



My name is Albert. I'll be your guide through this area of the **Guide** – the financial information. So get something to drink, get comfortable, and let's get you qualified to

Mortgages at a Glance

Mortgages used to be simple. You made a down payment on the house of your dreams and borrowed the balance at a fixed rate of interest, promising to pay it back in regular monthly payments over a period of years.

Today you must make choices. Do you want the traditional 30-year fixed rate mortgage with its guarantees of unchanging monthly payments? Perhaps a fifteen-year loan would be better? Or would you prefer an adjustable rate mortgage with monthly payments that can rise and fall in accordance with an index reflecting economic conditions?

Brief Synopsis. Below is a table of the pros and cons of some of today's most popular mortgage loans. You will find more information on the next few pages:

TYPE	DEFINITION	ADVANTAGES	DRAWBACKS	COMMENTS
30-YEAR FIXED RATE	A long-term loan in which principal and interest are amortized over 30 years; both interest rate and amount of monthly payment remain unchanged for life of the loan.	<ul style="list-style-type: none"> • Considerable tax benefits, especially in early years. • Payments never rise, regardless of inflation. 	<ul style="list-style-type: none"> • Slow equity build-up. 	The most common mortgage in the U.S., a particularly good investment when rates are low.
15-YEAR FIXED RATE	As above but payback period is 15 years.	<ul style="list-style-type: none"> • Usually lower interest rate than 30-year. • Faster equity build-up. • Less interest paid out over life of loan. 	<ul style="list-style-type: none"> • Higher monthly payments. • Less tax-deductible interest. 	An excellent option for middle aged and older buyers.
ARM (Adjustable Rate Mortgage)	A mortgage whose rate changes over time according to terms specified by the lender, usually according to short-term Treasury Bill rates.	<ul style="list-style-type: none"> • Low initial interest rate, sometimes below market. • Payments may decrease over time. 	<ul style="list-style-type: none"> • Payments may increase over time. • Risky if rates rise significantly. 	Good option for buyers whose income will rise and/or when rates are expected to drop.
FHA/VA MORTGAGE LOANS	Gov.-insured or guaranteed mortgages that can make purchase more affordable than conventional loans.	<ul style="list-style-type: none"> • Little or no down payment required. • Marginally better rate than conventional 30-year mortgages. 	<ul style="list-style-type: none"> • Lower limits on the maximum that can be borrowed. • VA requires current or past military service. 	Good option for first time buyers with little to invest in a down payment.



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Term of Mortgage

How long your mortgage will run is another important consideration in obtaining your financing. Bear in mind that the average family stays in a given house only about 7-10 years. Chances are, you will be paying on a particular mortgage for far fewer years than the contract specifies. The shorter your mortgage, the less interest expenses you will have, and the faster your debt will diminish. The less you owe on your mortgage when you sell, the more cash you will get in your pocket. Shorter mortgages have higher monthly payments. However, the difference is not as great as you might think. A \$50,000 mortgage, for example, for a 25-year term, will have monthly payments only about \$15.00 higher than will a 30-year mortgage. A 20-year, \$50,000 mortgage will have monthly payments only about \$42.00 more than the mortgage written on a 30-year term. What is your position after 10 years on each of these \$50,000 mortgages? With the 30-year mortgage you will owe roughly \$45,300 after 10 years. In a 25-year mortgage you will owe roughly \$42,000 after 10 years. With the 20-year mortgage you will owe roughly \$36,250 after 10 years! Compare all these factors before you make your final financing decision.

LOANS



Mortgage: A Long-Term Loan

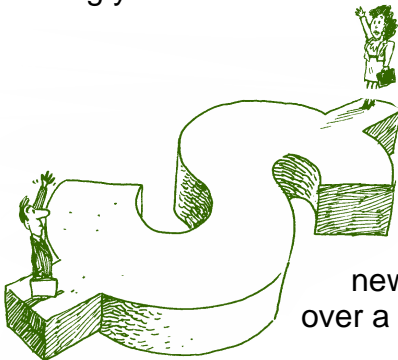
A mortgage is basically a long-term loan that you arrange through a bank or other financial institution. The house and/or property serve as collateral for the loan. A home mortgage is most likely the largest debt you will assume. You typically pay off that debt in monthly payments over a long period of time, most often 15 to 30 years.

THE TWO BASIC LOAN TYPES; FIXED AND ADJUSTABLE

At the most basic level, mortgages come in two categories: Fixed Rate and Adjustable. In both cases "rate" refers to the rate of interest you pay the bank for the privilege of borrowing its cash.

FIXED-RATE LOANS

A fixed-rate mortgage is so called because its interest rate doesn't change over the life of the loan, no matter what rates do on the open market. Many people feel comfortable with a fixed rate; because they know their monthly mortgage payment will remain steady over the years, making at least one aspect of their monthly cash flow predictable. The downside is that you pay for that comfort. Lenders charge a higher rate of interest for fixed-rate loans. Why? Because they figure that if interest rates shoot up, they lose the opportunity to make more money on the funds they are lending you.



The standard fixed rate loan last for 30 years, but if you can handle higher payments and want to built up your equity in your home faster, you can opt for a 15-year fixed. With a 15-year, you'll get a lower rate and pay less interest over the life of the loan. The payments each month, however, will be quite a bit higher since they aren't being stretched over so long a period.

A fixed rate makes the most sense for those who plan to stay in their new home for a long time. You pay a little more interest, but it is stretched over a longer period so the monthly effect can be minimal.

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AJUSTABLE-RATE LOANS (ARM)

Adjustable-rate loans get their name because the rate you pay changes according to a set formula as interest rates fluctuate on the open market. Lenders charge a lower rate for such loans because you are taking on some of the interest-rate risk. This makes your monthly payments lower – at least in the beginning. Such loans provide a way for many buyers to afford a larger loan amount for a given monthly payment. A adjustable works out wonderfully if rates drop – something you should never count on.

The trick with adjustables is to tailor the loan to your needs. Generally, the cheapest rate out there is a one-year adjustable.

There is a limit to how much an adjustable can adjust. Lenders limit the amount that rate can rise, often to no more than two points a year, with a lifetime cap of six points.

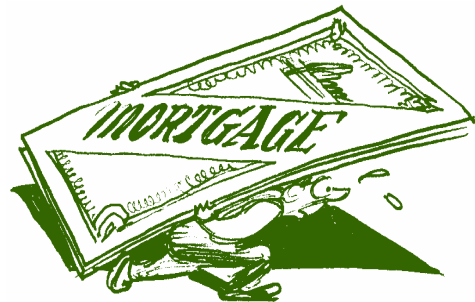
Moreover, if you plan to be in a house for less than five years, it may be worth paying the lower interest rate of an ARM vs. a fixed-rate mortgage.

Adjustable Rate Mortgage (ARM)

This mortgage offers an adjustable or variable rate of interest. The interest rate may go up or down over the years and is tied to a financial market index (such as one-year Treasury bills.)

Monthly payments may also be adjusted on a periodic schedule. Many ARMs set a maximum adjustment or “cap” on possible increases to interest rates, monthly payments, and/or a maximum cap on rates for the life of the loan.

The advantage is that the lower initial interest rate and monthly payment allow the buyer to pay less in the early years for a larger loan. Caps offer you the peace-of-mind of knowing your rate cannot exceed the ceiling.



Hang in there! There are just two more pages of this mortgage info but it IS important so please don't skip over my section.



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Federal Housing Administration (FHA) Loans

Strictly speaking, FHA does not make loans; rather it insures loans, which increases the lender's willingness to make low-down payment loans. With an FHA-insured loan, a homebuyer can make a small down payment, a feature particularly attractive to first-time buyers. The down payment often averages in the range of 3-5% of the loan amount. Second mortgages are now permitted.

Points (prepaid interest) can be charged by the lender, but since the FHA rate is now tied to the points, the purchaser may negotiate the interest rate and points with the seller. FHA charges an advance mortgage insurance premium fee. Ask The KIPER TEAM how much the fee would be in your situation and if you can borrow the fee and add it to the loan amount rather than measurably increase your closing costs.

FHA-insured mortgages offer a maximum loan amount that varies area to area. We can help you determine the prevailing maximum loan amount in this area. The advantages of an FHA-insured loan are the low down payment, low interest rates, and long terms. Many FHA-insured mortgage loans are fully assumable loans. There is no prepayment penalty and second mortgages are permitted under certain circumstances.

Veteran's Administration Loans

Qualified veterans can take out loans up to a specific limit with no down payment, or up to a higher limit with some down payment. These limits occasionally change. Check with THE KIPER TEAM for the current rules. VA-guaranteed loans can be combined with second mortgages and are fully assumable by any future buyer. Payments are fixed for the full term.

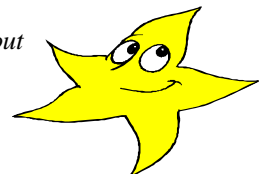
VA/FHA qualification guidelines are more flexible than those for Conventional loans. Actual income qualifications are dependent on the type of loan requested. The advantage is that usually no down payment is required and the interest rate is typically below that of the general market. Points can only be paid by the seller, although the buyer is charged a 1% loan origination fee which is not tax-deductible. There is not a pre-payment penalty and the assumability of the loan may make your home more attractive to buyers in the future if you should outgrow the home and want to "buy up" to a bigger or better home.



Refinancing your Mortgage

Refinancing your mortgage can give you financial flexibility. As the years go by, your monthly payments serve to reduce your mortgage debt. This, in effect, increases your equity in the property. If, and when the need arises, you can refinance without getting fresh cash, simply to lower your monthly payments. Any time you wish to refinance you have to carefully weigh the costs of doing so against the advantages.

I'm glad you are still with us! Don't you already feel more knowledgeable about the homebuying process



Predicting Your Monthly Payment (The PITI)

Your monthly payment (PITI) is the sum of four items:

- Principal of your mortgage
- Interest of your mortgage
- Taxes on the property
- Insurance for your homeowners' policy

P=Principal is that portion of your monthly payment that is applied to reduce the actual mortgage amount. The amount of the principal applied to the mortgage increases over time as the interest amount decreases.



I=Interest is the biggest component of your mortgage payment. It is the fee the bank receives for having loaned you money.

When you begin to pay off your mortgage, the major portion of the payment goes toward paying interest charges. But, over time, as you pay off a typical mortgage (or Principal), the amount of your monthly mortgage payment dedicated to interest declines and more of our payment goes toward the principal. The difference between the value of you home and the remaining amount of your principal is referred to as "equity". Interest can vary considerably depending on the type of mortgage you have and current interest rate. New homeowners are most often recommended to get a fixed rate mortgage (interest rate is fixed over the life of the loan).

T=Taxes are just that, real estate taxes a government charges the public for the provision of its services for a common good. These property taxes often include the school system, county services, police and fire departments, municipal services and infrastructure repair and improvement. Property taxes are calculated by dividing the cost of providing services by the value of property throughout a designated area.

I=Insurance is usually the smallest component in "PITI", albeit an important one. Comprehensive insurance plans and cost do not vary dramatically from one provider to next, typically it will cost less than \$600 per year for a house valued under \$200,000. But you should look very carefully at what the insurance plan actually does cover, AND the amount of deductible you will have to pay toward damages before an insurance company will pay for those damages.

Your loan payment may also include **Private Mortgage Insurance**, known as **PMI**, depending on the type of loan you have. PMI gives the lender protection if the homeowner should default on the loan. The mortgage company charges insurance if the down payment is less than 20% of the sale price or appraised value. PMI can be eliminated once the principal balance of the mortgage reaches 80% of the sales price or appraised value, which is known as the loan-to-value (LTV) ratio.