

# Mortgage Loan Mysteries Explained

Everyone loves a good mystery — but not necessarily when it comes to their mortgage. To many of us, the mortgage process is shrouded in mystery, with the mortgage “wizards” working behind the scenes to “conjure up” the money you need to buy a home. And while most of us would get through just fine without being privy to the mortgage hocus-pocus, the savviest consumers want to understand the who, what, where, why and how of mortgage lending. Here are seven tricks of the lending trade:

## 1. How does your lender decide how much you can borrow?

Typically lenders look at your debt-to-income ratio, the amount of debt you would be carrying in relation to your gross income. As a rule of thumb, most lenders don't want to see you taking on a monthly mortgage payment that's greater than 28 percent of your monthly gross income.

## 2. Who is calculating your credit score?

Three credit bureaus — Experian®, Equifax®, and TransUnion® — are constantly collecting information on you from your lenders and creditors to come up with your credit score. They then sell that information to businesses that want to view that information for a legally “permissible purpose” — usually to help them decide if they want to lend you money.

## 3. Where does the money that actually funds your mortgage come from?

Typically, the lender arranges your financing by borrowing the money from another source — such as another lender, an investor or a bank credit line.

## 4. Why am I now making mortgage payments to company B, if I got my mortgage from company A?

Because company A, your loan originator, has sold your loan to company B.

In today's mortgage market, selling loans has become so commonplace that you could practically work your way through a whole alphabet of mortgage companies before paying off a 30-year mortgage.

## 5. Who are Fannie Mae and Freddie Mac?

Two government-created companies that provide consistent sources of mortgage funds to housing partners to assist home ownership. Fannie Mae and Freddie Mac purchase mortgages from lenders who originate mortgages. They hold on to some of these mortgages, or bundle them together and sell them as securities.

## 6. What makes \$417,000 a magic number?

It's the “conforming loan limit,” the largest loan that Fannie Mae or Freddie Mac can buy from an originating lender. The limit is set annually by the Office of Federal Housing Enterprise Oversight. But that doesn't mean you can't get a mortgage loan that is greater than \$417,000. They're called jumbo loans, and they usually carry a slightly higher interest rate than a “conforming loan.”

## 7. How are interest rates determined?

Mortgage rates can rise and fall like the stock market, based on 1-year, 5-year, and 10-year Treasury Note yields. These yields respond to the actions of investors. Depending on how the economy is moving, there could be high demand, which means yields fall. If the demand is weak, yields (and mortgage interest rates) rise.

To learn more of our secrets, call our office today!

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# Looking to Refinance? ...Check Your Credit Score First!

Mortgage rates won't remain as low as they are for long. For existing homeowners, this means that time is running out to refinance and lock in at a low rate. But before you rush and refinance, here are some tips on how to improve your credit score. Why does this matter? Well, the better your score is — the lower your mortgage rate will be.

According to mortgage experts, you can actually make a significant difference in your credit score in just 30-45 days before refinancing. Here's what you can do:

First of all, get a copy of your credit report. Comb through every single listed credit line and make sure everything is correct. Simply removing any errors can improve your credit score dramatically. ...Don't know where to get your credit report? Contact our office today and we will help you.

After disputing any and all the errors, there are a few things you can do to maintain a good score. For example, having high balances (as in over 50% of the credit limit) on a charge card can potentially lower your score since it's perceived as being close to maxed out.

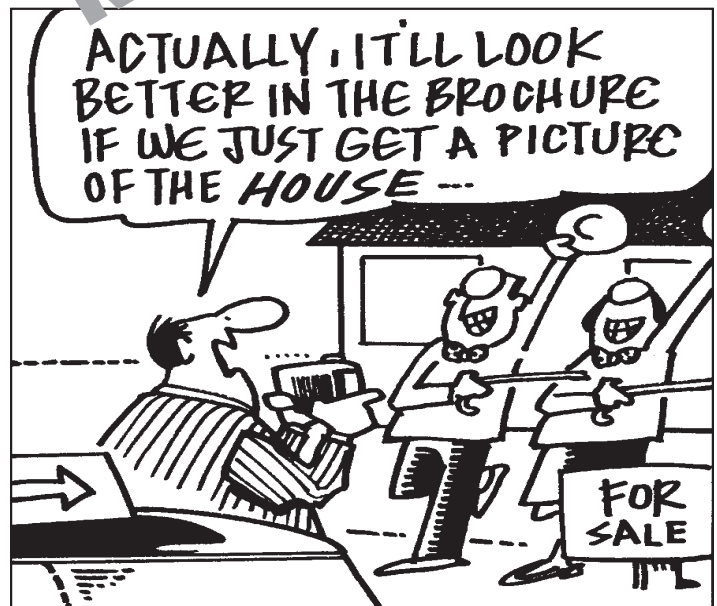
Your debt to credit ratio should also be less than 20%. But above all, don't close any credit lines *before* refinancing. Closing a credit card account will drop your score, especially if you've had the card for a long time because it removes all of the positive credit history associated with that card.

And while you shouldn't close any credit card accounts, you should also avoid beginning or opening any new ones. This is particularly true for big purchases, like buying a car, which will also alter your debt-to-income ratio. Opening new credit lines will also ding your credit score, so wait until *after* the refinance to get that new card.

Lastly, according to the experts, don't pay anyone to fix your credit and seriously consider opting out of pre-screened credit card offers.

For more information concerning your credit report, improving your credit score, or if you think you're ready to refinance your existing mortgage, contact our office today.

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# 10 Common Credit Report & Credit Score Myths!

Credit has its fair share of myths, legends and misinformation. Pile on top the proprietary nature of credit scores, the formulas for which are closely guarded secrets, and navigating the credit waters becomes even more confusing. It's time to dispel some common myths about credit reports and credit scores:

## 1. Pulling your credit report will hurt your credit score.

When you pull your credit report for your own educational purposes, it's considered a "soft inquiry" and will NOT affect your credit score. On the other hand, when a creditor or lender pulls your credit report for the purpose of extending you credit or a loan, it's a "hard inquiry" and *may* negatively impact your credit score.

## 2. Your income is factored into your credit score.

Your salary has nothing to do with your credit report and credit score. You may make a solid living, but that doesn't necessarily mean you have good credit.

## 3. Closing a credit card account will help your credit score.

When you close a credit card account, you may be affecting your "credit utilization." Credit utilization is simply how much credit you use (total of all balances) compared to how much credit is available to you (total of all credit limits). When you close an account, you're lowering the amount of credit that's available to you, which may increase your credit utilization percentage. A higher credit utilization may *negatively* impact your credit score, as it suggests to a creditor or lender that you're a higher risk.

## 4. There's only one credit score that all creditors and lenders use to determine your credit-worthiness.

The truth is there are a lot of credit scores out there. And on top of the different credit scores that are available, there are different credit reports on which a credit score can be based.

## 5. If you pay all your bills on time, there's no need to check your credit report.

It's important to check your credit report regularly no matter what your situation to make sure the information on your credit report is accurate. Mistakes are made, inaccurate information is reported and if you're not on top of it, your credit score may suffer. *Check your credit at least every six months. Contact our office for more information.*

## 6. Paying off a past-due account will remove that item from your credit report.

Negative information — like late payments and collections — can stay on

your credit report for up to seven years from the date of the initial missed payment. Some bankruptcies can stay on your credit report for up to 10 years from the date the bankruptcy was filed.

When you pay off an account that was previously past due, your credit report will be updated to reflect that you're current on the account. And as time goes on, the negative information will have less of an effect on your credit score. However, as the purpose of a credit report is to keep a tally of your credit history and how reliably you've managed your credit, that information will stay put for seven years in most cases.

## 7. Your checking, savings and investment accounts impact your credit score.

Checking, savings and investments do not show up on your credit report unless perhaps you are delinquent with a payment or past due on monies owed.

## 8. Paying cash for everything and not having any credit card debt will ensure a good credit score.

Never using credit can actually *hurt* your credit score. Creditors and lenders often consider people with no debt and no credit cards a higher risk than those who have credit cards and have proven that they're able to manage their debt responsibly.

## 9. Small debts like library fines, unpaid parking tickets and utility bills don't affect your credit score.

It's not uncommon for some libraries to turn over even small unpaid debts to collection agencies, which can wind up on your credit report and significantly impact your credit score. And more and more, utility companies are regularly reporting to credit bureaus.

## 10. Debit cards and pre-paid credit cards can help you build credit.

Because debit cards and pre-paid credit cards are essentially electronic checks and *not* an extension of credit, they don't show up on your credit report. If you're looking to build credit, using a secured or unsecured credit card responsibly is usually the best way to go.

*If you need more information about your credit score or how to improve your credit score, feel free to contact our office today!*

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## From the Inside: "Is now a good time to buy a Vacation Home?"

The housing market may be struggling, but that also means there are good real estate deals to be had everywhere. For example, there's seldom been a better time to purchase a vacation home. Invest wisely now and your pocketbook could benefit greatly.

Low prices and large inventories mean you'll get the best deal possible on your vacation home — *if you know what you're doing.*

With an expected increase in demand, today's favorable interest rates, and creative vacation home mortgage options, it may be a great time to invest in a second home. In fact, it's probably a wise investment.

This trend will likely continue. As baby boomers begin to retire, it's expected that more than 30 million Americans will buy a vacation home within the next decade.

With rising demand in popular vacation areas, knowing your vacation home mortgage options and how much you can afford can make a big difference in finding your perfect vacation home. Many homeowners use the equity in their primary home to finance their vacation investment, or take advantage of other vacation home mortgage options. *Call our office today to learn more.*

### Top Investment Property Tips

Before you begin your search, here are a few things you should consider:

- **Family appeal:** How does it fit the needs of your family? Will there be space and activities for family members who visit?
- **Travel time:** If it takes all day to get to your vacation home, you may not visit it as frequently. Two to three hours travel time is ideal.
- **Climate:** What is the area like year-round, especially during off-season? What are the political and tax issues? Browse through local newspapers as a guide.
- **Healthcare facilities:** If your vacation home becomes your primary residence one day, quality healthcare may be one of your top priorities.

It has never been easier to bring your vision of beach front, mountain, or lakeside properties into focus. With the proper planning and home financing, your dream of owning a vacation retreat can be a reality.

*For more information about vacation properties in your area, contact our office today. If we can't help you, we'll direct you to someone who can!*

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