

What Lenders Consider When Evaluating a Loan

The mortgage process can be a bit mystifying for borrowers when they undertake it for the first time. There are a lot of factors a lender considers. Many first-time homebuyers make incorrect assumptions about the mortgage process. They tend to get stressed out, for example, about things such as credit scores without understanding how those scores are really used. For instance, less than stellar credit can sometimes be offset by making a higher down payment, but not always. Regardless, here are just some of the factors considered by lenders when evaluating your loan application.

1. Stability — Stability can also be called history. A lender wants to see a solid history of employment and income. Lenders may get nervous if you have only been employed for six months and have just recently started making enough income to support the loan. They may worry because it is not a sure thing you will have the same job next year. If you do not, you may have trouble making the loan payments.

2. Debt Income Ratio — Lenders typically don't like to see a lot of debt compared to the amount of income you bring in each month. If your debt obligations are high *without* the mortgage, can you be expected to make the monthly payments on the home? Whenever possible, try to pay down credit cards and such *before* you apply for a loan. The lower your debt-to-income ratio, the better your lender will feel about your application.

3. Appraised Values — Many home buyers are surprised to learn the value of a property is not necessarily the agreed purchase price. Instead, lenders look at the *appraised* value. This may seem backwards, but the

appraised value gives the lender a more objective look at the situation. Just because *you* paid too much for the property does not mean the lender wants to share in the risk.

4. LTV — The Loan-To-Value ratio is a way of determining risk for lenders. The LTV is arrived at by dividing the appraised value of the home by the amount you are asking for in a loan. Put in simple terms, it represents the amount of money you are willing to put down on the house. When in doubt, put down as much as you can.

5. Cash — As with most of us, lenders love hard, cold cash. In this case, the lender wants to see how much money you have stuffed away in the rainy-day fund. In theory, the lender believes you will use it to meet your monthly mortgage payment *if* things go bad. The more you have set aside, the more comfortable a lender tends to be.

6. Credit Scores — Your credit score is a calculation of your debts, payment history and so on. It is often focused on as the key to getting a mortgage. And yes, it matters, but not as much as many think. If you have problems with your credit, you can sometimes offset those problems by offering a higher down payment. If your down payment exceeds 25 percent of the appraised value, a lender *may* overlook *almost* anything on your credit score *except* tax liens and outstanding judgments.



The simple fact of the matter is that there are a lot of factors that go into evaluating a loan application. And remember, you can *sometimes* tweak some aspects to make up for weaker ones.

Recent Stimulus Plan Includes Home Buyer Incentives!

As the much debated and recently passed \$787 Billion American Recovery and Reinvestment Act is implemented around the country in different ways, first-time homebuyers (which includes people who have not owned a home in the past three years) are poised to benefit.

According to a summary of the bill's provisions, the bill includes an \$8,000 tax credit for first-time homebuyers that will not have to be paid back. This is an improvement over the current \$7,500 tax credit approved last year, which had to be paid back gradually over a period of 15 years and was set to expire in July 2009. The new tax credit provision will be available to first-time homebuyers (buyers who haven't owned a home for the past three years) who purchase between January 1, 2009 and December 1, 2009.

While the National Association of Realtors® was hoping for more, it was thankful for the extension and expansion of the credit, which is expected to stabilize home values and encourage over 200,000 home sales.

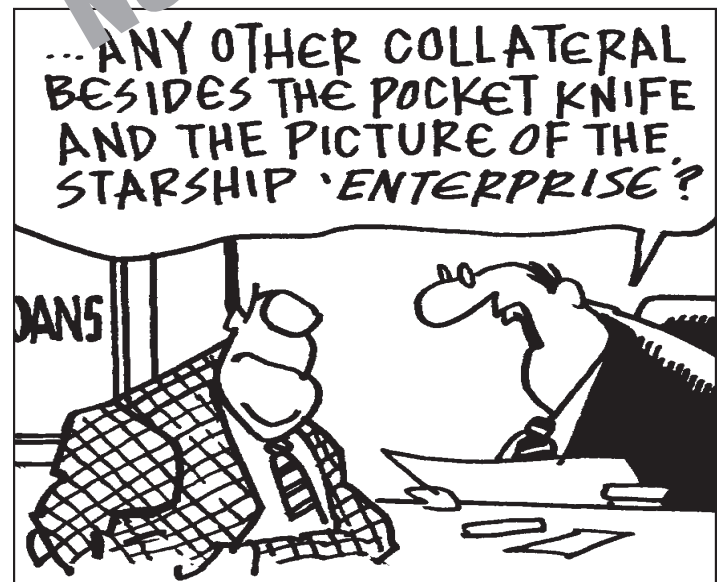
“Eliminating the repayment provision...will help bring buyers to the market and reduce housing inventory,” said NAR President Charles McMillan.

Other bill provisions of interest to homeowners and homebuyers include:

- Reinstating conforming loan limits to \$729,750 in high-cost areas for FHA loan guarantees.
- Financing for states for construction and rehabilitation of low-income housing.
- Funding for rural housing loan programs.

- Grants for energy efficient housing retrofits, and tax credits for energy efficient upgrades expanded through 2010.

For more information on how the stimulus bill might be able to help you get into your first home, contact our office today!



Save Energy, Go GREEN at Home!

It's not hard to adopt a few environmentally friendly practices in your home. Plus, it can save you money in energy costs, and make your home safer. Check out these great ways to reduce, reuse and recycle.

GOING GREEN IN YOUR HOME

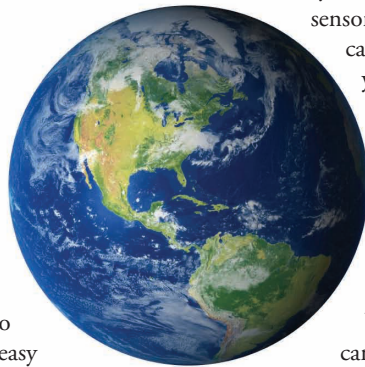
While we don't pretend to be the most environmentally conscious group out there, we do find ourselves falling more and more in-line with the green crowd each day. With our devotion to mother earth in mind, it's important that we share with you some tips that will surely help you make an impact. The simplest and most effective way you can give back is by changing a few things in and around your home. Follow these suggestions to play your part in the turnaround.

Kitchen

Whether you choose a gas or electric stove won't make a direct impact, however, if you choose a gas stove with a lower BTU output, or an electric stove with induction elements, then your cooking will be more energy-efficient. Keep a look out for stoves with an "Energy Star" logo emblazoned on the front. Not only will they help you save the environment, but you will save money as well. Other tips include only washing full loads in your dishwasher, and letting those loads air-dry after they are clean or buying locally grown products to limit gasoline used to make long shipments by ground or air.

Garden

Instead of using synthesized, chemical plant feed, make sure to use all-natural compost made from your kitchen scraps. You can also grow your own produce instead of relying on expensive organic veggies from your local *Whole Foods*. In order to lessen your dependence on municipal water, especially when there are sure to be shortages this summer, look into setting up a rain barrel by your garden. It's an easy way to garner chlorine-free water for your lawn and garden; plus, you will save some money on your water bill.



Electricity

It's primarily generated by coal-power, so it's stinky and bad for mother earth! To start, conduct an energy audit with your electricity company, which is usually free of cost. Also, as we noted before, using "Energy Star" appliances will cause your emissions and electricity bill to drop significantly. You can get really sophisticated and produce homemade power, either by solar panels (which are lowering in price daily) or wind turbines. If that is too difficult or time-consuming, you can also sign up for "green power" from your local power utility, which means your electricity will be made from green-friendly means.



Lighting

Compact florescent bulbs (CFLs) are the way to go in this category. They cost more initially, but will quickly pay for themselves and, in the end, save you money on electricity and cooling costs.

LED lights, which you may have noticed in your community's newest traffic signals, are even better for the environment than CFLs, although they are more expensive. Pair your new bulbs with a dimmer or motion sensor to eliminate waste. Finally, natural light is a no-brainer in this category. Keep your blinds open, or invest in a few skylights for your roof.

Furniture

That's right; you can sit, eat, and relax on "green" furniture! When it comes to your sofa or coffee table being environmentally friendly, it's all about the materials with which they are made. Certified sustainable or reclaimed wood, bamboo, and recycled/recyclable metal and plastic are your best bets. Keep an eye out for vintage or used pieces as well, as they can still be "cool" and "green" all at once. Have some furniture that you want to get rid of? Don't throw it away; sell it on Craigslist (www.craigslist.org) or Ebay (www.ebay.com).

From the Inside: Home Loan Refinancing Choices

Q. "Should I refinance?"

If you're in an adjustable rate mortgage, you may want to seriously think about getting into a fixed-rate mortgage. Sometimes it makes sense to refinance. Sometimes it does not. It depends greatly on your individual situation and what your financial goals are. For instance, you may want to lower your interest rate and/or monthly payment, but first you need to ask yourself some questions:

- How long do you expect to be in your home?
- How much equity do you have in your home?
- Are you willing to pay points to get a lower rate?
- Will having lower payments more than make up for the closing costs, fees and points if any?

Q. "Should I refinance from an adjustable rate to a fixed rate?"

Generally, it's a good idea to get the lowest FIXED rate possible, but you also have to consider your situation. If you're in the first year of an adjustable rate mortgage (ARM) and you plan on moving in three years, it probably doesn't make sense for you to refinance. However, if the rate on your ARM is about to adjust and you think the rate will go up, then it

may make sense to get a long-term fixed-rate mortgage, especially if you don't plan on moving in the next seven years or so.

Q. "Are interest rates higher for a cash-out refinance?"

The interest rate you pay on a cash-out refinance loan will generally be the same as what you pay on a mortgage where you don't take cash out. There may be an incremental fee associated with a cash-out refinance loan depending on the specific loan you choose and the loan-to-value ratio. Using the equity in your home to pay off other bills can be a smart thing. Consider taking some money out to pay off high-interest credit cards, auto loans and any other debts you have that have non-tax-deductible interest. Please consult your tax advisor to find out whether you may be able to deduct the interest on your new loan.

If you have any questions regarding refinancing or any other questions you think we might be able to help you with, feel free to contact our office today!