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Mortgage matters

Finding financing may prove to be the biggest hurdle of all

Sentinel Staff Writer

Is it more difficult to borrow money for a mortgage today than it was just three years ago when pretty much anyone with a last name was approved for financing? Yes -- and it should be to avoid the kind of foreclosure crisis we're facing right now. Is it impossible? No -- or at least it isn't for qualified buyers who do their homework first.

Even for those who qualify in today's market, most lenders are now requiring larger down payments and higher credit scores for foreclosure purchases.

Many of the best foreclosure deals are purchased entirely with cash, since that is often the cleanest, quickest and easiest offer for the seller to accept.

Pre-qualified versus pre-approved:

Know the difference
Providing a pre-approval letter from a lender will make your foreclosure offer stronger, since it is based on actual figures for your income, assets and liabilities in determining how much you can comfortable afford. Pre-approval, on the other hand, is more of an estimate based on a cursory look and typically does not hold as much weight.

In your best interest
- At the time of writing, interest rates were around five percent, with some believing they could be headed for historic lows below four percent.
- Depending on the terms of your mortgage, your interest rate will be fixed for the entire length (usually 15 or 30 years), or variable, meaning it can adjust periodically in either direction.
- It is frequently possible to "buy down" the interest rate by paying points (one point is equal to one percent of the loan amount). - Interest rates can be "locked in," meaning the lender guarantees a given interest rate for a limited number of days (typically 30, 45 or 60). Borrowers usually opt to lock in a rate when they're confident they won't go much lower.
- Conversely, "floating" a rate allows buyers to lock in at some future time during the mortgage process -- with the risk that rates may actually be higher when a decision finally has to be made.

Who has the money?
Here are just a few of the places where homebuyers and investor can turn when trying to locate funds to

purchase a foreclosure:

- Banks and savings institutions
- Mortgage brokers
- Personal investment funds
- Home equity lines of credit
- Credit cards
- Private investors

Think out of the box
It is possible to finance 90 percent loan-to-value (or 90 percent of the value you wish to purchase) with a traditional mortgage, while borrowing the remaining 10 percent using a line of credit (or credit card), eliminating the need for cash out of pocket.

Types of loans
Conventional loans: any loan that is not backed by the government.
Government-backed loans: FHA-insured loans, VA-guaranteed loans, etc.

Loan application checklist
While applying for a mortgage can seem like a monumental task, being adequately prepared for the process goes a long way in saving time and money. Before you meet with whatever lender you ultimately choose, gather the following items to bring with you.

- Signed sales contract for property being purchased
- Copy of seller's deed
- Plat and/or survey
- W-2 forms for previous two years
- Copy of your school transcripts or diploma if a full-time student in last two years
- Tax returns for last two years if self-employed, commissioned or using rental income to qualify
- Three most recent pay stubs
- Copy of last three statements on all asset accounts (bank, stocks, etc.)
- Copy of loan payment coupons
- Copy of charge statements, with balances and account number
- Year-to-date, signed profit & loss, if self-employed
- Copy of rental or lease agreements on all rental properties owned
- Copy of divorce or separation agreement in full when declaring income or debt from such agreement
- Names, addresses, account numbers for any mortgage company or landlord for previous two years
- Names and phone numbers of both listing and selling agent
- Copy of listing and/or contract on any present homes for sale

(Source: New Home Finder)

How much home can you afford?
In 100 Questions Every First-Time Homebuyer Should Ask, nationally syndicated real estate columnist and author Ilyce R. Glink provides the following easy-to-use worksheet when determining how much of a monthly loan payment your income will support:

1. Gross Monthly Income (GMI) from all sources: ___________

2. Multiply by:

.25 (25 percent), a conservative number
.28 (28 percent), the conventional amount
.33 (33 percent), allow you some debt payment
.36 (36 percent), if you have no debt
For the loan-to-income ration: ___________

3. Subtract your current monthly debts service:
Credit cards: _____________
Car loan(s)/leases: _____________
Charge accounts: _____________
School loans: _____________
Other personal debt:_____________
Total Debt Service: ___________
4. Subtract monthly or semi-monthly condominium or co-op assessments, or homeowner association fees, if applicable: ___________

5. Maximum monthly mortgage payment: ___________

6. Subtract real estate property and tax monthly escrow: ___________

7. Net monthly mortgage payment: ___________

8. Multiply by 12 (months of the year): ___________

9. Annual mortgage payment: ___________

10. Divide by the current interest rate: ___________

11. Total amount of mortgage: ___________

12. Plus cash you have available for the down payment (save some for closing costs and two months' reserve): ___________

13, Approximate amount you can spend on a home: ___________

What will your monthly payment be?
Based on a loan of $100,000 (which can easily be multiplied to reflect your particular purchase price) with a 30-year fixed rate, the monthly payments based on various interest rates follows:

Interest rate Monthly payment

4 percent $477.42
4.25 percent $491.94
4.5 percent $506.69
4.75 percent $521.65
5 percent $536.82
5.25 percent $552.20
5.5 percent $567.79
5.75 percent $583.57
6 percent $599.55

7 percent $665.30

Note: This payment does not include taxes (approximately 2 percent of the purchase price in our area), insurance (depending on location, you may be required to carry homeowner, wind and flood policies), HOA fees, and mortgage insurance for those who put down less than 20 percent.