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"12 Answers To Your Most Important Home Financing Questions"

Get an edge with these 12 questions that every person should ask about home financing and the lending process.

1 **Do I need to prove my employment?** Lenders generally want borrowers to document two years of employment history so that they can see a pattern of stability and income. Most lenders will require that the borrower pass a VOE checkpoint (Verification of Employment) just prior to the funding of the loan. This is just a simple 30 second phone call from the lender to your employer. Why do lenders do this? Simply because they need to know that you have a job. Lenders need assurance that you are going to be able to afford the mortgage payment. Wage earner borrowers pass this test easily with VOE phone call from the lender to the employer. However, self employed borrowers must submit either a business license or a CPA letter, and one other form of proof for the business such as a yellow page listing or a website. When shopping for a loan, be sure that you have the ability to prove your employment. The verification of employment is typically done at the END of the loan process, just before docs, because the lender wants to make sure you still have your job when they give you the loan.

2 **What is the difference between Fixed versus Adjustable?** - The two most common loan products available for home mortgages are fixed rate versus adjustable rate. **Fixed rate** means that you agree on an interest rate that does not change through the life of the loan, whereas, an **Adjustable Rate Mortgage**, better known as an **ARM**, means that rates and monthly payments can change, often tied to the U.S. Government Treasury Bills or some other form of "index", with the frequency of change dependent upon the terms of the loan. Deciding on a FIX loan vs. ARM loan involves many variables. The fixed rate products available on the market are great if you do not plan to refinance for 10 years or more. They are by far the highest rates, and arguably with the least amount of risk. However, the ARM loans will allow you to realize higher savings, given the market stays stable.

Here is a quick snapshot at some of the markets most common programs.

30 YEAR FIX: The 30 year fix gives the borrower great peace of mind knowing that the payment is locked in for 30 years. However, your refinancing frequency should be carefully evaluated before selecting this program. If you know you will refinance in the coming years, it may be smart to think about a shorter term fix loan to realize more savings. The average american refinances once every 2 years. A common pitfall is borrowers paying for the higher 30 year fix payment, and then refinancing out in 2 years - they will not see a benefit.

5 YEAR FIX: This loan would be a great middle of the road option if you are concerned about the future market, and you want to balance both your security and your savings. Again, if you know you are going to sell / refinance in the next 2 years, you will realize a greater benefit from a shorter term fix loan. I would recommend the 5 year fix over the 30 year fix if you can realize a savings. Think carefully about all of the reasons that may cause you to refinance in another couple years, such as medical reasons, debt consolidation reasons, investment reasons, creating cash flow, etc.

2 YEAR FIX: This loan is especially good for people who are buying and selling property, or refinancing once every 2 years. It is also a great loan program to use as a stepping stone for credit repair. Many people take this loan because it has a much lower payment, and they take the savings and invest it into other financial vehicles to safeguard themselves from the future market. The best financial vehicle in terms of real estate would of course be your home improvement and equity.

3 **What is APR?** - APR, better known as the annual percentage rate. The APR includes principle, interest, "points", fees, PMI (Mortgage insurance), and other costs associated with the loan. The APR is not the rate you will pay on your mortgage payment, the APR is simply a measure which shows how much you are paying for closing costs, and takes these costs into account by adding these fee's into the interest rate. I suggest shopping by interest rate and not by APR, since many lenders accidentally calculate APR incorrectly.

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4 **What is a credit score and what type of data is used to calculate my credit score?** A credit score is a number computed by a credit bureau and used to indicate how likely a consumer is to pay back a loan. Your score is computed by a computer program (also referred to as a mathematical or computer "model") that takes certain data from your credit bureau file and uses that data to calculate your score. Each of the three credit bureaus computes your score using a similar computer model. The model was created by the Fair, Isaac and Company, Inc., (hence the term "FICO" score) and is sold to the three major credit bureaus for their use with their data. If the information about you at all three credit bureaus is the same, then your score from each of the three bureaus should be essentially the same. Your credit score is based on credit-related information-both positive and negative-in your credit-bureau file, including:

- Payment history
- Outstanding debts
- Credit history
- Inquiries and new account openings
- Types of credit in use

You should periodically (about once a year) get a copy of your credit report from each of the credit bureaus and check them for accuracy. If you find an inaccuracy, you should immediately request that it be corrected. Your credit report should have information about how to request corrections.

Or, you can contact the credit bureaus at the addresses and telephone numbers below:
Equifax Information Services, LLC PO Box 740241 Atlanta , GA 30374 800-685-1111 www.equifax.com
Experian 701 Experian Pkwy. PO Box 949 Allen , TX 75013 888-397-3742 www.experian.com
TransUnion LLC Consumer Disclosure Center PO Box 1000 Chester , PA 19022 800-888-4213 800-916-8800 www.tuc.com

5 **Does a home loan require me to verify my assets?** Yes. Assets are things like 401K, Stocks, Bonds, Cash in your checking and savings accounts. Prior to the 2007 financial crisis, there were loans being offered which did not require verification of assets (Stated Income Stated Assets program). Typically SISA programs come with higher interest rates and require a higher fico score to qualify. Now those programs have all dropped out of existence and most lenders will require you to verify all assets. In general, the more assets you can verify is the lower interest rates you will qualify for.

6 **Should I be Paying Points?** - As a general rule of thumb, a mortgage consultant will charge you around 1% to 4% of the total loan value as compensation for their time investment for obtaining a loan for you. This can be negotiable, and there are many loan packages available in the mortgage markets. There are no point loan programs available that typically come with higher interest rates. The lower the interest rate (and hence payment) you get, the more points you should expect to pay.

7 **What is the Interest Only Option?**_ "Interest only option" means the lender allows you to just pay the interest, and no principal. There are two primary reasons why people like the I.O. option. 1.) For payment relief - for the purposes of getting the lowest payment possible. 2.) The second reason would be to invest the money that you would be paying to principal into your home improvements...most of the savvy investors follow this strategy.

8 **What is a Good Faith Estimate?** The GFE provides the borrower with an honest approximation of the closing costs, down payment balances, prepaid expenses and all other charges that the borrower must address at the closing. The GFE is the loan consultant's good faith estimation of what the charges for the loan will be.

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9 **What is the Escrow Company?** An "Escrow Company" is a neutral third party who oversees the financial aspects of the transaction. In a purchase scenario, the escrow agent will often hold the down payment on a home purchase until the closing, and receive the amount of the loan from the lender, transfer the down payment and mortgage money to the seller, transfer and record the deed of title to the buyer (or if there is a "deed of trust", the title company) and make sure the lender is protected by filing and recording the mortgage with the local county recorder of deeds. In some states the escrow functions are handled by a licensed title insurance company, or an escrow company, while in other states an attorney handles the transaction. The escrow company will double check all of the lenders numbers for accuracy and pay out the funds to your creditors after requesting a "payoff demand".

10 **What is the Impound Account all about?** Escrow agents typically setup "impound" accounts which refers to an account held at the lending institution where a borrower pays in 1/12 of their annual property taxes and insurance so that there are enough funds pooled together to pay the tax bills and the insurance premiums when they are due. For home owners insurance, on a purchase you will pay 12 months in advance to the insurance company and another 2 months will go into the impound/escrow account. They will almost always have a 2 month slush in that account. If you are Refinancing, they will usually require that there be at least 6 months remaining on your existing policy at the time of the first payment, and two months will go into the impound account. If you have less than 6 months remaining, they will require you pay a full 12 months plus 2 months to the impound account. For property taxes, depending on when you close will determine how much will have to be paid to the county tax collector and how much will go to the impound account. If the taxes are due to be paid within 6 months of closing escrow you could be required to put in 6-9 months of taxes to the reserve account. If taxes have been paid through the close of escrow, it could be as little at 1-3 months worth. Remember taxes are due in November, Late in December, and due in February, late in April, hence the phrase to help you remember: "NO DARN FOOLING AROUND" *(nov, dec, feb, april)*

11 **If I am a wage earner, which documents should I expect to show to a lender?** If you are a wage earner, meaning you are not self employed, the Lender will typically request to see your income documentation, such as your last two paystubs, and your last two years of W2's. They may request to see your bank statements going back a couple years as well. If you are ***self employed*** the Lender will request to see your last year's tax returns to verify your income. They will be looking more closely at your Adjusted Gross Income on your tax returns (the true income after all of your write-offs). ***Self employed*** borrowers sometimes have more difficulty with lenders when proving income because of all of the write-offs they claim. Most Lenders will require self employed borrowers to provide a copy of the business license, 12 months bank statements, and/or a letter from a CPA affirming that it is a real business. Business cards, an 800 number, and a letter of explanation regarding what the business is about is also helpful when trying to qualify for the best possible interest rate.

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12 **Should I pay down my loan balance or invest in home improvements?**
Paying down the loan balance will shorten the length of your mortgage, and enable you to pay it off much faster. Typically my wealthier clients who have large amounts of cash flow invest into the principal payments. Most mortgages are front loaded with interest payments, so you are paying mostly interest in your payment for the first 10-15 years, making principal payments less effective during the earlier periods of your mortgage.

The decision to try and pay down your loan balance depends greatly upon what your future plans are with the property. If you are planning to move in a couple years, paying into the loan balance wouldn't make as much sense. Home improvements would be smarter. In contrast, if you are planning on staying for 15 years or more, paying into the principal earlier can accelerate the payoff, and the home is the best free and clear asset for retirement to draw upon. If you would like a fixed income-like investment and you have a good emergency fund, go ahead and pay extra every month. I personally would max out my 401k and IRAs and get a good emergency fund before I make extra payments.

Always consider paying off your other non-deductible loans first (they should always have the priority.) Ensure your tax-deferred and sheltered investment opportunities have been met both now and reasonably into the future. (These opportunities have been dramatically improved and will continue to improve, by statute, for the next several years.) Does the home owner have an ample amount of liquid assets on-hand for financial emergencies? (It is normally recommended to accumulate available cash assets approaching 6 months of living expenses to prepare for job loss and mortgage qualification issues.) If those criteria (and some others previously mentioned) can be met, then paying down the loan early is a smart choice in my opinion.

Prepaying a mortgage, perhaps more than any other personal finance decision, has as much to do with your comfort level as it does with hard finance. If you sleep better at night knowing the mortgage will be paid off by the time you retire, then by all means, prepay in the early years, so you can get rid of it early. Peace of mind is worth every dime you prepay.

IN CLOSING:

I am happy to discuss real estate advice with you at length at any time. It is my hope that the above information reflects my resolve to assist you in a professional manner with your real estate transactions. My objective is to make you a client for life and to create an "experience" that exceeds your expectations.

Over the years, I have developed a system and a team of professionals that will provide you with the highest level of service throughout your real estate transaction. We will guide you through the process from start to finish.

When buying a home you need careful planning, precision, expertise, and execution. Besides offering a streamlined service and cutting edge real estate resources, we strategically plan your home purchase to ensure the best possible experience from the initial home search, to receiving the keys to your dream home.

In other words, you can count on us to guide you to decisions that best fit your needs and provide the greatest amount of benefits. Our service is very close and personal, and you can expect nothing but excellent service in the years to come.

Your real estate professional,

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