

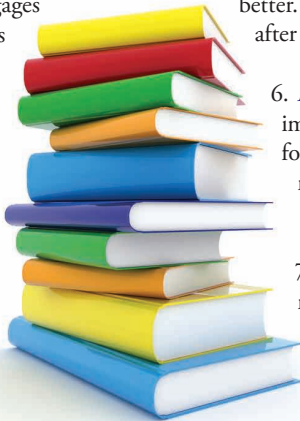
# 7 Things to Know Before Applying for a Home Loan

With interest rates near historic lows many people are ready to buy their next home. Buying a home is a huge decision and there is a lot to learn before you start shopping for your dream home. Being prepared for what's to come will help make the process easy and painless. Here are some things to keep in mind *before* you apply for your mortgage:

1. *Learn the lingo* — There are many different types of mortgages out there and each offers unique benefits. Learn the basics about fixed-rate, adjustable-rate, FHA & VA mortgages. Strive to understand how mortgage interest rates impact your monthly payment. Get to know more about points and PMI as well. Your lender possesses a wealth of information on these topics and will be happy to answer all of your questions.

2. *Determine what you can afford* — Use a mortgage calculator to figure out what you can afford including taxes and insurance. Consider making a higher down payment, if you can afford it, as it will reduce your mortgage payment. Seek the advice of your lender in helping you to determine just how much house you can comfortably afford.

3. *Work with your lender* — Your lender will guide you through the loan process. Never hesitate to ask questions. The loan process can be complex to most, but always seek answers to your questions.



4. *Don't open new accounts* — Don't even APPLY for new credit cards, store accounts or any other lines of credit. Doing so could alter your credit report and have an impact on the type of loan you'll be able to receive.

5. *Don't close existing accounts* — Keep all of your active accounts, even the ones with a \$0 balance, open. Existing accounts maintain a credit history. The longer your credit history, especially with a good payment record, the better. Continue to pay down debt, but don't close the accounts after they are paid in full.

6. *Don't quit your job* — A stable employment history is very important. It is best if you have been employed at the same job for at least 2 years and preferably longer. If you haven't, you may still be able to qualify, but stay at your job if you can help it until the loan process is complete.

7. *Pay your bills on time* — Avoid making late payments as much as possible in order to avoid being denied a home loan or having to pay a higher interest rate. Late payments reduce your credit score, which has a direct impact on your mortgage.

Buying your next home is an exciting moment in your life. It is also a big decision. If you follow these tips, you can be more prepared to apply, get pre-approved and close your mortgage. Make sure you ask your lender lots of questions. Strive to understand the process. If you can do all of these things, you'll be in your new home in no time at all.

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## Tips For Helping the Seniors in Your Life Downsize Their Home

Senior citizens who are moving face many challenges — finding a home that can accommodate their needs, *and* dealing with sad feelings of leaving a place where they've lived for decades. But one of the most trying practical and emotional challenges is downsizing their possessions to fit in a new, smaller home.

Remember, you're talking decades of items accumulated over a long and full life. It's not just a matter of tossing a few things into a garbage bag or hauling a few trunk loads of stuff to Goodwill®.

### Some tips on making the process a bit easier:

1. The downsizing process is a good time to identify items to be passed along as heirlooms. To make it easier, have the senior(s) make a list of things they want to give away and then have children or other relatives use that list to pick the things they would like to keep.

If there are items that no one expresses an interest in, help the senior look into ways of selling it, or donating it to charity.

2. Certified relocation specialists, computer programs or even just simple cutouts can help a senior determine exactly how much room they'll have in their new home for their belongings. It's important to have a firm idea of how large the new home is and how much stuff it will accommodate. You don't want to find out from the moving company that everything won't fit. Have a very realistic assessment of space limitations.

3. During the packing process, the senior can use different colored stickers to identify items to be moved to the new home, thrown out, or given away. If you plan ahead, the senior can do this a little bit at a time so it doesn't get overwhelming. Because there are usually many things to go through for a senior who's moving, start this process early.

4. If you're helping your parent or elderly relative move, you might get frustrated by the length of time it takes. However, don't forget that this

process is emotionally difficult for them, and they need your help. Also, it might make it easier for both of you if you use the time going through the items to reminisce about earlier days — the process may help them recall nice memories, and it may also fill you in on important family history.

Finally, when packing, remember that some items you are moving might be worth far more than you estimate, because they've become antiques. If some items are valuable, consider carrying them with you rather than entrusting them to the movers. If you want the moving companies to handle them, consider buying separate insurance.

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# Mortgage Refinancing: What You Should Know?

Your mortgage may have a 30-year term, but not many homeowners stay with the same loan for that long. In fact, the average American refinances his or her mortgage every four years, according to the Mortgage Bankers Association. That's because paying off your present mortgage and taking out a new one can mean big savings over several years. However, mortgage refinancing comes with a price in the short term, so it's important to consider both the costs and benefits before making your decision.

## Why refinance?

Here are some reasons to consider mortgage refinancing:

- **To obtain a lower fixed rate.** If you took out a fixed-rate mortgage several years ago and interest rates have since dropped, refinancing may lower your payments considerably. A \$150,000 mortgage with a 30-year term and a rate of 8 percent, for example, carries a monthly payment of \$1,100. The same mortgage at 6 percent will have a payment of less than \$900 a month.
- **To switch to a fixed rate or an adjustable rate mortgage.** Adjustable-rate mortgages (ARMs) offer lower interest rates initially, but some homeowners find the fluctuations stressful. If rates are on the way up, you might consider locking in at a fixed rate and a consistent monthly payment.
- **To build your home equity faster.** If a recent change in your financial situation has made it possible for you to increase your monthly payments, you might want to refinance your mortgage with a shorter term. The higher payments will enable you to pay off your home more quickly and to save substantially on long-term interest charges. However, if you are disciplined you can also opt not to refinance and simply pay more towards your principal each month.
- **To reduce your monthly payments.** Refinancing for a longer term will lower the amount you have to pay each month. You will end up paying more in interest charges over the life of your loan, but if you're having difficulty making your current payments, this strategy could provide some relief.
- **To turn home equity into cash.** You may want to take out a new mortgage with a larger principal, in order to turn some of your home equity into cash for a major expense. This is called cash-out refinancing. The advantage of taking out a loan secured by your home is that you can get a lower rate of interest than you can with an unsecured loan or credit card. However, if the interest rate offered for your refinanced mortgage is higher than your current rate, a home equity loan or line of credit might be a better choice.



## Is mortgage refinancing right for you?

If you're refinancing in order to pay less interest, you won't usually see the savings right away. That's because lenders typically charge fees when you take out a new mortgage, and you may also have to pay a penalty for getting out of your old one. To determine whether refinancing makes financial sense for you, consider these issues:

- **How long you plan to be in your home.** If you expect to move in a year or two, you may never realize the potential savings you'd get from refinancing. As a rule of thumb, the longer you plan to stay in your current home, the more sense it makes to refinance.
- **The prepayment penalty on your current mortgage.** Some mortgages carry a penalty if you pay them off early. The amount varies, but it is usually a small percentage of the outstanding balance, or several months' worth of interest payments.
- **The costs of the new mortgage.** When you take out a new loan, your lender may charge a number of fees including application, appraisal, origination and insurance fees, plus title search, insurance and legal costs that can add up to thousands of dollars. Lenders may also charge discount points, which are paid upfront to secure a lower interest rate. As a guideline, expect fees to eat up any potential savings unless your new interest rate is at least a half to a full percentage point lower than your current one.
- **The true difference in borrowing costs.** When you're considering refinancing, remember that the posted interest rate doesn't reflect the entire cost of the mortgage. The amount you pay over the life of the loan will also be affected by the length of the term, whether your rate is adjustable or fixed, whether you paid discount points, and what upfront and ongoing fees you incur. One way to compare mortgage costs is to look at the annual percentage rate (APR), which takes into account not only the base interest rate, but also points and other charges. All lenders must follow the same rules when calculating the APR, so it's a good basis for comparison.
- **Your reduced tax savings.** If you claim mortgage interest on your tax return, refinancing to a lower rate will mean that you'll have less mortgage interest to deduct. You will still save money overall, but your real savings from refinancing may not be as large as you first believed. Consult a tax advisor who can help you understand the tax implications of refinancing.

*Are you considering refinancing your home loan? If so, please contact our office today.*

## From the Inside: "Are You a Prime Candidate for Cash-Out Refinancing?"

Your house is a potential source of money if you are willing to sacrifice some of your equity in return for liquidity. Cash-out mortgage refinancing is one way to access this cash.

### What is cash-out mortgage refinancing?

Cash-out refinancing involves refinancing your mortgage for more than you currently owe and pocketing the difference. If you have been paying down your mortgage for some time, then the principal is likely to be substantially lower than what it was when you first took out your mortgage. That build-up of equity will allow you to take out a loan that covers what you currently owe — and then some.

For example, say you owe \$90,000 on a \$180,000 house and want \$30,000 to add a family room. You could refinance your mortgage for \$120,000, and the bank will then hand over a check for the difference of \$30,000.

You can take the difference and use it for home renovations, second-property purchases, tuition, debt repayment or anything else that needs a significant amount of cash. What's more, you may be able to get a more favorable interest rate for your refinanced mortgage.

However, if the interest rate offered for your refinanced mortgage is significantly higher than your current rate, this may not be a sensible choice.

A home equity loan or line of credit (HELOC) might be a better option in this instance.

Typically, homeowners are allowed to refinance up to 80 percent of their property's value. Certain lenders may allow you to borrow more than 80 percent of your home's value, but you may have to pay private mortgage insurance, or pay a higher interest rate.

### Cash-out refinancing versus home equity loans

Homeowners sometimes confuse these two pools of home-financed cash. Cash-out refinancing and home equity loans are quite different. Cash-out refinancing is a replacement of your first mortgage; HELOCs are separate loans on top of your existing mortgage. In other words, with refinancing you get a new mortgage, not a second loan against the equity in your home.

Refinancing usually makes sense only when there has been a drop in interest rates and you want to lock in a new mortgage at a lower rate for a longer term than your existing mortgage. It can also benefit those who want to refinance their mortgages for a longer term to lower their monthly payments.

*Need more info on cash-out refinancing? Contact our office today.*