The Mortgage Process

Understanding Interest Rates

The best interest rate is the lowest interest rate- True of False?

Life would be easier if the answer was "true." Lenders would only have one interest rate to talk about for each loan program. But it's not that simple. Here's the situation: lenders lend money just like other businesses sell other products. They have to cover the cost of the product, including:

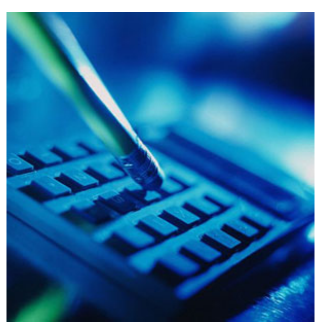
- Cost of the money lent
- Employment costs
- Overhead
- Profit

It's not as mysterious as it may seem. Lenders have a couple of different ways to earn money:

- Fees
- Points

Points can be described in two categories, depending on your local market-origination and discount. Origination points are meant to cover the cost of the originating the loan. Discount points are used to reduce the interest rate on the loan.

The more discount points you pay, the lower your interest rate will be. That's why lenders have so many pricing options to choose from. As a general guideline:



Pay points when:

- The seller is willing to pay them
- Your company will pay them (relocation packages)
- You plan on keeping the property more than about seven years
- You need the lowest interest rate for qualifying purposes

Avoid paying points when:

- You're short on cash reserves or cash to close
- You don't intend on keeping the property for more than about seven years
- You think you might refinance within the next seven years
- You need all the cash you have to pay off bills to qualify

While this is an important decision to make, you can always change your mind later on, when your loan is in process. Just let your lender know in plenty of time so they can make the appropriate changes to your application.

Applying for the Home Loan

You can apply for a loan after you have already signed a contract to purchase a home or before making an offer. Joa Realty suggests you have a pre-approved loan before you submit any offers.

Terms and concepts you should know:

- Pre-approval is a process that lets you get approved for your loan before you find a house to buy
- Rate lock is when you want the lender to guarantee the interest rate you want to be in effect when your loan closes.
- Floating means your interest rate is not locked- it's floating based on the financial markets.

When you submit your application, you will have the option to either lock- in the current interest rate and points for periods ranging from 10 days to 6 months or you may elect to float the interest rate with the market and lock-in at a later date. If you select to lock-in, the interest rate and points on your loan will be fixed for the period of the lock-in regardless of changes to interest rates in the market either up or down. If you elect to float, the interest rate on your loan will be determined by the interest rates available when you do choose to lock-in and could either be higher or lower than the interest rates available on the day you apply for your mortgage. You may also be asked to pay a credit report fee, loan application fee, and appraisal fee. The important thing to remember is that these fees may be negotiable so be sure to ask if fees can be waived or reduced.

Closing the Loan

The end of the road- funding your loan- is the satisfying conclusion to the process of getting a loan. The end of the lending process is usually called "settlement" because that's when everybody "settles up." Loan funds are either wired to an escrow account or the lender sends a cashier's check to the closing agent/ Title Company.

Most settlements take an hour or less to complete depending on the transaction. The more you understand about your closing, the better prepared you'll be for the costs of buying a home.

- **The Closing**

The closing is usually a formal meeting attended by the buyer, the seller, and the listing and selling agent. At the closing, be sure you know what you're signing and that you receive a copy of all documents involved in the closing. Hire an attorney to represent your interests in this important transaction.

- **Who's Involved**

A number of people will be involved and/ of present at your closing including your agent, closing agent, and attorney if desired.

- **Closing Costs**

Closing costs are the fees you pay for your mortgage loan, transfer of title, various inspections and related expenses. These charges vary based on the locality and the particular transaction. Some of these charges may include:

- Mortgage origination fees
- Loan Application fee
- Credit report fee
- Discount points
- Lender's attorney's fees
- Buyer's attorney's fees
- Transfer taxes
- Document preparation fees
- Land survey
- Appraisal
- Hazard insurance premium
- Title insurance premium
- Release fees
- Inspection fees
- Prepaid interest on mortgage loan
- Prepaid tax and insurance escrow account

These costs are usually paid by the buyer, but local customs vary based on market trends and contract terms. The seller generally pays the real estate agent's commission and fees.

Closing Documents
The main activity in a closing is reading and signing papers. You'll be asked to sign legal documents that record your promise to repay your loan and give the lender rights to the house if you are unable to pay.

While the settlement agent can help you understand the documents you sign, you'll certainly want your attorney and real estate agent at your side. You'll be asked to sign numerous documents and affidavits.