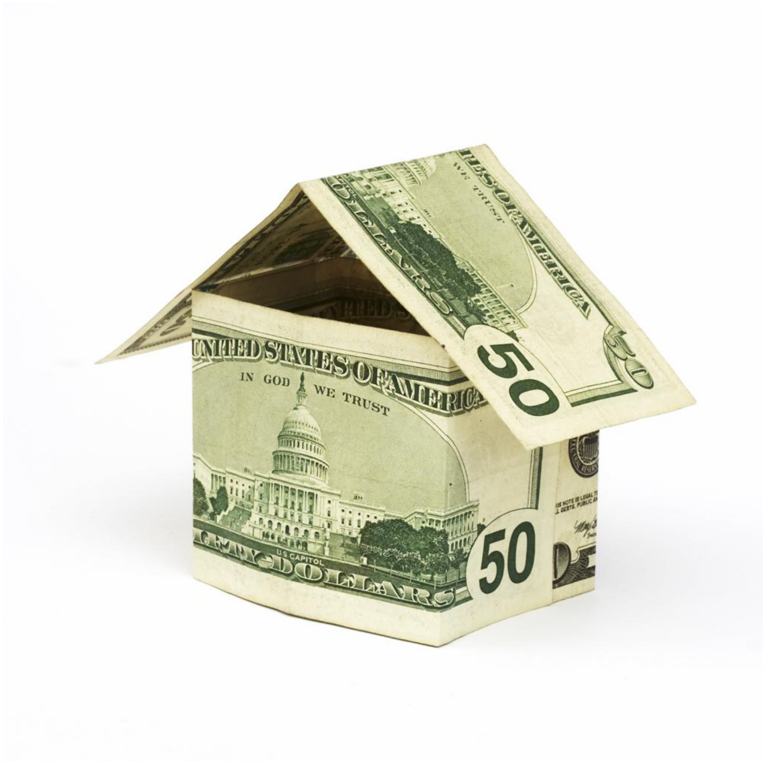
MULRY REAL ESTATE

549 Russell Road • Westfield, MA • Office: (413) 642-0962 • Fax (413) 642-0698



Financing Your Home

Topics Covered:

- Specialty Mortgages: Risks and Rewards
- Loan Types to Consider
- 6 Creative Ways to Afford a Home
- Lender Checklist: What You Need for a Mortgage
- Get Your Finances in Order: To-Do List
- Budget Basics Worksheet
- What You Can Do to Improve Your Credit
- 5 Factors That Decide Your Credit Score
- How Big of a Mortgage Can I Afford?

MULRY REAL ESTATE
549 Russell Road • Westfield, MA • Office: (413) 642-0962 • Fax (413) 642-0698

Specialty Mortgages: Risks and Rewards

In high-priced housing markets, it can be difficult to afford a home. That's why a growing number of home buyers are forgoing traditional fixed-rate mortgages and standard adjustable-rate mortgages and instead opting for a specialty mortgage that lets them "stretch" their income so they can qualify for a larger loan.

But before you choose one of these mortgages, make sure you understand the risks and how they work.

Specialty mortgages often begin with a low introductory interest rate or payment plan — a "teaser"— but the monthly mortgage payments are likely to increase a lot in the future. Some are "low documentation" mortgages that come with easier standards for qualifying, but also higher interest rates or higher fees. Some lenders will loan you 100 percent or more of the home's value, but these mortgages can present a big financial risk if the value of the house drops.

Specialty Mortgages Can:

- Pose a greater risk that you won't be able to afford the mortgage payment in the future, compared to fixed rate mortgages and traditional adjustable rate mortgages.
- Have monthly payments that increase by as much **as 50 percent or more** when the introductory period ends.
- Cause your loan balance (the amount you still owe) to get larger each month instead of smaller.

Common Types of Specialty Mortgages:

- **Interest-Only Mortgages:** Your monthly mortgage payment only covers the interest you owe on the loan for the first 5 to 10 years of the loan, and you pay nothing to reduce the total amount you borrowed (this is called the "principal"). After the interest-only period, you start paying higher monthly payments that cover both the interest and principal that must be repaid over the remaining term of the loan.

- **Negative Amortization Mortgages:** Your monthly payment is less than the amount of interest you owe on the loan. The unpaid interest gets added to the loan's principal amount, causing the total amount you owe to increase each month instead of getting smaller.

- **Option Payment ARM Mortgages:** You have the option to make different types of monthly payments with this mortgage. For example, you may make a minimum payment that is less than the amount needed to cover the interest and increases the total amount of your loan; an interest-only payment, or payments calculated to pay off the loan over either 30 years or 15 years.

- **40-Year Mortgages:** You pay off your loan over 40 years, instead of the usual 30 years. While this reduces your monthly payment and helps you qualify to buy a home, you pay off the balance of your loan much more slowly and end up paying much more interest.

Questions to Consider Before Choosing a Specialty Mortgage:

- How much can my monthly payments increase and how soon can these increases happen?
- Do I expect my income to increase or do I expect to move before my payments go up?
- Will I be able to afford the mortgage when the payments increase?
- Am I paying down my loan balance each month, or is it staying the same or even increasing?
- Will I have to pay a penalty if I refinance my mortgage or sell my house?
- What is my goal in buying this property? Am I considering a riskier mortgage to buy a more expensive house than I can realistically afford?

Be sure you work with a REALTOR® and lender who can discuss different options and address your questions and concerns!

Learn about the NATIONAL ASSOCIATION OF REALTORS® Housing Opportunity Program at www.REALTOR.org/housingopportunity. For more information on predatory mortgage lending practices, visit the Center for Responsible Lending at www.responsiblelending.org.

Loan Types to Consider

Brush up on these mortgage basics to help you determine the loan that will best suit your needs.

- **Mortgage terms.** Mortgages are generally available at 15-, 20-, or 30-year terms. In general, the longer the term, the lower the monthly payment. However, you pay more interest overall if you borrow for a longer term.
- **Fixed or adjustable interest rates.** A fixed rate allows you to lock in a low rate as long as you hold the mortgage and, in general, is usually a good choice if interest rates are low. An adjustable-rate mortgage is designed so that your loan's interest rate will rise as market interest rates increase. ARMs usually offer a lower rate in the first years of the mortgage. ARMs also usually have a limit as to how much the interest rate can be increased and how frequently they can be raised. These types of mortgages are a good choice when fixed interest rates are high or when you expect your income to grow significantly in the coming years.
- **Balloon mortgages.** These mortgages offer very low interest rates for a short period of time — often three to seven years. Payments usually cover only the interest so the principal owed is not reduced. However, this type of loan may be a good choice if you think you will sell your home in a few years.
- **Government-backed loans.** These loans are sponsored by agencies such as the Federal Housing Administration (www.fha.gov) or the Department of Veterans Affairs (www.va.gov) and offer special terms, including lower down payments or reduced interest rates to qualified buyers.

Slight variations in interest rates, loan amounts, and terms can significantly affect your monthly payment. For help in determining how much your monthly payment will be for various loan amounts, use Mulry Real Estate's online mortgage calculator.

6 Creative Ways to Afford a Home

1. Investigate local, state, and national down payment assistance programs. These programs give qualified applicants loans or grants to cover all or part of your required down payment. National programs include the Nehemiah program, www.getdownpayment.com, and the American Dream Down Payment Fund from the Department of Housing and Urban Development, www.hud.gov.

2. Explore seller financing. In some cases, sellers may be willing to finance all or part of the purchase price of the home and let you repay them gradually, just as you would do with a mortgage.

3. Consider a shared-appreciation or shared-equity arrangement. Under this arrangement, your family, friends, or even a third-party may buy a portion of the home and share in any appreciation when the home is sold. The owner/occupant usually pays the mortgage, property taxes, and maintenance costs, but all the investors' names are usually on the mortgage. Companies are available that can help you find such an investor, if your family can't participate.

4. Ask your family for help. Perhaps a family member will loan you money for the down payment or act as a co-signer for the mortgage. Lenders often like to have a co-signer if you have little credit history.

5. Lease with the option to buy. Renting the home for a year or more will give you the chance to save more toward your down payment. And in many cases, owners will apply some of the rental amount toward the purchase price. You usually have to pay a small, nonrefundable option fee to the owner.

6. Consider a short-term second mortgage. If you can qualify for a short-term second mortgage, this would give you money to make a larger down payment. This may be possible if you're in good financial standing, with a strong income and little other debt.

Lender Checklist: What You Need for a Mortgage

- □ W-2 forms — or business tax return forms if you're self-employed — for the last two or three years for every person signing the loan.
- □ Copies of at least one pay stub for each person signing the loan.
- □ Account numbers of all your credit cards and the amounts for any outstanding balances.
- □ Copies of two to four months of bank or credit union statements for both checking and savings accounts.
- □ Lender, loan number, and amount owed on other installment loans, such as student loans and car loans.
- □ Addresses where you've lived for the last five to seven years, with names of landlords if appropriate.
- □ Copies of brokerage account statements for two to four months, as well as a list of any other major assets of value, such as a boat, RV, or stocks or bonds not held in a brokerage account.
- □ Copies of your most recent 401(k) or other retirement account statement.
- □ Documentation to verify additional income, such as child support or a pension.
- □ Copies of personal tax forms for the last two to three years.

Get Your Finances in Order: To-Do List

1. Develop a household budget. Instead of creating a budget of what you'd like to spend, use receipts to create a budget that reflects your actual spending habits over the last several months. This approach will factor in unexpected expenses, such as car repairs, as well as predictable costs such as rent, utility bills, and groceries.

2. Reduce your debt. Lenders generally look for a total debt load of no more than 36 percent of income. This figure includes your mortgage, which typically ranges between 25 and 28 percent of your net household income. So you need to get monthly payments on the rest of your installment debt — car loans, student loans, and revolving balances on credit cards — down to between 8 and 10 percent of your net monthly income.

3. Look for ways to save. You probably know how much you spend on rent and utilities, but little expenses add up, too. Try writing down *everything* you spend for one month. You'll probably spot some great ways to save, whether it's cutting out that morning trip to Starbucks or eating dinner at home more often.

4. Increase your income. Now's the time to ask for a raise! If that's not an option, you may want to consider taking on a second job to get your income at a level high enough to qualify for the home you want.

5. Save for a down payment. Designate a certain amount of money each month to put away in your savings account. Although it's possible to get a mortgage with only 5 percent down, or even less, you can usually get a better rate if you put down a larger percentage of the total purchase. Aim for a 20 percent down payment.

6. Keep your job. While you don't need to be in the same job forever to qualify for a home loan, having a job for less than two years may mean you have to pay a higher interest rate.

7. Establish a good credit history. Get a credit card and make payments by the due date. Do the same for all your other bills, too. Pay off the entire balance promptly.

MULRY REAL ESTATE

549 Russell Road • Westfield, MA • Office: (413) 642-0962 • Fax (413) 642-0698

Budget Basics Worksheet

The first step in getting yourself in financial shape to buy a home is to know exactly how much money comes in and how much goes out. Use this worksheet to list your income and expenses below.

INCOME	
Take Home Pay (all family members)	
Child Support/Alimony	
Pension/Social Security	
Disability/Other Insurance	
Interest/Dividends	
Other	
Total Income	
EXPENSES	
Rent/Mortgage (include taxes, principal, and insurance)	
Life Insurance	
Health/Disability Insurance	
Vehicle Insurance	
Homeowner's or Other Insurance	
Car Payments	
Other Loan Payments	
Savings/Pension Contribution	
Utilities (gas, water, electric, phone)	
Credit Card Payments	
Car Upkeep (gas, maintenance, etc.)	
Clothing	
Personal Care Products (shampoo, cologne, etc.)	
Groceries	
Food Outside the Home (restaurant meals and carryout)	
Medical/Dental/Prescriptions	
Household Goods (hardware, lawn, and garden)	
Recreation/Entertainment	
Child Care	
Education (continuing education, classes, etc.)	
Charitable Donations	
Miscellaneous	
Total Expenses	
Remaining Income After Expenses *(Subtract Total Income from Total Expenses)*	

MULRY REAL ESTATE

549 Russell Road • Westfield, MA • Office: (413) 642-0962 • Fax (413) 642-0698

What You Can Do to Improve Your Credit

Credit scores, along with your overall income and debt, are big factors in determining whether you'll qualify for a loan and what your loan terms will be. So, keep your credit score high by doing the following:

1. Check for and correct any errors in your credit report. Mistakes happen, and you could be paying for someone else's poor financial management.

2. Pay down credit card bills. If possible, pay off the entire balance every month. Transferring credit card debt from one card to another could lower your score.

3. Don't charge your credit cards to the maximum limit.

4. Wait 12 months after credit difficulties to apply for a mortgage. You're penalized less for problems after a year.

5. Don't order items for your new home on credit — such as appliances and furniture — until after the loan is approved. The amounts will add to your debt.

6. Don't open new credit card accounts before applying for a mortgage. Too much available credit can lower your score.

7. Shop for mortgage rates all at once. Too many credit applications can lower your score, but multiple inquiries from the same type of lender are counted as one inquiry if submitted over a short period of time.

8. Avoid finance companies. Even if you pay the loan on time, the interest is high and it will probably be considered a sign of poor credit management.

This information is copyrighted by the Fannie Mae Foundation and is used with permission of the Fannie Mae Foundation. To obtain a complete copy of the publication, Knowing and Understanding Your Credit*, visit www.homebuyingguide.org*.

5 Factors That Decide Your Credit Score

Credit scores range between 200 and 800, with scores above 620 considered desirable for obtaining a mortgage. The following factors affect your score:

1. Your payment history. Did you pay your credit card obligations on time? If they were late, then how late? Bankruptcy filing, liens, and collection activity also impact your history.

2. How much you owe. If you owe a great deal of money on numerous accounts, it can indicate that you are overextended. However, it's a good thing if you have a good proportion of balances to total credit limits.

3. The length of your credit history. In general, the longer you have had accounts opened, the better. The average consumer's oldest obligation is 14 years old, indicating that he or she has been managing credit for some time, according to Fair Isaac Corp., and only one in 20 consumers have credit histories shorter than 2 years.

4. How much new credit you have. New credit, either installment payments or new credit cards, are considered more risky, even if you pay them promptly.

5. The types of credit you use. Generally, it's desirable to have more than one type of credit — installment loans, credit cards, and a mortgage, for example.

For more on evaluating and understanding your credit score, visit www.myfico.com.

How Big of a Mortgage Can I Afford?

Not only does owning a home give you a haven for yourself and your family, it also makes great financial sense because of the tax benefits — which you can't take advantage of when paying rent.

The following calculation assumes a 28 percent income tax bracket. If your bracket is higher, your savings will be, too. Based on your current rent, use this calculation to figure out how much mortgage you can afford.

Rent: ________________________

Multiplier: x 1.32

Mortgage payment: ________________________

Because of tax deductions, you can make a mortgage payment — including taxes and insurance — that is approximately one-third larger than your current rent payment and end up with the same amount of income.

For more help, use Mulry Real Estate's online mortgage calculators.