



**MORTGAGE MASTER**  
THE LENDING EXPERTS



# Rooftop View

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## Mortgage Matters: An Ongoing Dialogue

### First-Time Homebuyers: The Basics

Very few things are as exciting as buying your first home. In fact, for most of us, it's the dream of a lifetime. That's why it's important not to be intimidated by the home buying process. And that means understanding all the steps and procedures involved, as well as the array of currently available mortgage programs.

Armed with that knowledge, you'll be excited as ever moving forward with a purchase decision—and confident you're getting the mortgage product that's best for you.

### First Things First

When you're in the market for a home, the first thing you should do—even before scanning the realtor listings—is speak with a qualified loan officer, preferably in person. During this meeting, you'll discuss your financial situation and homeowner aspirations with a professional who is trained to analyze such information and provide constructive guidance.

*"A key objective of a loan officer is to help you optimize your search by providing realistic guidelines," says Mortgage Master Director of Sales Terry Baker. "Getting a sense up front as to how much house you can afford will save you a lot of time by not pursuing options that just aren't financially feasible. It's a way to ensure that your expectations are in line with reality—and that's priceless information to have."*

After getting information about your salary, existing assets, outstanding debts and monthly expenses, the loan officer will be able to run a credit report and determine your FICO score—a ranking system between 300 and 850 that's recognized as the industry standard.

*"If someone has a low FICO score, the loan officer should suggest resources that will help him/her improve it," states Terry.*

*"Obviously, the better (higher) your score, the more mortgage options you'll have available. Regardless, it's at this point that the officer identifies the loan amount that the customer qualifies for and indicates as such in a pre-approval letter. Real estate brokers require pre-approval letters before they can accept offers—so this again underscores the importance of meeting with a loan officer before doing anything else."*

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## Getting More Mileage Out of Your Existing Equity

### Home Equity: How Much Financial Clout Do You Really Have?

If you're thinking of buying a second home or investment property, ask yourself a very simple yet important question: Are you fully leveraging the equity in your primary residence to maximize your financial "clout"?

All too often, homeowners fail to take advantage of the equity they've worked hard to accrue. As such, it's important to keep in mind the following points:

- The higher your down payment, the lower your perceived risk among lenders. Refinancing or opening an equity line of credit can enable you to put down more money—and help you secure better interest rates. For example, putting down 25% instead of 10% could result in monthly savings that approach \$1,000.
- Refinancing can allow you to put your accrued equity to work, rather than letting it remain "dormant." For example, after taking into consideration interest and tax benefits, a 6% mortgage is actually closer to 4%. If you've got thousands of dollars' worth of equity in your home, it may make sense to tap that equity and allow your financial advisor to invest it. Assuming you only realize annual investment returns of 6%, there's still a 200 basis point yield spread between what your money is earning you and what it's costing you (i.e., 6% vs. 4%).
- An equity line of credit doesn't cost anything until you start using that equity.

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## So You've Found The Perfect House ... Now What?

When the offer on your dream home has been accepted, you're ready to finalize a mortgage program. But how do you decide which product is right for you?

*"Everyone's situation is unique and it's not wise to think—or speak—too much in generalities," cautions Terry. "Nonetheless, there are several types of product categories that first-time homebuyers might want to investigate with their loan officer. For example, people who have demonstrated sound financial management responsibility may want to consider the merits of a no-money-down product."*

Suited for customers with higher FICO scores (approximately 600+), the **No-Money-Down offering** provides 100% financing for home purchases. Of course, better scores translate into better mortgage rates—and, as a hedge against unexpected expenses, most lenders require three months of "reserves" in the form of liquid assets to cover principal, interest, taxes and insurance. So, in essence, this product is only available to those with proven savings skills.

**"Years ago, the majority of mortgage products required 20% down, which presented tremendous financial obstacles for young, first-time homebuyers."**

*"Years ago, the majority of mortgage products required 20% down, which presented tremendous financial obstacles for young, first-time homebuyers," says Terry. "The advent of private mortgage insurance in the late 1970s changed all that by opening up numerous options for people with less savings. The no-money-down product is one such option that was recently introduced."*

*"Let's say a couple has shown fiscal responsibility by saving money, but still can't afford the 5% down payment on a \$300,000 house (\$15,000). Assuming an estimated \$2,000/month in principal, interest, tax and insurance expenses, they would only need three months' worth of reserves—or \$6,000—to get 100% financing. So they could get the house for less than half of what they might ordinarily need up front."*

Another product developed with first-time homebuyers in mind is Mortgage Master's No Points/No Closing Costs loan. With this program, customers can get 100% financing without paying closing costs—which typically run \$2,500 to \$4,000—provided they have three months of reserves. It may be just right for those who currently have limited assets.

Terry adds: *"Of course, first-time homebuyers also need to weigh the merits of Fixed-Rate versus Adjustable-Rate Mortgages (ARMs). A rule of thumb here concerns your anticipated stay in the house. If your first home is a one-bedroom place and you're planning to start a family in three years, chances are you'll be somewhere else in five years. In that case, you should probably consider a 5/1 ARM, which means the rate is fixed for the first five years and each year thereafter it could potentially change. However, the initial rate would be substantially lower than a 30-year fixed rate and you'll probably have a different mortgage situation before the five years expires—either through refinancing or selling of your first home."*

*"After all: If you pay 5 1/2% on a 5/1 ARM instead of 6 1/8% on a 30-year fixed, that could mean about \$200 savings per month—which over the five years of your expected stay would add up to approximately \$12,000. That's a good chunk of change for anyone ... especially young people on lower incomes."*

### Product Spotlight: The Interest-Only Mortgage

For the financially savvy homebuyer, there's a fairly new mortgage program that's proven quite popular. In brief, here are some key points about the interest-only product:

- This loan enables people to afford more expensive homes since mortgage payments are considerably lower compared with fully amortizing loans. But remember: If you choose to pay just the interest throughout the full term of the loan, you'll still owe 100% of the amount you originally borrowed.
- The disciplined homebuyer will opt to pay more than the minimum each month in order to continually reduce the principal balance. In doing so, the next month's minimum payment is likewise reduced, since the payment amount is calculated based on the outstanding balance.
- The interest-only product can significantly affect your cash flow situation—allowing sophisticated individuals to invest more money than they would be able to do with a fully amortizing loan.
- With a conventional 30-year fixed-rate mortgage, it takes approximately ten years before the principal balance begins to decrease appreciably. Given this lag-time in principal reduction, the interest-only loan—with its lower monthly payments and associated annual savings—may make sense for people who plan on staying in their current homes less than a decade.