

Financing Your Home

A Guide to the Mortgage Process

Most people have a general idea of how much they feel comfortable spending. It's equally important to know how much your lender calculates you can afford. With assistance provided by your GMAC Real Estate Sales Professional, you'll be able to better prepare for the many details required during the financing application process.

- **Evaluate your financial situation as the lenders do.** Typically, your total monthly housing costs should not exceed 28 percent of your gross monthly income. Or, housing costs plus any outstanding monthly long term debt (car loans, credit card balances, etc.) should not exceed 36 percent of gross monthly income.
- **Ask how your lender determines the total monthly housing cost figure.** It usually includes your mortgage principal and interest payments, property taxes and hazard insurance.
- **Determine how much your financial institution is willing to lend** you by completing our Mortgage Calculator, found at www.gmacrealestate.com or calling your GMAC Real Estate Sales Associate for help during the prequalification process.
- **Know how much you can afford in monthly payments.** Lenders factor in sales price and down payment, but place more importance on how much you can handle your monthly expenses. An affordability chart can also be found at www.gmacrealestate.com.
- **Become a preapproved buyer.** Preapproval gives you more buying strength since the lender makes a credit decision and preapproves you for a certain mortgage amount. You'll know what price range your lender will approve -- and you'll be in a position to make an offer as soon as you find the right home. The seller will be comfortable negotiating with you knowing that your financing is already in place.

Today, finding the right financing for a home purchase is as important as finding the right home. The only certainty in the mortgage market is change -- and finding the financing package that best suits your needs can be a complicated process.

Remember that financing options are affected by local and regional real estate and banking practices and in some areas by state law.

Fortunately, your local GMAC Real Estate Sales Associate can help you find the financing method that works for you from among the many types of financing available.

Where to find mortgage money:

When you compare financial institutions, be sure to look for variations in the way mortgages are offered -- distinctions that can mean dollars of difference to you. Shop around and compare savings and loans, mortgage companies, commercial banks or credit unions. Looking at all the options will help you find the best mortgage "fit" for you.

Conventional Financing Options

All mortgages are called conventional unless they are government-backed loans. Conventional mortgages are made by private lenders.

Conventional fixed-rate mortgages:

This traditional, "tried and true" mortgage option is a loan with a constant interest rate and level, equal payments during a set period of time -- most commonly, 30 years. The biggest selling point of fixed-rate loans is predictability, and they are particularly suited to people with steady incomes.

If lower rates dictate the time is right to refinance, it's a good idea to compare the costs of incurring a new mortgage -- such as prepayment penalties and loan origination costs. Be sure to compare the costs of incurring a new mortgage -- such as loan origination costs and points. It's also a good idea to ask about prepayment penalties. You may want to refinance your loan or pay it off early to eliminate thousands of dollars in interest.

Adjustable-rate mortgages (ARMs):

As the name implies, the interest rate on an adjustable-rate mortgage changes throughout the term to stay current with the present interest rates. ARMs are most popular when rates are relatively high and appear to be dropping and when the difference between the ARM and the fixed-rate is more than sufficient to justify any closing costs. Different lenders offer variations in the front end of their ARM plans, such as the points you pay or discounted initial rates.

To make a useful comparison of an ARM rate, consider the index upon which the rate is based, the margin or spread between that index and the rate paid, and the intervals at which the rate and payments are adjusted.

Note: Always look at the index plus the margin when comparing ARMs. **The larger the margin, the less likely the rate you pay will go down, even if the interest rates drop.**

Federal government programs:

Federal Housing Administration (FHA) insured loans:

Lenders offer FHA mortgages on a new or existing single-family home for as little as 3 percent down. FHA mortgages are also assumable. Sometimes a premium is required when the mortgage is assumed, then refunded when the note is paid off. Down payments are usually low.

Veterans Administration (VA) guaranteed loans:

The Veterans Administration guarantees lenders against loss if a property is foreclosed due to default. These assumable loans are available to eligible veterans and may be used to buy, refinance, construct or repair a house. If the VA property appraisal is less than the sale price, the borrower pays the difference as a down payment.

Farmers Home Administration (FmHA) loans:

The government makes these loans available to persons of moderate to very low income in rural or non-metropolitan areas.

Lease/purchase agreements:

Borrowers can lock in the price of a house today and postpone financing for 12 to 36 months with these agreements. The borrower gives the seller a deposit which is applied to the purchase and makes monthly rental payments. Lease/purchase agreements are used by sellers who want to keep a home occupied and receive rental money after they've moved out, and by buyers who are not in a position to commit to a property at a particular time.

Installment contract:

Buyers and sellers work out a contract which states a down payment, interest rate and term. Some contracts have long terms; others are short-term with balloon payments. Regulations about title transfer in a contract sale vary from state to state.

First mortgages from relatives or others:

Sometimes relatives or private investors will purchase a home outright then offer a borrower a first mortgage. The terms are worked out to the mutual satisfaction of both parties.

Note: The Internal Revenue Service will impute higher rates on the lender for loans arranged below market rates.

Second mortgages:

These are used when a borrower needs additional financing to buy a home. This mortgage may be financed by the seller, another lender, relative or investor, and terms are negotiated between

buyer and lender. Often, second mortgages are used when a borrower assumes a guaranteed first mortgage with a lower interest rate and needs to make up the difference between the loan and the sale price.

New Home Equity financing:

An equity plan allows buyers to buy new homes by borrowing against a portion of the equity in their present home. A six-month "bridge" is secured on which no monthly payments are required and that money is used to purchase the new home. When the present home sells, the loan is paid off with the proceeds of the sale. If the home doesn't sell within six months, the owner may renew the loan or choose from other "back-up" options.