

## Financing

### Key Components to Most Adjustable Rate Mortgages (ARM):

**Index Rate** - The rate to which the interest rate on an adjustable rate loan is tied. One of the more popular indexes used is the 1-year U.S. Treasury bill.

**Margin** - The amount added to the index rate that represents the lender's cost of doing business.

**Interest Rate Cap Per Adjustment** - The maximum amount a borrower's interest rate may increase or decrease at the time of adjustment.

**Life Cap** - This is the ceiling that the note rate cannot exceed over the life of the loan.

**Amortization** - A period of time in which gradual repayment of debt occurs by means of systematic payments of principle and/or interest. At the end of the time period the balance is zero.

**Others** - Convertibility option; Pre-payment option; Payment Cap option; Deferred Amortization

### What Your Monthly Mortgage Payment Consists of:

- Principle balance: this represents the money you originally borrowed and are paying back over the life of the loan
- Interest on loan amount
- Real estate taxes: normally 1/12 of the most recent tax bill
- Insurance (Home Owners): normally 1/12 of the yearly policy amount
- Private Mortgage Insurance (PMI)—Some borrowers who have less than 20% down are required to pay PMI.
- Assessments (if any, condo, townhome, single family home)—Depending on the type of dwelling, you may or may not be required to pay assessments.

### Mortgage Options:

- 30-year conventional fixed rate loan—Benefits include:
  - Monthly payments for principle and interest remain the same over the life of the loan
  - Lower monthly payments when amortized over a 30-year payment period.
- 15-year conventional fixed rate loan(also available in 10- & 20-year payment schedules)—Benefits include:
  - Monthly payments of principle and interest remain the same over the life of the loan
  - Substantial savings of interest over the life of the loan
  - Payments are approximately 25-30% higher when amortized over a shorter period of time.
- No-Point/Zero Closing Cost loan—Benefits include:
  - Less cash needed at closing. The interest rate will usually be  $\frac{1}{2}$  to  $\frac{3}{4}$  of a percent higher when compared to loans that have points to pay at closing.
- 7-year fixed rate balloon with a 30-year amortization—Benefits include:
  - Slightly lower rate and/or less fees than the conventional 30-year fixed rate loan
  - Payment of principle and interest remains the same over the 7-year period of time (at the end of 7 years, you will need to pay off the remaining balance with either a lump sum of cash or re-finance the remaining loan amount).

- Adjustable Rate Mortgages (ARM)—There are many options with ARMs; the most popular tends to be the 1-year ARM with a 30-year amortization schedule. Benefits include:
  - Lower interest rate for the 1st year
  - Easier to qualify for the loan amount
  - You can qualify for a larger loan amount
  - A year ARM offers the ability to adjust downward at the 1 year anniversary of your loan
- Federal Housing Administration (FHA)—Benefits include:
  - Easier to qualify for loan programs than conventional financing
  - Less down payment needed

**Questions to Ask Lenders:**

- Based on our situation, what looks like the best program for us? Why?
- What is the projected time for processing and closing a loan?
- If PMI (Private Mortgage Insurance) is required, when and how does it go away?
- What about your rates, terms, fees, etc—are they negotiable?
- What standard underwriting guidelines do you follow? Are there any special underwriting guidelines?
- What is your most popular loan program? Why?
- Who services your loan?
- 6 months to a year from now, what will make this loan look good/bad to most borrowers?
- What are your standard and special fees?
- What, if any, escrow requirements exist?
- What if rates go down during the “lock-in” period?
- Who is our contact person after application for progress reports?
- What do you need from us to get our loan approved?
- Do you have any concerns about our ability to get a quick loan approval?