

How to Buy a Home with Little or No Money Down!

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First Edition



How to Buy a Home with Little or No Money Down!

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Introduction

Many Americans have been misled to assume that without excellent credit and large sums of liquid cash available they simply are unable to purchase their dream home. This philosophy is untrue. There are numerous avenues available to persons with limited resources and imperfect credit.

Where do you go to find the various programs that offer unique features such as 100% financing etc.? How do you know if the program you are using is the best program for your family's financial requirement? How do you determine if a specific program has a heavy burden of fees compared to other programs? These are just a few of the more commonly asked questions that we will address as we progress forward. In addition, we also go over subject areas including:

- The pitfalls of conventional mortgages
- A comparison of several types of loans available
- How to analyze your current and future buying needs
- Overcoming credit obstacles.
- Several of the conventional and non-conventional methods of accumulating additional cash for your closing costs.
- Several types of loan programs available as well as avenues to pursue for additional programs.
- Loan programs that you should avoid.
- A non-conventional outlook into the relationship between your home mortgage and your entire financial portfolio.
- An analytical perspective into paying off your home mortgage as well as your entire debt load in an accelerated time period.
- Many of the financial traps that many fall into and how to avoid them altogether.
- Numerous other topics related to purchasing your home.

You will quickly come to an understanding of how to “correctly” purchase your home without the wonder of how you are going to afford that new home.

Myths & Realities

Uncommon to what numerous home mortgage lenders may say, there is no single broker that offers the “perfect” loan program for everyone who walks through their door. Loan programs run the spectrum in terms of interest rates, points, pre-qualifying terms, location where the property must be situated, income restrictions, terms of the loan and numerous additional categories. Unfortunately to the average consumer, the only knowledge we generally gain as to which program is right or wrong for them is what we see in magazines, television and brochures we read which are really nothing more than an advertisement to promote a specific program. Even the advice we gather from friends and family is biased. It may have been perfect for their particular financial situation, but you may have a totally different set of guidelines to work with.

Lets explore the myths and realities more commonly associated with the mortgage lending industry:

- **MYTH:** All loans are pretty much the same whether conventional or non-conventional. It’s the pay me now or pay me later. **REALITY:** There are numerous issues to consider when contemplating which loan program is right for you. These issues may dramatically alter the terms of repayment as well as the total sum required to pay at the end of your loans term.

- **MYTH:** Conventional mortgages are ALWAYS the best way to go if you have the money for closing costs. **REALITY:** There are many benefits associated with non-conventional programs that may complement other facets of your total financial portfolio. An investigation into your financial portfolio will allow for you to make an educated decision into which program is right for you and your family

- **MYTH:** You are going to pay roughly the same amount over 30 years whether it’s conventional or non-conventional. **REALITY:** The total pay-back for a 30 year conventional loan may vary significantly between different loans. There are many factors that go into figuring your total pay-back such as: interest rate, points, PMI, closing costs and numerous other items that are not a constant value between different loans.

- **MYTH:** No matter what program you are looking at, you are going to need tens of thousands of dollars at closing. **REALITY:** There are programs that literally allow for a low down payment such as VA loans. Each program offers it’s own guidelines of what percentage of money is needed for closing costs as well as how much of that can be financed.

- **MYTH:** You will need less money for closing costs when going with an FHA type loan. **REALITY:** Generally speaking the programs that offer the least amount down are government backed such as VA or FHA.

- MYTH: FHA (government-backed) type loans are for poor people. REALITY: There are numerous considerations when choosing an FHA type loan that have nothing to do with lack of liquid funds available by the potential homeowner.

- MYTH: FHA type loans are much more difficult to get approved. REALITY: Actually it's just the opposite. These loans are government backed and are generally easier to get an approval.

- MYTH: FHA type loans are generally rejected by the seller due to stringent home inspections. REALITY: There is no definitive ruling on this one...It really comes down to the "perception" of FHA type loans by the seller. Many sellers do not have a problem with this type of loan. Generally, if the property is in need of "major" repairs you do not want to consider an FHA type loan due to more stringent home inspections.

- MYTH: Your credit must be in excellent condition to even consider applying for a home mortgage. REALITY: On select occasions you can have poor credit and still get approved for a home mortgage. The best advice we could give you would be to seek a highly skilled mortgage banker at American Home loans and explain your total financial picture. They will most likely be able to structure a loan program that will cater to your needs. You will most likely pay a higher interest rate in the beginning, but after a few years of excellent payment history you will be able to re-finance at a much lower interest rate. Again, for most financial situations there is a way around them.

- MYTH: Don't even think of applying for a home mortgage if you have had a bankruptcy even if it is in the past. REALITY: Again, there are numerous variables in your total financial picture. Just because you had a prior bankruptcy in the past does not necessarily disqualify you for a home mortgage.

- MYTH: Don't even think of applying for a home mortgage if you have had a poor or slow credit history. REALITY: Again there are numerous variables to consider when choosing a home mortgage. One particular item may not necessarily disqualify you.

- MYTH: You MUST be at your current employer for over 5 years to be even considered as "stable employment" in the eyes of the mortgage lender. REALITY: The longer you are at your employer the more stable you look in the eyes of the lender. However, there are numerous considerations. Perhaps you are only at your job for 8 months, but at your last employer for the last 6 years or perhaps you don't have a long history with your current employer, but have excellent credit and you are well situated financially, then a long-term employment record should not be an issue.

- MYTH: They'll never accept you since you're self-employed. REALITY: However, there are more stringent guidelines to adhere to when you are self-employed, additional proof of income may be required.

- **MYTH:** They'll never accept you since you're a commissioned sales person. **REALITY:** They are a bit more cautious when approving a heavily commissioned sales person compared to a straight salary employee due to the uncertainty of their income. What generally happens is they average a smaller portion of the income when there is commission involved to protect against the inevitable "slow times".

- **MYTH:** They'll never accept you since you have gone through a divorce. **REALITY:** There are several issues involved with financial history and divorce such as: division of assets, division of expenses, elimination of a second income etc. While divorce is not an automatic disqualification, there are several issues that the mortgage lender needs to address. Again, this is where your experienced mortgage banker at American Home Loans will be of assistance.

- **MYTH:** You are better off paying minimum monthly payments for 30 years and building your retirement investments first. **REALITY:** Our personal philosophy (which we will discuss in detail in the later chapters of this book) entail a more comprehensive debt elimination program followed by an aggressive investment strategy to achieve the greatest results.

- **MYTH:** You should pursue 15 & 20-year term programs rather than 30-year terms. The larger payment will mean less income for retirement investments, but the interest saved by cutting 10-15 years off of your mortgage will be a better investment in the long run. **REALITY:** In most cases you are far better off reducing your mortgage term while substantially reducing your interest paid. There are unique circumstances where the 30-year mortgage is a better program, but for most of us if you can swing a reduced term, the benefits of saved interest and payments will far outweigh the disadvantages of an increased mortgage payment.

- **MYTH:** With the mortgage interest tax deduction in mind, you are better off with a 40-year mortgage. The tax shelter of the 40-year term will far offset the additional interest paid. **REALITY:** It is inconceivable how much you will spend in interest charges over an extended term mortgage program. Generally speaking: If you need to overextend yourself just to get into a particular home you need to reevaluate your purchasing power and choose a less expensive home.

- **MYTH:** You are better off tapping your retirement investments and putting as much down as possible for closing costs. **REALITY:** Generally speaking, when you calculate the taxes accrued as well as the penalties for early withdrawal on retirement programs, you are far better off leaving your investments alone and seeking a mortgage program that will accommodate your available liquid funds.

- **MYTH:** Paying just 1 extra payment each year will save you thousands of dollars in interest payments and lessen the term of your mortgage. **REALITY:** Adding just 1 extra mortgage payment each will dramatically reduce the term as well as your interest owed over the term of your mortgage.

- MYTH: Certain “rural” areas offer better programs than major cities. REALITY: Programs such as the “Guaranteed Rural Housing Program” offer wonderful incentives for moving into a non-urban area. Not to mention there is a lower premium for auto insurance, less crime and generally more home for your money in the country.

- MYTH: You should apply to 2 or 3 institutions and compare the results. REALITY: Don’t assume that each mortgage institution offers the same programs. The more research you perform, the better program you will find to suit your financial needs.

- MYTH: You should pay off your credit card debt prior to speaking with a mortgage banker at American Home Loans. REALITY: Your debt/income ratio may be in an acceptable range, however, if you are in need of extra funds for closing costs you are far better off saving as much as possible. Again my recommendation is to seek advice from a competent mortgage banker at American Home Loans as to your financial direction.

- MYTH: All interest rates are the same no matter what institution you go to, why waste the time shopping. REALITY: Interest rates are a standard through the industry, however, each program offers a different rate above prime.

- MYTH: With the average American moving or refinancing every 5 to 7 years, does this change the type of loan we should look into? REALITY. As you will read throughout the book we recommend purchasing a home that will fit your needs today and in the future. However, if you plan to seek a new home every 5 to 7 years we personally recommend a program that offers minimal closing costs. You will never get to a point of substantial equity if you are constantly repurchasing a home. Our recommendation would be to seek an aggressive investment program to offset the continuation of owing a mortgage payment.

- MYTH: You should seek to purchase a home that will accommodate your needs now and in the future. REALITY: The average consumer re-purchases a new home every 5-7 years. This is a very expensive proposition. You will never get to a position of substantial equity by selling every few years. Not to mention you will get to a point where you will owe a mortgage payment well into your “retirement” years where your income will be dramatically reduced. We strongly recommend assessing your family’s needs today and in the future. No one can predict the future, but you do know if you are planning children or if the home you are purchasing is too far from your office etc. By planning into your future you can dramatically increase your odds for a prosperous retirement. We will discuss this outlook in more detail later in the book.

As we progress through this program you will inevitably come across numerous questions which pertain directly to your particular family’s financial situation. We highly recommend taking a legal pad and jotting down any questions that may arise to ask your prospective mortgage lender. Note: The more information you give your prospective

broker the better chance they have of selecting the best program to fit your financial picture, family's requirements and benefits you seek to gain from the mortgage program.

The Truth About Credit

Let's examine one of the main reasons why people cannot or "think" they cannot purchase a home. CREDIT! Unfortunately credit does play a major role in the qualifying for a mortgage. Rightfully so, would you lend someone hundreds of thousands of dollars over a multi-decade period when they cannot even keep their car payment current. With the amount of loans a typical mortgage company will write, it doesn't take a long period of writing "bad" loans before you start seeing their poor judgment on their financial statement. We are going to discuss the basic ins and outs of credit, how to evaluate your current credit situation, quick fixes and a few basic generalities of how credit has consumed our society as a whole.

CREDIT: The truth on how it impacts our life...

Let's take a hard look at how many ways credit affects our daily lives. Your credit score is the basis that many corporations judge your worth. If you open up a bank account they pull your credit report, call your local utility to open up a phone account, even when applying for employment most reputable firms will check your credit to "see if you are a sound candidate" for a particular position in their company. If you are one of the many that have blemishes on their credit report you know exactly how many ways this can impact your life. Whether you are purchasing a home or not, **We highly recommend calling one of the major credit reporting companies ie: Trans-Union etc. and asking for a copy of your credit report.** You may be surprised what you see. If you are a Jr. or Sr. you may have to have entries deleted that were from a father's or son's credit report. If you are or were divorced, there still may be accounts in both of your names. Many people have had negative statements added to their report that were completely false and entered as a mistake. With a simple letter stating the facts you can either dispute the charges or have them wiped off your report if they were indeed false. Let's face it, we live in a credit society and you need to protect your "buying" power. Negative scoring on your credit report will cost you in increased interest charges, possible decline in the granting of a loan and possibly a position of employment. Unfortunately, you need to protect your credit rating to function accordingly in today's society.

Credit has it's pitfalls...

The problem with credit is it's addictive nature. Most people at one time have felt the bonds of over extending themselves with monthly payments. It seems that the main benefit that credit offers is also the main drawback if you are not extremely careful. With our society's philosophy of, "I deserve it now!!!" and the availability of credit to purchase a product/service whether we have the money or not, has created a dangerous cycle of incurring debt. The amount of home equity loans taken out has skyrocketed over the past several years...and climbing. The problem with home equity loans is that we have zero balance on our credit cards and the same poor buying habits. If we don't change our purchasing patterns, we will NEVER get ahead!!!

Do not get lured into a trap...

There are numerous methods that the credit card companies have enticed us to use credit cards as a first selection of payment. One may offer what looks to be lucrative “cash back” incentive; another may offer frequent flyer mileage or a program where a portion of what you spend will go towards the purchase of a new automobile. The bottom line is they’re offering these programs to you to not only select their card over the four other ones in your wallet, but also in the hopes you will be like most consumers and carry a balance. Charging you interest on the balance equates to a lot of profit to the bank. Let us be blunt for a moment **you are far better off paying cash than using credit!!!** The pennies on the dollar you will earn using those incentive programs will “never” offset the interest charges you pay month after month. Also, it is a financial fact that **you will spend more with a credit card than by paying with cash or a check.** Remember, spending has far more impact on your financial future than saving. In other words, contrary to most financial advice. It’s not what you make, but rather what you keep after expenses!!!

How debt has impacted our society...

As a whole, debt has taken its toll on society. Our standard of living (believe it or not) greatly diminishes with the abuse of credit. The single income family has been reduced to a relic of the past and subsequently been replaced with both husband and wife needing to work just to keep above water. We have moved into the realm of 2 and 3 jobs per person to stay afloat. We ask you, is that “dream” home worth all that? The use (or should we say) the misuse of credit has been touted as being one of the main reasons for bankruptcies in our nation. It gives people the ability to buy the fanciest cars, finest clothes, travel to those exotic vacations, and purchase relatively anything without regard to their budget and financial security.

Sound advice:

If we can offer you one piece of good advice...it would be to cut up all of your credit cards, except one. Lower the available balance to \$500.00. This way you cannot become tempted to “rack up” those weekend shopping sprees on the credit card. If you do ever get into an emergency where you need the extra credit line. All you have to do is make a 5-minute call to the bank and they will gladly increase your credit limit.

How does this relate to purchasing a home:

The answer to that question is two fold: **Number One:** You can overextend your consumer debt to a point that it significantly reduces the amount of home you are able to purchase. To give you an idea of how much of an impact that can make, ask your broker how much home can you afford with your current consumer debt load, and if you were “debt-free” from credit card bills, car loans, student loans etc, you will be amazed the

significant impact it makes on your financial future. **Number Two:** There are numerous programs that will allow you to “overextend” your buying power in order to have your “dream” home. The problem is after you have purchased that dream home, you must pay for that dream home.

What to do with the information:

Now that you have your credit information readily at hand from your credit report, what do you do with this information? Our first suggestion would be to seek out a qualified mortgage banker at American Home Loans that fits your family’s needs and present the data to them for a detailed analysis. They are going to assess additional data on their own such as an extensive credit report, bank statements etc. you will need to seek their professional opinion on how to handle the not-so good inquiries that may appear. They will most likely go over your credit report with a fine tooth comb searching for any red flags that the underwriter will explore. It will be at this point you will be able to collectively seek a resolution. Their goal (aside from finding the best program for your family’s financial requirements) will be to present your mortgage application as a “sound” investment to the lending institution. The application must be as smooth and clean as possible when presented to the underwriter for final approval. Many mortgages are denied each year due to the lack of prep-work on the part of the mortgage banker. We will touch on what to look for in a “good” mortgage banker at American Home Loans later in the book. We will go as far as to say that the key to a not-so-perfect credit situation being turned into an approved mortgage application relies on the ability and thoroughness of your selected broker.

How to handle the bad data on your credit report...

Aside from checking with a mortgage banker at American Home Loans first, the most likely direction they will take you is first, they will determine if the information that is presented is factually correct. If the data on your credit report is incorrect, a simple letter to the credit bureau as well as the creditor that wrote the negative remark will need to be written. You should state the extent of delinquent time in question, the company name and the nature of what is being reported. Also, you should include a “detailed” explanation of your side of the story along with any factual data you may have to prove your side of the story. For instance, if they are stating that you were delinquent for a 90-day period on your credit card, photocopy the 3 bank statements in question for proof of the payment. Always in any case, keep a written copy of everything you submit for proof.

If the data in question is absolutely false the same type of letter would be written to the parties in question stating the nature of the problem.

If the data represents a “charge-off” and the data is correct, you should contact the company personally and seek a mutual resolution. Again, document everything including the copy of the check submitted for resolution. Upon mutual agreement, have the company submit a letter to you that states that upon acceptance of the letter you will

agree to make final payment to rectify the issue. This will also be submitted to a mortgage banker at American Home Loans and the credit bureau.

Although you are obviously far better off with no blemishes on your credit report, if you can accurately and in a detailed fashion show that you have rectified the delinquent matter and that it is not a recurrent problem. With a little help from a mortgage banker at American Home loans you can overcome these hurdles and proceed forward with owning your dream home.

Let's briefly talk about the positives of credit...

With all of this talk about the dangers and negatives of credit, we feel it is important to discuss the positives of credit. There are numerous attributes to generating and maintaining a positive credit standing. Lets discuss a few of them:

No and low down payment type loan programs:

If you have a proven history of paying your bills in a timely manner, there is less risk to the lenders, they would be more willing to extend you a greater portion of loan principle.

Lower interest rates:

The better your credit history, the more stable your loan will be to the lending institution. With less risk on the lender, it will mean the more they are willing to decrease the amount of interest they charge. In addition, they are always seeking to grant the more stable loans. This reduces the amount of "foreclosures" they incur.

When your credit is less than stellar there are few banks that are willing to take the risk. On the other hand, when your credit rating is excellent just the opposite is true. You are in a better bargaining position to explore the best loan programs available. The banks are more willing to work with someone who had exceptional credit.

Recap...

Credit can be a useful tool in almost any facet of life. The key is to establish a good credit rating or repair your current situation and continue on the path of developing only positive marks on your credit report.

Just as important is the discipline that is needed with credit. As with anything, too much of a good thing can be unhealthy. The same goes with the use of credit. Think of it as a tool for emergencies or "occasional use". If you do purchase something on credit, a good tip would be to take the amount of money spent and put it in a separate account for when the statement comes in. A good rule of thumb in using credit is: If you need a credit card to purchase an item, you probably should not even be considering the

purchase in the first place. Applying a healthy outlook on credit will yield a prosperous influence on your entire financial picture.

How to Remove Negative Remarks From Your Credit Report

Very few people have zero blemishes on our credit report. Generally your report will span over a 7-10 year period. Everything from recent inquiries for credit, delinquent payments, as well as positive reporting, occurs on this report. Whether the data on your report is accurate or inaccurate, you must periodically inquire into this report. Unfortunately, you are judged by your report. Whether you are applying for a mortgage or applying for employment, the odds are good that they will examine your credit report.

The question arises when you have a negative inquiry on your report. What steps should be taken to remove the data?

Get a copy of your report:

The first step will be to get a copy of your credit report posted from the three major reporting agencies. They are Experian, Equifax and Trans-Union. We personally recommend getting a merged report that shows your inquiries from all three agencies.

Contact your creditors:

If you discover a negative notation on your report, simply contact the creditor and in a calm, nice voice ask them to remove the negative item. Do not get upset when they refuse, simply ask repeatedly. **Document this occurrence in detail.** Repeat these steps several times. Generally speaking, this will work.

Get documentation:

Upon confirmation that they will be making the correction, ask them for written confirmation of this action. Personally we would tell them that you are applying for a mortgage and need it faxed or mailed ASAP. You will want this written confirmation for two reasons. The first is just in case they decide not to remove the negative information; with that letter you can address this directly with the credit bureau. The second reason would be if you were indeed applying for a mortgage, simply presenting this letter to the mortgage lender would carry a lot of weight.

When the creditor plays “hard ball”:

Not all the time will the creditor agree to relinquish the item from your credit report. In the event that the item is simply incorrect **and you are 100% sure of this fact**, contact the credit bureau immediately and they will walk you through the process of disputing the data. Again keep accurate documentation of the entire process.

What Is A FICO Score?

When applying for a home mortgage you would expect the mortgage lender to pull a credit report. However, in addition to researching your history with prior creditors they will be seeking your FICO score.

What is a FICO score?

In order to understand how this score affects your being granted credit you must first understand what a FICO score is: It actually stands for Fair Isaac and Company. This is the company used by Experian (formerly TRW) credit bureau to calculate credit scores.

How does this affect me being granted credit?

When your credit report is viewed, your FICO score will appear. It is a numerical value that ranges from the 300's for a poor score to the high 800's for an excellent score. The general rule of thumb is a FICO score above 680 almost always made their payments on time. A score below 600 seemed almost certain to develop problems.

What determines the numerical value of a FICO score?

There are numerous factors that go into attaching a FICO score to a consumer. We will list some of the more prominent issues:

- Minimal credit history
- Delayed or missed payments
- To many accounts opened within the last 12 months
- Excessive revolving accounts
- Too few revolving accounts
- No recent credit cards that carry a balance
- Bankruptcies, tax liens, judgments etc.
- Number of credit granting inquiries.

These are just a few of the more substantial issues that go into assessing a FICO score. You can have an excellent payment history over the past few years but have other issues that lower your score and still be denied credit.

How Do I Determine What A F.I.C.O. Credit Score Means?

We discussed F.I.C.O. Scores in prior sections and how they are calculated. Now let's discuss what that numerical value means. Generally speaking when a company seeks your credit score they have a "rule of thumb" they use: Scores below 500 are considered poor and there is a good chance that the borrower may not pay his/her bill on time. A score above 750 is considered superb. This individual has minimal risk of repayment of their obligations. Let's go over a larger spectrum and see how F.I.C.O. scores would generally be evaluated.

- 700 and above: Best credit programs available, best interest rates available as well as approval on "most" programs.
- 650-700: Most programs would be available. Again excellent interest rates and no money down programs would be available to the individual.
- 620-650: Sometimes they would be eligible for no-money down programs, would still be receiving good interest rates.
- 580-620: Usually require 5% to 10% down on financed purchases.
- 540-580: Most likely will need at least 10% down. Also will not be able to get the "best" interest rates available.
- 500-540: Need 15% to 30% down. Again the interest rates would be higher as the credit score diminishes.
- Below 500: Most lenders will not lend credit, unless there are other extenuating circumstances such as long history with employment, perfect rental history, or other positive collateral available.

When Is The Right Time To Purchase A Home?

Is there a “best” time to purchase a home? Yes. Timing has a critical affect in that decision. There are numerous factors when determining the best time to purchase a home such as:

- The swing in interest rates.
- Abundant selections of available homes.
- Market trends (buyers or sellers markets).

The best time of the year to purchase a home has traditionally been the last two weeks of the year. Most sellers that haven’t sold their home by Thanksgiving generally take the home off the market until after the New Year has arrived. The only homes on the market are the ones that the seller is desperate to sell. Most consumers are gearing up for the holidays with last minute shopping and making traveling plans and have little time to “shop for a new home”. Home sales generally hit their lowest numbers of the year. This drop in activity can reap substantial discounts to the prospective buyer.

When Is Renting A Better Choice Than Purchasing A Home?

Generally speaking, you are far better to purchase a home rather than renting a home or apartment. When you consider that when you purchase a home there are the tax saving benefits of writing off the interest from your mortgage payments, accumulating equity and having the ability in a few years to eliminate the largest expense one will have. It is difficult to imagine renting as the more viable option. Let's discuss a few of the scenarios.

Job relocations:

This is the most common reason for renting. If you are in a position that requires you to relocate to different parts of the country every few years, owning your own home may not be the best answer for you. There are two sides of this coin. On one side, you will not have the enormous cost associated with purchasing a home (closing costs) and when you are continually repurchasing homes you never get the opportunity to generate equity. In other words, when you get to the age of retirement you will still need to generate enough income to carry a mortgage. Generally speaking, renting carries a smaller ticket than a mortgage payment.

On the other side of the coin, even if you relocate every few years, you will still be able to receive a tax break on the interest you pay on your home mortgage.

We would recommend examining each side of the coin. Our suggestion would be to purchase a home (even though you know that you will be relocating in a few years) and seek a home that is slightly below "market value". This can be either from a "good bargain" or a home in need of a good paint job, etc. Try to generate a profit from the sale of the home to offset the closing costs associated with the next home you will purchase.

What To Look For In A “Cosmetically Challenged” Home

Many consumers and builders purchase foreclosures and “fixer uppers” with the intentions of resale for a profit. There is nothing wrong with the purchase of one of these homes; however, you need to thoroughly investigate the level of repairs that were completed. Unfortunately, many will cosmetically repair a home and leave the “major” damage covered up.

Two items to investigate when purchasing a recently remodeled home is: 1) How long the prior owner lived at the residence, if less than 6 months, ask why so short of a duration. 2) If major repairs were performed, search the county records to see if a permit was issued. This will ensure that all work was performed to proper building codes.

When you are seeking a pre-owned home there are numerous areas to investigate such as:

- Plumbing
- Heating and cooling systems
- Hazardous materials such as lead and asbestos
- Condition of the roof
- Termites

Seek professional council:

First and foremost, seek the advice of a professional home inspector. The older the home, the more valid the reasons are for the inspection. They are paid a fee to thoroughly investigate the entire home. A few of the more major items they will explore would be:

- Age and condition of the roof
- Age and condition of the major appliances (stove, furnace, hot water heater, plumbing system, a/c system, well and septic systems, electrical system, etc.).
- Look for evidence of termite damage
- Possible evidence of radon and lead
- Indications of water in the basement
- Low drainage areas in your yard

Their job is to pick apart every imperfection that they come across through the entire home and property boundaries. There is also an implied warranty associated with an inspector. If they certify that the furnace is in working condition and it isn't, they are responsible to make the necessary repairs.

Don't rely on the seller disclosure statement for all of the home's imperfections. They may leave off a particular item or not even know that the issue exists.

Remodel Vs. Relocate

This is one of those issues that you will need to step outside of the box of conventional wisdom.

One of the major issues surrounding a person's inability to sustain themselves at the age of retirement does not revolve around the ability to generate income. In fact, generally speaking most of you can honestly say you make more income now than 10 years ago. The problem surrounds around our ability to "spend the funds we earn"!

By continually re-purchasing homes at a rate of one every five to seven years, the cycle of mortgage payments never ends. In other words: You will be required to pay your largest expense well into retirement years. It is a fact that most of you will earn **considerably** less income during your retirement years than you do today. If you are carrying the same debt load with less income-you will eventually end up in the negative.

How do we end this cycle:

In order to end this cycle there needs to be a little forethought into the purchasing of your next home. Obviously you cannot predict the future, however, you can make an educated analysis into what the next few years will bring. For instance: A simple conversation into the discussion of children: "How many?" This will determine how many bedrooms to seek when purchasing your next home. A simple question posed to your employer: "I know you can not answer for sure, but do you foresee a relocation to another facility in your future?" This will determine the potential location of your next home or possibly the need to hold off temporarily on purchasing your home until a more definitive plan is in place.

How does this tie into "Remodel or Relocate":

If you can, purchase the correct home for today and your future. You will be able to expand into your home as needed. For example: When your kids seem to have their clutter throughout the home, this would be the right time to explore the options of finishing the basement or possibly adding an additional room.

Unlike continually relocating, when you remodel you continue to paydown your mortgage. This will eventually create a position of eliminating this expense.

A quick note: When seeking to purchase a home, try to find one in an area where the surrounding homes are larger than the one you are purchasing. This is an important factor to keep in mind when seeking a home. Try to find the "diamond in the rough" in the development. When it comes time to add on or improve your home, make sure the development can carry the improvements so you can get your capitol investment out of the project. Too often this is not the case. This investigation will take some time, but we promise you it's worth the aggravation.

Proper Home Inspections

There are numerous expenses related to purchasing a home. There are also numerous avenues to cost cut in order to assist you in the purchase. The home inspection is **not** an area that you want to cost cut.

Should you hire a professional?

In a word. Yes. A professional home inspection will detail any and all areas and systems through the home. The general public would not know where to begin in thoroughly evaluating the home. Also, with a professional home inspection there is an implied warranty. If the inspecting company fails to pick up on a fault in the home, there (in many cases) will be recourse to the inspecting company.

Split the cost:

A thorough home inspection will also protect the seller. Many buyers will split the cost with the seller. Remember, a thorough home inspection can cost in excess of \$400.00.

When to perform the home inspection:

The proper time to evaluate the home would be after you make your initial offer and the contract is signed. This contract should have an inspection contingency.

Where do you find a good home inspector?

Your real estate agent generally has a few good inspection companies that they use on a regular basis. Upon the narrowing down of 2 or 3 possible inspecting companies, ask them if they are a member of NAHI (National Association of Home Inspectors). This will ensure that they comply with national trade association standards. Note: A home inspector does not necessarily need to be licensed. Literally, anyone can claim to perform professional inspections.

Home Inspection Checklist

If you are insistent upon performing your own home inspection there are certain important areas you must inspect. Let's discuss a synopsis of what the average inspector will evaluate:

Moisture:

- Check for dampness in the basement/crawl space (walls or floor).
- Check for footprints or mud pattern on the basement/crawl space floor.
- Check for signs of mold (white, black or green) on the basement/crawl space walls.
- Make sure that the ground slopes away from the home to ensure proper drainage and a dry basement.

Foundation:

- Check for cracks in the foundation (excluding hairline cracks that always occur).
- Check for cracks that are wider at the top than the bottom.

Roof:

- Check for pieces of shingles lying on the ground.
- Check for buckled or missing shingles.
- Look for water damage in the attic ceiling.

Exterior:

- Check for flaking paint (indication of moisture behind the walls or poor sanding).
- Check for clogged or unsecured gutters.

Plumbing:

- Check for leaky plumbing.
- Check for leaks under the cabinets (around sinks).
- How old is the hot water heater.
- Check the hot water tank for a safety pressure valve.

Wiring:

- Check for sparking outlets or switches.
- Do all outlets/lights operate properly.

Heating:

- Check for burned gas fumes.
- Check for a yellow flame (indicates a problem with the furnace).
- Check for a gas smell around the furnace.
- Check for leaks around the plumbing (if there is hot water baseboard).

Fireplace:

- Check for a separation between the fireplace and the exterior wall.
- Check for cracks in the terra-cotta lining.

Termites:

- Have a thorough termite inspection: Check for visible signs of wood damage.

There are also environmental hazards that are inspected from a professional inspector such as: radon, asbestos, lead paint, lead joints in piping as well as proper safety issues such as smoke detectors etc.

To end this chapter we *strongly* suggest a professional home inspector to thoroughly inspect the entire property. Not only will there be an implied warranty, but there will also be the piece of mind of knowing that all systems are functioning properly and safely. Remember, it only takes one small issue that was not addressed to cost you thousands of hard earned dollars.

How To Purchase In A Safe Location

Years ago there was no need to investigate crime statistics. Most felt that the further away you moved from highly congested city environments would reduce your chances of coming in contact with crime. However, in recent years the crime has moved into the suburbs. There has been an increase in muggings, theft, vandalism and personal crimes. How is a prospective homeowner to know where to relocate? There are a few issues you need to investigate prior to relocation:

What is the crime statistics on the proposed surrounding area?

Contact your local law enforcement agency and seek the data on the surrounding area. You will want to ask about:

- Vandalism
- Theft
- Personal crimes (such as robbery and assault)
- Violent crimes

Another step in seeking the crime stats would be to drive around the neighborhood and look for additional security measures such as:

- Bars on the windows
- Inordinate amounts of security systems
- Ask the neighbors about recent crimes

Not only will the initial investigative procedures help to ensure the safety of your family, but also enhance your ability to resell your home at a later date.

How to Seek A High Quality School District

Even if you do not have school aged children, there are numerous reasons to seek a community with a highly rated school district. Such as:

- Re-sale ability of your home
- Reduce the risk of depreciation value
- Better school districts generally bring a better caliber of people

How to determine the caliber of the district:

The first step will be to seek the “state ranking” report. This will enable you to evaluate the SAT scores, comparison between other schools in the state with a ranking system, amount of children who attend college etc. This will give you a good indication of the quality of education the students will receive.

Another step should be to visit the school. Look for a clean environment. Also, ask an administrator of the growth projection and future development plans. Again this will enable you to see how many students are enrolling into the school.

Be advised that the more popular the school, the more students that will be trying to enter. Investigate into the possibilities of “bussing” to another school due to overcrowding.

Another issue to investigate would be contact the local authorities and seek the records of school related violence and crime rates. This will again give you a good indication of the children who attend the district.

Be Wary Of Non-Consumer Debt Expenses

This may sound like a play on words so we will explain. Too often when you are getting pre-qualified for a home mortgage, you give the mortgage banker your consumer debt. This would entail such items as:

- Auto payments
- Student loans
- Credit card payments
- Extended credit programs (generally used for larger purchases)

This data will determine your income/debt ratio and enable you to determine what you're able to afford on a monthly basis.

There is an unseen portion of your financial picture:

You accrue additional expenses that do not factor into the equation of how much home you can purchase. In fact, you will probably laugh when your broker tells you how much you could supposedly afford on paper. Let's go through a few of the more common unforeseen expenses that many of us incur:

- Private schooling
- Cable television
- Dining out
- Cellular phone usage
- Entertainment and/or vacation budgets
- Groceries

We personally recommend thoroughly examining your budget and calculating these into your budget. You will be amazed how those considered to have a minimal debt load when you are being pre-qualified, however, when you factor in all of your additional expenses, it could change your entire financial picture.

The 3 Stages Of Applying For A Mortgage

Applying for a mortgage is a multi-phase sometimes-complicated process. As with most issues it becomes much easier to digest if they are broken down into stages. We will briefly discuss the phases and how to get started down the path of owning your home.

Step I:

This is the gathering data phase. You will need to evaluate which type of mortgage you are desiring. There are numerous types of mortgage programs available ranging from terms, closing costs needed, varying interest rate programs etc.

Upon deciding on a specific type of loan program, you will need to evaluate how much home you can afford. Beware that the analytical calculations needed to decipher your range of monthly payments does not take into account unforeseen expenses such as: private schooling, entertainment expenses, luxuries such as cable television, cellular phones etc. These seemingly little expenses add up quickly and could easily make the difference of affording your mortgage payments or struggling to meet your payments.

Step II:

Throughout the entire process you will need to seek out a “good” mortgage banker. American Home Loans has years of experience in dealing with consumers of your similar financial structure. They will assist you in shopping different lenders and the specific programs that may appeal to you.

Step III:

The third step will entail finalizing the process for submittal to the mortgage lender.

Carefully attending to each detail of purchasing a home will eliminate the pain many consumers feel for years after the initial purchase is made.

Remember for most people this is a 30-year commitment; make sure that the initial decisions you make will accommodate you for years to come.

Fixed vs. Adjustable Interest Rates?

There has been a lot of discussion over the years as to which mortgage program is the “better deal”. Let’s discuss this issue in greater detail:

Variable Interest Rate Mortgage Programs:

A variable rate program will enable you to start your mortgage payments with a lesser interest rate; generally your first year. As the term progresses for the next two years your interest rate will also progress generally in the vicinity of 1 interest point. When entering the third year your mortgage rate will stabilize for the duration of the loan term.

How will this benefit me?

The main benefit of a variable interest rate program is the ability to increase the total sale price of the home. This is possible due to having a lesser interest payment for the first two years; you will have more available income to qualify for the home.

The disadvantage is that generally you will have a slightly higher interest rate than a conventional term. Also keep in mind that the initial mortgage payment will escalate for the next few years. Unless there are extenuating circumstances involved such as a guaranteed increase in revenue or decrease in expenses, this can be a risky type of loan program.

Fixed loan programs:

This is the more conventional type of loan program available. Your mortgage payment will not increase over the term of the loan.

Benefits of a fixed loan program:

The main benefit of this type of program over a variable interest rate program would be the consistency of the mortgage payment. Although there are advantages to adjustable rate programs, generally speaking your best “deal” will be with a conventional, fixed term program. Again, we reiterate the word “generally”. Upon investigation you will come across wonderful “non-conventional” loan programs that offer competitive rates and minimal closing costs.

Monitor The Market

When seeking to lock in your home mortgage rate seek the council of a professional mortgage banker at American Home Loans. They will be able to monitor the “market trends” of which way the interest rates may be moving. Do not be fooled: “No one can be sure with any certainty which way the market will head”. When locking in a mortgage rate it is always a gamble. However, a professional broker will be able to forecast the inherent trends of the economy and make an educated guesstimate of which way the rates will move.

This is a volatile economy and there are numerous variables that are affecting the interest rates. Professional council will allow you to analytically approach the decision of when to “lock” in your interest rate.

Exercise Caution With A.R.M's

With rising interest rates and the threat of increased inflation costs, affording a 30-year fixed term mortgage payment has become increasingly more difficult. To escape the struggles, many have turned to A.R.M's (adjustable rate mortgages). This allows you to purchase your home at a significantly lower interest rate.

Interest rates may be on the rise...

These types of programs tend to be the more difficult mortgages to understand and may become downright financially crippling depending upon the direction of interest rates. There are many factors that go into determining the direction of interest rates, from inflation measures, to "market indexes".

What does that mean to me?

The hike in interest rates will be in direct proportion to your monthly payment. There have been many who have played the A.R.M. interest rate game and have lost everything. Most go into this program with the philosophy: "I will just re-finance when the rates decrease". However, when you factor in the costs associated with refinancing your home, generally it is less expensive to start with a fixed term.

How Much Home Can You Afford

This may possibly be the most valuable chapter you will read. We will discuss the amount of mortgage you will qualify for, as well as the amount of a mortgage you can afford. Believe it or not, these may be two different numerical values. For instance, let's say you have little "consumer debt" such as car payments, student loans, credit card payments etc., but when it comes to expenses you are on the high side. If an understanding of the difference is not taken into account you could easily purchase more home than your financial picture will allow. Take the time to evaluate your family's financial buying power and make an educated decision of exactly "how much home you really can afford".

Buy with your head not your emotions...

It is important to understand what exactly your "needs" vs. "wants" are in a home. For example, let's say you don't have any children at this point, but you plan on having two children in the future. When you plan on having children makes a difference in what type of home you need now. If you plan on having children within 4 years, than you would need a larger house from the start. If you are planning on waiting 5-6 years then you may want to buy a smaller home to start and then sell it and buy a larger home in the future. This is just one example of how planning ahead can save you thousands of dollars. Also, having a definitive game plan will eliminate some of the stress of searching for the perfect home in your specific budget perimeters. The beginning stages of planning will also reduce the chance of getting lured into a more expensive up-sell situation from your real-estate broker.

Determining Your Needs In the Future...

Statistically speaking, the average homeowner moves every 5-7 years. This can create a large financial strain when considering continual closing costs, moving expenses, potential repairs on the home you are selling and purchasing and the list goes on and on. Not to mention **never** getting to a point of paying off your mortgage! Excluding the obvious job relocations as a reason to change addresses, a large majority of homeowners move simply because they are looking for a change.

Filling out the "Needs Analysis" Worksheet:

Now that you have a conscious knowledge of what you can afford it is time to complete a worksheet. A personal suggestion would be to present it to your Realtor so that he/she can use their abundant resources to come up with possible homes that would suit your needs. Also with a layout in hand you will be less likely to venture into a home that has a lot of unneeded frills that may cause a financial strain in the future.

Be Cautious Of Extended Buying Programs:

There are numerous types of programs available to assist you in increasing your buying power. These programs are great in allowing you to purchase more home. Be aware of the long-term consequences of using these programs. To paraphrase: These programs are designed to allow a buyer to purchase more home than they are “qualified” to purchase under standard terms. Do you see any problem with this concept?

When Are These Programs Useful...

Generally, extended buying programs are useful only when there are guaranteed changes in your family’s circumstances. Such as an expected increase in your revenue such as a salary increase or additional parties working towards the payment of your expenses. Another reason for these types of programs would be a decrease in your consumer debt or living expenses. Perhaps you only have 12 months or so left on the term of a car payment or student loan.

Where these programs will get you into trouble will be when you are seeking to increase your purchase power over the above what you qualify for without a justifiable financial change in your future.

Think Long Term...

The term of your loan will most likely be anywhere from 15-30 years. When determining your family’s needs also take into financial account your general savings plan as well as your retirement plan. Too many of us get caught up in the excitement of purchasing our home and never consider the financial ramifications of over extending our budget. The long term affect of stretching your budget for that “dream” home is additional “part-time” jobs, lack of finances for vacation or leisure time, marital strain and the list goes on and on. **Use your head when purchasing your next home, not your emotions.** If you keep the long-term picture in focus you will steer clear of financial stains in the future. The purchase of a home is generally the largest investment one will make. If you proceed down that road with caution and seek all the necessary information, your investment will not cause financial strain in the future.

Buying What you Need... Now & In the Future

Now that you have determined your buying power, let's get into some key concepts of what your family's needs are today and in the future. With a little foresight into your near future you can possibly steer away from the pitfall many of us fall into which is moving every 5 –7 years.

You can justify this with many reasons:

- You have a larger family than 7 years ago.
- You are looking for a little more property.
- This home was just considered a starter home and you didn't plan to live here more than a few years before moving up in the world.
- You need a bit more space in the home.
- You need to move a bit closer to my office.
- It would be a nice change of scenery.
- You would like an in-ground pool and you don't have room where you live now.
- You would like to move into an area that is closer to the shopping malls.

These are all valid reasons to want to purchase a different home. With a little foresight into the future, many of these thoughts could have been discovered and allocated into the "needs assessment" of the home you purchased. We will explore the challenge of purchasing a home, which will have all of the requirements you need now and in the future. Lets face it, if you cannot afford ALL of what you are seeking, possibly a simple location change of where you are seeking to move will allow for a larger home with a smaller price tag. Between land costs and taxes there can be an enormous swing in price just by moving a few miles away from the city.

Why Not Move Every 5-7 Years?

For many of you the concept of moving from home to home may be normal. Granted there are a few "unforeseeable" reasons why someone would need to move on a more frequent basis such as: job relocations, changing of a tax structure where you currently live, deterioration of your current neighborhood and the list goes on and on. Most, however, relocate for reasons that could have been addressed in the planning stages of their current home and saved thousands of dollars in closing costs and starting over with little or no equity in your residence.

Lets face it...The days of poor financial planning and the equity in your home saving you at the time of retirement are long gone. Homes are not appreciating as fast as in the years past.

You are **far** better off purchasing a home that will fit your needs now and in the future. This is the only way to achieve a home that will someday be yours and not the bank's. Lets look at this for a minute: If you move every 5-7 years: Your mortgage will be in the high 90%. In other words 90 cents of every dollar you spend on your mortgage payment will go towards the interest and 10% will go towards the principle. This is one of the main reasons that people reaching retirement simply cannot stop generating income besides social security.

Common Mispurchases In Home Buying:

Let's examine a little closer what we mean by mispurchasing. This is a personal evaluation. No family operates entirely the same. You will need to sit down with your spouse (or other parties) involved in the purchase and go over your specific perimeters.

Amount Of Bedrooms:

This is a common error that consumers make when purchasing a home. Without a little insight into your future plans, you could possibly purchase too little or too many bedrooms. We cannot tell you how many homes that there are only 2 adults living in the home and there are 4 bedrooms. They always seem to get filled with something. Perhaps a second office, guest rooms, sewing room or even some have a "junk" room for Christmas gifts etc. With a little planning into the future you could have purchased a smaller home and saved \$10,000 to \$30,00 off of your mortgage principle. On the other side, many are selling their home of 4 years due to the birth of a child. Again, if a little planning was done prior to the purchase of that home they could have saved thousands of dollars in settlement costs and the aggravation of moving twice.

Location:

Another reason many purchase homes is due to location to their employment. There are many unforeseen location issues such as relocation to another part of the country, change in position that may require you to travel to another office or corporate downsizing which may have you hunting for another job altogether. Excluding the above-mentioned issues, there are numerous others that just would like to be closer to their office. Again, with a little planning of exactly how much travel time is acceptable, you can eliminate the hassles of moving twice.

Purchase a map of the local area that you are seeking to relocate to and determine a 30-minute radius of the surrounding area (or whatever time restraints that may be acceptable for you). This will give you a sense of how far you can travel to look for a home, when the Realtor speaks of a home that is not in an acceptable location you can eliminate the stress and wasted time going to look at the home.

Another suggestion would be if you suspect job relocation may be in the near future you might want to rent for a year or two. Even factoring in the mortgage interest

tax deduction, the costs associated with selling and purchasing a home will not offset the tax deduction. After you are more secure in the location needed, purchase your home.

Change Of Scenery...

There are many home purchases due to just needing a change in the surrounding environment. Many are moving from the city to the country for a bit of fresh air. There is nothing wrong with this reason. In fact it could save you a fortune in the long run. Between city taxes and the cost of property in the country carrying a less expensive price tag you could end up saving thousands of dollars on mortgage payments. Not to mention the crime rate drops significantly when you exit the city limits. With the above mentioned statement we may sound like hypocrites, but what we are saying is plan ahead to incorporate what environment you will be seeking prior to asking a real estate broker to show you what's available.

Starter Homes:

There are two sides to this issue. On one hand, you are generally far better off to purchase that first home as soon as your finances warrant the expense. You will start building equity and receive the mortgage interest tax deduction. Unfortunately you will probably not have a lot of purchasing power. This is where "smart purchasing" can come into play. If during the planning into your future, prior to the purchase of your home, you discover you will need a 4-bedroom home, you could purchase a smaller "starter" home and plan to move in 5 years. This will warrant a large cash outlay due to 2 sets of closing costs etc. or by just moving several miles away from the city will dramatically increase your purchasing power and eliminate that need to re-locate twice.

Stringent By-Laws:

A common reason for moving is the inability to "grow" your home to meet your ever-changing family's requirements. In numerous developments there are common laws that regulate what you can do to your home. These laws can be anything from not allowing an in-ground pool to what size utility shed you must have and if any. We have even seen these laws go as far as determining your shutter color to the type of fence you can have. If in your planning stages you determine that you want a post and rail fence or a deck off the dining room, you better check what the development will allow prior to looking for a home that is for sale. A good rule of thumb with developments in general: If you plan to make a lot of changes to your home, you are probably better off staying away from these types of developments (or deed restrictions).

Take the time to examine your family's needs and requirements now and for the future. This planning stage could save you thousands of dollars in the future and eliminate the numerous hassles commonly associated with the selling and/or buying a home.

Quick Pre-Qualification For a Mortgage Payment

This simple exercise will quickly and simply allow you to determine how much mortgage payment you can afford. This will only give you a close proximity of what your payments should be.

Total gross income of your household:	\$ _____
Consumer debt: _____ (subtract)	\$ _____
Consumer debt: _____ (subtract)	\$ _____
Consumer debt: _____ (subtract)	\$ _____
Consumer debt _____ (subtract)	\$ _____
Total income (less debt load):	\$ _____
Multiply by .33 (for an 80% loan)	X \$ _____
Multiply by .28 (for an 90% loan)	X \$ _____
Less insurance & taxes (divided by 12)	\$ _____
Maximum monthly mortgage payment	\$ _____

There are ways to increase the amount of home you can afford without getting into "creative financing" programs. Lets discuss a few:

- Increase your revenue (part time jobs, revenue from investment properties).
- Reduce your debt load (pay off a credit card or another debt).
- Find another property with a lower tax burden.

A good rule of thumb is to stay in the perimeters that have been set for your financial picture. There are numerous avenues to assist you in increasing your buying power, however, if you overextend yourself there could be serious ramifications in the future.

Exactly How Much Home Will I Be Able To Purchase

Now that we've determined how much your approximate mortgage payment will be; lets take the equation one step further and determine the maximum sale price that you can afford.

Find your maximum monthly payment on the left. Locate the current average) interest rate across the top. Where the two figures meet is the approximate maximum price you can afford. For higher monthly payments, add payments and mortgage amounts together.

Monthly Payment	Interest Rates			
	6%	7%	8%	9%
300	55,000	50,000	46,000	43,000
400	74,000	67,000	61,000	56,000
500	92,000	83,000	76,000	65,000
600	110,000	100,000	91,000	84,000
700	129,000	117,000	107,000	98,000
800	147,000	134,000	122,000	112,000
900	166,000	150,000	137,000	126,000
1000	184,000	167,000	153,000	140,000

This chart assumes a fixed rate, 30-year mortgage, 20 percent down payment and taxes/insurance of 1 ¾ percent annually.

Benefits of Pre-qualifying For A Mortgage

The pre-qualifying for a home mortgage could be the most important step. There are numerous benefits to going the extra mile to pre-qualify:

- You will know exactly how much home you will be able to afford.
- Determine how much cash will be needed at the time of settlement.
- Explore the loan programs that are available to you.
- Seller will know that you are a “qualified” buyer.
- Realtor will tend to make more time for a pre-qualified buyer.

Generally the rule of thumb would be to become pre-qualified prior to house hunting. You will have a better feel of what your top end price of a home should be.

What are the necessary steps to becoming “pre-qualified”?

You will need to make arrangements with a mortgage banker at American Home Loans to have a consultation with them. There are a few documents they will need you to provide such as:

- 3 months of bank statements.
- 3 months of 401K type statements.
- 6 weeks of pay stubs.
- The prior 3 years of W-2’s.
- A comprehensive list of your debts, including their balances and minimum monthly payments and payoff dates.

A mortgage banker at American Home Loans will run your credit report and discuss any “gray” areas with you. At this point you will be able to discuss financing options and evaluate which program will best suit your family’s needs.

You and your Realtor will most likely receive a pre-qualification letter to provide to sellers of the home you wish to acquire. This letter solidifies that the funds are available and that you can “qualify” for the mortgage.

What Are The Benefits Of Pre-approving For A Home Mortgage?

A large percentage of real estate agents will ask you to “pre-approve” for a mortgage. Before we discuss the benefits of pre-approval for a mortgage it is important to explain what this term means. When you are pre-approved, you have had your entire financial picture examined by a professional mortgage banker and you will be given a document stating that you will be able to purchase a particular home. However, this does not guarantee that there will be no snags or issues that the mortgage lender may pick up. It essentially lets the seller and all parties know that you are indeed serious about purchasing a home and where your financial boundaries lay.

Onto the benefits:

The main benefit would be when you are seeking to purchase a home. The seller will not only see an intent to purchase their home, but also a document stating that you are “qualified” to not only purchase the home but afford the monthly payments. Generally speaking, this assures the seller of minimal risk agreeing to sell the home to you.

Another benefit would be to a mortgage banker and real estate agent. You will find them much more helpful when they know you are not just another tire-kicker.

Does this mean you are locked into a particular mortgage program?

No. Becoming pre-approved has nothing to do with the actual mortgage program you are selecting. Pre-approval simply states that you meet the financial requirements to be approved on the mortgage.

If you are interested in seeking pre-approval, contact a mortgage banker at American Home Loans and they will assist you in the process.

Where to Shop For Competitive Mortgage Programs

A logical progression from which types of loans programs offer competitive advantages should be where to obtain these programs. There are numerous sources; lets go over a few of the more popular avenues:

- Banks
- Credit unions
- Government agencies (FHA, VA, Farmers Home Admin.)
- Internet banking services
- Private Lenders
- Mortgage Bankers (self funding agencies)
- Mortgage banker at American Home Loans (retailers for lenders)

The Premier Institute for Financial Freedom has a “Mortgage Affiliate” that offers some of the most competitive programs in the country. Call American Home Loans at 1-877-895-8541.

This is a shortened list of the options available. Check your local phone book for additional options as to where to obtain financing.

Additional Creative Financing Programs

There are numerous additional financing programs that are commonly utilized throughout the industry. Each program offers its own set of benefits to accommodate a specific financial obstacle or to enhance a particular buyer's portfolio. Let's discuss a few of the more popular programs available:

Convertible Mortgages:

Many adjustable rate mortgage programs have a "conversion clause". This allows the program to be converted to a fixed term loan at a set period. This period may vary from 3 to 7 years in the future. These are wonderful programs when the interest rate is a flux. However, a point to consider is to read the fine print. Make sure that the fixed rate will be the lowest rate available at the time of conversion.

Short-term fixed loans:

This program is designed for the interest rate savvy investors. There is some risk involved when gambling with any program that will alter your interest rate in the future. Remember: Your interest rate will directly affect your monthly payment. This idea behind a short-term fixed program is that the entire term of the loan is shortened to a 3,5,7,10 or 15 year term. The shorter the term-the lower the interest rate. The actual payments are amortized over a 30-year term. In other words: Your monthly payment on a 3 year term would be the current interest rate, amortized over a 30 year term. Not the loan balance, divided by 3 years.

At the end of the term, you will have the option to:

- Pay the loan off in full (and most likely receive a considerable discount).
- Refinance clause that will allow you to re-finance the loan balance over a 30-year terms.

CAUTION: Make sure that the loan offers the refinance clause. If your home doesn't sell as expected or you don't have the refinance clause, you could end up in foreclosure.

Discount/Prepayment Mortgages:

The market has introduced a program that offers a discount on the interest rate; points or both, provided you do not payoff your mortgage balance for a set period.

Reverse Equity Mortgages:

This program is designed for senior citizens. The mortgage lender will allow you to live in your "paid-off" home and get a monthly dividend. The amount you receive is

added to a mortgage. You are able to stay in the home as long as you live. Upon death, the lender receives the home and has the option to resell.

While we have issues with this type of loan program, there are still some cases that this type of program would fit, but keep in mind there are also many disadvantages to this type of program. Given the additional options that are available, you are far better to borrow against the equity in your home to consolidate your debt load or simply sell the home and live off the equity. Consult a financial planner that specializes in retirement programs for personal options.

Graduated Payment Loan:

This type of program allows the consumer to pay a lesser amount in the beginning of the loan term when you are least able to pay. Then, as the term progresses your payments will go up.

There are numerous issues with this type of program:

- In the beginning you are paying less interest than the payment would require. This results in an increase in your principle.
- Your payment will eventually increase. If a salary increase is not a guarantee, this could be a risky venture.

Personally, if you need this type of program you probably should consider seeking a less expensive home or possibly postpone the transaction until you are in a better financial situation.

15-Year Mortgages:

This is popular loan program. This program offers a fully amortized 15-year loan term. The main benefit is considerably less interest paid over the entire term of the loan. You would think that a 50% reduction in the term would mean that you would need to pay double payments. This is simply untrue. Your monthly payments are only about 15%-20% greater than a traditional 30-year term.

A point to consider:

The 15-year program is an excellent way to considerably reduce your amount of interest paid, however, there are risks associated with this program. You will have larger payments throughout the entire term of the loan. Another way to achieve this outcome would be to simply add another 15%-20% to each additional mortgage payment over the course of your 30-year term. You will achieve the same affect, cutting roughly half of the term. There are traditionally no pre-payment penalties associated with mortgage terms; therefore, this concept will work with most loans.

These are just a few of the more common types of programs in the market. We strongly suggest seeking the council of a professional mortgage banker at American Home Loans as to which program is the most beneficial to your financial picture.

How to Choose the Correct Loan Program To Fit Your Family's Needs

Let's discuss what to look for in seeking the "perfect" mortgage loan for your family. There are numerous programs that sound good until you start looking at the particulars. A general rule of thumb is that if it sounds too good to be true, there is probably a price tag associated with the benefit. Let's discuss a few of the issues you want to be concerned about when shopping for a mortgage loan:

- **Interest rates:** This is one of the more obvious ones. Shop around for the best rates. A deduction of 1 point in interest rates will save you thousands in mortgage payments over the term of your loan.
- **Term:** The term for a standard mortgage is anywhere from 15 to 30 years. Many consumers will stretch the mortgage term out to 30 years in order to maximize the purchasing power.
- **Closing costs:** Numerous programs will allow you to finance part or all of your closing costs. This is a great program for consumers who lack the liquid capital commonly associated with a traditional loan program.
- **Points:** Each point equals 1% of the loan amount and is payable at the time of settlement. This could save you thousands of dollars in closing costs. Do not always assume the best way to go is a program without points.
- **Qualifying perimeters:** Many programs have specific qualifying addenda. These could range from income caps, total purchase caps, even location of the home to be purchased.

You will need to discuss your specific personal and financial issues with a mortgage banker at American Home Loans to determine which program will conform to your family's requirements.

In the search for the perfect mortgage loan for your family, we have only scratched the surface on the types of programs available. This book is directed towards the purchasing process and avoidance of pitfalls that many consumers fall into while purchasing their home, rather than a menu of hundreds of programs in alphabetic order. We will attempt to put you on the right track and mindset and put you in the right direction to obtain the program that is right for your family.

Ask The Right Questions?

Your decision on which program to choose will be increasingly easier as your investigation probes deeper into each program. Let's discuss a few of the more obvious questions you should be asking:

- What fees are associated with this particular program?
- What benefits can you expect by going with this program?
- How does this program compare to a conventional loan?
- What are the time restraints on going with this program? (Many programs have a quick turn around time from the time of submission of the paperwork to when you are cleared for settlement).
- Are there points attached to this loan?
- Are there specific requirements to this program such as location of the property or income caps etc?

These questions will get you on the right track of how to compare each program with others. As you compile your data, your choice will become clearer as to which program to choose.

A closing question should be “Do you know of any additional programs that may fit my family’s requirements?” Remember they only get paid when they establish a program that fits your needs and “sign you up”. It is in their best interest to explore as many options for you as possible.

Make sure you thoroughly explain your family’s history (both personal and financial) to a mortgage banker at American Home Loans. They may have a program that they know of that is tailor made to fit your family’s requirements. Keep your opinion, as well as your mind open. The more data you gather, the better decision you will make.

GREAT-Low or No Money Down Programs

We will discuss a few of the more popular programs available. We strongly suggest you explore other avenues to seek the program that best suits your family's needs. Check other sources such as the Internet or your Realtor for additional programs. These programs can change or be discontinued at any given time. Perhaps the money allotted from the government for a particular program has been used. You cannot assume any program is as it was 6 months prior.

There are numerous programs available for families that can afford the monthly payments but lack the down payment commonly associated with purchasing a home.

What Types of Low Money Down Programs Are Available...

2 to 1 Buydowns: This program has a variable interest rate system. The first year of your mortgage your rate is “generally” a point lower. This allows you to purchase more home than you would generally qualify for in a conventional loan program. The 2nd year of your loan, the interest rate will climb up a point or so. The 3rd year of your mortgage your rate will climb up another point or so and stay at that rate for the duration of the loan. To recap, these types of programs are useful for increasing your purchase power, but are financially risky. You should be able to justify your reasons for needing more money than your bank is willing to lend you under standard qualifying terms.

Utilize Private Mortgage Insurance: If you are “cash-poor”, but can afford the monthly payments, Private Mortgage Insurance will allow you to pay as little as 5% to 10% down to cover your closing costs. Most conventional programs require at least a 20% down payment and closing costs. These programs have nominal fees associated with them, but it may help you to get into your new home. Also, there are benefits of the mortgage interest tax deduction. This will help to offset the additional expenses of the P.M.I.

No Or Low Down-Payment VA Loans: If you are an eligible veteran you can qualify for a no or low down-payment mortgage. The interest rate is generally slightly lower than the market rate, which will lower your monthly payments. This is a popular program due to the minimal amount of red tape commonly associated with purchasing a home and these programs are guaranteed by the VA.

Guaranteed Rural Housing Program: Another program available to those seeking refuge from the large costs associated with purchasing a home would be the Guaranteed Rural Housing Program. This program primarily focuses on the development of “rural” counties.

- Benefits to the G.R.H.P.:** There are numerous benefits to this program such as:
- Ability to purchase a home with minimal closing costs.

- Ability to waive P.M.I. (saving you thousands over the term of your mortgage).
- Move into an area generally associated with less crime and pollution.
- Ability to purchase more home and land for your money.

Disadvantages to the G.R.H.P.: Generally speaking there are few disadvantages to the utilization of this program:

- Slightly higher interest rates.
- More stringent home inspections (similar to FHA)
- The fees tend to be slightly higher for the use of this program.

Given the benefits of this program (especially the elimination of P.M.I.) this is a wonderful program for first time home buyers.

Assumable Mortgages: You can save on monthly payments as well as closing costs by taking over someone else's mortgage. If the going interest rate is at 11% and the assumable rate would be 8%, this could save you hundreds of dollars per month on your mortgage payments. You may want to check with your realtor to see if the particular home in question would be a good investment.

FHA Loans: The Federal Housing Administration and Department of Housing and Urban Development also insures home loans. Since FHA is guaranteeing the loan payback, you can purchase a home with as little as 3% down of the first \$25,000 of the appraised value of a home and 5% of the amount over \$25,000. These programs generally have a slightly lower interest rate associated with them and have less stringent qualifications for approval. There are drawbacks such as how much mortgage principle they will allow you to borrow. Neither the VA nor FHA actually make the loans, they simply "back" the funds through another lender.

0% Down Mortgage Loans: With the constant threat of rising interest rates, a large percentages of lenders are offering no down payment mortgage programs to initiate business. These type of programs enable consumers to finance 100% of the purchase price. In some cases you are able to finance 103% of the loan to value ratio. The initial pre-requisite would be that you need a credit score of 700 or above to qualify. This program is catered to young professionals who make their payments on time, but lack the initial capital to purchase a home.

How the program works: There are just about as many variables to this type of program as a traditional mortgage program. You can choose from adjustable rate mortgage or fixed rate programs. There are many options that can help to cater the program to your family's needs.

The disadvantages to 0% down loans: Due to the lack of equity in the property; if economic trends lower the home's value and the home is foreclosed on, the mortgage company could lose money on the investment. With this in mind there tends to be a

slightly higher interest rate associated with this type of program. Also due to the lack of equity in the property, there tends to be a higher P.M.I. to cover for the risks involved in granting these types of loans.

Make sure you have stable income prior to seeking this type of program. Due to not having equity in the property you could owe additional funds at the settlement table if you wanted to sell your home.

Overall, we see that these types of programs are beneficial. It enables those with decent credit the opportunity to gain the benefits of home ownership without draining your savings account down to zero. As with all major purchases you need to exercise caution to ensure the capability of repayment.

Farmer Mac Programs: There has been a recently adopted program from the government to assist homebuyers in the purchase of large parcels of property. Traditionally a home with a large amount of land would be a challenge to approve for a mortgage, without large sums of cash for closing costs.

Problems lenders associate with large parcels of land: Typically when an appraiser does their evaluation to appraise the value of the property in question they do a market comparison of the homes in the vicinity to determine the homes value. Appraisers have a difficult time performing this task in the country where there is no standard as to what a home is worth. You may have 20 homes in the area, each with a drastically different home value. Also, homeowners in the country tend to stay in their homes for decades. This makes it even more difficult to determine the value of a home due to now recent home sales for price comparisons.

Another problem that the lenders have would be the dedication of the land use. If you are planning to do any farming or raising animals, the mortgage company may use that part of income as part of your total financial equation. However, the gray area comes as to how much of the property is used for farming. The property may not be deemed as residential, but rather as “mixed use”. In most cases a mixed-use category will bring higher interest rates and closing costs.

Another concern for the lender would be that rural property can have a tendency to loose it’s value quicker than a suburban home. The lender is taking the risk that the home will be worth less than what is owed on it. This generally makes it more difficult for the potential homeowner to purchase this property without an enormous amount of down money.

There’s hope!!!: Let’s get into the benefits of how Farmer Mac can assist you in purchasing a large parcel of land. With the recently adopted guidelines for these types of properties, less stringent guidelines allow for lesser down payments and lower interest costs. Farmer Mac eliminates the risks to the lender, which in return reduces the lender’s fee. The summary: With the intervention of Farmer Mac, low cost/large parcels of land

are now available.

Shopping For A Loan: You should shop as hard for your mortgage as you did for your home. Because of increased competition to provide mortgages, you can save money by doing a little comparison-shopping.

Take the time to compare all of the programs you may be considering. Remember this is a 15 to 30 year investment. The extra effort in investigating into which program is right for your family could save you thousands of dollars.

Federal Housing Administration Loans

The government has created a mortgage program designed specifically for those who don't quite fit into the mold for a conventional loan. This program is called the Federal Housing Administration or FHA. This is by far the most popular "non-conventional" mortgage program available. In many cases it enables those who would never qualify for home ownership the ability to purchase a piece of the American Dream. Their underwriting guidelines are written with commonsense and designed for the average consumer in mind.

One of the reasons they are so popular is due to the fact that they are fully insured in case of default. Essentially they assume all of the risk when you purchase a home using this program. There is a cost associated to the buyer for them assuming the risk. That cost is paid through the utilization of principle mortgage insurance or P.M.I. This cost can add up to the tune of several hundred dollars per year. However, when you evaluate the cost difference between paying rent or shelling out for P.M.I. the benefits of home ownership far outweighs the disadvantages.

Minimal closing costs:

Another benefit of using FHA loan programs is that your closing costs associated with purchasing a home are minimal compared to a conventional loan program. Generally your out of pocket expenses at the time of settlement will be somewhere in the 3% range.

There are limits on how much you can borrow from FHA. Check with a mortgage banker at American Home Loans to explore the loan limits for your part of the country.

Types of FHA loans:

Traditional fixed term loans: This type of program offers the benefits of a conventional loan program. Your payment will stay fixed at one amount for the entire term of the loan.

Adjustable Rate Mortgages or A.R.M.: These programs offer the same benefits of low closing costs. The difference is your first year's interest rate will generally be 2% below current fixed rate programs. Upon completing the first year of payments, your interest rate will increase. This increase will continue until you have reached your final interest rate. That rate will not fluctuate throughout the duration of the loan. The main benefit of an FHA adjustable rate mortgage would be that the payment cannot go up or down more than 1% each year and the total increase cannot exceed 5% for the total term of the loan.

More leverage with FHA loans: Additionally, government employees such as firefighters, police officers and teachers will be allowed to participate in FHA.

These adjustments in the programs will allow for cheaper and easier borrowing of funds to many consumers. Many of the non-government backed programs are following in the same footsteps in order to gain a competitive advantage. As with most products/services: “When competition gets tougher, products/services get better.”

Another issue to keep in mind when considering FHA would be the home inspection. Their inspections tend to be more “thorough” than a traditional home inspection. Some sellers may have a pre-conceived notion of problems or hassles if they accept an offer with FHA financing.

Keep in mind, if you are only planning to reside in your home for a few years, you must wait 5 years after selling your home to apply for another FHA type loan.

Overall, FHA type loans are an excellent, low out of pocket costs mortgage that will enable the majority of consumers to purchase a home.

Veterans Administration Programs

The Veterans Administration or VA type loans are another wonderful, low cost mortgage program that is backed by the government. This program is specifically designed for veterans of our armed services.

The guidelines for VA type loans are much more friendly than conventional loan programs. However, there are additional qualifications to be able to utilize this program. Check with a mortgage banker at American Home Loans to discuss your eligibility.

True no money down mortgages: If you are seeking a true, no out of pocket settlement for the purchase of your home, this could be the best program to fit your needs. VA offers a zero down; zero closing costs as well as zero prepaid at the time of settlement. This equates to you only needing a pen to sign documents at the time of settlement. VA allows the seller to pay for all closing costs.

Allow time for the application process: Unlike FHA programs that can be turned around in 2 weeks (if rushed), VA programs tend to be a bit slower. The average approval rate is somewhere between 3 and 6 weeks.

Q & A:

What if you have not been in the service for a long duration? VA has adopted a program for vets with minimal time in the service. You won't qualify for the zero down program; however, your closing costs will be less than a traditional FHA program. The pre-requisite would be a minimum of 90 days of active duty.

Can a reservist qualify for a VA type loan? Yes. The minimum time needed as a reservist would be 6 years to receive the zero down program. However, there are programs available for those with less than 6 years of service.

Types of VA loans:

Traditional fixed term loans: This type of program offers the benefits of a conventional loan program. Your payment will stay fixed at one amount for the entire term of the loan.

Adjustable Rate Mortgages or A.R.M.: These programs offer the same benefits of low closing costs. The difference is your first year's interest rate will generally be 2% below current fixed rate programs. Upon completing the first year of payment your interest rate will increase. This increase will continue until you have reached your final interest rate. That rate will not fluctuate throughout the duration of the loan. The main benefit of a VA adjustable rate mortgage would be that the payment cannot go up or down more than 1% each year and the total increase cannot exceed 5% for the total term of the loan.

Conventional Financing

The most traditional route of home mortgages is deemed conventional financing. The majority of conventional loans are underwritten by Fannie Mae or Freddie Mac, however, they are generally sold to a variety of investors.

Who or What is Fannie Mae and Freddie Mac?

Fannie Mae is a federally chartered corporation that purchases conventional as well as government backed real estate loans. Fannie Mae is the largest mortgage investing company in the world.

Freddie Mac is a private corporation who is authorized by federal law to provide secondary mortgage market support for conventional real estate loans.

With a conventional type of mortgage loan there is no standard as to what is a common down payment or terms that are available. This is due to lenders having the latitude to make up their own guidelines. There are a few requirements that are common with lenders:

- You must have an excellent credit history.
- The cash investment must be from your own funds (not a gift).
- Your stated income must be enough to qualify and meet monthly payment requirements.

There are many types of conventional loan programs available. Let's look at a few of the more popular programs:

Flex mortgages:

A flex mortgage signifies that the mortgage terms will change in the future. You must fully understand the terms of the mortgage to eliminate financial issues in the future. For example a 5/1 flex would signify that there would be a 5-year fixed term followed up with a 1 year ARM after the initial 5-year period. The benefit of this type of program is the initial interest rate is substantially lower than a fixed term. The disadvantages are simple. You cannot predict how the market will turn for the next 5-year period. If rates swing in the wrong direction you could be heading for troubled waters.

Balloon mortgages:

If you are one who has a tendency to be transferred a lot with your job, this type of program may be correctly suited for you. The loan is amortized for a 30 year period (to calculate the monthly payment), however, the loan balance would be rendered due at the end of a reduced term, such as five or seven years. The interest rate break you will

receive for selecting this type of program can be as much as one full percent.

This may sound absurd to require the balance of the mortgage due in five to seven years, but keep in mind that this type of program is designed for those who are expecting to relocate in a short period of time.

Is there a safety net with balloon mortgages?

Yes, some investors have a guaranteed renewal at the end of the five or seven years with current interest rates available at the time. Most lenders will guarantee a new loan provided you make your payments on time. You always have the option of refinancing your mortgage to eliminate the future balloon.

Biweekly mortgages:

How this program works: Instead of making monthly payments towards your mortgage, you will make biweekly payments. Since there are 52 weeks in a year that equates to 26 payments. In other words 1 extra mortgage payment each year. This extra payment each year has a significant impact on how much interest you will pay on the total term of the loan as well as reducing the actual term of the loan.

Issues to consider when utilizing the biweekly program:

This type of program tends to be a bit financially restrictive and can tend to offer a slightly higher interest rate. Not to mention the “processing fees” associated with the utilization of this program.

Let’s discuss an alternative...

You don’t need to set up an automated biweekly loan program to reap the benefits of paying 1 extra mortgage payment each year. There are two ways to achieve this outcome:

- At the end of the year simply write an additional payment to the lender. A personal suggestion would be to attach a note stating “apply this to the principle balance” although it supposedly will automatically be applied.
- Another way to do this would be to apply the same technique of writing a separate check with a note each month for 1/12 of the mortgage payment and continue this method for the entire year.

There are numerous benefits to implementing this program on a personal level rather than through a costly lender implemented program such as:

- No set up fees or monthly processing fees.
- If need be you can temporarily hold off on your additional payments to address additional financial obligations.
- Terminate this anytime at your leisure.
- Still reap the savings of the additional payments.

Invest in your mortgage...

Another way to pay off your mortgage much quicker than normal is to follow the “Linear Math-Variable Path Methodology” taught in the Invest in your Debt textbook that is available at the Premier Institute for Financial Freedom. This method allows you to pay off not only your mortgage, you can pay off all of your consumer debt as well, and you can pay it all off in 7-8 years.

Whether you proceed with this program or your own or a lender implemented program I strongly recommend you attack the balance to reduce the enormous amount of interest you will be paying for the term of the loan.

Additional Options For Government Backed Loans

There has been an upswing in home purchases in the last few years and government agencies are keeping in step with the ever-changing environment. New bills have expanded the programs currently offered through FHA type programs. Let's discuss a few of the options:

Hybrid Adjustable Rate Mortgages:

These adjustable rate mortgages offer the same benefits of traditional adjustable rate programs. However, the hybrid adjustable rate mortgage program offers initial fixed rate periods. These fixed terms can vary from three to seven years prior to adjusting to a fixed term for the duration of the loan program.

Lower down payment programs:

Recent temporary legislation allowed FHA to adopt a different series of calculations to determine the amount of closing costs needed at the time of settlement. If the legislation is passed as a permanent resolution, this less complex formula will allow for a decreased amount of cash for closing costs.

More leverage with FHA loans:

Additional government employees such as firefighters, police officers and teachers will be allowed to participate in FHA type programs, which allow for a 1% closing cost. This is a decrease from the typical 3% that is generally allowed.

These adjustments in the program will allow for cheaper and easier borrowing of funds to many consumers. Many of the non-government backed programs are following in the same footsteps in order to gain a competitive advantage. As with most products/services: "When competition gets tougher, products/services get better".

What Are Freddie Mac And Fannie Mae?

Freddie Mac and Fannie Mae are two government programs that back home mortgages. They essentially “guarantee” the loan and assure the lender of repayment in the event of a default. They were established to help homebuyers without the perfect buying scenario to purchase affordable housing.

Fannie Mae and Freddie Mac are not designed to compete with the private sector. However, there has been growing tension in the industry since the inception of A-minus programs that are not guaranteed by the government. A concern from the private sector is that these government-backed programs are skimming the cream of potential clients from their competition. The fear would be that smaller lenders would be run out of this particular market due to these government backed programs. Petitions have been filed by the private sector to the Department of Housing and Urban Development demanding a thorough investigation.

Government Seeks To Clean Up The Neighborhood

FHA is seeking to give back to the community with their “Good Neighbor Policy”. When an FHA home is foreclosed there is an attempt to sell the home for 6 months. Once that time has lapsed it will qualify to be sold back to the local government for \$1.00. The proceeds of selling the home will be put back into development of the community.

How does this program work?

The local government must apply to be into this program. When a home becomes available for the Good Neighbor Policy the local government must give specifics to FHA on their intentions of how to spend the proceeds of the sale of the home. They must benefit the community in some way. Upon selling the home, the local government must follow up with FHA to ensure that the proceeds did indeed go towards community development.

Issues Regarding Fixer-Upper's

Why do consumers purchase homes that need repairs? There are 2 basic reasons:
1.) Investments. These homes generally retail for less than their actual value. This would gain you a profit upon renovating and re-selling the home. 2.) Many will purchase a fixer-upper to gain the ability of purchasing a home in a more upscale development, that without the necessary repairs they could not afford a home in the community.

“I’ll do it myself”-theory:

The four most dangerous words when purchasing a home are “I’ll do it myself”, if you are not mechanically inclined. It is true that you can save thousands of dollars if you have the ability to eliminate the cost of outside labor. If your ideas and energy supersede your ability you could be in for an expensive lesson. You will probably end up spending 3-4 times the amount you would have paid a contractor if you lack the experience to do the project correctly.

If you are inexperienced in the general construction field, I would recommend staying away from a true fixer-upper. That would be a home that requires repairs that go beyond cosmetic. You generally will eat up the profits of a below market value purchase price if you end up hiring outside help to restore the home.

Benefits of A Final Inspection

A home inspection upon purchasing a home has become standard practice in the industry. However, a “final inspection” or commonly called “final walkthrough” is as important for several reasons:

- Ensure that there were no holes put in the walls when the seller moved out (common with the removal of pictures).
- Make sure all windows are intact.
- Check for gashes in the flooring.
- Ensure that carpet and the entire structure has only signs of normal wear and tear.
- Safe operation of all major appliances such as: water heater, furnace, a/c, stove, dishwasher, and furnace thermostat, Make sure the utilities are on.
- Check all electrical outlets and light fixtures.
- Leaky plumbing issues.
- Confirm that all entities of the sale (sheds, tractors etc) are still remaining at the premises.

This inspection is not meant as a negotiation tool or an opportunity to reconsider the entire transaction, rather as an opportunity to take a final look to ensure that the premises are as they were at the original walk-through.

This inspection should take place no later than 2 days prior to the settlement date; preferably the day prior to settlement.

What to do if a problem is found:

There are several ways to address areas of deficiency. It is important to understand that you as the buyer have the “ball in your court”. Also, that you are now only hours from the settlement of the home and any seller in his right mind will be more than willing to work with you rather than start the process over.

First you (your lawyer or real estate agent) must prepare a formal letter to state the problem and corrective action that the buyer wants to have happen. The seller has the option to refuse the repairs and terminate the contract, settle with a figure somewhere in the middle or simply correct the issue. If the buyer is not satisfied with the resolution given he may also terminate the transaction.

The 40-Year Mortgage -Friend or Foe

Many experts in the industry have deemed these days: “The day of credit”. Depending on the vehicle you can now finance a car for a seven-year term. This philosophy has now entered into the mortgage industry with the invention of the 40-year mortgage term.

Benefits of the 40-year mortgage:

The obvious main benefit would be the lowering of your mortgage payment. However, this lower payment does have a large price tag associated with its usage.

Disadvantages of the 40-year mortgage:

You will be responsible for an additional ten years of interest payments. This could add up to thousands of wasted dollars that could have been invested into mutual funds.

Our conclusions would be to steer away from extended mortgage terms that only put your family in debt for longer periods of time. To put this into perspective: You will have a mortgage payment for most of your working life.

If you have picked up on our philosophy of finance throughout this book, you will notice we believe in purchasing what you need and then concentrate on eliminating your debt load. If you need to stretch your payments over 40 years just to afford the home, you probably are seeking to purchase too much home.

Lenders Now Offer Additional Programs To Borrowers Without Perfect Credit

Traditionally there have only been two categories of borrower. The qualified borrower and the non-qualified borrower. Typically there was no middle of the road category for those with “not so” good credit. Recently many lenders have adopted an additional category called “A-minus” mortgages. This program has become quite popular due to the availability of funds without losing your shirt. These programs are not for consumers with bad credit. They are for those that just miss the mark and had nowhere to turn.

Let’s discuss a few of the scenarios that may incorporate the usage of these type of programs:

A payment history with blemishes:

A good example of who would benefit from “A-minus” loan programs would be someone who encountered some type of financial emergency or strain such as:

- Medical emergency.
- Laid off from their job.
- Unexpected expense.

These situations may have caused the prospective borrower to send a few payments in late to their creditor or even perhaps a charge off or two may appear on their credit report. These type of issues would typically disqualify you for a home mortgage or placed you into a category where you would not be able to afford the payments. With this new program these consumers would be able to purchase a home without losing their shirt.

Are there disadvantages to A-minus loan programs?

You will pay a slightly higher interest rate than a standard conventional term rate. However, compared to the programs of the yesteryear this is a much better deal. Also, A-minus loan programs tend to be more restrictive than a conventional type of loan program. Given the benefits associated with these type of programs there is no comparison.

Rebuilding Credit May Be More Difficult Than in the Past

If your credit report is lacking “good payment history”, a good way to repair the problem is to simply apply for a credit card and make monthly payments. Many major credit card companies are refusing to disclose balance and available credit line information for the fear of competition seeking out potential candidates for their services.

The problem occurs when a mortgage company or any other company is seeking to evaluate your credit worthiness. Without there being an updated record your credit score will not read as good as it should. This could cause you to be denied credit or pay a higher interest rate.

Mortgage companies are forced to report your entire credit history to the credit reporting agencies. Future legislation will most likely incorporate this philosophy into credit card companies as well.

Programs To Avoid

We have discussed what to look for...now let's explore what to stay away from in seeking the "perfect" home mortgage for your family's needs. The general rule of thumb is: "If it sounds too good to be true...look for the catch". In many cases there is a price tag associated with that great deal. It is imperative that you examine the entire loan program from the term to the fees associated with using their money.

Extended terms:

Watch out for loan programs that offer "extended terms" to lower your monthly payment. What they should advertise is: "let us help you get into that big beautiful home that you know is out of your budget. Because we are such nice people we are going to lower your monthly payment and it is only going to cost you a measly additional 10 years of interest." If you cannot afford that home without financing it for the majority of your working life-you cannot afford it. You are far better off searching for a less expensive location or lesser property taxes to increase the amount of home you can borrow rather than extending the term of your loan.

Shortened terms:

Many consumers are opting for a reduced term for their home mortgage. This is a wonderful program. If you can reduce the amount of years you will carry the mortgage this will save you thousands of dollars in interest charges. The danger is you will be carrying a much higher mortgage payment for the next 15 to 20 years in comparison to a traditional 30-year term. This extra payment will invariably cut into your savings plan as well as your retirement program. When selecting a mortgage term keep in mind those foreseen and unexpected expenses.

Loan approval:

Each program has its own timeline. Many government-backed programs take longer to get your mortgage commitment due to several middlemen and more extensive paperwork trails.

You will need to get an idea of roughly how long it will take for mortgage commitment and we emphasize "rough" idea. If you know you need to be out of your current living quarters by the end of the month and there is no way you could possibly get a mortgage commitment in that time frame, other steps will need to be taken to either find a faster program or arrange temporary living arrangements.

Cost Cutting Measures For Your Closing Costs

The amount of funds associated with closing costs tends to surprise most buyers. The closing costs generally are the reason why many consumers do not feel they can absorb the “up-front” fees associated with home buying.

Let’s start with the basics:

First and foremost, let’s start with the “Good Faith Estimate”. This document is required by law and will show you an approximate out of pocket cost for purchasing the home. If you cannot afford the fees then you probably should seek a different type of loan program or put the entire process on hold until you have additional funds available.

Let’s look at a typical set of closing costs. Note: You will probably not have to pay all of these, but you may need to come up with the additional funds for most of these:

- **Insurance:** Policy of fire insurance, homeowners insurance and home warranty package.
- **Taxes:** Prorations, tax service contract.
- **Mortgage:** Assumption fee, document prep. fee, loan fees, setup fees, service fees, filing fees, collection setup fees.
- **Attorney:** Document prep. fees, service rendering fees
- **Recording:** Deed, affidavit of value, encumbrance, assumption.
- **Escrow:** Prep. fees, escrow fees, interest proration, tax proration, insurance proration.
- **Title Insurance:** Prep. fees, ALTA fees.

The first thing that should be obvious is that there are a lot of fees. Personally, to reword the above statement: “There are a lot of padded areas for profit to the mortgage lender.”

Let’s look at the few that are negotiable:

There are always two sides to each coin. On one side: You can refuse to pay a fee. However, the lender can refuse to grant the funds until the fee is paid. Let’s take a closer look:

Insurance: The lender will demand that you carry a minimum fire insurance as well as hazard policy. However, many lenders do not require a homeowner’s policy. By eliminating this type of program you will save money. Be advised that there will be a lack of protection.

Taxes: There is not much that you can do with this category. You know the old saying about death and taxes...there’s no way around this one.

Document Prep. Fee: This is almost a given in today's mortgage market. Be prepared to pay this fee.

Points: Lenders charge points for a variety of reasons. Generally it is to offset a lower than market interest rate. Each lender has it's own idea of what is a fair amount to charge for points.

Loan fees: This up-front charge is in addition to points.

Account setup fee: This fee is to cover the payback account, payment book or monthly invoices.

Attorney/Settlement fees: You will have to pay a fee for the lender's attorney/settlement company (not yours) to check over the documents.

Recording fees: The escrow company generally charges \$7.00 to \$12.00 per/document.

Title insurance: The lender will require this insurance.

Seller assist: Another way to reduce your out of pocket expenses would be to have the seller pay part or all of your closing costs. This is common throughout the mortgage industry. This negotiation must be made as part of the original sales agreement. An easy way to get seller participation is to offer a better price for the home in exchange for additional funds to cover closing costs.

This program is an excellent avenue when the buyer is "cash poor" but credit worthy to purchase a home. A point to remember, this is an age-old program and many sellers are expecting to assist the buyer in some facet or another.

A point to remember is to negotiate these issues prior to signing any contracts.

Strategies For Gathering The Closing Cost Money

One of the largest obstacles to overcome when purchasing a home is generating the liquid funds necessary for the closing costs. Even though we are exploring numerous avenues of minimal cash programs there are always cash outlays. We will discuss a few ideas to gather additional cash that are quick and simple.

Minimize your investment programs:

A quick method of generating large amounts of cash would be to “temporarily” hold any contributions into investment/retirement programs. The average consumer contributes 5% to 10% of their gross income towards their investment programs. This can add up to several hundred dollars every month. Upon meeting the required cash outlay needed, simply reinstate your contribution amount and return towards saving for your future.

Many investment programs make it easy to withdraw the necessary funds needed to purchase a home. However, you will need to thoroughly investigate the penalties associated with making a cash withdrawal. You will need to explore the benefits of home ownership and the interest tax deduction vs. the penalties of “tapping” your investment account. You may find it is better to have a little patience and save the necessary funds the hard way.

Reduce spending:

Look at your monthly budget and research each column thoroughly. Your goal is to reduce the column-spending amount by 10%. Most expenses can be reduced if given enough thought. For instance: Your energy bill. By applying a few energy conscious tips such as shutting off lights when you are not in the room and raising the a/c temperature 2 or 3 degrees etc. will get you on your way. Remember if your monthly bill is \$100.00 you only need to find \$10.00 of savings **minimum**.

How about your insurance policies: Believe it or not this is generally an easy one to lower. Shop around for better rates. Shop your policies. Go with the company who offers you the “best deal”: A 10 minute call to your agent saying that if he didn’t find a way to lower your premium, you were going to leave. How about that? He may find you a less expensive policy or some discounts that may have been overlooked like a “special” category for excellent drivers that may drop your rates considerably. Remember, you will get nowhere if you do not ask.

Another way to lower your premiums is to increase your deductibles. This may fly in the face of conventional wisdom, but think for a minute. Your premium is higher due to a small deduction. Think back over the last 4 years. Were you in a situation where you needed the policy to cover an incident? If so, was the claim your fault? For most of you the answer is no. This will lower your premium considerably and it is wise

advice.

Dining out: Again, this is an easy one. Instead of Red Lobster try Wendy's or better yet how about firing up the ole' barbecue grill. It's healthier as well as cheaper than fast food.

Entertainment: Instead of going to the movies, try alternating with a video rental. When you figure in the soda and snacks and possible baby-sitting services, the costs don't even come close.

Groceries: We are sure a lot of you think your going to say cut coupons. With today's technology you can go far beyond conventional coupons. There are "free" clubs such as Price Line.com that offer you a significant discount for using their services. If you are computer literate it will pay for you to investigate the savings for yourself.

Another method for cost cutting would be to buy the "store" brand item instead of name brand. In many cases it is the same product without the fancy label. Besides, what are you consuming the product or the label. The larger the family, the more dramatic the savings.

Part-time income:

If you are having trouble coming up with cost cutting measures the other avenue is to increase your revenue. A few hours each week will allow you to start to increase the amount you are saving toward closing costs and other miscellaneous expenses.

Yard Sales:

A great way to gather quick funds is to hold the ever-popular "yard sale". Not only do you eliminate the amount of unused junk that you accumulate over the years, but also this is a great way to accelerate your liquid cash. Many people go to yard sales looking for "almost new" baby clothes and furniture, tools, small kitchen appliances and anything else you can think of.

Move in with in-laws temporarily:

Not that this if for everyone, but a quick way to gather a lot of money would be to temporarily eliminate your largest expense.

We have only discussed a few of the cost cutting measures you could approach. There are many more listed in the Spend Smart® textbook available from the Premier Institute for Financial Freedom. We **strongly** recommend applying this philosophy to each of your budget categories on an annual basis. We assure you the money you will save will far outweigh the time invested.

Talk to a mortgage banker at American Home Loans and find out how much you will need for closing costs. Once you have your desired amount, create a budget and

work towards achieving your goal. Increase the amount of revenue via yard sales and additional income sources as well as pinching each penny until it **screams** and you will be amazed how fast you can gather the necessary funds.

It all comes down to how bad do you want this home. The desire for home ownership will be in direct proportion to the legwork associated with raising the funds necessary.

Fact/Fiction of Homeowners Insurance

Homeowners insurance is a necessary entity of purchasing a home (unless you have an inordinate amount of equity in the property). However, for the average consumer, you will be required to carry this policy. Although a minimal cost when compared to the overall costs associated with purchasing a home. If you factor the \$30.00 to \$50.00 per month fee commonly associated with homeowners insurance this amount will quickly add up over the years.

What does homeowners insurance provide:

Homeowners insurance provides protection of the “structure” of your home, contents inside your home as well as protection if you damage someone else’s property.

How do I know if I have enough insurance:

It is important to properly insure your home and family’s requirements. However, most of you tend to fall into the advice of many insurance agents and over-insure your property. Your first step in evaluating your insurance requirements is to determine your properties “replacement” cost. This is the cost associated with rebuilding your home in the event of a disaster. This cost can vary from the “market” value of your home.

The 2nd step will be to create a detailed inventory of your personal belongings and their replacement cost. It is advisable to keep as many records pertaining to the purchasing of major assets for proof of cost as well as a video tape of the inside of your home. The more data you can provide your claims adjuster in the event of a disaster the easier your claim will be to resolve.

The general consensus in the industry is to insure 80-100% of the value of your home as well as the contents therein.

Recommended type of policy:

There are 2 general types of homeowners insurance policies. Actual value policies: In the event of a disaster, this policy will reimburse you the “actual” value of an article. The problem with this type of program is most articles carry a large depreciation factor. For instance: Your 3-year-old television or computer is worth a fraction of what you paid for it.

Guaranteed Replacement Policy: This is our personal recommendation. In the event of a disaster you will be reimbursed the “replacement” cost of a particular item.

Save...save...save...

Our philosophy of pinching each penny until it screams is quite effective in this

are. We personally recommend raising your deductible to \$1,000.00. This will save you approximately 15% on your policy. Note: Many homeowners go 20-30 years without ever needing to file a claim. If you calculate that savings over a 30-year term it quickly adds up.

Another cost cutting measure would be to speak to your current auto insurance company. Many companies offer multiple policy discounts.

Ask your agent about all of the different types of discounts such as: non smokers, security systems etc. As we have discussed throughout this book, you can make a drastic improvement on your financial outlook by just addressing each item of your budget and seeking ways to lower expenses.

What is Private Mortgage Insurance

In your travels you are going to hear the term P.M.I. This stands for Private Mortgage Insurance. This program is offered through a private company whose sole purpose is to “insure” the lender that in the event of default of the loan, the insurance company agrees to reimburse the lender. This program was created to assist those who didn’t have the funds to cover the traditional 20% down. With the introduction of P.M.I. you can put as little as 5% down.

How costly is P.M.I.?

This benefit does not come without a price tag. An additional ¼ to ½ percent in interest will be added to your mortgage payment. Almost any bank or lending institution can arrange a loan with P.M.I.

How to eliminate P.M.I.

Once you have paid off a minimum of 20% of the loan principle you can have the P.M.I. dropped. This will save you thousands of dollars over the term of your mortgage.

Are there programs that don’t charge P.M.I.?

Yes. Check with a mortgage banker at American Home Loans to determine which programs are available to you that don’t require P.M.I.

How Do I Get Rid of P.M.I.

In prior chapters we discussed what P.M.I. stood for and the enormous costs associated with this program. Excluding FHA loans, the new law requires lenders to cancel P.M.I. when the owner's equity exceeds twenty two percent. However, the law doesn't take into consideration how the equity of the property increases in direct relationship to the increase of the property value. In other words, you may essentially be at 22% equity in relationship to your home's value, but may not be able to drop the P.M.I. The way to get around this issue would be to refinance your home. Your new mortgage will be based upon the new appraised value. You must consider the underlying costs associated with refinancing and compare them to the savings associated with dropping your P.M.I. Your finance costs are not just the up-front costs, but also take into consideration the current interest rate. Carefully analyze the equation to determine if the benefits and eliminating your P.M.I. payments outweigh the expenditures of needing to meet your lenders requirements.

Escrow vs. Non-Escrow Accounts

The question often is asked: “Is it better to utilize an escrow account to pay property taxes or simply pay for them on your own?” This is not a question that can be standardized for everyone. This depends primarily on your ability to save money and budget for larger expenses. There are 2 sides to this question:

Benefits of an escrow account:

The main benefit of utilizing an escrow account for your property would be the guarantee of available funds when you need them. With each mortgage payment you are accruing 1/12 of your total property taxes and reserving them in a separate account. When they come due, they are automatically paid via your mortgage company.

Benefits of individually controlling the funds for your property taxes:

The main benefit of being personally responsible for your property taxes would be the opportunity to invest the revenue in a high interest bearing account. As I mentioned earlier, this takes discipline. If a large unforeseen expense occurs, you need to make sure not to touch the funds for the taxes.

The less you put down on the purchase of your home the less likely you will be able to eliminate the use of the escrow account.

Homeowners have mixed feelings on this matter. The escrow account will force you to budget your taxes and allow you to contribute to this expense on a monthly basis; however, you are tying up your funds for an entire year where they could have been invested.

What Are Points?

Points are a percentage of the mortgage paid to the lender to compensate for a lower interest rate or for the amount of work associated with making the loan. A point generally equals 1% of the loan value. For example: a \$100,000.00 loan that has 1 point, the point would cost \$1,000.00. These points must be paid at the time of settlement.

Unfortunately, this is a way for the lender to capture additional profit for the making of a loan. It looks better to charge an interest rate of 8% with 2 points, rather than to just charge a higher interest rate without any points.

Is it better to pay points and get a lower interest rate?

There is not “general rule of thumb”. A qualified mortgage banker at American Home Loans will be able to determine the best path for your specific financial needs.

Choosing the Right Realtor

Buyer Beware!!! Not only will the right selection reduce the stress commonly associated with purchasing a home, but also there is a trust factor. Let's face it, if you knew all that you needed to purchase your home you wouldn't need a professional. There could be numerous times where your Realtor can help you to see issues from a different perspective.

Personality: This is a **big** one. You want to try to match your personality with the one of your Realtor. If you are a laid back type of person, a "pushy" Realtor will do nothing more than make you rush through the walk-through of a potential purchase. On the other hand, a person with excellent people skills knows when to offer a quick suggestion or comment which will allow you to view a particular issue regarding the home in a different light.

Time restraints: This also can create a dilemma. We all have our issues regarding the availability of "free-time" which we will allocate towards the viewing of potential properties. Your schedules need to be compatible.

Coordination: It is quite helpful to have your Realtor assist you in coordinating the home inspections as well as necessary data to your mortgage banker. That way you are out of the middle when it comes to the necessary details regarding the actual property.

Knowledgeable: There may be many issues such as on site septic and wells that without the helpful information from your Realtor you would not be able to determine whether that particular property was what you are looking for. You should feel as if you could ask your Realtor anything and he or she would either know the answer or turn you in the right direction.

Integrity: This obviously is a big issue. Remember your Realtor only gets paid when you purchase a home. It is in their best financial interest for you to buy the most expensive home you can afford. Realtor with integrity will focus only on their clients' need and restrictions-not their personal financial outcome. A good Realtor knows to concentrate on their clients' needs and the referral work will take care of his wallet.

Benefits Of Bi-Weekly Mortgages

You cannot turn on the television, radio or read the newspaper without seeing an advertisement regarding the benefits of bi-weekly mortgage payments. There are numerous benefits to this program such as:

- Saving thousands of dollars in interest payments.
- Cutting years off of your 30-year mortgage.
- No additional appraisal needed.
- No credit checks.
- No points.
- No refinancing needed.
- No...No...No...Just benefits, huh!!!!

Essentially, these advertisements are speaking the truth. However, it is not until you read the “fine” print that you notice there is an initial setup fee and with each payment that is automatically deducted from your checking account, there is a nominal fee also. There is your reason for so many companies wanting to “help” you out in cutting down your mortgage payments.

How does this save you money?

Essentially, what is happening is since there are 52 weeks in a year, a biweekly mortgage program allows for 26 “half-payments” per year. Or to reword this: You are making 13 monthly payments per year. By applying the extra mortgage payment directly to your principle balance, your loan amortizes quicker, resulting in fewer payments.

You can do this for free.

Essentially, if you make one additional payment at the end of the year and ask them to apply this to the “principle balance” you will perform the same task. A point to remember when making this principle payment is to always mark on the check and write a little note stating “This is to be applied to the principle balance only” and document each “overpayment” that you make.

This will perform the same task as the bi-weekly mortgage without all the fees.

Paying Off Your Mortgage

The next several chapters will offer a non-conventional prospective to handling your finances. The information was derived from numerous years of research as well as personal/successful application of these principles.

If someone who just purchased their new home 3 weeks ago told you they would be totally debt free in less than 9 years you would probably offer them the phone number for the local psychiatrist. Our Debt Educational Products at the Premier Institute for Financial Freedom offer living proof of that exact scenario.

The principles we are about to discuss for paying off your mortgage are just as successful for paying off all of your consumer debt. Just simply apply the program to each of your debts until you are “debt free”.

The process of paying off your mortgage is actually a simple 2-step process. The problem is that it takes a little discipline and goal orientation. That is the area we, as a society, lack. If you can stay focused on the program you have set forth on, your future savings will be greatly increased.

Call for a payoff:

The first step in the process is to find out exactly what the interest and principle balance is on your mortgage.

Save 10% of your earnings:

You will need to take a hard look at your budget. As we discussed in the earlier chapters there are numerous ways to cut expenses. Your goal will be to capture a minimum of 10% of your gross earnings. If 10% is not a realistic number, find a percentage that you find comfortable. Just as a side note: most financial advisors say we should strive to save 10%. As a nation we are closer to 2%. Not good... Anyway, upon coming up with a hardened number that you can work with, place that revenue in a separate account from each paycheck.

Starting paying off the debt:

Each time you make a payment towards that debt, make an additional payment towards the paying down of the principle. As time progresses you will notice that the balance continues to creep down as the additional payment continue.

Document everything:

- When you are paying a “principle only” payment there are a few tips we can offer you to ensure there are no errors on the banks part:

- Write a separate check to the Mortgage Company and state in the memo column “APPLY TO THE PRINCIPLE ONLY”. Many financial experts deem it not necessary to write a separate check, but it makes for clean accounting.
- Document every principle only payment on a separate ledger. I would keep track of each payment date; check number, amount of the check and the balance owed. This way there is no discrepancy with the lending institution and yourself.
- From time to time check with your lending institution to confirm the balance left on the account. This again will eliminate any potential errors.

Save thousands:

Don't lose track of the larger picture. By following this program **you should save thousands of dollars you would have normally wasted on interest payments.** The amount of interest saved is directly equated to how many years are left on the term of your loan as well as the amount you are dedicating towards the paying down of the principle.

The best bang for your buck:

The most expedient way to pay off your mortgage is to start with your other consumer debts such as your car payments, student loans, credit cards etc. This information is found in the Invest in Your Debt textbook available through the Premier Institute for Financial Freedom.

There is also a condition created by following Invest in Your Debt of less financial vulnerability. Let's say your financial picture changes: you're laid off or you incur an unexpected expense. With your largest expense paid off you will have additional funds available to cover “the unexpected” or advance your retirement savings.

The Truth About The Mortgage Interest Tax Deduction

We are going to share our philosophy on the mortgage interest tax deduction. **WARNING:** Open your mind. This is what we call “non-conventional” wisdom. We will look at the benefits of paying off your mortgage vs. the “only” tax deduction available to the average American.

Most financial advisor will agree that you are always better to keep your mortgage as a tax shelter. The mere mention of paying off your mortgage will send your accountant into a frenzy begging you not to do it. Let’s explore a bit further into this issue and you decide for yourself.

You’ve heard what conventional wisdom says, now we will tell you our philosophy: The deduction states that for every dollar you spend in mortgage interest – you will receive roughly 28 cents back. In other words: For every dollar you invest-you will receive 28 cents back. Give us all of your liquid assets and we will in return give you 28 cents on the dollar. Not a very good deal.

Where we agree with conventional wisdom is that you are far better off owning your home vs. renting due to the tax deduction. Taking the option of owning your home outright vs. paying on a 30 year mortgage, you would **MUCH** rather pay it off as quickly as possible, save the thousands of dollars wasted in interest payments and take that same revenue you were wasting on mortgage payments and invest.

Why would the “experts” not recommend this method?

Under normal circumstances how many homeowners do you know who are capable of paying off their homes in an accelerated time period? The answer for most of us is none. So why would a financial planner recommend a strategy that no one would explore. With a little bit of forethought and discipline you could separate yourself from those who carry a heavy debt load.

Glossary Of Terms

Acceleration clause: A provision in a note that allows the lender (or holder of the note) to declare the entire loan balance due earlier than the stated due date if payments are in default or some other stated occurrence.

Accrued interest: The interest that has been earned from the period of time since the last payment.

Adjustable rate mortgages: Also known as A.R.M.'s. Home loans with interest rates that change periodically.

Amortization: A systematic and continuous repayment of a debt. The repayment will include the principle, interest, as well as any additional costs associated with the debt or financing. At the end of the proposed time period stated the debt is rendered "paid in full".

Annual percentage rate: Also known as A.P.R. The actual rate you pay including interest and other financing charges.

Applicant: A prospective borrower who has completed an application

Application fee: A fee that may be charged to the proposed buyer to cover processing fees of your application.

Appraisal: A written report set forth by a qualified professional deeming the approximate property value.

Appreciation: An increase in value. Such as the value of the home etc.

Appurtenance: Any structure or easement that is attached to the property such as a barn, shed or easement.

As is condition: An "as is condition" determines the approximate value of the property in its current physical condition.

Assessed value: The value a taxing authority places upon a piece of property for the purposes of calculating taxes.

Assessment: The process of placing a value on property for the purposes of taxation.

Assumability: When a home is sold, the seller may be able to transfer the loan to a new buyer. If so, the loan is considered to be assumable. This is particularly beneficial if the current interest rates have risen above the assumed interest rate.

Automatic lender: A lender who makes VA loans and who is authorized to underwrite and close loans without first checking with VA.

Balance sheet: A statement of financial condition of an individual or business organization showing assets, liabilities and net worth as of a given date. Each loan application requires a personal balance sheet.

Balloon payment: The remaining balance of a home loan that must be paid in a lump sum at a specified time period.

Bankruptcy: The financial status of an individual, firm or corporation who, through a court proceeding, is relieved of their debt load after the surrendering of all of their assets to a court appointed trustee. There are several types (or chapters) of bankruptcy depending on what the person or company is seeking to achieve.

Biweekly insurance: A mortgage agreement in which payments are made every other week instead of monthly installments.

Bonus income: Income received in addition to a monthly salary or hourly wages.

Broker: A qualified person who receives a fee for bringing together an applicant and a lender.

Building code: Local regulations that control design, construction methods and materials used in construction. These supply the minimum construction standards.

Business days: The days on which a creditor's offices are open to the public or are carrying on the majority of its business functions.

Buy-down: Loans with buy-down plans require that a certain percentage paid by the buyer or seller to reduce the interest rate over the initial portion of the loan term. Buy-down's can either be temporary or permanent.

Call provision: A clause in the mortgage that allows the lender the right to accelerate the payment of the loan debt in full on a specified date when certain conditions are met.

Capped interest rate: Used in conjunction with adjustable rate mortgages. It restricts how much the interest rate can increase or decrease during the regularly scheduled rate changes.

Cash on hand: Cash held by a borrower that is not in a bank or other institution. This is very difficult to use for closing by underwriting guidelines.

Certificate of eligibility: A document stating that a veteran is eligible to participate in the loan guarantee program.

Certificate of reasonable value: The name given to a VA appraisal

Chattel: An item of personal property.

Closing: The conclusion of a transaction including the delivery of the deed, delivery of financial documents, the signing of notes and disbursement of funds necessary to consummate the sale of a home. Title is then transferred.

Closing costs: The necessary fees associated to close the transaction. The borrower or seller may pay these fees.

Co-borrower: A second borrower holding partial custody to the title of a piece of property. The co-borrower's income, assets and debt load are combined with the primary mortgage holders for underwriting and ratio analysis purposes. This relationship is common among children and parents.

Co-insurance: An insurance policy that shares risk between the insurer and the insured. Generally used in reference to FHA lenders.

Commitment: An agreement between a lender and an applicant to loan funds.

Common areas: Land or facilities that are shared by individual owners in a residential project. A homeowners association sometimes manages this area. These areas could include streets, playgrounds, swimming pools, open area of ground, etc.

Comparables: Recently sold properties in the vicinity of the home in question that are used in the gathering of a value to a home. Property is comparable if they are approximate in size, similar amenities, condition and location.

Compliance inspection: A secondary inspection that is prepared by an inspector stating the work performed meets the terms and conditions of a prior inspection.

Conditional commitment: A promise from the FHA that it will issue mortgage insurance if the borrower meets the necessary credit conditions.

Conforming: A term used to describe a home that meets FNMA/FHLMC guidelines.

Construction loan: A mortgage made for the purpose of constructing a building. The loan is generally short term and is generally paid to the builder in installments as work is completed. Usually it is interest only financing.

Contributions: Funds donated by parties other than the buyer. These funds are to absorb the costs that are normally the responsibility of the buyer.

Conventional loan: A home loan generally made by a financial institution that is not

insured by a federal agency such as VA or FHA.

Conversion interest rate: When a borrower converts a variable interest rate to a fixed term rate.

Cosigner: A person who agrees to assume a debt obligation to reinforce the credit of the principle borrower. A cosigner only assumes personal liability; they assume no ownership in the property.

Cost approach to value: An accepted method of appraisal. The value of the property is derived by estimating the replacement cost of the improvements, deducting the estimated depreciation, then adding the value of the land as estimated by use of the market data approach.

Credit report: A report giving a person's credit history. It will detail delinquent payments, bankruptcies, foreclosures, and public records.

Deed: A legal document that conveys the title or ownership of property from the seller to the buyer.

Deed restriction: A limitation placed in the deed limiting or restricting the use of the property in question.

Deferred maintenance: Repairs or maintenance of property that should have been done but is postponed. This postponement resulted in the deterioration of the property.

Department of Housing and Urban Development (HUD): A federal department with the responsibility for implementation and administration of government housing and urban development programs. Such programs include FHA.

Department of Veteran Affairs: An independent agency of the federal government designed to administer a variety of benefit programs to veterans returning to civilian life. Formerly called the Veterans Administration.

Depreciation: The loss of value brought by age and/or physical deterioration.

Discount points: Additional charges required by a lender to buy the interest rate to a below-market rate. Each point is equal to one percent of the loan balance.

Down payment: The difference between the sale price of real estate and the loan amount.

Due-on-sale clause: A clause in a note permitting the lender to declare the entire unpaid balance immediately due and payable upon a sale or transfer of property.

Earnest money: Money paid by the buyer when an agreement of sale is reached. Also called “good faith” money.

Easement: The right or interest in a land of another, entitling the holder to a specific limited use or privilege. Such entitlements may be for power lines or railway crossings.

Eminent domain: A government action that takes private land for public use.

Equal Credit Opportunity Act (ECOA): This is a federal law that requires lenders and other creditors to make credit available without discrimination based upon color, religion, national origin, age, sex and marital status.

Equity: The difference between the fair market value of the property and the existing liens against the property.

Escrow account: Funds included in the monthly mortgage payment to accumulate the amount necessary for future payments of property taxes, insurance premiums, and other related items.

Farmers Home Administration (FMHA): A part of the U.S. Department of Agriculture that offers mortgage loans to farmers as well as non-farmers in designated rural areas.

Federal Home Loan Mortgage Corporation (Freddie Mac): A private corporation authorized by federal law to provide secondary mortgage support for conventional mortgage programs.

Federal Housing Administration (FHA): A division of the Department of Housing and Urban Development (HUD). Their main function is to insure residential real estate loans made by the lenders. FHA does not lend funds.

Federal National Mortgage Association (Fannie Mae): A federally chartered corporation that purchases conventional and government backed real estate loans. The stock of this semipublic corporation is traded in the New York Stock Exchange.

First lien: A lien against the property that has priority over all other liens.

Fixed-rate mortgage: A type of loan where the interest rate will not fluctuate through the entire term of the loan.

Foreclosure: A legal proceeding to enforce a lien by sale of the property in order to satisfy the defaulted debt secured by the property.

Gift letter: A letter certifying to the underwriter that the funds in an applicant’s account are truly a gift and need not be repaid.

Good faith estimate: A form provided by a lender that provides a breakdown of estimated closing costs.

Graduated payment mortgage (GPM): A loan that has its initial monthly payments set at an amount lower than that required for full amortization of the debt. The payments are then increased by the specified percentage each year during the graduated payment period. At the end of the period, payments equal an amount that will fully amortize that loan over the remaining term.

Gross income: The total income before any expenditures are deducted.

Growing equity mortgage: A fixed rate loan with a repayment schedule that increases by a specified percentage annually during the term of the loan. The annual payment increase is applied to the principle balance resulting in a loan that amortizes in less than 30 years depending upon the annual percentage increase.

Hazard insurance: Casualty insurance for real estate that provides coverage against fire, certain natural causes and vandalism.

Homeowners association: An organization of homeowners residing within a particular development whose major purpose is to maintain community facilities.

Income approach to value: The appraisal technique used to estimate property value by capitalizing net income. A method of measuring the value of property based upon the market income (or rent) that the property could be expected to earn.

Index: A measurement of an established interest rate used to set the periodic rate adjustments for adjustable rate mortgages. There are a wide variety of indexes used such as the one-year treasury security.

Initial interest rate: The interest rate on an adjustable rate mortgage until the first rate adjustment date.

Inspection report: A report such as a termite inspection by a licensed inspector who will indicate the condition of the property.

Installment debt: A debt that has several successive payments. For example: auto loans.

Insured loan: A loan insured by FHA or a private mortgage insurance company.

Interest: Money paid as a charge for the use of money.

Interest rate: The basic cost of borrowing money, expressed as a percentage.

Joint tendency: Joint ownership by two or more persons with right of survivorship. Each party has equal ownership.

Late charge: A required charge to the borrower for failure to pay a regular mortgage loan installment.

Liabilities: A general term referring to all debts and financial obligation.

Lien: A security claim on property until a debt is satisfied.

Liquid assets: Cash or assets that can be immediately converted to cash.

Loan approval: A determination that a lender will accept the loan. However, this is not a final decision. There may be conditions attached to the approval that must be satisfied prior to the funding of a loan.

Loan origination: The process of generating a loan, which includes solicitation, underwriting and closing of the loan.

Loan submission: A package of pertinent papers and documents regarding a specific application that will be delivered to a prospective lender for review and consideration.

Loan-to-value ratio (LTV): The percentage relationship between the amount of the mortgage loan and the appraised value of the property or sale price of the property (whichever is less).

Locked loan: Mortgage rates can fluctuate daily. Borrowers must ask the lender to lock in or guarantee the rate for a specified period of time.

Market approach to value: One of the three methods in the appraisal process. The market value estimate of a property is based upon actual prices paid in market transactions. It is a process of correlation and analysis of similar properties that have been sold recently.

Market value: The most probable price at which a property will sell in a competitive and open market.

Maturity: The termination period of a note (when the loan is paid in full)

Maximum interest rate ceiling: The highest rate of interest allowed during the term of an adjustable rate loan.

Metes the bounds: A description of the land location in which the directions and distances define the boundaries.

Minimum property standards: Basic requirements that the property must meet in order to be eligible for FHA financing.

Modification agreement: Any agreement between the lender and borrower that permanently alters any of the terms of the original mortgage or note.

Mortgage: A written instrument giving the mortgagee a lien on property as security for a loan.

Mortgage banker: a firm or individual who brings the borrower and lender together, receiving a commission if a loan results. A broker does not actually lend the funds to the borrower.

Mortgage credit certificates: A tax benefit program offered to the first-time homebuyer. The program allows for a tax credit in addition to the standard itemized tax savings.

Mortgage guarantee: Commitment to indemnify the lender in case the borrower defaults on a mortgage loan.

Mortgagee: Lender.

Mortgage insurance: Insurance (government or private) to insure a home lender against the loss caused by default.

Mortgage life insurance: A type of insurance often bought by borrowers to protect against debt.

Mortgagor: The borrower.

Negative amortization: A condition in which the principle of a loan increases over time due to payment being less than what the interest is currently due.

Net worth: The value of all assets, less total liabilities.

Note: A written promise by one party to pay a specified sum of money to a second party.

Origination fee: The fee charged by a lender to offset costs involved in processing a loan request. The fee is usually computed as a percentage of the loan amount.

Over-improvement: Excessive modifications to a property in relation to surrounding properties.

Owner occupied: An individual who owns the property and uses it as a primary

residence.

Par: Price of borrowing without a premium or discount.

Payment adjustment: For adjustable rate loans, it is an increase or decrease in the required monthly principle and interest payment according to the terms outlined in the note.

Permanent loan: The end financing that replaces the short-term interim or construction loan when the property is complete.

Personal property: Any property that does not go with the land.

PITI: The mortgage amount that includes the principle, interest, taxes and insurance.

Plot plan: A layout of improvements on a site such as landscaping or architectural modifications.

Point: An amount equal to one percent of the principle amount of a loan.

Prepaid interest: Interest paid before it is due, generally paid at the closing of the loan.

Prequalification: An informal estimate of how much financing a potential borrower might expect to obtain.

Principle: The amount of debt, exclusive of accrued interest remaining on a loan.

Private mortgage insurance: Mortgage default insurance designed to pay a lender a portion of the outstanding balance of a loan.

Promissory note: A written promise to pay a certain amount of money to a specified person.

Pro-ration of taxes: The division of property taxes to cover each party's period of ownership.

Purchase agreement: A written contract between a seller and buyer stating the agreed terms and conditions.

Qualifying: Process used to evaluate the risk of loaning a specific borrower to purchase a specified property.

Rate commitment: Locks in interest rates and points for a specified loan.

Real property: Land or anything attached to the land.

Recasting: A modification to a loan. The current balance is amortized over the remaining term of the loan.

Redlining: The illegal practice of denying real estate loans due solely to geographic areas.

Re-negotiable rate mortgage (RRM): An adjustable rate program that can be negotiated at regular intervals.

Rescission: The right of a consumer to cancel at no cost or obligation.

Rural area: A designed area characterized by less dense development, greater distances to major employment centers.

Sales concessions: Monies or other items of value paid or transferred by the seller of a property to a prospective buyer to entice a sale.

Second mortgage: A loan secured by a primary mortgage. These second mortgages are commonly utilized for home improvements and refinancing of current debt load.

Tax lien: A claim against the property for the amount due of unpaid taxes.

Title: The evidence of the right to ownership in property.

Title search: The process used to discover the most recent evidence of the current chain of ownership.

Underwriting; The analysis of the risk involved determining whether the risk is acceptable to the lender for approval.

Verification of deposit (VOD): A form that confirms the amount of deposits in specific institutions.

Yield: The effective annual amount of income that is being accrued on an investment.

Zoning: The division of a city or county by legislative regulations into areas (zones) specifically for the allowable use of real estate.