



Your Mortgage PLANNER

with Jamie H. Harrington, President

YOUR LOAN APPLICATION

When the time comes to decide on a lender for your mortgage, the next step is to make a formal application for the loan. The mortgage broker will schedule a time to go over your current financial situation and credit history. It is a good idea to come to this appointment fully prepared.

Bring a list of all your current bank accounts, including the names and addresses of the banks, types of accounts and approximate balances. The mortgage broker will need similar information about any outstanding loans or credit accounts, including student or car loans, major credit cards, and revolving credit accounts. You will also need to provide information about your assets, such as automobiles, investment real estate, stocks and bonds, and life insurance policies. If you foresee any potential credit problems, ask the broker for information on how to correct them. Your broker can usually give you a qualified opinion about your qualifications for obtaining a loan.

If you would like to discuss what type of mortgage loan will work best for you, call Jamie Harrington at **828-632-0650** for an appointment. United Carolina Group, Inc., is located at 493 NC Highway 16 - Suite 2, in Taylorsville.

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Let Me Introduce Myself

Mortgage finance is a complex, multi-faceted industry that affects the very foundation of our lives. In the last few years, low interest rates have created a period of vigorous activity in the real estate market and numerous changes in the mortgage industry. Whether you are acquiring a mortgage for your home, a vacation get-away or an investment property, there are many factors that you should take into account in order to ensure a smooth, successful transaction.

During the coming year I will explain many aspects of today's fascinating marketplace in the Taylorsville area. I will explore everything from current market trends to obtaining the optimum financing for your particular situation. My column will also offer information on refinancing, investing, your rights as a consumer and a variety of other topics. I hope you will join me as a regular reader.

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MAKE THOSE DEADLINES COUNT

Residential sales agreements usually have clauses referred to as financing contingencies. Most financing clauses establish a set period of time, usually up to 45 days, to obtain a firm commitment from a lender. These clauses allow the sellers or buyers to declare the contract "null and void" if they are unable to obtain financing. If you are buying a home, this may be the most important condition in your contract, so read it carefully before you sign on the dotted line.

One of the best ways to avoid those financing deadlines is to contact your lender and allow him or her to obtain the necessary information so that your loan can be pre-approved. It will help the lender to have a complete credit report to determine if there are any credit problems that need to be resolved before final loan approval. When all of the written verifications have been obtained, you will find that most of your deadline problems have been resolved.

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Shopping For A Loan

Many people shopping for a real estate loan are more concerned with whether they are right for the loan than whether or not the loan being offered is right for them. Rather than just meekly accepting any loan package that is offered to you by the lenders, consider whether the terms really work for you.

When shopping for a loan, awareness of key issues can help you evaluate a loan package. Loan programs vary in underwriting criteria, some requiring borrowers to have higher credit scores but allowing lower down payments. A well-experienced mortgage broker will be able to find you a loan that matches your qualifications. Listen to the loan officer's recommendations.

A good rule of thumb is to never borrow more money than you need. The prospect of being offered extra money that can "always be put to good use" can be tantalizing, but this can easily result in over-extension. Make sure monthly payments are within your budget. Know what you can and cannot afford in advance and stick to your figures.

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WHAT ARE 5/1 AND HYBRID MORTGAGES?

What's the best type of mortgage loan - a solid fixed-rate mortgage or a more affordable variable rate mortgage (ARM)? That's a question that puzzles many people who are financing a home purchase or refinancing an existing mortgage. ARMs are still popular with today's borrowers, but the newer "hybrid" ARM is the rising star in the mortgage field.

In recent months, the rate difference between a fixed-rate and adjustable-rate mortgage has narrowed. This would normally weaken the demand for adjustable-rate loans. But as the starting interest rates of ARMs increased, mortgage lenders and brokers offered larger rate discounts that strengthened the incentive to opt for an ARM.

The "hybrid" ARM is rapidly growing in popularity with borrowers. This is a loan with an initial fixed-rate period of more than one year, often 3, 5 or 7 years. It then reverts to an annually adjusted ARM for the remainder of its 30-year term. The most popular hybrid product is known as a 5/1 ARM. This mortgage carries a fixed-rate for five years, then the rate is annually adjusted for the remaining term. Last year, two out of every five ARM originations were 5/1 mortgages, according to Freddie Mac.

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GETTING PRE-QUALIFIED FOR A LOAN

Many mortgage brokers will pre-qualify prospective buyers for a loan before they begin looking for a house. The broker will review your assets, income and debts to determine the loan amount for which you qualify. For a nominal fee, the broker will also do a credit check and work to resolve any problems on your credit report.

Getting pre-qualified by a lender puts the buyer in a much more attractive position when they find the home they want. Sometimes multiple offers come in on a house and the buyer is competing with other buyers. If you find yourself in a situation like this, it helps to have a letter from the lender verifying that you have pre-qualified for the loan indicated in your offer.

Getting pre-qualified for a loan can save you a lot of time and allow you and your realtor to concentrate on selecting and acquiring a home within your price range.

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THE APPLICATION PROCESS

Unless you can pay cash for a property you want to buy, you will inevitably become involved in the process of obtaining a mortgage loan. Whether you are a first-time homebuyer or moving up, the mortgage process always begins with completing an application for a loan. This application serves a dual purpose. It supplies information on which the lender will base a decision about whether to make the loan to you, and it also determines and defines the terms of the loan. While working through the application, the mortgage lender will assist you in determining what kind of mortgage loan is right for you.

Once the application is completed, the lender analyzes a prospective borrower's credit and income. Next, the lender verifies that the borrower has sufficient liquid assets to meet down payment, closing and any reserve requirements. Finally, the lender commissions an appraiser to provide an independent evaluation of the property.

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BORROWERS BENEFIT FROM NEW LENDING LAWS

The Federal Reserve Board has recently ruled that mortgage brokers must reveal all fees charged to the borrower as part of the mandatory truth-in-lending "finance charge" disclosure that consumers receive within three business days of applying for a home loan.

The majority of brokers have been making full disclosures, but prior to this new regulation, there was no uniform federal guidance about what specific information had to be disclosed up front. Some brokers have offered financing packages with APRs that appeared to be lower than they actually were.

As a result of the Truth-in-Lending Act disclosures, consumers can shop around and compare various lenders' combinations of rates and fees. Under the law, borrowers can make an intelligent choice as to competing lenders' full packages of terms -- the base interest rate on the loan, the disclosed finance charges, and the APR.

If you are in the market for a home mortgage, ask the brokers and lenders for an estimate of the finance charges and APR that will appear on the truth-in-lending disclosures you will get when applying.

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REFINANCING YOUR MORTGAGE

Interest rates on home mortgages fluctuate as changes occur in the general economy. If you purchased your home when interest rates were higher, you may be able to save money by refinancing your loan at the current rate.

I can help you understand the potential benefits of refinancing and guide you through the process. There are several points to consider. You will need to apply for the new mortgage and have your current income eligibility assessed. Depending on how long you have had your present loan, a current appraisal of the property value may be required.

One of the most important factors to consider regarding refinancing is the length of time you plan to remain in your home. It may not benefit you to refinance if you are only going to be in your present home for another year or two. I can help you work out the numbers so that you can make an informed decision.

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TO BUY OR NOT TO BUY?

Many young people feel they cannot afford to buy their own home. They think that the down payment and the mortgage payments make owning a home more costly than renting.

It is true that the monthly payments may be a little higher than you would pay in rent during the first year or two that you own a home. However, federal and state income tax deductions on the mortgage interest and the property taxes will reduce your monthly housing costs to approximately what you would be paying in rent. In addition, your rent may increase periodically, but your mortgage payment will remain fairly stable, depending on the type of mortgage you have.

Buying a home not only represents great tax savings while you are young - it gives you a great deal of equity for your senior years. The housing costs of renters who are approaching retirement will be a larger percentage of their monthly income than the housing costs of those who bought their home years before. In fact, the homeowner will probably have paid off the mortgage by that time and living virtually rent-free. So do not rule out buying a home because you think you cannot afford it. With today's low interest rates, the real question might be, can you afford not to buy?

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GOOD-FAITH ESTIMATES

First-time homebuyers are frequently surprised when they hear about the various closing costs associated with buying a home. Lenders are required to provide borrowers with a good-faith estimate of the closing costs when they apply for a loan. The Federal Real Estate Settlement Procedures Act (RESPA) requires the disclosure of every cost required to close the loan. Don't be afraid to ask for this estimate.

The closing costs on a loan typically include fees for loan origination, appraisal, processing, attorney charges, credit report, title insurance, discount points, homeowner insurance, prepaid and accrued interest and any pro-rated property taxes. There may be additional assessments by the homeowner's association. Your mortgage broker will be glad to explain any cost that may be unfamiliar to you.

When you are looking at the different mortgage loans available, keep in mind that some of these costs will change. There are varying cost structures associated with each loan. The lowest-cost loan may not be the best value, when everything is taken into account. You should compare the costs of each loan program and discuss which costs may be payable by the seller. It's your money, and we will help you work within your budget.

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THE BEST INVESTMENT

In times of economic uncertainty, the wisdom of buying property remains unchallenged. Ask the 64 million Americans who currently own homes why they made the decision to stop renting. They will describe the numerous financial advantages and the personal satisfaction of investing in real estate.

Owning your home means that your monthly payment contributes to your own net worth instead of your landlord's, as the equity in your property builds up over time. Real estate values continue to grow at an average rate of 10 percent each year, and during the last decade, most homeowners have reported even more dramatic gains. And a fixed rate mortgage ensures that you won't be subject to periodic rent increases, so you can plan your monthly budget with confidence.

Low mortgage interest rates have enabled more Americans than ever before to realize their dream of home ownership and save on income tax. Homeowners can deduct 100 percent of their mortgage interest payments and their property taxes, and new tax law benefits have allowed many to sell a principal residence and bank tax-free profits of up to \$250,000 per individual or \$500,000 per couple. Real estate is still the best investment!

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Mortgage Loans: Pre-Qualification vs. Pre-Approval

A letter of pre-approval is one of the strongest bargaining weapons you can stock in your real estate arsenal. A pre-approval letter demonstrates to both your real estate agent and the prospective seller that you are a serious buyer. Not only do you declare your interest in purchasing a piece of property, you demonstrate the actual means to do so.

Novice applicants often confuse being "pre-qualified" for a loan with being "pre-approved" for the loan. Pre-qualification is a preliminary step in the loan process in which the loan agent advises you regarding how much money you could probably borrow based upon your current salary and debt commitment. It is a casual assessment contingent upon information that you provide without any documented support. Pre-approval, on the other hand, involves you actually applying for the loan, submitting the necessary paperwork, past income tax filings, paycheck receipts and a credit report. The process of pre-approval requires a financial disclosure and involves a certain amount of scrutiny into your financial background. A letter of pre-approval could be the determining factor in purchasing the house of your dreams.

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LOAN PREPAYMENTS

Over the last few years the mortgage industry has seen a flurry of refinancing activity. Though most homeowners would benefit from discussing the economics of refinancing with their lender (even when their new rate would be as little as 1/2% to 3/4% below their current rate), some borrowers may benefit by accelerating the payoff of their mortgage.

“Principal curtailment” makes the most sense for someone who has a mortgage balance below \$100,000 and cannot recover quickly the costs of refinancing. It can enable a borrower to pay a loan down in half the time, through extra payments on the principal of the loan.

Most mortgage loans contain a clause that will allow the borrower to prepay the loan. If you want to consider exercising this option, you would be wise to first discuss the possibility of refinancing. If prepayment wins in the analysis, inform your lender that you want to begin making extra payments and find out what you need to do to make sure your extra payments are applied to the principal balance.

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KNOW YOUR ARMs "LENGTH"

When shopping for Adjustable Rate Mortgages (ARMs), the fixed margin is almost as important as the initial rate. All ARMs specify a variable interest rate base called an index, such as the 11th District Cost of Funds Index. The margin is the additional percentage that is added to the loan's index to determine the total interest rate at any given time.

Let's compare two hypothetical monthly ARMs. The first loan has an initial rate of 3.50% with a margin of 2.50%, and the second one begins at 3.25% with a 2.75% margin. Assuming that the index is 5.00% after one year, the first loan will have a new rate of 7.50% (5.00% + 2.50%), while the second loan will be 7.75% (5.00% + 2.75%) for the second year. Even though the first loan had a slightly higher initial rate, it will have a lower rate in subsequent years, provided that the payment caps are not exceeded.

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Buying A Home After Bankruptcy

People file for bankruptcy every day as market conditions, investments and technology-driven employment rates fluctuate. Those who fall into this group often want to know how bankruptcy will affect their chances of obtaining a mortgage to buy a new home.

The best way to determine whether mortgage financing is possible after bankruptcy is to consult with an experienced mortgage broker who can give you information about your specific case based on your financial data. Credit scores can be expected to drop as a result of bankruptcy, so lenders will most likely charge a higher interest rate and high fees to compensate for the higher risk they're taking. Mortgage loans are rated from A to D, with "A" representing least risk to the lender and "D" the highest risk. Subprime loans (less than "A" grade) can be offered to borrowers with a history of bankruptcy, if other criteria can be met.

Most lenders want credit-damaged borrowers to demonstrate personal stability relative to employment, and to make timely payments on installment debts (such as car loans) and revolving accounts (such as credit cards). They'll also ask for documentation of income, assets and liabilities. Obtaining a loan after bankruptcy is challenging, but a real possibility if you are diligent.

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