

# that's Comfortable to Live With

You've found your house, you've made an offer, but now you've got to decide how to pay for it. With all the options available today, trying to decide on a mortgage can leave you a bit baffled if you're uninformed. You'll get the best deal if you know your options—here's a guide to the basic types of mortgages available.

## Fixed-Rate Mortgages

Looking for emotional comfort in your finances? Found your dream home and see no future reason to either move or re-access your equity value for at least 10 years or more into the future? A fixed rate mortgage may be the program for you. Whether you choose fixed terms of 15, 20, 25, 30 or even 40 years, these mortgages are like a forced savings plan linked to a permanent interest-rate market insurance policy. What is the downside to these loans? They do charge a higher rate premium, and they never go down when rates drop either.

## Adjustable Rate Mortgages

ARMs, became popular in the mid 1980's because they start with an attractive, lower fixed-rate, and after an initial period, they adjust according to a specified index. They may look confusing, with the 3/1, 5/1, 7/1, 10/1 and a handful of other options, but they can be easily understood. The first number indicates how many years your interest rate is fixed; the second number indicates how often the rate adjusts after that initial period is over. For example, in a 5/1 ARM, your interest rate stays the same for the first five years, and then adjusts every year after that, up to a cap that you and your lender agree on. The obvious upside to these low-rate sweethearts? You can save a lot of money against the higher interest rates and payments you would have had with a fixed loan program, and if you save or invest these savings wisely you can get much further ahead. In many cases your savings can mean you pay less than a fixed loan for many years BEYOND the initial fixed period of the ARM loan.

The downside is that after the initial fixed interest period your interest rates can adjust to increase or decrease (within specified limits) to match a specific financial index, such as LIBOR or the Treasury Bond index. If those indexes actually go up high enough,

and stay high long enough, you can end up eventually paying more interest than if you took the premium fixed rate loans originally... unless you refinance.

## Interest-Only Mortgages

Another increasingly popular mortgage option is the interest-only mortgage. This type of loan is best for people who want more control over their finances, and have stronger budgeting and money management skills. With interest-only loans the bank does not force you to return any of your loan principal each month, giving you the discretion (and responsibility) to decide for yourself where to send your investable/savings funds. If you have not refinanced or moved by your tenth year, your loan begins requiring principal repayment at that time only until you pay it off in full over the next 20 years.

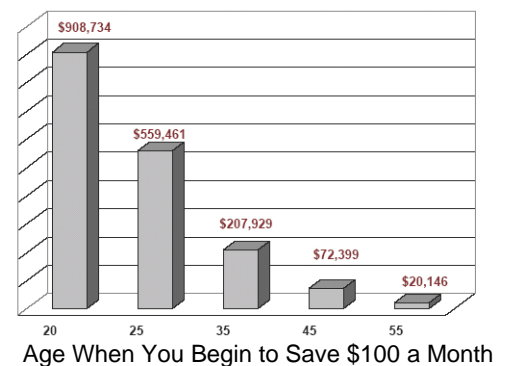
## Stated Income, Low-Doc, and No-Doc Mortgages

If you have strong credit, but you also have income and cashflow resources that you cannot document in the traditional ways (such as tax returns, W2 forms, 1099 forms, or paystubs), then there are various alternative qualification programs that may work for you. Low-Doc mortgages allow you to qualify by proving cashflow from the total of bank deposit statements over a 12 or 24 month period. Stated Income mortgages allow you to declare the actual budgetary gross cashflow you have available to you without documenting it at all (but still you must certify that this income is true and valid.) No Ratio loans allow you to qualify without declaring any income figure at all, but verifying employment. Finally, No Doc allows you to qualify without declaring employment, or income, or reserves cash at all. Each alternative program puts more and more risk on the lenders, so they charge higher interest rates, and they require higher down payments, in order to offset the risks.

## The Price of Delaying Retirement Savings

Delaying retirement savings can keep you from realizing your retirement dreams!

If \$100 a month is saved, what will the savings be worth at age 65, assuming a hypothetical 10% rate of return\*?



\* This is a hypothetical illustration only and is not indicative of any particular investment or investment performance. It does not reflect the fees and expenses associated with any particular investment, which could alter the performance shown in this hypothetical illustration if they were included.

“The eighth wonder of the world is compound interest.” — Albert Einstein



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## Sorting Out the Acronyms: *A Guide to General Mortgage Terms*



### APR (Annual Percentage Rate)

The APR is the total cost of credit to the consumer, assuming they do not sell or refinance over the entire life of the loan, calculated backwards to appear as a single interest rate that includes the one-time up front costs as though they were also part of the interest. APR cannot be accurately used to compare different loan types or different discount structures. In the U.S. lenders are required to issue APR figures in the Truth In Lending (TIL) disclosures prior to loan finalization. \*

### Conventional Loan

Any non-government loan program is a conventional loan, most of which are provided by banks, savings and loans, mortgage bankers and mortgage brokers (basically, the private sector).

### FHA (Federal Housing Administration)

An agency of the Department of Housing and Urban Development. The FHA guarantees certain loan programs for all Americans; insures loans that are made by approved lenders to qualified borrowers; and allows low income and/or low down payment loan borrowers the opportunity to purchase a home that they might not have been eligible for under conventional loan programs. This is a good program for first-time buyers and those with bruised credit, no credit or a low credit score (under 620).

### GFE (Good Faith Estimate)

Within 3 business days after application for a residential loan application, the federal government requires that a good faith estimate is issued to the borrower, outlining the hypothetical costs and charges a borrower is likely to incur in connection with the loan closing. However, the GFE is not a guarantee that the applicant will be approved for the loan or that the final amount will be the same figure; the amount (interest rate, terms, conditions) may change pending final loan approval and down payment terms.

### MIP (Mortgage Insurance Premium)

The amount that the FHA charges up front when they insure a loan under one of their programs. The FHA pays the money into a fund where the money is held until it is needed in the event of a default by a buyer.

With all the complicated terminology, acronyms and industry lingo used in the mortgage industry, even the expert linguist can sometimes end up baffled. Collected below are a few of the more common terms used in lending today. If you feel like you and your lender are speaking different languages, reading the definitions listed below can help you get on the same page. In addition, look to the bottom of the page for a visual map of how the lending process works. Most importantly, when discussing mortgages, make sure you talk to a professional that you can trust.

### PMI (Private Mortgage Insurance)

If a mortgage loan exceeds 80% of the sales price of a home, lenders usually require insurance coverage that will protect them in the event that a buyer defaults on their loan. The cost of PMI is typically charged to the borrower when the loan-to-value ratio is greater than 80%.

### Points

An upfront cash payment required by the lender as part of the charge for a loan, expressed as a percent of the loan amount; e.g. "2 points" means a charge equal to 2% of the loan balance.\*\*

### Pre-approved

A general term that means that a borrower has completed a loan application and provided their credit, income, savings and assets, plus all other required non-property information, and an underwriter has then reviewed and credit-approved the specific mortgage type and amount required.

### Prequalification

A preliminary step in the loan application process. The prequalification is a loan officer's opinion of the ability of a borrower to qualify for a particular loan amount based on non-verified borrower representations and assumptions. Pre-Qualifications are "rough expectations" which, after document verification and credit review, can be upgraded to credit Pre-Approval Certifications.

### Ratios

Ratios are used in the lending industry to determine the probability of a borrower being able to repay a loan—usually this ratio compares the borrower's fixed monthly expenses to his gross monthly income. Certain lenders have different ratio requirements; for example, the FHA requires that a monthly mortgage payment is no more than 29% of monthly gross income (before taxes) and that the total of mortgage payment and nonhousing debts is less than 41% of income.

In lending, these two figures are represented as 29/41: 29 is the Front-End (Housing) Ratio (monthly mortgage payment (principal, interest, taxes and homeowners insurance, mortgage insurance and homeowners association expenses) divided by gross monthly income before taxes); 41 is the Back-End Ratio (monthly housing expenses plus nonhousing mortgage insurance and homeowners association expenses, such as car loans and credit card debt, divided by gross monthly income before taxes).

### VA (Veterans Administration)

The department of the federal government that handles all programs associated with veterans of the U.S. military. In the mortgage industry, the agency guarantees loans that are made to veterans, thereby encouraging lenders to offer mortgages to veterans.

### Client of the Month

#### Steven & Sue Peacock

Thanks for the Leader introduction, and the metric wrench loans!

### What They Say

David is very personable and has been a pleasure to work with. He has the drive and the determination to "get to the bottom of things"; showing his work integrity and accountability to get things done right. His persistence and tenacity will definitely pay off in the long run.

—Brian

### The Latest

#### *New Team Members!*

While much of our competition are closing their shops, we've added two new members to our team since the beginning of the year.

#### **Erin Brookshire**

Admin Assistant

Erin is our front desk concierge, switchboard goddess (say "Hi Erin" when you call,) setup person and all-around keeper of all things around the office. She's learned our systems and procedures very quickly and we're GLAD she's part of the team! Oh, and she makes the BEST coffee!

#### **Mary Von Eschen**

Processor

Mary jumped right in, calmly and confidently, and began closing loans as smoothly as if she'd always been here! Mary has always been like family so we are THRILLED to have her with us!

Thanks Mary!

\* definition from Wikipedia encyclopedia

\*\* definition from [www.mtprofessor.com/glossary.htm](http://www.mtprofessor.com/glossary.htm)