS TO PURCHASING A HOME AND CREATING A SECURE FINANCIAL TEAM AT THE SAME TIME

STEP 1- Have a Buyers meeting at the Real Estate Agents Office. A quality agent will have a systematic Buyer Presentation previewing all the steps of the process all the way to the home closing.

STEP 2- Real Estate Agent will make a referral to the Mortgage Originator for Pre-Approval. Having a solid Pre-Approval Letter will put you in a stronger negotiating position when you make an offer to purchase a home.

STEP 3- Pre-Consultation Worksheets are filled out and financial documentation is gathered prior to the Loan consultation with the Mortgage Originator. (Application, Mortgage Planning Questionnaire, & Documentation Checklist)

STEP 4- The Loan Consultation. The mortgage is integrated into your overall financial plan. (What you should and shouldn't do when purchasing a home)

STEP 5- Introduction to the Financial Advisor. Doing a full Cash-Flow Analysis prior to a home purchase is extremely beneficial.

STEP 6- Values are ascertained by the Financial Advisor. This one step can create a road map for your entire future. Addressing what is truly important.

STEP 7- Loan is approved, and a Pre-Approval is issued. Having a solid Pre-Approval Letter will put you in a stronger negotiating position when you make an offer to purchase a home. A Pre-Approval is when an entire credit profile is reviewed by a lender and deemed to qualify for a loan based on certain conditions.

STEP 8- The Property Search begins with your Realtor.

STEP 9- An Offer is made on a property- Together with your Realtor you will negotiate a purchase price and terms.

STEP 10- If your offer is accepted, your realtor will introduce you to a Real Estate Attorney or Escrow Officer for Purchase & Sale Review.

STEP 11- Home Inspection is scheduled.

STEP 12- Lender puts the loan into process. The Appraisal and Title are ordered and necessary documents are gathered. Many of the same documents that were needed at pre-approval may be asked for again. Re-Consultation is scheduled to firm up the details of the loan structure.

STEP 13- Re-Consultation: Details are firmed up regarding the new property and loan structure. Communication is made with client's existing network to make sure the plan is aligned.

STEP 14- Introduction is made to the Property & Casualty Insurance Agent. Proper coverage is required by all lenders. Be sure to discuss an Umbrella Policy also.

STEP 15- When all conditions are satisfied the loan is approved by underwriting. The most important date to monitor is the Mortgage Contingency date. This is the #1 reason to have your Realtor, Lender, and Real Estate Attorney/Escrow Officer communicating together.

STEP 16- The Closing!!!. The Final Documents are signed. You are a homeowner! (Save your Closing documents for tax purposes)

STEP 17- Meet with the Financial Advisor to tie financial goals to the values set at the initial cash flow meeting. This is where the plan that is based on your goals and dreams is put into action.

STEP 18- Meet with the Estate Planning Attorney and The Accountant to review the Legacy plan and Tax Plan along with the Financial Advisor. This Introduction is made by the Financial Advisor after goals are tied to values.

STEP 19- Estate Planning Attorney creates Estate Plan. The Legacy Plan is tied to goals and values.

STEP 20- Meet with the Accountant to review possible adjustments to W-4 withholdings, future tax-planning and financial integration.

What'$ YOUR Rate?

1. Documentation Needed for Pre-Approval (*Page 72*)
2. Credit Scores (*Page 83*)
3. Debt to Income Ratios (*Page 91*)
4. An example of a Loan Consultation (*Page 81*)
5. Adjustable Rate Mortgages vs. Fixed Rate Mortgages (*Page 93*)
6. Mortgage Rates/Rate Fluctuation (*Page 101*)
7. Closing Costs and No Cost Loans (*Page 109*)
8. Paying Points, Escrow Accounts & Pre-Paid Interest (*Page 110*)
9. Tax Deductibility of Mortgage Interest (*Page 120*)
10. The Cost of $10,000 (*Page 121*)
11. 30 Year Loans vs. 15 Year Loans (*Page 122*)
12. Selling Your Home 1997 Tax Payer Relief Act (*Page 124*)
13. Cost of a Wedding (*Page 127*)
14. Final Walkthrough (*Page 136*)
15. Seller Concessions (*Page 138*)
16. The Real Estate Attorney and Owner's Title Insurance (*Page 148*)
17. Procrastination and the Cost of Waiting 1 year (*Page 183*)
18. Elvis Presley and Estate Taxes (*Page 204*)
19. The Cost of College (*Page 208*)

What'$ Your Rate?

Reference Guide

Page 9 - What Inspired the Book

Page 11 - Questions to Assess Your Finances

Page 57 - The First Meeting with A Realtor

Page 59 - How A "By Referral" Realtor Works

Page 63 & 76 - Why You Want a Pre -Approval Instead of a Pre -Qualification

Page 64 - The Importance of Your Commitment Date

Page 71 - Getting Pre -Approved

Page 82 - Credit Scoring

Page 85 - Other Financial Considerations of Buying A Home

Page 86 - Wills & Trusts

Page 88 - The Umbrella Policy

Page 90 - The Importance of Cash Reserves

Page 91 - Debt -To -Income Ratios (DTI)

Page 93 - Fixed Rate Versus Adjustable Rate Mortgages

Page 101 - Interests Rates & Rate Movement/ The Cost Of .125%

Page 108 - No Points/No Closing Cost Loans

Page 112 -Closing Costs

Page 117 - The First Meeting with A Financial Advisor

Page 119 - How Much Should I Put Down?

Page 122 - 30 Year Versus 15 Year Mortgages

Page 123 - Tax Savings on The Sale of a Primary Residence

Page 135 - What Happens After Pre -Approval

Page 138 - Seller Concessions

Page 143 - What Happens When Your Offer Is Accepted

Page 153 - The Reconsultation

Page 155 - Locking in An Interest Rate

Page 161 - The Property & Casualty Insurance Agent

Page 162 - The Umbrella Policy

Page 170 - The HUD-1 Settlement Statement

Page 181 - Why You Should Speak with A Financial Advisor After Closing

Page 182 - Life Insurance

Page 187 - Disability Insurance

Page 193 - Investing For Retirement/Dollar Cost Averaging

Page 195 - When You Refinance It Should Bring You Closer to Retirement

Page 196 - The Law Of 72/Small Investments Can Grow Over Time

Page 208 - The Cost of College

Mortgages: Frequently Asked Questions

Common Questions:

How long does it take to process a mortgage application?

It very much depends on the loan program and whether you are purchasing a property or refinancing one. For purchases, it takes typically 4-8 weeks. FHA loans take up to 45-60 days to close. For refinancing, it could take anywhere between 45-60 days, depending upon how soon an appraisal is received, if there is a subordination, and the volume of loans currently also in process. When volume is very high, it can take longer than 60 days.

Could anything delay approval of my loan?

If you provide complete, accurate information, everything should go smoothly. You may face a delay if your lender discovers credit problems, if there are issues that arise concerning the appraisal, survey, insurance or title commitment, or there are any delays in receiving the required documentation. Your loan processor will contact you should this happen.

What is the difference between pre-qualification and pre-approval?

Pre-qualification is a lender's opinion of your ability to purchase a home. A pre-approval is an underwriter's decision that you are qualified. When it comes to writing an offer for a home, a pre-approval letter contains much stronger language to the seller and the listing agent, and often is the determining factor in winning the contract in a competitive bid situation.

What documents do I need to submit when applying for a loan?

Generally, what is needed are W2s for the last 2 years, pay stubs covering the past 30 days, 1040s for the last 2 years if you are self-employed or receiving commission, and 2 most recent statements for checking or other accounts (all pages of the statement, even if the last page is blank). Any deposits other than payroll deposits will need to be sourced and verified.

Once I've signed my application, am I committed to borrow money?

No, you are not. By signing and applying, all you are doing is being put in a position to buy, close and be approved for the mortgage loan that you're applying for. You are not contractually obligated to borrow money until you are at closing, and sign your note.

What if I see errors on the disclosure agreement after I've been pre-approved?

If you happen to see any errors (such as misspelling of names, inaccurate address information, etc.), please make the necessary corrections by hand, initial the change, and include a note to the processor when returning the package that changes have been made. Also email you Loan Originator and your Loan Processor to make them aware of the changes. This way, the proper changes can be made in the underwriting system. The most important thing is that the final documents that you sign at closing are accurate because those documents are binding.

Why do I have two sets of documents in my disclosure package?

In this package, there will be two sets of documents. The set on the right is for you to review, sign and return, in the envelope provided. The set on the left is a set of copies for you to retain for your records. If you have two mortgages (Home Equity Line of Credit, or 2nd mortgage), there will be one set of documents for each loan. Make sure you pay attention to your deadline date on disclosures as this may extend your closing date.

What if I am away or out of the country during the loan process?

Please notify your loan officer and the processor of any dates that you may be away during this time. This is particularly important if you are doing a refinance as the closing can occur with only a couple of days' notices. You may want to arrange for a power of attorney if you will be away for an extended period. (This could create Rate Lock issues, so it is important to address them right away)

Who orders the appraisal and survey?

The lender will order the Appraisal, and your Closing Attorney will order the survey, in most cases. If your home is a new construction, the builder will usually order the survey, just after completion or just before closing. Old surveys cannot be used when a home is changing owners because of the possibility that there has been an encroachment to the property lines or building lines or easements. An Appraisal is ordered immediately after the loan application is submitted, and your Loan Disclosures are signed and returned, since this can be the longest part of the entire loan process.

What is meant by the term "locking my interest rate"?

Locking your interest rate refers to guaranteeing a specific interest rate for a specific period. That period of time is called the lock period. The lock period guarantees your rate as long as your loan closes and funds prior to the expiration date of your lock. If your closing is delayed beyond your lock expiration date, you could be exposed to higher market rates or extension fees, so it's advisable to lock for a period longer than you need or longer than your actual closing date. With most lenders, if a loan takes longer to close than the lock period due to a delay on the Lenders end, they will honor your rate. If, however the delay is caused on your end, you may lose your previous rate or be subject to extension fees, which is why you should return your disclosures as soon as possible. Typical lock periods are 10, 30, 45, 60 and 90 days, with shorter lock periods generally providing you with a better interest rate.

What if interest rates drop after I have locked in?

Locking an interest rate is like purchasing a stock---when you lock, you lock. After that time, you are protected against rate increases. However, if rates go down you cannot renegotiate. You can opt for a float down option which will allow you to re-lock. There can be an additional fee or a slightly higher rate for this option.

When should I lock?

Rates change constantly (sometimes many times a day) and are affected by multiple economic factors. When to lock is based upon the level of risk you are willing to take. As a general guideline, the best time to lock is when you feel comfortable with a monthly payment that you will be making at a given rate.

How much of a down payment should I make?

The amount of the down payment that you pay can vary. It depends on what you and your home loan consultant decide is best. It is important that you know that the lower the down payment, the more you will have to pay each month and that your interest payments will be higher as well. In addition, there could be tax implications based on the amount of down payment that you put down. A good rule of thumb is that for every $10,000 you borrow, you will equal approximately $50/month in your mortgage payment.

Are the requirements for the purchase of a condominium the same as they are for a house?

The necessary documentation to qualify for a loan is the generally the same for condominiums as for houses no matter what size they are. However, no survey is required and you need to calculate Home Owners Association (HOA) fees in debt ratios. Rates can vary for low owner occupancy or for high rise condos (those over 4 stories), also if an investor or another party owns more than 10% of the project, this could also affect rates. Condominiums are seen as a higher risk property than a Single-Family Residence (SFR) in some scenarios.

How will I be kept updated on the status of my loan?

During the loan process you will be updated by our team through systematic correspondence sent out to you via email, fax, or regular mail. If additional documentation or information is required by our processing/underwriting agents, we will notify you as soon as we can. Generally speaking, “No news, is good news.” When you begin the loan process you will be sent out an introduction email which details the specific contacts you need to speak with throughout the entire process. You may communicate with any of these contacts if you have any questions.

What is meant by a “Zero Draw HELOC” and why does a payment amount still show up on my loan application?

We need to show the full amount of your payment to qualify you for the loan under the assumption that you have taken a full draw on the credit line. This payment amount is the payment *if* you took out a full draw. On a HELOC you only make a payment based on what you borrow. If the balance is $0, then there is no payment.

What do closing costs include?

When do I pay them? Closing costs are fees paid to the businesses and companies that are involved in your real estate transaction, such as an appraiser, surveyor, title company, tax certification, flood certification, courier, attorney to draw the closing documentation, lender, title examiner, etc. Prior to closing, your title company, escrow company or attorney will provide you with a copy of the HUD-1 Settlement Statement. This document will provide the final total for your closing costs. It establishes the total funds you must bring with you to the closing itself. You’ll need to obtain a certified or cashier’s check for this amount made payable to yourself. Personal checks are usually not accepted unless they are for small amounts (less than $100 generally).

What are pre-paids or escrows?

Pre-paids, or escrows are necessary charges that cover things such as prepaid interest, prepaid homeowner’s insurance and prepaid taxes associated with your property. These are paid at closing to bring your escrow account up to date with the city/town’s tax schedule. These are not actual closing costs.

When do my mortgage payments start?

Usually 30 days after closing. For example, if you were to close in August, your first payment is due October 1st (skipping September).

What is included in my house payment?

Your monthly payment includes the principal, interest, and private mortgage insurance (PMI) if required. In the majority of cases, your monthly payment will also include taxes and homeowner's insurance if you have not waived them. If you have not waived escrows, your lender will pay the city/town taxes and insurance company when these bills are due.

Can I payoff my mortgage early or make additional payments?

There is no prepayment penalty on FHA, VA or Conventional loans backed by Fannie Mae or Freddie Mac. Some high-risk loans and some Conventional ARMs do have prepayment penalties. Be sure to check with your home loan specialist to verify which programs incur penalties for early or additional payments.

Definitions:

Annual Percentage Rate (APR): A percentage of the amount of the home loan that represents the total cost of the loan per year, including some closing costs and finance charges.

Appraisal: An estimate of the value of a property based on comparison of real estate prices and the market for real estate in that area. Lenders require appraisals on almost all home loans and order the appraisal for the borrower.

Closing Costs: Costs associated with the transfer of ownership of a property. These costs generally total 1 to 3 percent of a home's purchase price and are completely independent (and in addition to) the down payment. HUD-1 Settlement Statement details all closing costs which include such expenses as points, an appraisal fee, a credit report fee, mortgage interest for the period between the closing date and the first loan payment, home owner's insurance premium, title insurance, pro-rated property tax and recording and transferring charges.

Commitment Date: Date on which an approval, counteroffer occurs. The lender needs to issue a commitment letter no later than the commitment date which has been specified in the purchase and sales (P & S) agreement.

Credit Report: A credit report contains your payment history, shows that you paid your debts on time. Lenders use the credit report to determine a potential borrower's ability to make timely payments, and to judge whether the person would make a good prospect for a loan. If you are thinking about buying a home, you will need to show us that you can make your payments in a prompt, responsible manner. We recommend that if you do not have any purchases on credit, you should at least get a credit card, to establish a payment history. You can ask your home loan consultant for suggestions as well.

Disclosures: DEFINE---Make sure you pay attention to your deadline date on disclosures as this may extend your closing date.

Escrow: The holding of important documents and money related to the purchase/sale of real estate by a neutral third party (the escrow officer) prior to the close of the transaction.

Fannie Mae (FNMA) Federal National Mortgage Association: An institution that buys mortgages from banks and other mortgage-lending institutions and, in turn, sells them to investors. These loan investments are considered safe because Fannie Mae buys mortgages only from companies that conform to its stringent mortgage regulations, and Fannie Mae guarantees the repayment of principal and interest on the loans that it sells.

Freddie Mac (FHLMC) Federal Home Loan Mortgage Corporation: Similar to, but independent of Fannie Mae (FNMA), these two institutions purchase almost all loans under approximately $250,000 in the United States to increase the availability and affordability of home ownership for low-, moderate- and middle- income borrowers.

Good Faith Estimate: As the name indicates, it's an estimate of third-party fees associated with closing your loan, and in "good faith," it is as accurate as possible given the information available at the start of the loan process. You may notice that these fees change slightly (up or down) on the final HUD-1 statement, because each attorney, appraiser and/or title company may have fees that vary slightly.

HELOC (Home Equity Line of Credit): A second mortgage that allows you to borrow against the equity in your house. These credit lines are generally used for major items such as home improvement, education, or medical bills and not for day-to-day expenses. Home equity lines are often opened to avoid PMI (Private Mortgage Insurance) for borrowers who are putting less than a 20% down payment.

Home Owner's Insurance: An insurance policy whereby, for a premium, an insurer agrees to insure a property in case of a loss. Lenders require this insurance to cover the investment they have placed in a property. Be sure to coordinate with your realtor who will obtain the insurance binder for Countrywide.

HUD-1 Settlement Statement: The HUD-1 provides you with the full disclosure of closing costs and establishes the total funds you must bring to the closing. This document is issued by the attorney shortly before closing and itemizes all charges to the buyer and seller, plus how the money gets paid out.

Index: A measure of the overall level of market interest rates that a lender uses as a reference to calculate the specific interest rate on an adjustable rate loan. The index, plus the margin determines the interest rate on an adjustable-rate mortgage (ARM). Some examples of indices are LIBOR, Treasury, COFI and Prime Rate.

Interest Rate: The percentage of an amount of money that is paid for the use of that money over a period of time, usually per year.

LIBOR: LIBOR stands for London Interbank Offering Rate. Basically, the LIBOR is the interest rate that European financial institutions charge each other to borrow funds from one another. Many American lenders offer adjustable rate mortgages that are tied to the LIBOR index. You may access these rates through the British Bankers' Association website at www.bba.org.uk

Lock-in: A lender's written commitment to guarantee a specified interest rate to the borrower provided that the loan is closed with within a set period time. The lock-in should specify the number of points to be paid at closing. For the privilege of locking in the rate in advance, you may pay a slight interest rate premium. Your rate must be locked in at least 3 business days prior to closing.

Margin: The amount that is added to the index in order to calculate the interest rate for an adjustable-rate mortgage (ARM). Most loans have margins around 2.5 percent. Unlike the index (which constantly moves up and down), the margin never changes over the life of the loan. Margin will be quoted on your lock-in agreement.

Mortgage: A legal document that transfers interest in a property and serves as a security for payment of a debt.

PITI: The acronym for Principal, Interest, Taxes, and Insurance, which is usually the four parts of your monthly mortgage payment.

PMI (Private Mortgage Insurance): Insurance that protects the lender in the event that a borrower defaults on a mortgage. If your down payment is less than 20% of your home's purchase price, you will likely need to purchase private mortgage insurance (also known as "mortgage default insurance"). After the equity in your property increases to 20%, you no longer need the insurance.

Points: Interest charges paid up front when a borrower closes on a loan. Also known as a loan's origination fee, points are a percentage of the total loan amount (one point is equal to one percent of the loan amount). Generally speaking, the more points a loan has, the lower its interest rate should be. All points paid on a purchase mortgage are deductible in the year in which they are paid. If you refinance your mortgage, however, the points that you pay at the time you refinance must be spread out over the life of the loan.

Prepaids vs. Closing Costs: Prepaids include prepaid interest, prepaid homeowner's insurance and prepaid taxes that are associated with your property. Closing costs are detailed on the HUD-1 statement and do not include prepaids.

Pre-Qualification: A preliminary analysis based on assets, debts, and sources of income where a determination can be made on the loan amount for which you qualify.

Pre-Approval: An underwriter's decision that you are qualified for a loan amount. When it comes to writing an offer for a home, a pre-approval letter contains much stronger language to the seller and the listing agent, and often is the determining factor in winning the contract in a competitive bid situation.

Purchase and Sales Agreement (P&S): A written document by which a Buyer agrees to buy and a Seller agrees to sell a property. Also known as Agreement of Sale.

Recording: The formal filing of documents affecting a property's title. Recordings are registered with the County Registry of Deeds.

Refinance: Industry term for taking out a new mortgage loan (usually at a lower interest rate) to pay off an existing mortgage (generally at a higher rate).

Title Deed/Deed: A legal document evidencing ownership of a property.

Truth-in Lending (TIL) Disclosure: Outlines the costs of a loan and discloses the APR and other terms of the loan, including the finance charge, the amount financed, the payment amount and the total payments required. The lender is required to present the final version of a TIL disclosure at or prior to the closing.

Underwriting: The risk analysis of a borrower's application. Underwriters guarantee that when a mortgage lender makes a loan, that the loan is of favorable enough terms that they can be met by the borrower and that the loan can be funded.

<u>Loan Programs:</u>

Fixed Rate Home Loans: The most popular home loan is the traditional fixed-rate mortgage. Generally, this interest rate is a little higher than the initial rate you receive with a variable-rate mortgage. But what makes this loan so popular is that with a fixed-rate loan, you have the assurance that your interest rate will never rise. Also, your monthly payments of interest plus principal will always remain the same. If you are the kind of person who prefers the stability of knowing exactly how much you will pay each month, this could be the ideal loan for you.

Variable Rate Home Loans (or ARM): In recent years, the Adjustable Rate Mortgage (or ARM) has become famous for its low initial interest rate. The primary advantage of this loan is that it permits you to qualify more easily for a loan, or to get a larger loan. Due to the fact that the variable rate home loan is based on a published rate called an Index, your interest rate can rise or fall, meaning that your monthly payments can also increase or decrease. Variable rate home loans can even save you money in the long run, if interest rates remain constant or fall.

Short Term Fixed: Rate is fixed for the first years of the program (3, 5, 7 or 10), then shifts to an Adjustable Rate Mortgage (ARM) after that point.

Do's & Don'ts When Applying for a Mortgage

While you are considering the purchase of a new home or exploring new financing on your current home, you should not do anything that will have an adverse affect on your loan from this point through the rest of the process. We know it's tempting to begin making your new house a home or spend your new savings on fixing your existing home, but this is the time to keep your financial picture frozen in a stable position until you hear from us otherwise and until your loan closes. The key is to call us if you wish to make any changes to your financial picture; even the seemingly most logically beneficial moves can backfire and cost you thousands of dollars or even your ability to obtain financing at all

To have your pre-approval or loan commitment to remain valid please pay close attention to the following do's and don'ts:

<u>The Don'ts</u>

1 – DON'T APPLY FOR NEW CREDIT OF ANY KIND. You receive invitations to apply for new lines of credit, don't respond. If you do, that company will pull your credit report and this will have an adverse effect on your credit score. Likewise, don't establish new lines of credit for furniture, appliances, computers, etc.

2 – DON'T PAY OFF COLLECTIONS OR CHARGE-OFFS. From now on, don't pay off collections unless we specifically ask you to in order to secure the loan. Generally, paying off old collections causes a drop in the credit score.

3 – DON'T MAX OUT OR OVER CHARGE EXISTING CREDIT CARDS. Running up your credit cards is the fastest way to bring your score down, and it could drop up to 100 points overnight. Once you are engaged in the loan process, try to keep your credit cards below 30% of the available limit.

4 – DON'T CONSOLIDATE DEBT TO ONE OR TWO CARDS. Once again, we don't want you to change your ratio of debt to available credit. Likewise, you want to keep active beneficial credit history on your record.

5 – DON'T CLOSE CREDIT CARD ACCOUNTS. If you close a credit card account, it can affect your ratio of debt to available credit which has a 30% impact on your credit score. If you really want to close an account, do it after you close your mortgage loan.

6 – DON'T RAISE RED FLAGS TO THE UNDERWRITER. Don't co-sign on another person's loan, or change your name and address. The less activity that occurs while your loan is in process, the better it is for you.

7 – DON'T MAKE ANY ADJUSTMENTS OR TRANSFERS IN YOUR ASSET PICTURE. Don't change investments, move positions, close accounts, open new accounts, or substantially change your asset picture without contacting us first.

8 – DON'T MAKE LARGE UNEXPLAINABLE DEPOSITS INTO BANK ACCOUNTS. Deposit amounts exceeding past history will be questioned by an underwriter unless the deposit is a documented gift.

9 – DON'T MAKE CHANGES WITH YOUR EMPLOYMENT OR INCOME. Employment stability is a big factor in the underwriting loan process. Quitting or changing jobs or even positions within the same company can greatly endanger your entire loan approval. INFORM US IMMEDIATELY OF ANY CHANGES TO YOUR JOB, POSITION, OR INCOME.

The Do's

1 – DO STAY CURRENT ON EXISTING ACCOUNTS. Late payments on your existing mortgage, car payment, or anything else that can be reported to a CRA can cost you dearly. One 30-day late payment can lower your credit score by 30-75 points. Make your mortgage payment on time but call us before you make any payments that are scheduled within two weeks of closing.

2 – DO CONTINUE TO USE YOUR CREDIT AS YOU NORMALLY WOULD. Red flags are easily raised within the scoring system. If it appears you are diverting from your normal spending patterns, it could cause your score to go down. For example, if you've had a monthly service for internet access billed to the same credit card for the past three years, there's really no reason to drop it now. Again, make your changes after the loan funds.

3 – DO CALL YOUR LOAN CONSULTANT. If you have any questions during the loan process, I am here to help and I am just a phone call away!

Mortgage Rates Explained: Locking and Rate Movement

1. **How are mortgage rates determined?**

   Rates are based on the Mortgage-backed Securities Market which is part of the Bond Market. This means they trade like stocks and can change multiple times per day.

   The 10-Year Treasury Bond at times will trend in the same direction. It is not unusual, however, to see Mortgage-backed Securities and 10-Year Treasuries move in completely opposite directions. Mortgage, money and interest rates all come from the same place; the Mortgage-backed Securities Market.

2. **What factors could make rates change?**

   Economic news and government reports can impact rates. Examples of these factors include Unemployment or Inflation Reports, stock market fluctuation, news of political unrest, expert opinions issued from the Fed, etc.

   The rule of thumb to remember is that good news about the economy is bad news for mortgage rates (they will increase) and bad news about the economy is good news for mortgage rates (they will decrease).

3. **What is the range in which rates can change in a day?**

   Rates usually travel in a range of .125%-.375%. The size of the range depends heavily upon the economic climate. There is no guaranteed range; however, pretty significant economic events would have to happen to create a larger move.

4. **What goes into a rate quote?**

   Twenty-four criteria go into quoting an accurate interest rate. Missing one or more can have a significant effect on the rate quoted.

Loan size	Property type	Employment history
L.T.V.	Occupancy type	Documentation
C.L.T.V. (2nd or Heloc)	Residency	Recastable
Credit score	Available assets	Relocation
Credit history	Asset seasoning	Seller contributions
Escrows	Debt ratio	Gifts
Closing date	Housing ratio	Cash out
Loan type	Employment type	Income limits

5. **How can I track the rates?**

   It is very difficult to track rates because the market moves quickly; daily and even hourly. Rates really are a moving target.

   That being the case, if you are comparison shopping, you need to get quotes at the exact same time on the same day with the exact same terms for an accurate comparison.

   If you decide not to lock in right away, the best strategy is to track direction of rates based on economic activity. Again, good news for the economy is bad news for mortgage rates and bad news for the economy is good news for mortgage rates.

6. **If I lock & rates go down, can I get the lower rate?**

   No, not unless you opted for what is called a "Float Down Option", which usually carries a higher rate or a fee.

   Locking a rate is something like buying a stock. If you purchase a stock at $75 one day, for example, and the price rises to $85 or decreases to $65 the next day, you still own $75 worth of stock. The same applies to locking a rate. You are essentially betting that the rate you lock will be the lowest available until your Closing date, so it's important to be comfortable with it.

   Keep in mind, the rate you lock is protected. This means the Lender guarantees it will not increase during the Lock Period.

   To put this in perspective; would you be more upset if you locked and rates went down or if you didn't lock and rates went up?

   It's important to note that there are considerations beyond rate. The cheapest rate in the wrong structure and strategy can be far more expensive.

7. **In plain terms, what does .125% difference mean?**

   In my opinion, the difference is typically not as large as most people think, especially when you factor in the tax benefit.

   The chart below compares loan amounts on a 30-year mortgage at 5% and 4.875%

Loan Amount	5% (Principal & Interest	4.875% (Principal & Interest	Difference
$500,000	$2,673	$2,635	$38
$400,000	$2,138	$2,108	$30
$300,000	$1,603	$1,581	$22
$200,000	$1,069	$1,054	$15
$100,000	$534	$527	$7

   If you factor in your tax break (because mortgage interest is tax deductible) the difference is even less per month.

8. **What effect do Closing Costs have on Interest Rate?**

   You can pay higher fees, typically called points, to lower your rate. You can also pay reduced fees or even no fees at all, but understand that lower fees go hand and hand with a higher interest rate. Both structures can make sense; it all depends on your financial goals.

9. **What impact can the Fed have on Mortgage Rates?**

   The Fed and their commentary can have a big impact on rates. The secondary market follows what the Fed says very closely.

   When the Fed makes a change, though, it affects the “Fed Funds Rate” or “Discount Rate”. These are both very short term rates that impact credit cards, home equity lines, auto loans, etc. Many times when the Fed adjusts these rates, it can have the opposite effect on Mortgage Rates.

Basics of Owner's Title Insurance

Real estate title insurance very simply is an insured statement of the conditions of one's title or ownership rights to a certain piece of real estate. The policy guarantees that the property being purchased and/or mortgaged is free from undisclosed liens or rights and it guarantees additionally that any confusion as to rights of ownership will be resolved in favor of the party buying the real estate, or the title insurance company will be liable for loss in value to the policyholder up to the policy limits.

When a party purchases a home or condo in Massachusetts and is obtaining a mortgage from a bank or mortgage company to help finance that purchase, without exception, that Lending Institution will require an examination of the title to the property and will also require the attorney/settlement agent reviewing the title, to issue to them a Lender's Policy of Title Insurance insuring that the property is or will be owned by the buyer, that there are no defects, liens or encumbrances on the property which would adversely affect the marketability of buyer's title and that the mortgage to the Lender is recorded properly and secures the property for the repayment of the loan. Since the attorney/settlement agent is already issuing a Lender's Policy of Title Insurance, you as the buyer have the opportunity at the time of closing to obtain an Owner's Policy of Title Insurance at a cost substantially less than you would pay if the policy was not written simultaneously with the Lender's Policy at the time of closing.

The Owner's Policy of Title Insurance insures you, the owner, that you have good marketable title to the property free of any encumbrances or liens that would adversely affect the property, except those made known to you, and insures to you, the owner, that if any such liens, encumbrances, defects or other title problems become known, the title insurer will defend your title to the property.

Tax Bracket Thresholds (2020)				
Bracket	**Single**	**Married/Joint**	**Married/Separate**	**Head of Household**
10%	$0 – $9,875	$0 – $19,750	$0 – $9,875	$0 – $14,100
12%	$9,876 – $40,125	$19,751 – $80,250	$9,876 – $40,125	$14,101 – $53,700
22%	$40,126 – $85,525	$80,251 – $171,050	$40,126 – $85,525	$53,701 – $85,500
24%	$85,526 – $163,300	$171,051 – $326,600	$85,526 – $163,300	$85,501 – $163,300
32%	$163,301 – $207,350	$326,601 – $414,700	$163,301 – $207,350	$163,301 – $207,350
35%	$207,351 – $518,400	$414,701 – $622,050	$207,351 – $518,400	$207,351 – $518,400
37%	$518,401+	$622,051+	$518,401+	$518,401+

Tax Bracket Thresholds (2019)				
Bracket	**Single**	**Married/Joint**	**Married/Separate**	**Head of Household**
10%	$0 – $9,700	$0 – 19,400	$0 – $9,700	$0 – $13,850
12%	$9,701 – $39,475	$19,400 – $78,950	$9,701 – $39,475	$13,851 – $52,850
22%	$39,476 – $84,200	$78,951 – $168,400	$39,476 – $84,200	$52,851 – $84,200
24%	$84,201 – $160,725	$168,401 – $321,450	$84,201 – $160,725	$84,201 – $160,700
32%	$160,726 – $204,100	$321,451 – $408,200	$160,726 – $204,100	$160,701 – $204,100
35%	$204,101 – $510,300	$408,201 – $612,350	$204,101 – $510,300	$204,101 – $510,300
37%	$510,301+	$612,351+	$510,301+	$510,301+

What Isn't Covered by Your Homeowners Insurance?

NAIC Survey Shows Lack of Awareness among Consumers When it Comes to Their Homeowners Policies

SAN FRANCISCO (June 4, 2007) — A large percentage of U.S. homeowners mistakenly believe that standard homeowners insurance protects them from a wide array of perils, according to new research by the National Association of Insurance Commissioners (NAIC). In fact, typical property and liability policies don't cover home damage from floods, earthquakes, water line breaks, termites, mold, and several other perils, large and small.

The survey found that 33 percent of U.S. heads of household, who own a home and have homeowners insurance, incorrectly believe flood damages would be covered by a standard homeowners or property and liability policy, despite extensive media coverage on Hurricane Katrina victims whose claims were denied because they lacked flood insurance.

"Many homeowners learned the hard way that their insurance policies did not provide flood protection," said Walter Bell, NAIC President and Alabama Insurance Commissioner. "As we enter the 2007 hurricane season, we strongly encourage consumers in flood–prone areas to check whether they are properly covered."

According to the NAIC, flood insurance policies generally are available from the National Flood Insurance Program (NFIP) and are often sold by agents that sell homeowners policies.

"There are some limitations in flood insurance policies that differ from standard homeowners' policies," Bell said. "Excess flood insurance is often available from private insurers when people seek to insure high–value homes that exceed the limits offered by the NIFP."

The NAIC survey also revealed other homeowner misunderstandings relating to common loss situations — none of which are covered by standard homeowner's insurance policies — such as:

- 68 percent think vehicles such as cars, boats and motorcycles stolen from or damaged on their property are covered.
- 51 percent think damages from a break in the water line on their property supplying water to their home are covered.
- 37 percent think damages due to a break in the sewer line on their property that connects to their municipal sewer system are covered.
- 35 percent think damages from earthquakes are covered.
- 34 percent think damages from mold are covered.
- 31 percent think damages from termites or other infestation are covered.
- 22 percent think pets stolen from or injured on their property are covered.

"Many homeowners could be seriously harmed financially by misunderstandings about their insurance," Bell said. "It's critical that consumers look closely at their policies and ask their insurance agents detailed questions to become fully aware of what is, and what is not, covered."

The NAIC survey revealed another type of potential consumer misunderstanding. Twenty–four percent of respondents indicated their policies insured their homes for the actual cash value, while 64 percent said their policies covered the replacement cost. Another 12 percent said they did not know which type of coverage — actual cash value or replacement cost — they purchased.

- **Actual cash value** is the amount it would take to repair or replace damage to a home and its contents after depreciation.
- **Replacement cost** is the amount it would take to replace or rebuild a home or repair damages with materials of similar kind and quality, without deducting for depreciation.

"It's important that consumers understand this distinction," Bell said. "In the event of a covered loss, an actual cash value payout could be thousands of dollars lower than a benefit calculated at the replacement cost."

The NAIC survey also uncovered a growing concern among homeowners about being sued. Twenty–eight percent of respondents reported they were more concerned today than they were five years ago about being the target of a lawsuit.

"Consumers can better protect themselves from lawsuits by adding umbrella liability coverage to their homeowner's policy," Bell said. According to the NAIC survey, a majority of homeowners — 63 percent — lack this umbrella coverage.

The NAIC provides extensive information, tips and considerations regarding homeowners insurance on its consumer education Web site, Insure U (www.InsureUonline.org). The entire site is also available in Spanish (www.insureuonline.org/espanol).

Insurance Tips for Homeowners from the NAIC's Insure U Web Site

• Add insurance coverage as you enhance the value of your home and acquire expensive possessions, such as furniture, computers, stereos and televisions.
• Alert your insurance company when making any major home improvements — usually anything more than $5,000. Also, update your homeowner's insurance policy to reflect the new enhancements and prevent being underinsured.
• In maintaining your residence, realize that you are liable for things that happen on your premises. Keep in mind that in many states you could be held legally responsible for the actions of anyone who drinks in your home and then has an accident in your house or after leaving it. Your policy should protect you against lawsuits due to these types of liability issues.
• Backyard items, such as a trampoline or pool, may require you to increase your liability coverage through an umbrella policy that protects you in the event that someone is injured while on your property.
• As you acquire more valuables — jewelry, family heirlooms, antiques, art — consider purchasing an additional "floater" or "rider" to your policy to cover these special items. They're typically not covered by a basic homeowner or renters' policy.
• It's a good idea to make an inventory of all of your personal property, along with a photograph or video of each room. Also, save your receipts for major items and keep them in a safe place away from your house or apartment. That will make it easier if you need to file a claim.

"Consumers also should protect themselves from being scammed by fake insurance companies selling bogus insurance policies," said Catherine J. Weatherford, NAIC Executive Vice President and CEO. "All they need to do before purchasing insurance is take a few minutes to stop, call their state insurance department, and confirm that a company is legitimate and authorized to sell insurance in their state."

For more information about insurance, consumers can visit www.InsureUonline.org.

About the NAIC

Headquartered in Kansas City, Missouri, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and the five U.S. territories.

The NAIC's overriding objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, the NAIC is the oldest association of state officials. For more than 135 years, state-based insurance supervision has served the needs of consumers, industry and the business of insurance at-large by ensuring hands-on, frontline protection for consumers, while providing insurers the uniform platforms and coordinated systems they need to compete effectively in an ever-changing marketplace. For more information, visit NAIC on the Web at: http://www.naic.org/press_home.htm.

Should I Refinance?

The answer is….if it's a true NO COST LOAN, then it makes 100% sense any way you slice it!
A true NO COST LOAN is when the lender pays ALL of the fees associated with the loan (this is NOT rolling them into the loan amount). Essentially, this is not costing the client any money to lower their monthly payment. If the savings is $50 a month, it costs them nothing to receive those savings.

Many people may at first feel that it is not worth it to go through the process. Granted, the mortgage process is not a fun one, but it IS worth it. A typical refinance process actually involves less time then you may think - 5 hours.

Here is how it breaks down:

1. **Discussing Terms and Completing Information – 1 Hour** This could be a lot less if you have a strong relationship with your lender. It's likely that your Loan Officer will have most of the information from your last transaction in their database. For my past clients this takes 5 minutes.
2. **Signing Upfront Disclosures & Providing Necessary Documents – 1 Hour & 45 Minutes** This could be a lot less time because the originator who handled your last transaction may have some of the documents on file and will be very familiar with your situation; this can also save some time.
3. **Gathering of Additional Documents After Receiving Underwriting Approval – 15 Minutes** Once the appraisal – along with all the other documents in the loan file – has been reviewed by underwriting, they may request an updated pay stub or asset statement to 'conditionally' approve the loan. Because certain documents MUST be dated within 30 days of closing, this occurrence is likely.
4. **Closing – 2 Hours** Driving to and from the attorney's office and signing docs should take around 2 hours, but because most attorneys will close at your home this time may be cut by as much as 1 – 1.5 hours. They will also accommodate your schedule to conduct the closing after hours so you will not have to miss any time at work. This is especially true if the attorney closing your new loan is the same one who closed your previous loan.

So, I ask the question…..if your employer said to you, 'if you come to the office this weekend and do paperwork for a maximum of 5 hours you will receive a check for $50 - $100 every month for the next 30 years', would you do it?

That's a pretty good rate of return on just a 5 hour investment. Broken down, that's $3600/hour!

So why not go through the refinance process??? Exactly!!!

Why Do I Have to Bring Money to My Closing If I Am Doing A No Points/No Closing Cost Refinance?

When people refinance their homes it is very typical that, despite the fact that they are not paying points or paying closing costs, they still need to bring money to the closing. Listed below are several of the explanations which typically hold true for the average no point, no closing cost refinance.

1. Payoffs and pre-paid interest – As you may recall, mortgages are paid in arrears. What that means is that the mortgage payment due on the 1st day of given month actually pays for the prior month's interest (with a repayment of principal as well). When you pay April's mortgage, you are actually paying for the use of the money for the month of March. What this also means is that if a loan closes in the middle of a month, February 15th for example, the mortgage company will collect interest for the 2nd half of the month (2/2016-3/2016). This is known as pre-paid interest. The pre-paid interest in this example should be treated as half a month's mortgage payment (half of what would be due on March 1st). The other half of the March 1st mortgage payment is reflected in the payoff figure for the mortgage being paid off in the refinance (the February mortgage payment paid the interest and principal for January, <u>therefore the principal balance shown on your mortgage statement for February and does not include the interest that accrues daily</u>). And where March's payment pays for February's interest (and principal), half is being collected by the new mortgage company (the pre-paid interest) and the other half is added into the payoff figure on the mortgage being paid at closing. It is important to know that there will <u>be no mortgage payment due until</u>, in our example, April. In essence, March is being paid in advance.

2. New Escrows – most mortgage companies require that people escrow taxes and homeowner's insurance (only taxes for condominium owners). When people purchase, the mortgage company collects a fairly significant cushion. Each month, in addition to the monthly mortgage payment, people pay 1/12th of their real estate taxes and, if applicable, 1/12th of their homeowner's insurance. Taxes and insurance are paid by the mortgage company on the necessary due dates. When you refinance, the new mortgage company requires that you set up brand new escrows with them. The escrow balance you have with your old mortgage company is often sent back to you within thirty (30) days of the mortgage having been paid off. If, for example, you have $2,500.00 in escrow, the new mortgage company will very likely require that a similar, or larger amount, be escrowed, depending on the month the loan is closing. This would require that the new escrow reserve amount be brought to closing. While you will get back your escrow reserve from the mortgage company being paid off in just a few weeks, the new escrow reserve must be advanced.

3. Posting of real estate taxes – most Towns and Cities have real estate taxes paid quarterly (2/2016; 5/2016; 8/2016; and 11/2016). When loans close around those dates it often creates a small dilemma attributed to the posting of the real estate payment. It is the bank attorney's job to make sure that taxes are paid for that quarter. If the Town or City cannot verify the payment at the closing, the bank attorney must collect that quarter's payment to ensure that it gets paid. It is common practice to check once again with the Town or City before the loan disburses to see if the payment posted. If so, then the money collected at closing is returned to the borrower. If not, then it gets paid to the Town or City.

4. Posting of recent mortgage payment – similar to the posting of real estate taxes is the posting of the borrower's last mortgage payment. Most people have 15 days at the beginning of each month to pay their mortgage before it is considered late. When a mortgage payment is made close to the closing date, it may take a number of days for the payment to post on the account. The result is that the payoff statement the mortgage company sends to the bank attorney does not reflect the recent payment. This causes the mortgage payment to look higher than it actually is. The bank attorney will continue to re-request payoff statements but must rely on the figures received in writing from the mortgage company being paid off. If there is an overpayment in this case, the mortgage company paid off at closing will send back the overpayment, typically within thirty (30) days from the date of payoff.

These four explanations are the most likely reasons that borrowers need to bring funds to closing even though they are not paying points or paying closing costs. The estimates given to you by your mortgage broker for pre-paid interest and escrows are just that -- estimates. Those figures will vary depending on exactly when the closing takes place.