

Introduction to Home Financing

Today, loans are approved in minutes with fairly minimal information (there are always exceptions). Most residential loans under \$333,700 to people with good credit are purchased by either the Federal National Mortgage Association (FNMA--Fannie Mae) or the Federal Home Loan Mortgage Corporation (FHLMC--Freddie Mac). They basically write the rules for loan approvals. The "rules" or "loan approval criteria" have been substantially liberalized over the last 25 years. Loans are made today that would never have been considered 25 years ago--such as the \$0 down payment with 100% financing.

What today's mortgage shopper should do is ask around to friends, Realtors, etc. for a recommendation of a mortgage company or broker with a reputation for honesty. They should talk with an experienced loan officer, have their credit rating checked and have the loan officer run a hypothetical loan through the FNMA or FHLMC computerized approval process to see if they would get approved, exactly what the conditions are (i.e. supporting paperwork required such as paychecks, bank statements, etc.) and how much they would qualify for.

This "pre-approval" has other advantages such as the ability of the Realtor to use the Pre-Approval letter to

negotiate with the Seller. This is very helpful when there are multiple buyers. A FNMA approval makes the deal just about as good as a cash deal in the eyes of the seller.

If the loan is for anything other than a fixed rate mortgage, the borrower should obtain a "Program Disclosure" which outlines how the adjustable loan works, how frequently it can change, what index it's tied to, what the caps or limits are for the 1st Adjustment (the maximum rate it can go to at the first change date), the Periodic cap (for each change--if a one year adjustable, what maximum percentage it can go up or down) and the Lifetime cap (the maximum interest rate over the entire life of the loan). It should also disclose the margin--a number which is added to the index value to determine future rates--the lower this number, the better. Typical margins might run 2.25 to 2.75, so when you see a margin of 6.0, you know it's REALLY high!

Buyers should always keep a copy of everything they sign, and the papers should include a Good Faith Estimate (GFE) showing what all the charges will be at the closing. Special thanks to Mac Russell, Russell Mortgage Network for his insight.