financing

Financing a home requires sound professional advice to help you find a mortgage that's right for you.

What will happen on closing day?

64 1. The lender's agent will ask for your paid home insurance policy.

2. The agent will list the adjustments. These include the money you owe the seller (the remainder of the down payment; prepaid taxes) and what the seller owes you (unpaid taxes; prepaid rent).

3. You will sign the mortgage. This gives the lender legal rights to the property if you don't make your payments.

4. You will sign the mortgage note (the promise to repay the loan in regular monthly payments).

5. You will get title from the seller in the form of a signed deed.

6. The lender's agent will collect the closing costs from you and give you a settlement statement of all the items you have paid for.

7. The deed and mortgage will be recorded in the town or county Registry of Deeds.

Is there anything I should do immediately after closing?

65 The first thing you'll want to do is have the locks changed. Also, put your deed and other important paperwork from the closing in a secure place, preferably a safe deposit box. Even though it's all on file with the county, it's smart to know where your copies are and have access to them at all times.

Should I move myself or use a moving company?

66 In almost every case, you can save yourself time and energy by using a reputable moving company to help you move.

Ask your sales professional, friends, and co-workers for recommendations, then get estimates from several companies. Don't choose a mover based on price alone – consider the reputation and professionalism of the company, too.

Work closely with the moving company to coordinate your efforts, and your move will be achieved with maximum efficiency.

Can a sales professional help with the move itself?

67 Yes. Most sales professionals are more than willing to offer advice and assistance to new homeowners; all you have to do is ask.

Mortgages at a Glance

Below is a brief synopsis of the types — and the pros and cons — of some of today's most popular mortgage loans.

TYPE	DEFINITION	ADVANTAGES	DRAWBACKS	COMMENTS
30-YEAR FIXED-RATE	A long-term loan in which principal and interest are amortized over 30 years; both interest rate and amount of monthly payment remain unchanged for life of the loan.	Considerable tax benefits, especially in early years. Payments never rise, regardless of inflation.	Slow equity build-up.	The most common mortgage in the U.S., a particularly good investment when rates are low.
15-YEAR FIXED-RATE	As above, but payback period is 15 years.	Usually lower interest rate than 30-year. Faster equity build-up. Less interest paid out over life of loan.	Higher monthly payments; less tax-deductible interest.	Good option for buyers whose income will rise and/or when rates are expected to drop.
ARM (Adjustable Rate Mortgage)	A mortgage whose rate changes over time according to terms specified by the lender, usually according to short-term Treasury Bill rates.	Low initial interest rate, sometimes below market. Payments may decrease over time.	Payments may increase over time. Risky if rates rise significantly.	Good option for buyers whose income will rise and/or when rates are expected to drop.
FHA/VA MORTGAGE	Government-insured or guaranteed mortgages that can make purchase more affordable than conventional loans.	Little or no down payment required. Marginally better rate than conventional 30-year mortgages.	Lower limits on the maximum that can be borrowed. VA requires current or past military service record.	Good option for first-time buyers with little funds to invest in a down payment.
GPM (Graduated Payment Mortgage)	A fixed-rate mortgage offering low initial monthly payments that increase by a predetermined amount, then level off after about five years.	More affordable payments for first few years. Unlike ARMs, buyer knows up front how much payments will rise in the future.	Slower equity build-up. Buyer's income may not rise in proportion to payments.	Another good choice for buyers who expect income to rise after home is purchased.
Balloon Mortgage	A short-term (3-5 year) loan, usually at a fixed rate. Paid back in equal, monthly payments and a final "balloon" payment for the remaining balance.	Lower monthly payments. Full tax benefits.	Little or no equity build-up. Monthly payments are often interest only. Balloon payment usually requires refinancing or selling the house.	Designed for buyers who plan on moving within a few years and/or are confident in the short-term appreciation of a property.

Are there any mortgages especially designed for first-time buyers?

70 Today, first-time buyers enjoy a number of mortgage options that make purchasing a home more affordable by minimizing down payments and keeping monthly payments as low as possible during the early years of the loan.

Most ARMs feature an interest rate that is below market for the first year and may only rise gradually after that.

VA- and FHA-insured loans call for extremely low down payments (zero to five percent of the purchase price) and often offer a below-market interest rate. Similarly favorable terms can be arranged with the help of private mortgage insurance or PMI.

Finally, first-timers who can find a cooperative seller or third-party investor can look into such non-traditional financing methods as a lease/buy arrangement. Check the "Mortgages at a Glance" table above for the unique benefits and requirements of several major mortgage alternatives.

What is a mortgage, and what are the benefits of different kinds of mortgages?

68 Simply put, a mortgage is a loan that a homebuyer obtains directly from a lender to purchase real estate. The mortgage is a lien on the property that secures a promissory note (promise to repay the debt) that states the terms of the loan, including the interest rate and the number of payments.

The most popular mortgages available to homebuyers today can be divided into two general categories: those that offer fixed interest rates and monthly payments, and those in which one or both of those factors are adjustable.

Fixed-rate/fixed-payment loans are more traditional and remain the most popular home financing method, currently accounting for about two-thirds of all residential mortgages. Their advantages are well-known: you always know what your monthly principal and interest payment will be, so your basic housing cost will remain unaffected by interest-rate changes until the mortgage is paid off.

Mortgages that entail flexible rates and/or payments have grown in popularity in recent years, primarily during periods of high interest rates and/or rapidly rising home prices. Many, including the popular ARMs (Adjustable Rate Mortgages), offer lower-than-market initial interest rates that allow buyers a measure of affordability unavailable in fixed-rate loans. The tradeoff may be higher interest rates and higher monthly payments later on.

The "Mortgages at a Glance" table provides a brief synopsis of some of today's most popular mortgages, their benefits and drawbacks. To find out about any one of them, talk to your ERA Real Estate professional. He or she can put you in touch with a representative from **ERA** Mortgage, the preferred lender for **ERA** nationwide.

What are the different types of lenders, and how do I choose the right one for me?

69 Before someone lends you the money to purchase your home, they'll want to know a lot about you. And you're entitled to know as much as you can about them too.

It's important because getting a mortgage is not just a one-time signing of documents, a handshake and a check. You will be depending on your lender to fund the loan as promised, on time, and over the life of the loan; to keep good payment records, pay your taxes and insurance (if included in your monthly payment); and to perform many other continuing services. As the preferred lender for ERA Real Estate, **ERA** Mortgage provides all such services.

Talk to your ERA Real Estate professional about the lenders you have in mind. Experienced sales professionals are quite familiar with mortgage lenders and can give you sound advice about a lender's reputation, its qualifying procedures, and the unique programs and benefits it offers homebuyers.

When applying for a mortgage, you will need just a few pieces of information:

- Name and Social Security number of each applicant
- Current address
- Phone number where you can be reached
- Monthly salary and sources of income (include child support or alimony received)
- Information on length of employment, and employer address and phone number

Can I get an FHA or VA mortgage?

71 Just about anyone can apply for an FHA-insured mortgage through banks and other lending institutions. They are particularly well-suited for buyers of moderate income; the low down payment requirements (as low as five percent of the purchase price) are matched by a relatively low maximum mortgage amount.

Similarly, VA-guaranteed loans often require no down payment for up to four times the amount guaranteed by the VA. These loans are reserved for either active military personnel or veterans, or spouses of veterans who died of service-related injuries.

If there is a downside to these loans, it's the qualifying process. Though you apply for government-insured financing through a lending institution, the Federal Housing Administration or the Department of Veterans Affairs must insure or guarantee the loan and may require specific documentation or procedures not necessarily required for conventional financing. That may take more time than is generally required for conventional mortgage approval. Additionally, FHA-required insurance must be added to your payment.

As the preferred lender for ERA Real Estate, **ERA** Mortgage has been delegated authority by each of these agencies to ensure a quicker loan process.

How much of a down payment will I need to buy a home?

72 The amount of money that a buyer must put down at closing depends on the loan-to-value ratio — the percentage of the property's appraised value or sales price (whichever is less) that a lender is willing to loan.

For example, if a property is appraised at $100,000 and the loan-to-value ratio is 90 percent, the lender would be willing to loan $90,000. The buyer's down payment is the remaining $10,000. Because the loan-to-value is a percentage, the higher the sales price of a house, the higher the down payment.

A down payment of 20 percent has been the benchmark for conventional financing, but today, many options are available, some requiring as little as five percent down. A representative from **ERA** Mortgage can help you determine which down payment option is right for you and your budget. Contact **ERA** Mortgage for more information about their services.

Can't afford a 20 percent down payment? Ask your real estate professional about Private Mortgage Insurance (PMI).

For buyers who qualify for conventional financing, but can't handle the high down payment requirements, **ERA** Mortgage may still offer this financing with PMI, or private mortgage insurance.

Designed to protect the lender against default by the borrower, PMI allows you to obtain traditional financing with a down payment significantly lower than the standard 20 percent. By using PMI, you may be able to get a fixed-rate or adjustable-rate mortgage by putting as little as five percent down.

As with an FHA-insured loan, you must pay premiums for PMI coverage, the amount being determined by the type and amount of your loan. But unlike FHA financing, the maximum loan amount is determined by the lender. Moreover, PMI premiums are often lower than FHA insurance, and may be paid as part of your monthly mortgage payment, in annual installments, or in a lump sum at the time you obtain the loan.

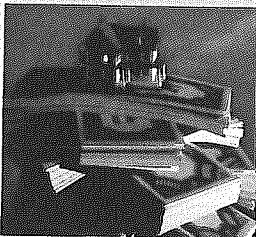
If you'd like to find out more about the unique advantages of PMI, ask your ERA Real Estate professional to put you in touch with ERA Mortgage.

30-Year Mortgages: How Much Will You Pay?

The chart below shows the amount of principal and interest you can expect to pay on a 30-year mortgage over a range of interest rates and loan amounts. You can use it to estimate a figure for the monthly payment you can expect to make on a home. Keep in mind that the figures do not include the escrow portion of your payment that most lenders require for real estate tax, mortgage and hazard insurance.

	Mortgage Amounts ($)								
Interest (%)	**90k**	**100k**	**110k**	**120k**	**130k**	**140k**	**150k**	**160k**	**170k**
6.5	568.86	632.07	695.27	758.48	821.69	884.90	948.10	1011.31	1074.52
6.625	576.28	640.31	704.34	768.37	832.40	896.44	960.47	1024.50	1088.53
6.75	583.74	648.60	713.46	778.32	843.18	908.04	972.90	1037.76	1102.62
6.875	591.24	656.93	722.62	788.31	854.01	919.70	985.39	1051.09	1116.78
7.0	598.77	665.30	731.83	798.36	864.89	931.42	997.95	1064.48	1131.01
7.125	606.35	673.72	741.09	808.46	875.83	943.21	1010.58	1077.95	1145.32
7.25	613.96	682.18	750.39	818.61	886.83	955.05	1023.26	1091.48	1159.70
7.375	621.61	690.68	759.74	828.81	897.88	966.95	1036.01	1105.08	1174.15
7.5	629.29	699.21	769.14	839.06	908.98	978.90	1048.82	1118.74	1188.66
7.625	637.01	707.79	778.57	849.35	920.13	990.91	1061.69	1132.47	1203.25

How to Pay off a 30-Year Mortgage in 15 Years Without Really Feeling It



Want to own your home by the middle of the next decade, but can't handle the monthly payments on a 15-year mortgage right now? Try applying the "Three Percent Rule" to your 30-year mortgage. Here's how it works: You make your regular monthly payments for the first year of the loan. At the beginning of the second year, you take an amount equal to three percent of the monthly principal and interest portion of your bill (it's itemized on your statement), and include it as additional principal with each payment for that year. Repeat the procedure for each subsequent year, and in about 15 years you own your home.

As an example, consider a $100,000, 30-year loan at 7.25 percent:

	MONTHLY INTEREST/ PRINCIPAL	3% ADDITIONAL PAYMENT	TOTAL MONTHLY PAYMENT
1ST YEAR:	$ 682.18	—	$ 682.18
2ND YEAR:	$ 682.18	$ 20.47	$ 702.65
3RD YEAR:	$ 702.65	$ 21.08	$ 723.73

And so on. In effect, you're giving your lender an "annual raise" of three percent — likely less than the cost of living. And the reward is full ownership of your home in about half the time called for by the term of your mortgage!

What are typical closing costs?

75 You can expect to pay the following closing costs at the time of settlement:

- Appraisal fee — covers the cost of a professionally written estimate of the property's value
- Attorney's or escrow fees — your own and the lender's if they have one
- Credit report fee
- Points (see Question 76)
- Documentation preparation — covers the cost of preparing the deed and other paperwork
- First year's premium on fire and hazard insurance
- Impounds (also known as "escrow account") — sufficient to cover real estate taxes on the purchased property for the current tax period to date. The lender then pays these bills when they come due.
- Interest — paid from the date of closing until 30 days before your first monthly payment
- Title insurance
- Mortgage insurance if required
- Origination fee — covers the lender's administrative costs
- Recording fees
- FHA mortgage insurance (FHA loans only)
- VA guarantee fees (VA loans only)

What are points, and what's the point in paying them?

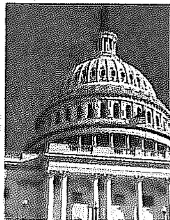
76 In real estate, the term "point" refers to one percent of the total mortgage loan amount. Buyers often pay lenders a supplemental fee, calculated in points, to get a better interest rate on a particular mortgage.

For instance, a lender may offer you a choice of two 30-year mortgages: the first at eight percent with no points, and the second at 7.5 percent with an additional three points. If the loan is for $100,000, those three points will cost you an extra $3,000 up front — but you'll get a payback of significantly lower monthly payments for the lifetime of the loan.

Many lenders will advise you to pay the points for the better rate if you can afford it, especially if you plan on keeping the home for more than a few years. Like interest, the money you pay for points may be tax-deductible, and the investment may pay for itself through savings generated by lower monthly payments. We suggest you call your tax preparer.

Is the lending process regulated by the government?

77 Most definitely. There are many laws and government regulations that all lenders must follow to ensure that all applicants are given fair and equal treatment. For example, in 1968, Congress passed the Truth in Lending Law, which requires that lenders provide borrowers with information about a loan's true interest rate. By law, lenders must reveal a loan's annual percentage rate (APR). The law also stipulates that for refinancing and second mortgage loans, the borrower has up to three days after closing to change his or her mind and call the deal off. The lender may not disburse money until after this three-day "recession period" has passed.



MORTGAGE POINTS

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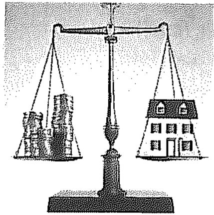
How does a lender determine the maximum mortgage I can afford?

73 The three primary areas lenders examine in determining the size of mortgage you can handle include your monthly income; non-housing expenses; and cash available for down payment, moving expenses and closing costs.



The most common way lenders interpret these variables to estimate your mortgage capacity is the Percentage Method. Most lenders feel a family should spend no more than 28 percent of its income on housing costs, including the mortgage, insurance, and real estate taxes. In addition, these housing costs plus your long-term debts (car loans, child support, minimum credit card payments, student loans, etc.) shouldn't exceed 36 percent of your income. Some mortgage companies, including **ERA**® Mortgage, have relaxed ratios to help you purchase the home of your dreams.

Although it is not a standardized method, you can also use the Multiplier Method formula as a general rule of thumb to determine how much home you can afford. Most lenders' guidelines allow a family to carry a mortgage that is two to three times its gross annual income (income before taxes and expenses are taken out). The amount of down payment and the type of mortgage (fixed or variable rate) will determine the precise ratio used by the lender.

To get an idea of how much home you can afford, use the Sample Housing Cost Worksheet on this page, or contact **ERA** Mortgage to receive a free pre-qualification in minutes.

Sample Housing Cost Worksheet

MONTHLY INCOME	
Take-Home Pay:	________
Other Reliable Income Sources:	________
Total Monthly Income:	________
MONTHLY EXPENSES	
Food, Household Items:	________
Car or Other Loans:	________
Credit Cards:	________
Clothing:	________
Medical Expenses:	________
Life Insurance:	________
Other Insurance (Auto, Health):	________
Telephone:	________
Commuting:	________
Education:	________
Savings:	________
Entertainment:	________
Other Expenses:	________
Total Monthly Expenses:	________
Total Monthly Income:	________
Less Total Monthly Expenses:	________
MONTHLY INCOME FOR HOUSING:	________

What are the steps involved in the loan process?

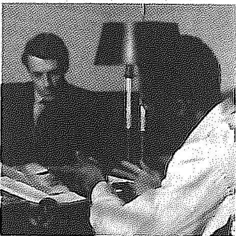
74 When you apply for a mortgage, you will need to furnish information regarding your income, expenses and obligations. It will be very helpful, and save time, if you have the following items available:

- Two most recent pay stubs from your employer
- W-2s for the last two years
- Last two months' bank statements
- Long-term debt information (credit cards, child support, auto loans, installment debt, etc.)

What is APR and how is it calculated?
The annual percentage rate (APR) is a calculated rate of interest for a loan over its projected life. This rate includes the interest, all points (which are considered prepaid interest), mortgage insurance, and other charges associated with making the loan that the lender collects from the borrower.

The APR is calculated by a standard formula that all lenders use. This enables the borrower to comparison-shop between lenders and/or loan products.

What is a good-faith estimate?
Your lender or loan agent must provide you with a good-faith estimate within three days of your application. This is the information you need to make a fair and accurate judgment when shopping for a loan. Your estimate is a written document that shows all the costs that can be estimated in advance by the lender. You need this information so there are no surprises on the day you close your sale on the property to be purchased. You will be expected to pay closing costs.



Buying Tip: Anyone can apply for an FHA mortgage provided the loan amount doesn't exceed the maximum allowed by law.

What does my monthly mortgage payment include?

78 The bulk of your monthly mortgage payment goes toward paying off the principal and interest of your loan. In addition, most lenders require that you pay a sufficient amount to cover your local real estate tax, plus your homeowner's or hazard insurance.

This amount is placed in an escrow account, from which your lender then pays your tax and insurance bills as they come due.

Can I pay off my loan early?

79 If you can afford it, and are interested in the considerable advantages of having more equity and/or owning your home free-and-clear at the earliest possible date, the answer in most cases is yes. Earlier in this section, "How to Pay off a Mortgage in 15 Years Without Really Feeling It" outlines a popular formula for pre-payment.

The FHA, VA, and even some states do not allow lenders to charge penalties for paying mortgages early or refinancing. In fact, many lenders now include space on monthly statements for borrowers to itemize an additional principal payment they wish to include with their regular payment.

If you're unsure about the rules governing pre-payment, review your loan agreement.

What are the respective advantages of 15-year and 30-year loans?

80 The 30-year fixed-rate mortgage remains the standard mortgage, with an array of valuable benefits designed especially for buyers who expect to stay in their homes for a long time. Because the borrower pays more interest than principal for the first 23 years, the tax deduction is substantial. And as inflation causes both living expenses and income to increase, your unchanging monthly mortgage payments account for a relatively smaller portion of income as the years go by.

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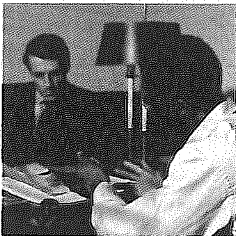

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As you'd expect, a 15-year monthly mortgage means higher monthly payments than an equivalent 30-year loan ... but not as much higher as you may think. At the same rate of interest, payments on the 15-year mortgage are roughly 20-25 percent higher than a loan that takes twice as long to pay off. And one of the benefits of choosing a 15-year mortgage is that you can generally get a lower interest rate for an otherwise similar loan. Another advantage is faster equity build-up because a larger portion of your early payments is going to pay off principal. This makes the 15-year mortgage an ideal alternative for couples approaching retirement or anyone else interested in owning their home free-and-clear as quickly as possible.

Do adjustable-rate mortgages offer any protection against rising rates?

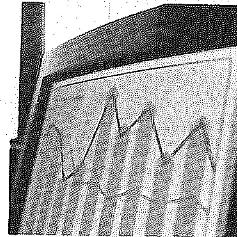
81 Yes. ARMs and other variable-rate-of-payment plans offer lower-than-market interest rates initially, but because they are tied to the interest rates of U.S. Treasury Bills or other indexes, interest rates later in the loan term may rise. However, many such loans offer built-in safeguards designed to minimize the effect of any rapid escalation in interest rates.

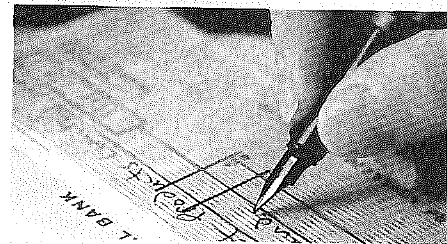
One such safeguard is the rate cap. Many ARMs include provisions for the maximum amount your rate can rise, both annually and over the life of the loan. For example, if your initial rate is 6.5 percent, the loan may include one-percent annual and five-percent lifetime caps ... which means even if rates rise dramatically, you'll pay no more than 7.5 percent next year, 8.5 percent the following year and so on, until a maximum rate of 11.5 percent is reached.

An ARM may also allow your rate to decrease when the index it is tied to goes down. As you might expect, decreases are usually capped as well.

A second protective device included in some ARMs is the payment cap. Under this provision, your monthly payments may rise by only a set dollar amount. The potential disadvantage of this type of cap is that it can slow or even reverse your equity build-up. If rates rise dramatically, you could actually wind up owing more principal at the end of the year than you did at the beginning.

Of course, ARM holders can also consider refinancing to a fixed-rate loan after a few years. Some ARMs even include a provision for converting to a fixed-rate loan after a set period of time.





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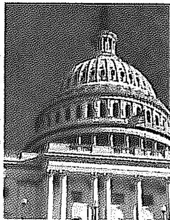

MORTGAGE POINTS

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