

FINANCING

*T*oday's lenders, such as our preferred *lender*, work hard to secure financing that helps people get the home they want, with a payment they can afford. While this information and a link to our preferred lender's site will provide some basic tools for your use, it's best to let a financial professional walk you through the options. The right solution for you may not be on a website. A good place to start is by reviewing your financial position—,how much cash do you have and how much can you borrow? As a starting point, you may want to review the information that follows.

Cash on Hand

Home buyers typically need cash for loan application fees, the down payment, closing costs and moving expenses. Consider available cash such as checking and savings accounts or certificates of deposit near maturity as well as cash that might accumulate during the construction of your new home. Also, think about any assets that you can turn into cash, such as the equity in a home you already own. Other assets might include a cash gift from a family member, an inheritance, maturing bonds, stocks or the cash value of an insurance policy. If you are a first-time home buyer, you may be able to borrow against your IRA or 401(K), but be sure to consult a tax professional before doing so.

Amount You Can Borrow

The amount you can borrow is based on factors such as your credit report, your assets, how much you owe, your income, and the length and stability of your employment. A change in your circumstances may affect the amount, the rate, and the types of loans for which you can qualify. If you do not qualify for the amount you want, ask about the changes you might make in your circumstances (such as reducing your debt or monthly expenses) or consider lowering the amount you need to borrow by omitting upgrades and options (backyard landscaping or special floor coverings, for example). You can always add these and other items to your home at a later time.

And finally, talk to other lenders—programs and requirements vary widely. Be aware that some mortgage programs penalize those whose credit reports show numerous requests for credit information. Just be prepared to explain all the activity on your credit report. If you have spoken to more than one or two lenders, ask each lender how this situation might affect your ability to get a loan at the lowest rate.

Applying for a Mortgage

Many people find applying for a mortgage intimidating or frustrating, or both. Completing all the forms involved can take time. The feeling that your privacy is

being invaded is common. You will feel less invaded if you consider the lender's point of view: What would you want to know about someone to whom you were lending this amount of money?

However, getting a mortgage has its advantages. Qualifying for a mortgage enables you to buy more house than you might afford with cash on hand. Mortgage interest costs are usually tax deductible—talk to your tax accountant. Maintain a sense of humor and keep focused on your goal—that new home for you and your family.

Mortgages come in many shapes and sizes—fixed-rate, adjustable, interest-only, FHA, VA and, in some areas, special programs for first-time home buyers. Creative financing options are available. Your goal should be to match a loan program to your circumstances so you can buy the home you want. Many lenders use computer programs to match your financial and credit data to the requirements of various loan programs and identify those that fit your circumstances.

Much of the mystery of mortgages disappears if you're familiar with the basic terminology. The following list is in alphabetical order:

- **Appraisal** – Costs vary for appraisals, \$250 to \$400 is common. The appraiser, who is chosen by the lender, determines the fair market value that your completed home will have. If the appraised value and the sales price are different, the lender bases the loan amount on the lower figure.
- **Closing Costs** – Charges associated with the transfer of ownership make up your closing costs. They are often estimated at 2 to 3 percent of the loan amount but can vary from state to state.
- **Credit Report and Verifications** – Your lender obtains your credit report at the time of the application and may update the report prior to closing if more than 30 days have passed. The lender also verifies information on your application. You will be asked to sign verification forms regarding your employment, bank deposits and your current mortgage company or landlord.
- **Discount Points** – These points are a one-time charge sometimes levied by the lender. You may use points to achieve a lower permanent interest rate because you pay some of the interest in a lump sum, up-front at the closing.
- **Down Payment** – The down payment is the difference between the price of the home and the amount of the loan you obtain. The deposit you give to the builder and items you pay for during construction may count toward the down payment. Be certain that you understand the builder's contract regarding potential refund of your down payment.
- **Good-Faith Estimate** – The Good-Faith Estimate lists the costs you are likely to incur at the closing of your new home. The key word here is *estimate*. Some figures, such as accrued interest, change based on the day of the month the closing occurs.

- ***Loan Application*** – Assemble the required financial documents and information prior to your application. Your lender can provide a list of needed items. Read any documents and ask any questions before signing. You should receive a copy of each document you are asked to sign. Expect to pay for a credit report and an appraisal when you submit the application.
- ***Loan Approval*** – At the time you complete the application, your lender estimates the time that will be needed to obtain approval. Add a week to this estimate and expect that some last-minute details will need your attention. The loan approval should be in writing and state clearly: (a) that your loan has been approved; (b) the loan amount, type and rate; (c) the time period for which the loan offered is valid; and (d) any conditions of approval or contingencies, such as closing on the sale of a previous home. Contingencies are common and if one or more apply to your loan approval, be certain you understand exactly what must occur to obtain final approval.
- ***Loan Lock*** – The lender promises to provide a loan to you at a quoted (locked) rate. Until you lock your loan rate, the interest rate for your mortgage can increase or decrease. To obtain the locked rate, approval of the application and the closing must occur before the expiration of the lock. It's important to time your decision to lock in your loan rate carefully. Typical loan locks are for 30 to 45 days. Locking too soon may result in the rate expiring before your home is completed. When you are ready to lock in your loan, notify the lender in writing and request written confirmation. Be sure you understand all conditions that apply to your lock.
- ***Mortgage Types***
 - Adjustable Rate Mortgage*** – If the interest rate on a mortgage can be changed, the mortgage is an adjustable rate mortgage (ARM). ARMs are easier to qualify for because the initial low interest rate results in a lower payment. Based on the terms of the loan program, the rate can be adjusted up (or down) over the term of the loan, usually in one-year increments. Rate caps limit how much the interest rate can vary at one time and over the life of the loan.
 - Balloon Mortgage*** – Some lenders offer loans that mature before the loan is fully amortized. For instance a 7-23 loan comes due after 7 years, but it may have an option to renew for 23 additional years at a predetermined rate if the borrower meets certain requirements.
 - FHA Insured Loans*** – The Federal Housing Administration does not lend money; it insures mortgage loans. Some FHA programs require as little as 3 percent down, although maximum loan amounts limit the loan amount available by area. The cost or premium for FHA mortgage insurance is normally added to the loan and paid over the life of the mortgage.
 - Fixed-Rate Mortgage*** – With a fixed-rate mortgage, the interest rate stays the same through the term of the loan. The 30-year, fixed-rate mortgage is popular because of its stability. A 15-year, fixed rate mortgage pays off the loan sooner and accumulates equity more quickly because the monthly payment is higher.
 - Interest-Only Mortgages*** – Interest-only mortgages, as the name implies, are mortgages on which the payments apply to interest only and do not reduce the

principal balance. This type of loan is very appealing to the homebuyer who wants to make the lowest possible monthly payments, giving them the ability to borrow a higher amount or to have cash available for other projects. With a property that is appreciating in value, the homeowner may see an increase in equity even though the mortgage principal has not been reduced.

VA Guaranteed Loans – Veterans Administration loans are available to qualifying veterans of military service. VA loans are guaranteed rather than insured. The VA guarantees 10 to 20 percent or greater down payment, but some require as little as 3 percent down.

- **Origination Fee** – Lenders typically charge an origination fee. This fee pays the lender for the services of the loan officer and staff who process your loan application.
- **Payments – Principal, Interest, Taxes, and Insurance (PITI)** – Mortgage payments are made up of principal, interest, taxes and insurance. The principal and interest are calculated based on loan amount, interest rate and the term of the loan. In the early years, most of your monthly payment applies to the interest, and it reduces the loan principal only slightly. Some lenders may require that a portion of your mortgage payment be set aside in an escrow (impound) account to pay your local property taxes and your homeowner's insurance. This insurance usually covers theft, fire, wind, hail, and other catastrophic damage to the structure.
- **Preliminary Title Report** – Once escrow has been opened, the escrow and title company will issue a Preliminary Title Report and a copy will be sent to you. This should be read carefully, since it lists any encumbrances against the property, such as taxes, homeowner association dues, etc. and all recorded documents that affect the property. These might include deeds of trust for previous loans where the property was used as collateral. Typically, these will be paid off when your escrow closes, but you should check with the title and escrow company if you see anything on the title report that you do not understand. Also listed are any easements affecting the property. Many of these items, such as deeds of trust, taxes, etc. will be paid at close of escrow and will not appear on the Policy of Title Insurance that you receive after escrow closes. Your title officer can answer any questions you may have.
- **Pre-qualifying** – Pre-qualifying involves an informal review of your financial position to determine how much money you can borrow. While pre-qualifying does not obligate you and a particular lender to do business together, it can establish your budget, identify financial details that might interfere with your plans (such as an error on your credit report), and help you compare loan programs. Pre-approval requires a formal application and partial processing of your mortgage application. You will be required to provide Nino Homes with a Pre-Qualification Letter from your lender stating that you can be approved for the amount you're offering on a home. This letter is due with your purchase offer.
- **Ratios** – Lenders consider three ratios in mortgage processing:

The housing expense or front-end ratio – Divide your proposed monthly mortgage payment by your gross monthly income (before tax). If your monthly income is \$4,000 and the proposed monthly mortgage payment is \$1,000, you have a front-end or housing expense ratio of 25 percent.

The debt or back-end ratio – Add your total debt and obligations including mortgage, car, furniture, student loans, child support, credit card debt and so on. Divide this total by your gross monthly income.

The loan-to-value ratio – If a home appraises for \$400,000 and the loan program permits an 80 percent loan-to-value ratio, a qualified borrower can obtain a \$320,000 mortgage. The remaining 20 percent comes from the buyer's down payment or a secondary loan.

- ***Supplemental Property Taxes*** – The pro rata share of property taxes that you pay when your escrow closes are based on the tax rates in existence at the time of sale. The property will later be reassessed based on your purchase price and you will receive a Supplemental Property Tax Statement. The supplemental taxes are calculated on the difference between the old and new taxable values for the period that begins at your close of escrow date and runs through the end of the current tax year.
- ***Truth-In-Lending Disclosure*** – The Truth-in-Lending Disclosure shows the cost of your financing as a percentage and as a dollar amount. This form also tells you whether prepayment penalties apply and shows the charge for a late payment.