# Your Mortgage Center

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## Applying And Negotiating For A Loan

**Shopping around for a home loan or mortgage will help you to get the best financing deal. A mortgage — whether it's a home purchase, a refinancing, or a home equity loan—is a product, just like a car, so the price and terms may be negotiable. You'll want to compare all the costs involved in obtaining a mortgage. Shopping, comparing, and negotiating may save you thousands of dollars.**

Home loans are available from several types of lenders—thrift institutions (a general term for savings banks and savings and loan associations), commercial banks, mortgage companies, and credit unions. Different lenders may quote you different prices, so you should contact several lenders to make sure you're getting the best price.

To get the best loan for you, be sure to get information about mortgages from several lenders or brokers. Know how much of a down payment you can afford, and find out all the costs involved in the loan. Knowing just the amount of the monthly payment or the interest rate is not enough. Ask for information about the same loan amount, loan term, and type of loan so that you can compare the information.

Getting a loan is a pretty simple process consisting of these two steps: completing a loan application, then giving the lender a verification of your income, as well as proof of your assets and debts. Then, it's all in the lender's hands. Your debt-to-income ratios, and your employment and credit history will be reviewed. Once the lender is satisfied, you will finally get approved for a mortgage depending only on the property appraisal and the title report. Sounds straightforward enough, isn't it? Then why do so many homebuyers complain about the difficulties qualifying for a mortgage? The answer is just as straightforward, documentation.

The loan approval process generally begins with an initial interview where the prospective home buyer and the lender meet to discuss the potential loan. You will need to bring information to verify your income and long-term debts.

Often people prefer to meet with the lender before house hunting to determine in advance what price range they can realistically afford and the mortgage amount for which they can qualify. This step is called pre-qualification and can save you much time and trouble by making certain you are looking in the correct price range.

For your first meeting with the lender, you should bring:

- A purchase contract for the house, if you have one.
- Your bank account numbers and the address of your bank branch, along with checking and savings account statements for the previous two to three months.
- Pay stubs, W2 withholding forms, tax returns for two years, or other proof of employment and income verification.
- Divorce settlement papers, if applicable.

- Credit card bills for the past few billing periods, or canceled checks for rent or utility bill payments, to show payment history and amount of revolving debt.
- Information on other consumer debt such as car loans, furniture loans, student loans and retail/credit cards.
- Balance sheets and tax returns, if you are self- employed.
- Any gift letters, if you are using a gift from a parent or relative or other organization to help pay the down payment and/or closing costs. This letter simply states that the money is in fact a gift and will not have to be repaid.

Having these items on hand when you visit the lender will help speed up the application process. Usually, you will need to pay an application fee and the appraisal fee when you submit the mortgage application. This is done only after you have negotiated successfully on a home and the seller has accepted your offer. Generally, there is no fee for prequalification.

After the initial meeting with the lender, you should have a general idea if you qualify for the size and type of loan you want. The lender should let you know if you qualify for the loan in 30 to 60 days. If you are denied a home loan, the lender must explain the reasons. If this happens, the lender will usually discuss any options with you.

Once you know what each lender has to offer, negotiate for the best deal that you can. On any given day, lenders and brokers may offer different prices for the same loan terms to different consumers, even if those consumers have the same loan qualifications. The most likely reason for this difference in price is that loan officers and brokers are often allowed to keep some or all of this difference as extra compensation.

Have the lender or broker write down all the costs associated with the loan. Then ask if the lender or broker will waive or reduce one or more of its fees or agree to a lower rate or fewer points. You'll want to make sure that the lender or broker is not agreeing to lower one fee while raising another or to lower the rate while raising points. There's no harm in asking lenders or brokers if they can give better terms than the original ones they quoted or than those you have found elsewhere. Once you are satisfied with the terms you have negotiated, you may want to obtain a written lock-in from the lender or broker. The lock-in should include the rate that you have agreed upon, the period the lock-in lasts, and the number of points to be paid.

Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you are shopping for the best deal.

## How To Qualify For A Mortgage

**Many a buyer nightmare is not being able to get a home loan. However it's not as hard as people think. There are many types of loans and lenders out there and all you need to do is find the right one for you.**

**To get a mortgage, all you need to know is what the lenders want from you and how to give it to them. Lenders look for two things in a homebuyer: the ability to pay loans and the willingness to do so, in other words your employment history and your credit record.**

All in all it's a pretty simple process consisting of these two steps: completing a loan application, then giving the lender a verification of your income, as well as proof of your assets and debts. Then, it's all in the lender's hands. Your debt-to-income ratios, and your employment and credit history will be reviewed. Once the lender is satisfied, you will finally get approved for a mortgage depending only on the property appraisal and the title report. Sounds straightforward enough, isn't it? Then why do so many homebuyers complain about the difficulties qualifying for a mortgage? The answer is just as straightforward, documentation.

So start by making sure all the documents you need are in order and that you filled in your application form is filled correctly and completely. This way you will avoid unnecessary delays and you will make a good impression on your lender.

**Employment history**

It's very important to prove that you are indeed capable of paying your loans. If your employment record isn't in good shape, then you will be treated as a high-risk client and you will have to pay higher rates.

If you've been in the same place of work for at least two consecutive years, then it will be a solid guarantee that you can earn a steady income and thus make good on your monthly payments.

Another factor is your actual income as it will influence the amount of money you can borrow.

If you recently changed jobs and the field you're now in is apparently unrelated, then you should write a letter of explanation to the lender. In it, you should explain how this new job fits in your career plans. Also, explain any breaks you might have on employment. An inconsistent career need not put a stopper on your home-buying plans. Lenders today work with clients on an individual level and they are prepared to accommodate almost any situation.

If you are self-employed, you will be qualify on the basis of the income you pay taxes on. You will need to provide the lender with your Federal tax returns for the past two years.

**Credit record**

Establishing a good credit history is by far the easiest way to qualify for a loan. Your credit card payments should be consistent, and your housing loan should not have any late payments within the last 12 months. Your total liability payments should not exceed 42% of your monthly income. You will also need to have a minimum of two month's worth of mortgage payments (assets and cash in reserves).

So if you've been a responsible payer for smaller loans, such as credit cards and car loans, then you will have no problem in getting your mortgage. You will show that you are financially responsible. Furthermore, you might be offered a lower interest rate on the loan, since you are a low risk borrower.

**Tip:** Don't make any major purchases until you've moved in. Credit inquiries can lower your credit score.

If your credit record is not that good, do not despair. You might try out for an adjustable rate mortgage until your record improves, or settle for a higher payment rate. Also, if you have the finances, a more substantial down payment than you originally planned will lower your risk as a buyer and get you your home loan.

## Mortgage Rates And Types Of Mortgages

**What's in a monthly mortgage payment? The monthly mortgage payment mainly pays off principal and interest. But most lenders also include local real estate taxes, homeowner's insurance, and mortgage insurance (if applicable).**

The size of your mortgage payment depends on the amount of the down payment, the size of the mortgage loan, the interest rate, the length of the repayment term and payment schedule.

A lower interest rate allows you to borrow more money than a high rate with the some monthly payment. Interest rates can fluctuate as you shop for a loan, so ask-lenders if they offer a rate "lock-in" which guarantees a specific interest rate for a certain period of time. Remember that a lender must disclose the Annual Percentage Rate (APR) of a loan to you. The APR shows the cost of a mortgage loan by expressing it in terms of a yearly interest rate. It is generally higher than the interest rate because it also includes the cost of points, mortgage insurance, and other fees included in the loan.

If interest rates drop significantly and you have a fixed rate loan, you may want to investigate refinancing. Most experts agree that if you plan to be in your house for at least 18 months and you can get a rate 2% less than your current one, refinancing is smart. Refinancing may, however, involve paying many of the same fees paid at the original closing, plus origination and application fees.

You have the possibility to lower your interest rate by means of discount points. Discount points are smart if you plan to stay in a home for some time since they can lower the monthly loan payment. They are essentially prepaid interest, with each point equaling 1% of the total loan amount. Generally, for each point paid on a 30-year mortgage, the interest rate is reduced by 1/8 (or.125) of a percentage point. When shopping for loans, ask lenders for an interest rate with 0 points and then see how much the rate decreases with each point paid. Points are tax deductible when you purchase a home and you may be able to negotiate for the seller to pay for some of them.

You can even pay off your loan ahead of schedule. By sending in extra money each month or making an extra payment at the end of the year, you can accelerate the process of paying off the loan. When you send extra money, be sure to indicate that the excess payment is to be applied to the principal. Most lenders allow loan prepayment, though you may have to pay a prepayment penalty to do so. You will need to ask your lender for more details.

There are several types of loans you can choose from, depending on your financial status and your needs.

The **fixed rate mortgage** is a predictable mortgage because the payments remain the same for the life of the loan, and the housing cost remains unaffected by interest rate changes and inflation. There are two types of **fixed rate mortgages:**

- The 15-year type - The loan is usually made at a lower interest rate. Equity is built faster because early payments pay more principal.
- The 30-year type - In the first 23 years of the loan, more interest is paid off than principal, meaning larger tax deductions. As inflation and costs of living increase, mortgage payments become a smaller part of overall expenses.

The **adjustable rate mortgages** (ARMS) as their name suggests don't have a fixed rate every month. Payments increase or decrease on a regular schedule with changes in interest rates (increases are subject to limits). You should consider ARMS if you are confident that your income will increase steadily over the years or if you anticipate a move in the near future and aren't concerned about potential increases in interest rates. ARMS generally offer lower initial interest rates, with lower monthly payments, and may allow you to qualify for a larger loan amount.

There are three types of ARMS:

- The balloon mortgage- Offers very low rates for an initial period of time (usually 5, 7, or 10 years). When this time has elapsed, the balance is clue or refinanced (though not automatically).
- The two-step mortgage- Interest rate adjusts only once and remains the same for the life of the loan.
- ARMS linked to a specific index or margin.

## Mortgage Insurance

**The mortgage insurance is a policy that protects lenders against some or most of the losses that result from defaults on home mortgages. It's required primarily for borrowers making a down payment of less than 20%.**

The mortgage insurance protects the mortgage lender against financial loss if a homeowner stops making mortgage payments. Lenders usually require insurance on low down payment loans for protection in the event that the homeowner fails to make his or her payments. When a homeowner does not make mortgage payments, a default occurs and the home goes into foreclosure. Both the homeowner and the mortgage insurer lose in a foreclosure. The homeowner loses the house and all of the money put into it. The mortgage insurer will then have to pay the lender's claim on the defaulted loan.

For this reason, it is crucial that the family buying the home can really afford it -- not only when they buy , but throughout the time period of the loan.

Although the cost of the mortgage insurance is paid by the home buyer, or borrower, the mortgage insurer works directly with the lender. Mortgage insurance is available to commercial banks, mortgage bankers, and savings & loans, and all of which offer mortgage loans to home buyers.

Remember that mortgage insurance is not the same as credit life insurance, also called mortgage life insurance. This type of policy repays an outstanding mortgage balance if the person who took out the insurance policy dies.

**The Secondary Market**

The lender's decision to use mortgage insurance is driven by the requirements of investors in the mortgage market. Because of the losses that could occur, major investors require mortgage insurance on all loans made with low down payments.

The three primary investors in home loans are Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association (Ginnie Mae). By purchasing and selling residential mortgages, Fannie Mae and Freddie Mac help keep money available for homes across the country.

Unlike Fannie Mae and Freddie Mac, Ginnie Mae does not actually buy the mortgages. It adds the guarantee of the full faith and credit of the U.S. Government to mortgage securities issued by private lenders.

**The Two Choices: Government Insurance and Private Insurance**

Now that we have explained how mortgage insurance works and why it is necessary, let's look at the basic kinds of mortgage insurance. Low down payment mortgages can be insured in two ways -- through the government or through the private sector.

Mortgages backed by the government are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the U.S. Department of Agriculture's Rural Housing Services (USDA-RHS).

The minimum effective down payment required by FHA is less than 3percent. For single-family homes, there is a limit on the loan amount that varies according to geographic area.

Early on in the home-buying process, it is a good idea to meet with several lenders to compare the types of mortgages they offer and shop for the best price and terms.

Although anyone can apply for FHA insurance, the other two government mortgage guarantee programs are much more targeted. The VA program is limited to qualified, eligible veterans and reservists. The USDA Rural Housing Service insures loans for the construction and purchase of homes in rural communities. This program is very specialized, so contact your lender for the details.

Obtaining conventional financing is the alternative to obtaining a home loan backed by the government. Conventional mortgages are all home loans not guaranteed by the government, including those guaranteed by private mortgage insurers.

Although government and private insurance are based on the concept of allowing families to get into homes with less cash down, there are many differences between the two. Often, the lender or loan originator will play an important role in suggesting and deciding which insurance is selected.

Private mortgage insurance is available on a wide variety of low down payment home loans and there is no pre-set limit on the loan amount. Although differences such as these may affect whether the lender prefers to work with government or conventional mortgages, your lender will discuss which one would be better for your situation.

With the wide variety of loans available, home buyers have the freedom to choose the type of loan that best suits their needs. Early on in the home-buying process, it is a good idea to meet with several lenders to compare the types of mortgages they offer and shop for the best price and terms. Best of all, working with a mortgage insurer can be very easy -- whether your loan is insured by the FHA or a private mortgage insurer -- because your lender handles all of the arrangements.

By making lending money to home buyers safer, mortgage insurance helps more families get into homes of their own.

## Qualifying For A Low Down Payment Loan

**In attempting to approve home buyers for the type and amount of mortgage they want, lenders basically look at two key factors: the borrower's ability and willingness to repay the loan. Ability to repay the mortgage is verified by your current employment and total income. Generally speaking, lenders prefer for you to have been employed at the same place for at least two years, or at least be in the same line of work for a few years.**

The borrower's willingness to repay is determined by examining how the property will be used. For instance, will you be living there or just renting it out? Willingness is also closely related to how you have fulfilled previous financial commitments, thus the emphasis on the credit report or rent and utility bills.

It is important to remember that there are no rules carved in stone. Each applicant is handled on a case-by-case basis. So even if you come up a little short in one area, perhaps one of your stronger points will make up for the weak one. Everyone involved in real estate is in the business of selling homes, in one way or another. Therefore, if the loan makes sense, lenders and insurers will do their best to see that you qualify.

By its very nature, mortgage insurance is an aid to affordability, because it allows families to purchase homes with less cash on hand. The industry plays a central role in helping low-and moderate-income families become homeowners.

**Qualifying for a low down payment loan is much like applying for a regular loan.**

To be considered for a low down payment loan, you generally need to have:

- Sufficient income to support the monthly mortgage payment.
- Enough cash to cover the down payment.
- Sufficient cash to cover normal closing costs and related expenses (explained below).
- A good credit background that indicates your payment history or "willingness to pay".
- Sufficient appraisal value, which shows the house is at least equal to the purchase price.
- In some instances, a cash reserve equivalent to two monthly mortgage payments.

Closing costs, or settlement costs, are paid when the home buyer and the seller meet to exchange the necessary papers for the house to be legally transferred. On the average, closing costs run approximately 2% to 3% of the house price. This percentage may vary, depending on where you live.

Closing costs include the loan origination fee (if not already paid), points, prepaid homeowner's insurance, appraisal fee, lawyer's fee, recording fee, title search and insurance, tax adjustments, agent commissions, mortgage insurance (if you are putting less than 20% down) and other expenses. Your lender will give you a more exact estimate of your closing costs. You can eliminate the need to pay a year's mortgage insurance premium at closing by choosing a monthly premium program.

Points are finance charges that are calculated by the lender at closing. Each point equals 1% of the loan amount. For example, 2 points on a $100,000 loan equals $2,000. Lenders may charge one, two or three points in up-front costs in addition to the down payment. The more points you pay, the lower your interest rate will be. In some cases, you may be able to finance the points.

**So How Much of a Mortgage Can You Afford?**

There are two basic formulas commonly used by lenders to determine how much of a mortgage you can reasonably afford. These formulas are called qualifying ratios because they estimate the amount of money you should spend on mortgage payments in relation to your income and other expenses.

It is important to remember that the following ratios may vary from lender to lender and each application is handled on an individual basis, so the guidelines are just that -- guidelines. There are many affordability programs, both government and conventional, that have more lenient requirements for low- and moderate-income families. Many of these programs involve financial counseling to help potential home buyers learn about the financial responsibilities of owning a home.

Generally speaking, to qualify for conventional loans, housing expenses should not exceed 26% to 28% of your gross monthly income. For FHA loans, the ratio is 29% of gross monthly income. Monthly housing costs include the mortgage principal, interest, taxes and insurance, often abbreviated PITI. For example, if your annual income is $30,000, your gross monthly income is $2,500, and $2500 x 28% = $700. So you would probably qualify for a conventional home loan that requires monthly payments of $700.

Any expenses that extend 11 months or more into the future are termed long-term debt, such as a car loan. Total monthly costs, including PITI and all other long-term debt, should equal no greater than 33% to 36% of your gross monthly income for conventional loans. Using the same example, $2,500 x 36% = $900. So the total of your monthly housing expenses plus any long-term debts each month cannot exceed $900. For FHA the ratio is 41%.

One way to determine how much to spend for housing is to compare your monthly income with monthly long-term obligations and expenses. Be sure to only include income you can definitely count on.

When budgeting to buy a home, it is important to allow enough money for additional expenses such as maintenance and insurance costs. If you are purchasing an existing home, gather information such as utility cost averages and maintenance costs from previous owners or tenants to help you better prepare for homeownership.

Homeowner's insurance or property insurance is another cost you will have to consider. The lending institution holding the mortgage will require insurance in an amount sufficient to cover the loan. To protect the full value of your investment, you might want to consider purchasing insurance that provides the full replacement cost if the home is destroyed. Some insurance only provides a fixed dollar amount which may be insufficient to rebuild a badly damaged house.

**What Kind Of Property Can You Buy With A Low Down Payment Loan?**

There are few restrictions regarding the type of home you may buy with a low down payment loan. In addition, low down payment loans may be used with the wide variety of mortgages.

Besides price range, there are many other factors to consider when purchasing a home. It's in your best interest to take care in selecting a home that will have lasting value as well as provide shelter. Be sure the neighborhood and house meet the needs of your family. If you have children, you may want to know if there are other children in the neighborhood and what schools or playgrounds are nearby. Also consider the availability of public transportation and how far family members will have to commute to work or school.

Check on the condition of the plumbing, heating and electrical systems and whether they are up to code regulations. The best and easiest way to do this is through a certified home inspection, from a certified inspector.

If you are like most people, a home is the single largest purchase you will ever make. It is important that you select a home that will meet your family's needs and keep you happy for years to come. And most important, you must be able to afford to remain in that home for as long as you please.

More and more borrowers are taking advantage of low down payment mortgages and becoming homeowners with less than 3 percent down. For more information on how you can take advantage of the benefits of a low down payment home loan with mortgage insurance, contact your local lender or real estate agent. For general information on purchasing a home, contact the county extension office of the U.S. Department of Agriculture, listed in the government pages of your telephone book.

## Buying A Home With A Low Downpayment

**If you're dreaming of buying a home, congratulations. You're in good company! Almost two-thirds of the nation's households own their own home.**

**This article describes how families can get into their own homes with little cash up front. It explains mortgage insurance and how it works, and looks at the two options -- private mortgage insurance and government mortgage insurance.**

For many Americans, owning a home continues to remain just slightly out of reach. For more and more families, saving the money for a down payment is the biggest obstacle to homeownership. Many people mistakenly believe that you have to come up with a down payment equal to 20 percent of the price of a home.

Traditionally, lenders have required that home buyers be able to make a down payment of at least 20% of a home's purchase price to get a home loan or mortgage. However, mortgage lenders will grant home loans to qualifying home buyers with a down payment of as little as 3 to 5 percent of the purchase price, if the mortgage is insured.

In fact, home loans with down payments of less than 20% are increasingly popular. They are called "low down payment mortgages."

This is good news for the millions of home buyers who are finding it difficult to save a large down payment, especially for their first house.

But keep in mind that the larger the down payment, the less you have to borrow, and the more equity you'll have. When considering the size of your down payment, consider that you'll also need money for closing costs, moving expenses, and - possibly -repairs and decorating.

If a 20 percent down payment is not made, lenders usually require the home buyer to purchase private mortgage insurance (PMI) to protect the lender in case the home buyer fails to pay. When government-assisted programs such as FHA (Federal Housing Administration), VA (Veterans Administration), or Rural Development Services are available, the down payment requirements may be substantially smaller.

You will need to ask about the requirements for a down payment, including what you need to do to verify that funds for your down payment are available. Special programs might be offered by lenders, so don't forget to inquire about them.

If PMI is required for your loan, you will need to ask what the total cost of the insurance will be, how much your monthly payment will be when including the PMI premium, and how long you will be required to carry PMI.

### Mortgage Insurance

Simply put, mortgage insurance protects the mortgage lender against financial loss if a homeowner stops making mortgage payments. Lenders usually require insurance on low down payment loans for protection in the event that the homeowner fails to make his or her payments. When a homeowner does not make mortgage payments, a default occurs and the home goes into foreclosure. Both the homeowner and the mortgage insurer lose in a foreclosure. The homeowner loses the house and all of the money put into it. The mortgage insurer will then have to pay the lender's claim on the defaulted loan.

For this reason, it is crucial that the family buying the home can really afford it -- not only when they buy , but throughout the time period of the loan.

Although the cost of the mortgage insurance is paid by the home buyer, or borrower, the mortgage insurer works directly with the lender. Mortgage insurance is available to commercial banks, mortgage bankers, and "savings & loans", and all of which offer mortgage loans to home buyers.

Remember that mortgage insurance is not the same as credit life insurance, also called mortgage life insurance. This type of policy repays an outstanding mortgage balance if the person who took out the insurance policy dies.

Like home or auto insurance, mortgage insurance requires payment of a premium, is for protection against loss, and is used in the event of an emergency. If a borrower can't repay an insured mortgage loan as agreed, the lender may foreclose on the property and file a claim with the mortgage insurer for some or most of the total losses.

You need mortgage insurance only if you plan to make a down payment of less than 20% of the purchase price of the home. The FHA offers several loan programs that may meet your needs.

You can also try out a PMI. PMI stands for Private Mortgage Insurance or Insurer. These are privately-owned companies that provide mortgage insurance. They offer both standard and special affordable programs for borrowers. These companies provide guidelines to lenders that detail the types of loans they will insure. Lenders use these guidelines to determine borrower eligibility. PMI's usually have stricter qualifying ratios and larger down payment requirements than the FHA, but their premiums are often lower and they insure loans that exceed the FHA limit.

## Shopping For A Mortgage

**Homeownership is becoming a reality for more and more Americans. During 2000, the US homeownership rate reached 67.7%, the highest rate ever. Yet many Americans don't realize that homeownership is within their grasp. They believe that they have no chance to qualify for a mortgage and buy their own home. But in truth, there are so many types of loans, that it is almost impossible not to find one that would accommodate your needs.**

Home loans are available from several types of lenders - thrift institutions (a general term for savings banks and savings and loan associations), commercial banks, mortgage companies, and credit unions. Different lenders may quote you different prices, so you should contact several lenders to make sure you're getting the best price.

Shopping around for a home loan or mortgage will help you to get the best financing deal. A mortgage - whether it's a home purchase, a refinancing, or a home equity loan - is a product, just like a car, so the price and terms may be negotiable. You'll want to compare all the costs involved in obtaining a mortgage. Shopping, comparing, and negotiating may save you thousands of dollars.

To get the best loan for you, be sure to get information about mortgages from several lenders or brokers. Know how much of a down payment you can afford, and find out all the costs involved in the loan. Knowing just the amount of the monthly payment or the interest rate is not enough. Ask for information about the same loan amount, loan term, and type of loan so that you can compare the information.

Your local newspaper and the Internet are good places to start shopping for a loan. You can usually find information both on interest rates and on points for several lenders.

Since rates and points can change daily, you'll want to check your newspaper often when shopping for a home loan. But the newspaper does not list the fees, so be sure to ask the lenders. The following information is important to get from each lender and broker:

### About rates

- Ask each lender and broker for a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.

- Ask whether the rate is fixed or adjustable. Keep in mind that when interest rates for adjustable-rate loans go up, generally so does the monthly payment.

- If the rate quoted is for an adjustable-rate loan, ask how your rate and loan payment will vary, including whether your loan payment will be reduced when rates go down.

- Ask about the loan’s annual percentage rate (APR). The APR takes into account not only the interest rate but also points, broker fees, and certain other credit charges that you may be required to pay, expressed as a yearly rate.

**Discount points**

You have the possibility to lower your interest rate by means of discount points. Discount points are smart if you plan to stay in a home for some time since they can lower the monthly loan payment. They are essentially prepaid interest, with each point equaling 1% of the total loan amount. Generally, for each point paid on a 30-year mortgage, the interest rate is reduced by 1/8 (or.125) of a percentage point.

Check your local newspaper for information about points currently being offered. When shopping for loans, ask lenders for an interest rate with 0 points and then see how much the rate decreases with each point paid. Points are tax deductible when you purchase a home and you may be able to negotiate for the seller to pay for some of them.

Ask for points to be quoted to you as a dollar amount - rather than just as the number of points - so that you will actually know how much you will have to pay.

There are no fixed criteria for choosing the right loan for you. You will need to analyze your personal situation to decide. By asking yourself a few questions, you can help narrow your search among the many options available and discover which loan suits you best.

- Do you expect your finances to change over the next few years?

- Are you planning to live in this home for a long period of time?

- Are you comfortable with the idea of a changing the mortgage payment amount?

- Do you wish to be free of mortgage debt as your children approach college age or as you prepare for retirement?

Afterward, compare the loan terms between the lenders. First, devise a checklist for the information from each lending institution. You should include the company's name and basic information, the type of mortgage, minimum down payment required, interest rate and points, closing costs, loan processing time, and whether prepayment is allowed.

Speak with companies by phone or in person. Be sure to call every lender on the list the same day, as interest rates can fluctuate daily. In addition to doing your own research, your real estate agent may have access to a database of lender and mortgage options. Though your agent may primarily be affiliated with a particular lending institution, he or she may also be able to suggest a variety of different lender options to you.

## Avoid Predatory Loans

**Buying or refinancing your home may be one of the most important and complex financial decisions you'll ever make. Many lenders, appraisers, and real estate professionals stand ready to help you get a nice home and a great loan. However, you need to understand the home buying process to be a smart consumer. Every year, misinformed homebuyers, often first-time purchasers or seniors, become victims of predatory lending or loan fraud.**

**Don't let this happen to you!**

Predatory home mortgage lenders look for people who may have financial difficulty. They hunt for people who may be behind on property taxes, who need to fix up their home, or who need money for medical bills. Once they find these people, the lenders often use high-pressure sales talk, high interest rates, outrageous fees, and repayment terms that the person can't afford. Fast talkers can trick homeowners into taking out loans that they can't afford to pay back. When they can't make the payments, their homes are at risk of foreclosure.

Even if you don't have financial troubles, no one wants to pay more than is needed. Why pay interest rates higher than you need to? Why pay unneeded fees or charges? Whether you have excellent credit or not-so-good credit, you want the best possible loan you can get.

Don't be fooled by loan offers you see on television or receive in the mail. They don't tell the full story.

Be a smart borrower. Don't get caught in a bad loan!

Knowledge is your biggest ally, so get informed. Use the internet or find a trusted real estate agent or lender to advise you. Ask your friends about their homebuying experiences and ask for references for agents and lender. Get a real estate attorney to help you if you can afford it.

Do your own homework and get information about the prices of other homes in the neighborhood. Don't be fooled into paying too much. Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender.

**To keep yourself safe from dishonest lenders, you need to know how they operate.** In communities across America, people are losing their homes and their investments because of predatory lenders, appraisers, mortgage brokers and home improvement contractors who:

- Sell properties for much more than they are worth using false appraisals.

- Encourage borrowers to lie about their income, expenses, or cash available for downpayments in order to get a loan.

- Knowingly lend more money than a borrower can afford to repay.

- Charge high interest rates to borrowers based on their race or national origin and not on their credit history.

- Charge fees for unnecessary or nonexistent products and services.

- Pressure borrowers to accept higher-risk loans such as balloon loans, interest only payments, and steep pre-payment penalties.

- Target vulnerable borrowers to cash-out refinances offers when they know borrowers are in need of cash due to medical, unemployment or debt problems.

- "Strip" homeowners' equity from their homes by convincing them to refinance again and again when there is no benefit to the borrower.

- Use high pressure sales tactics to sell home improvements and then finance them at high interest rates.

**Predators are fast-talkers who take advantage of homeowners by lying to you about the process of homebuying. These are some of the tactics they might use:**

- The lender or investor tells you that they are your only chance of getting a loan or owning a home. You should be able to take your time to shop around and compare prices and houses. So don't listen to them and find the best loan for you.

- The house you are buying costs a lot more than other homes in the neighborhood, but isn't any bigger or better.

- You are asked to sign a sales contract or loan documents that are blank or that contain information which is not true.

- You are told that the Federal Housing Administration insurance protects you against property defects or loan fraud - it does not.

- The cost or loan terms at closing are not what you agreed to.

- You are told that refinancing can solve your credit or money problems, when all they intend to do is increase your debts.

- You are told that you can only get a good deal on a home improvement if you finance it with a particular lender.

Once you've found the loan you want, make sure you get the deal you were promised. Close your deal carefully.

**Follow these steps:**

- Read the loan papers carefully before you sign.

- Ask a lawyer, housing counselor, or a trusted friend to help you go over the papers.

- Be sure you understand exactly what the lender is offering -and what you're going to have to pay.

- Ask to have all fees explained.

- Ask questions if you don't understand something.

- Take your time. Don't be rushed.

- Be sure that all blank spaces are filled in on all copies before you sign.

- Know your options about credit life insurance. Only buy it if you really need it. Many people don't. If you do want it, shop elsewhere for the best terms. If the lender insists on it, find another lender. Be sure to look for this item on the forms given you at settlement.

- If what you read in the loan is not what you wanted or expected, don't sign the papers! Be prepared to walk out of the settlement (closing) if you find surprises.

**When discussing your loan terms and afterward, you need to know your legal rights and use them if necessary.**

You have a legal right to know:

- The total cost of borrowing the money (fees and interest);
- The annual percentage rate (APR);
- The number of payments and the payment amounts;
- How long you have to pay back the loan; and
- The total amount you have borrowed

If the lender refuses to give you any of the above information, it casts suspicions about his dealings and you'd best find another one.

With home equity loans, you have the right to change your mind, even after you have signed the papers. If you decide within three business days after you sign the papers that you do not want the loan, you have the right to cancel. You can cancel by sending the lender written notice of your decision to cancel by mail, hand delivery, or telegram within three business days. Saturday is a business day. For example, if you sign at 3 PM on Thursday, you have until the end of Monday to cancel. Ask for "return receipt requested" at the post office for proof of when you sent the notice.

If you don't want to turn your homebuying and homeownership experience into a nightmare, then you'd better be careful and steer clear of dishonest lenders.

If a deal to buy, repair or refinance a house sounds too good to be true, it usually is!

Report things that go wrong and get legal help.

If you think that your lender is dishonest - for example, you discover fees that you weren't told about or you were required to buy credit insurance - report it!

- Call your State, County and City Government Consumer Protection Offices (may be called consumer protection). You can find the phone number in the government listings of the phone book.
- Call your state Attorney General or state office of banking. You can find the phone numbers in the government listings of your phone book.
- Report the problem to the Federal Trade Commission (FTC) at 1-877-FTC-HELP, or at www.ftc.gov.
- Ask a lawyer to look at all of your documents to see if there are state or federal laws that would let you get out of the loan.