Delta Prime
Refinance

5 Tips for a Successful Home Finance

Congratulations! You have taken the important first step toward closing your new mortgage.

Over the next couple days, multiple lenders may contact you to discuss home loan options specific to your needs. Consider this your guide to help you get into the loan that's right for you. Below are five suggestions to keep in mind before speaking with potential lenders.

1. Determine the maximum payment you can afford.

Make sure you're getting a mortgage loan that fits your needs. This may depend on your estimated household income, how long you plan on staying in your current home, and your personal financial plans for the next few years. For a variety of reasons, many home buyers wind up in payments that stretch them too much financially, even right from the start. A good rule of thumb is spend no more than one-quarter – or at most one-third – of your monthly household income on mortgage payments, taxes, and insurance combined. Check out online mortgage calculators to get a better idea of which payments fit your needs.

2. Know the types of loans available to you and the benefits and downsides of each.

Depending on your situation, some loan types may be a better fit than others. For example, if you're planning on moving within five years, an adjustable rate mortgage with lower monthly payments may be a suitable option. Conversely, if you're planning on staying in your house for decades to come, a fixed rate loan may help your budget going forward. Feel free to refer to the basic list of mortgage options below for your convenience. Please note that other options may exist for you.

3. Understand basic lender terminology when discussing your loan with lenders.

In other words, understand what you're buying before you say "yes." For starters, you can refer to the basic glossary in this guide. A number of online financial resource sites also have definitions of mortgage terms. Keep one handy when lenders call so you can be up-to-speed on what specifics are being covered.

4. Ask for full disclosure of all points, fees and possible penalties.

Understand that low rates are sometimes only attainable by paying up-front fees or points. Many times, consumers use APRs (Annual Percentage Rates) to create an apples-to-apples comparison between different loan types. APRs take into account the term of the loan, interest rates and any fees associated with the loan. Typically, looking at APRs side by side is a good start in comparing loans, but should not be used exclusively. For example, you will be unable to predict the future rate of an adjustable rate loan, so the APR on that loan may apply only to the first few years.

5. Get a list of documents you will need for fast approval.

Make sure you have the necessary information ready so you don't miss out on locking in the lowest rate possible. Here is a quick list of what is typically needed. This may not be an exhaustive list based on the requirements from the lender you choose.

- Income documentation: Usually the last two tax returns and paystub copies to fill the gaps to the present day.
- Statements of monetary assets: Checking accounts, savings accounts, money market accounts, IRA accounts, mutual funds, etc.
- Credit report: Your lender should be able to pull this (with your permission), but it is a good idea to have an idea of your credit score.
- Home addresses: Documentation of where you've resided the last two years.
- Original sales contract: If you are refinancing.
- Other relevant documentation: May include but are not limited to child support/alimony income documentation, self-employed income documentation or bankruptcy filings.

Typical Loan Options*

Fixed Rate Mortgages

As the name suggests, a fixed-rate mortgage has a fixed interest rate over the life of the loan. They are commonly available as 15- and 30-year terms, though they are also available with 10-, 20-, 25-, and 40-year terms. Your loan balance is amortized over the life of the loan which means your payment is fixed for the life of the loan. So, for example, if you had a 30-year fixed-rate mortgage, you would make 360 equal principal and interest payments – one payment a month for 30 years-to pay off your loan.

The most obvious advantage to a fixed-rate mortgage is that your rate and payment never change. If you plan to stay in your home for 10 years or more, a 30-year fixed-rate mortgage might be right for you. But you might choose a different mortgage term depending on your goal. If your goal was to pay off your mortgage faster, you might choose a 10- or 15-year term. If you don't plan on moving and wanted a lower payment than what a 30-year mortgage payment would offer, you might choose a 40-year term, since your payments would be lower as it is amortized over 40 years, rather than 30.

Adjustable Rate Mortgage

Adjustable rate mortgages are just that – mortgages with an adjustable interest rate. They are generally shorter-term than fixed-rate mortgages, usually with 1-, 3-, 5-, or 7-year terms, and offer lower interest rates than a fixed-rate mortgage. If you have an ARM, your interest rate is fixed for the first 1-, 3-, 5-, or 7-years. After that, your rate generally adjusts once a year within a two percent cap. It can adjust up or down, depending on the market.

Most Americans move out of their homes within seven to nine years. Adjustable rate mortgages can be very good if you know you're going to move within that time period and are looking for a lower rate and payment.

However, this type of loan is a bit more of a gamble since your interest rate adjusts after the initial fixed years of the loan. So anyone who gets this loan should be more comfortable with risk, since you don't know whether your rate will go up or down.

Interest-Only Mortgage

"Interest-only" means that for a specified period of time during the loan, you are allowed to make payments that cover only the interest portion of your monthly mortgage payment. This can significantly lower your payment if your budget is tight for that month. However, you can add as much as you like to your payment and that amount will be applied toward your principal balance.

The concept of "interest-only payments" is more like a feature that comes with a loan, rather than a loan itself. Like buying a car with leather seats, you can get fixed-rate or adjustable rate mortgages with an interest-only payment. QL offers loans with an interest only period.

Interest-only loans can be greatly beneficial to people who value increased cash flow. You might want to shift the money you would be paying toward your principal balance toward something else – you might want to contribute more toward your 401k or pay off other bills for instance. It can also be a way to be able to afford a larger home when you know you can depend on an increased salary later on.

One myth about interest-only loans that seems to be circulating is the idea that you're not building equity if you're not paying anything toward your principal. This isn't necessarily true since most homes tend to appreciate in value. So even though you're not paying off principal, you're still building equity through home appreciation.

Your particular circumstances and your financial goals are factors that should definitely drive which type of mortgage you choose. Having the right mortgage can greatly benefit you just as having the wrong one can cost you. Do your homework and talk to a mortgage banker to find out which loan is right for you.

** Source: QuickenLoans.com*

Mortgage Glossary**

ARM: Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly payment amount, however, is usually subject to a cap.

Adjustment Date: the actual date that the interest rate is changed for an ARM.

Adjustment Index: the published market index used to calculate the interest rate of an ARM at the time of origination or adjustment.

Affidavit: a signed, sworn statement made by the buyer or seller regarding the truth of information provided.

Amortization: a payment plan that enables you to reduce your debt gradually through monthly payments. The payments may be principal and interest, or interest-only. The monthly amount is based on the schedule for the entire term or length of the loan.

Annual Percentage Rate (APR): a measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other charges. Because all lenders, by federal law, follow the same rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans. APR is a higher rate than the simple interest of the mortgage.

Application: the first step in the official loan approval process; this form is used to record important information about the potential borrower necessary to the underwriting process.

Appraisal: a document from a professional that gives an estimate of a property's fair market value based on the sales of comparable homes in the area and the features of a property; an appraisal is generally required by a lender before loan approval to ensure that the mortgage loan amount is not more than the value of the property.

Assessor: a government official who is responsible for determining the value of a property for the purpose of taxation.

Back End Ratio (debt ratio): a ratio that compares the total of all monthly debt payments (mortgage, real estate taxes and insurance, car loans, and other consumer loans) to gross monthly income.

Bankruptcy: a federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Buy Down: the seller pays an amount to the lender so the lender provides a lower rate and lower payments many times for an ARM. The seller may increase the sales price to cover the cost of the buy down.

Cash-Out Refinance: when a borrower refinances a mortgage at a higher principal amount to get additional money. Usually this occurs when the property has appreciated in value. For example, if a home has a current value of $100,000 and an outstanding mortgage of $60,000, the owner could refinance $80,000 and have additional $20,000 in cash.

Closing: the final step in property purchase where the title is transferred from the seller to the buyer. Closing occurs at a meeting between the buyer, seller, settlement agent, and other agents. At the closing the seller receives payment for the property. Also known as settlement.

Closing Costs: fees for final property transfer not included in the price of the property. Typical closing costs include charges for the mortgage loan such as origination fees, discount points, appraisal fee, survey, title insurance, legal fees, real estate professional fees, prepayment of taxes and insurance, and real estate transfer taxes. A common estimate of a Buyer's closing costs is 2 to 4 percent of the purchase price of the home. A common estimate for Seller's closing costs is 3 to 9 percent.

Credit History: a record of an individual that lists all debts and the payment history for each. The report that is generated from the history is called a credit report. Lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit Report: a report generated by the credit bureau that contains the borrower's credit history for the past seven years. Lenders use this information to determine if a loan will be granted.

Debt-to-Income Ratio: a comparison or ratio of gross income to housing and non-housing expenses; With the FHA, the-monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

Deed: a document that legally transfers ownership of property from one person to another. The deed is recorded on public record with the property description and the owner's signature. Also known as the title.

Disclosures: the release of relevant information about a property that may influence the final sale, especially if it represents defects or problems. "Full disclosure" usually refers to the responsibility of the seller to voluntarily provide all known information about the property. Some disclosures may be required by law, such as the federal requirement to warn of potential lead-based paint hazards in pre-1978 housing. A seller found to have knowingly lied about a defect may face legal penalties.

Escrow: funds held in an account to be used by the lender to pay for home insurance and property taxes. The funds may also be held by a third party until contractual conditions are met and then paid out.

Escrow Account: a separate account into which the lender puts a portion of each monthly mortgage payment; an escrow account provides the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

FHA: Federal Housing Administration; established in 1934 to advance homeownership opportunities for all Americans; assists homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; this encourages lenders to make loans to borrowers who might not qualify for conventional mortgages.

Fixed-Rate Mortgage: a mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

Good Faith Estimate: an estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

Home Equity Line of Credit: a mortgage loan, usually in second mortgage, allowing a borrower to obtain cash against the equity of a home, up to a predetermined amount.

Interest Rate: the amount of interest charged on a monthly loan payment, expressed as a percentage.

Loan Origination Fee: a charge by the lender to cover the administrative costs of making the mortgage. This charge is paid at the closing and varies with the lender and type of loan. A loan origination fee of 1 to 2 percent of the mortgage amount is common.

Lock-in Period: the length of time that the lender has guaranteed a specific interest rate to a borrower.

Market Value: the amount a willing buyer would pay a willing seller for a home. An appraised value is an estimate of the current fair market value.

Modification: when a lender agrees to modify the terms of a mortgage without refinancing the loan.

Mortgage Insurance: a policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price. Insurance purchased by the buyer to protect the lender in the event of default. Typically purchased for loans with less than 20 percent down payment. The cost of mortgage insurance is usually added to the monthly payment. Mortgage insurance is maintained on conventional loans until the outstanding amount of the loan is less than 80 percent of the value of the house or for a set period of time (7 years is common). Mortgage insurance also is available through a government agency, such as the Federal Housing Administration (FHA) or through companies (Private Mortgage Insurance or PMI).

Negative Amortization: amortization means that monthly payments are large enough to pay the interest and reduce the principal on your mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

No Cash Out Refinance: a refinance of an existing loan only for the amount remaining on the mortgage. The borrower does not get any cash against the equity of the home. Also called a "rate and term refinance."

Non-Conforming loan: is a loan that exceeds Fannie Mae's and Freddie Mac's loan limits. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

Origination Fee: the charge for originating a loan; is usually calculated in the form of points and paid at closing. One point equals one percent of the loan amount. On a conventional loan, the loan origination fee is the number of points a borrower pays.

Points: a point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for $95,000, one point means you pay $950 to the lender. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages in order to increase the yield on the mortgage and to cover loan closing costs. These points usually are collected at closing and may be paid by the borrower or the home seller, or may be split between them.

Pre-Approval: a lender commits to lend to a potential borrower a fixed loan amount based on a completed loan application, credit reports, debt, savings and has been reviewed by an underwriter. The commitment remains as long as the borrower still meets the qualification requirements at the time of purchase. This does not guaranty a loan until the property has passed inspections underwriting guidelines.

Predatory Lending: abusive lending practices that include a mortgage loan to someone who does not have the ability to repay. It also pertains to repeated refinancing of a loan charging high interest and fees each time.

Prepayment: any amount paid to reduce the principal balance of a loan before the due date or payment in full of a mortgage. This can occur with the sale of the property, the pay off the loan in full, or a foreclosure. In each case, full payment occurs before the loan has been fully amortized.

Prepayment Penalty: a provision in some loans that charge a fee to a borrower who pays off a loan before it is due.

Prime Rate: the interest rate that banks charge to preferred customers. Changes in the prime rate are publicized in the business media. Prime rate can be used as the basis for adjustable rate mortgages (ARMs) or home equity lines of credit. The prime rate also affects the current interest rates being offered at a particular point in time on fixed mortgages. Changes in the prime rate do not affect the interest on a fixed mortgage.

Principal: the amount of money borrowed to buy a house or the amount of the loan that has not been paid back to the lender. This does not include the interest paid to borrow that money. The principal balance is the amount owed on a loan at any given time. It is the original loan amount minus the total repayments of principal made.

Property Tax: a tax charged by local government and used to fund municipal services such as schools, police, or street maintenance. The amount of property tax is determined locally by a formula, usually based on a percent per $1,000 of assessed value of the property.

Refinancing: paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (like a lower interest rate).

Repayment plan: an agreement between a lender and a delinquent borrower where the borrower agrees to make additional payments to pay down past due amounts while making regularly scheduled payments.

Second Mortgage: an additional mortgage on property. In case of a default the first mortgage must be paid before the second mortgage. Second loans are more risky for the lender and usually carry a higher interest rate.

Sub-Prime Loan: "B" Loan or "B" paper with FICO scores from 620 - 659. "C" Loan or "C" Paper with FICO scores typically from 580 to 619. An industry term to used to describe loans with less stringent lending and underwriting terms and conditions. Due to the higher risk, sub-prime loans charge higher interest rates and fees.

Terms: The period of time and the interest rate agreed upon by the lender and the borrower to repay a loan.

Title: a legal document establishing the right of ownership and is recorded to make it part of the public record. Also known as a Deed.

Title Company: a company that specializes in examining and insuring titles to real estate.

Truth-in-Lending: a federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan initial period and then adjusts to another rate that lasts for the term of the loan.

Underwriting: the process of analyzing a loan application to determine the amount of risk involved in making the loan; it includes a review of the potential borrower's credit history and a judgment of the property value.

VA Mortgage: a mortgage guaranteed by the Department of Veterans Affairs (VA).

*** Source: hud.gov*