

## SUMMARY OF MORTGAGE PROGRAMS

Careful consideration should be given to selecting the correct Mortgage Program. Selecting the correct mortgage program and terms can greatly reduce the costs of financing your home. The following are important considerations when selecting a mortgage:

- ▶ Planned length of home ownership
- ▶ Financial considerations
  - Time until retirement
  - Time until college expenses
  - Available investment vehicles (401K, 403B, Deferred Compensation, IRA, SEP)
- ▶ Tax deductibility of interest (Itemized Deductions)
- ▶ Risk tolerance
- ▶ Future interest rate changes (These are unpredictable)

The three main types of Mortgage Programs are Fixed Rate, Balloon and Adjustable Rate (ARM). Each option is reviewed in detail below:

### 1. Fixed Rate Mortgage

The interest rate remains the same over the amortization of the loan. The client does not accept any interest rate risk with this mortgage program. The advantage of the fixed rate mortgage is it produces a predictable housing payment for the life of the Loan (monthly payments may change if Real Estate Taxes or Homeowners Insurance change). Fixed Rate Mortgages are available in terms of 10 - 40 years.

### 2. Balloon Mortgage

The interest rate is fixed for a period of time less than the amortization of the Loan. The client is in effect accepting interest rate risk, which should be offset by a lower interest rate. The typical Balloon Mortgage is fixed for 5, 7 or 10 years. When the Loan 'Balloons' it becomes due and will need to be refinanced and/or paid off if the client still owns the home.

### 3. ARM

ARM's are Loans with interest rates that change. An ARM interest rate changes periodically, usually in relation to an indicie, and payments may go up or down accordingly. When selecting an ARM, the client is accepting interest rate risk, which should be offset by a lower interest rate.

- **The Initial Rate**  
The initial rate of an ARM will remain in effect for a limited period ranging from 1 month to 10 years.
  
- **The Adjustment Period**  
The period between rate changes is referred to as the Adjustment Period. An ARM interest rate typically changes every month, every year or in intervals of 3 years.
  
- **The Index**  
The interest rate on an ARM consists of two parts, the Index and the Margin. The Index is a measure of interest rates generally, and the Margin is the amount the lender adds to the Index. Common indicies are 1 Year Constant Maturity Treasury Securities (CMT), the Cost of Funds Index (COFI) and the London Interbank Offer Rate (LIBOR).
  
- **The Margin**  
To determine the interest rate on an ARM, Lenders typically add between 1.5 and 3.5 percentage points to the Index Rate, called the Margin. The Margin is usually constant over the life of the loan. The fully indexed rate is equal to the Margin plus the Index.
  
- **Interest Rate Caps**  
An interest-rate cap places a limit on the amount your interest rate can increase. Interest Rate Caps include:
  - Periodic adjustment caps which limit the amount the rate can adjust up of down from one adjustment period to the next, after the first adjustment.
  - Lifetime Adjustment Caps, which limit the interest rate, increase over the life of the loan.

Ask you Lender for payment examples.

## THE FINANCING PROCESS

- Get Pre-Approved
  - Complete Worksheet
  - Provide W-2's, Paystubs and Bank Statements
  - Meet with Loan Officer to review terms and loan product that best fits your situation
- Select a Real Estate Agent
- Identify a home, write a purchase agreement, call Rollin or Lynn at RMG regarding interest rates and discuss locking your Interest Rate
- Send Purchase agreement to CPB
- When all contingencies are removed from PA, CPB will order your Appraisal, Title Insurance and Flood Certification
- Prior to Closing you will need to obtain Homeowner's (Hazard) Insurance for one (1) year on a purchase transaction
- Obtain a bank, cashiers or certified check payable to yourself for cash needed at Closing
- Go to the Title Company; bring ID, check payable to you, ten (10) years of personal address history and sign documents
- Receive keys to your new home.