



# WHEN PURCHASING OR REFINANCING YOUR PROPERTY

## FREQUENTLY ASKED QUESTIONS

The buzz about the slowing economy and the Federal Reserve lowering short-term interest rates are encouraging for homeowners seeking to lock in a great low rate on their home refinance or purchase.

Understanding all the steps involved in purchasing or refinancing property can be a challenge. We have compiled a few frequently asked questions which may help.

### **Should You Refinance**

Rarely is the decision to refinance is rarely based solely on interest rates. For instance, you should consider:

- How long you expect to be in the home?
- How much equity you have in the home?
- What your closing costs will be?
- Would refinancing include the paying of points?
- Will your lower payments more than make up for the closing cost, fees and points if any?

## **What Rates Do the Federal Reserve (FED) Drop or Raise**

The FED is a government agency that tries to control the level of inflation in our economy primarily by the discount rate. The discount rate is the interest rate the FED charges banks to borrow money from the Federal Government. These are short term loans, usually for a day or so. Banks set their biggest and best customers based on this FED discount rate. Banks call this rate their PRIME rate. If the FED raises the discount rate, banks raise their prime rate, and if the FED lowers the discount rate banks follow that lead and lower their prime rate. Mortgage home loan interest rates are affected by both the discount and prime rate.

## **Should You Convert an Adjustable to a Fixed-Rate Mortgage?**

It will depend on your situation. Generally, it's always a good idea to get the lowest fixed rate possible. However, if you're in the first year of a five-year ARM and you plan on moving in three years, it may not make sense for you to refinance.

## **Are Interest Rates Higher for Cash-out Refinances?**

The interest rate you pay on a cash-out loan can be the same on non-cash out loan depending on the lender and if:

- The loan amount is less than 80% of the value of your home.
- The loan amount does not exceed the current conforming conventional loan amount of \$417,000.

Using the equity in your home to pay off other bills can be a smart thing. Consider taking some money out to pay off credit card bills, auto loans and any debt whose interest is not tax deductible.

## **What is the Difference between a Prequalification and a Credit Preapproval?**

- Pre-qualification is when a lender, based on your answers to qualifying questions, tells you approximately how much you can borrow. There is no commitment to approve you for a mortgage loan.
- To be pre-approved you supply paperwork to support your pre-qualified information. The lender verifies your employment, income, assets, debts and credit history. The underwriter then makes the final decision on your loan approval.

### **Once Your Loan is approved, is it guaranteed to close?**

No. If there are any adverse changes in employment, assets or credit information the loan must be re-underwritten and could be declined.

### **Do you have to find a House before you get Pre-approved?**

No. A pre-approval letter reduces sellers fear. Many sellers fear if they pull their house off the market and then the buyer's loan is denied, they are back to square one. Plus, if they are several offers on a house, your pre-approval will make your offer stand out.

### **Do you have an Escrow Account?**

If you have less than 20% down payment, an escrow account for property taxes and insurance is required. You may also hear banks and loan companies refer to escrow accounts as impound or reserve accounts.

### **What happens with the Earnest Money you gave the Realtor?**

It will be credited at closing towards your down payment and/or closing costs.

### **When will you know the Exact Funds you will need for Closing?**

Usually within 48 hours of signing your loan paper the escrow or title company will provide this figure. In some cases you can call if you need an estimate sooner.

### **Do all Loans have a Prepayment Penalty?**

No. However, many loans do, and you should always ask your loan officer if the loan program you are considering has a prepayment penalty. PTFCU has a variety of fixed and adjustable rate loan programs without prepayment penalties. You should be advised early in the process if your loan program has a penalty.

### **Who do you use for Obtaining Homeowner's Insurance?**

You can use an insurance agent of your choosing. Usually the company insuring your vehicle offers homeowner's insurance.

### **Do you have to have Private Mortgage Insurance?**

Private mortgage insurance is usually required if you have less than a 20% down payment. However, there are some loans that don't require it and there are options to avoid it.

## **What Items will you need for Application?**

Many lenders allow you to complete an application on the internet or through a phone conversation with your loan officer. If this is the case, your loan officer can tell you specifically what financial documents to provide. In some cases that may be only a copy of your most recent pay stub.

However, if you have a face to face meeting with your loan officer, in order to complete the loan process in an efficient manner, please take these basic items to your application. This will cut off a week of processing time if you bring these items in:

1. Last 2 years W2's
2. Last 2 pay stubs
3. Last 2 current bank statements
4. Drivers license or photo ID
5. If divorced, divorce decree and separation agreement
6. If bankrupt in the last 7 years, complete bankruptcy papers and discharge
7. Name and address of landlord, or the last 12 cancelled rent checks, or money order receipts
8. If there are credit issues you know about bring documentation for the (i.e., repo's or paid collections)

## **What is the difference between a mortgage broker, mortgage lender or loan processor?**

- Mortgage brokers help you locate the best loan program for your individual circumstances. They take your loan application and background information then send them to affiliated mortgage lenders final approval, funding and servicing.
- Mortgage lenders can be banks or mortgage companies who are licensed lenders. They take applications, process the loan, underwrite the loan, prepare their own documents, and fund the loan.
- Loan processor checks and double checks the numbers and obtains all documentation required for the file. They make sure the documents are in compliance with lender, investor and government guidelines. They are also responsible for placing orders with other outside vendors for the property appraisal, title work, survey, flood certification, credit updates, verifications of employment and more!

### **Who orders the inspections?**

You or your Realtor will order the whole house inspection, termite inspection and any other property inspections specified in your purchase offer.

### **Is a property appraisal the same as a whole house inspection?**

No. An appraisal is an opinion of market value. An appraiser does not guarantee the house is free of defects. You should inspect the property yourself very carefully or hire an independent professional inspection service to inspect the property for you. There is no loan requirement for you to hire an inspector but one is recommended. If an appraisal is required the loan processor will order it.

### **When should you “lock in” an interest rate?**

We cannot predict interest rates – nobody can. Historically, rates go up much faster than they come down. So if you’re thinking about buying a home or refinancing – get the good rate now (you can always refinance later if rates drop again). Any in-the-near future drop in interest rates may not be drastic enough to impact your monthly payment.

### **Should you pay points to get a lower rate?**

If you are refinancing, paying points may not be your best option. Points paid on a refinance can be deducted from your taxes\* only in small increments – 1/30<sup>th</sup> a year for a 30-year mortgage – meaning it could be several years before your lower rate makes up for the points you pay. If you are buying a home, however, points paid are a deductible expense for that year. Talk with your loan officer and accountant for specific guidance on this very important topic.

### **Are there really loans with “No Closing Costs”?**

There are few loans that truly have no closing costs. Sometimes lenders will not charge application fees and agree to pay the appraisal and title fees, but they increase the interest rate on your loan. Lenders can also roll the costs into the amount of your loan. So, because you’re not paying costs up front, it is called a ‘no closing cost’ loan. This is a much better way to keep from paying closing costs ‘out of pocket’ rather than incurring a higher interest rate on your loan. While slightly increasing the amount of your mortgage might be acceptable to you, keep in mind that it is not really a cost-free loan.

### **How much money will I need to bring to closing?**

As a general guideline closing costs average 2% of the purchase price or refinanced loan amount. By personal choice, lender requirement or State statute you may have to establish an escrow account and partially prepay property taxes and hazard insurance. This will increase closing costs, and your loan or escrow officer will provide you with that information. Remember, when refinancing your old mortgage the lender will return

any money you have in their escrow account. This will help offset your closing costs for the new mortgage. Some borrowers get short-term loans while this escrow transfer back to them, but most pay the money at closing knowing they'll get it back when their escrow is returned.

### **How long does it take to refinance?**

Refinancing normally takes between two and four weeks, depending on a few things. Do you have a recent appraisal? Are you in an area that appraisers can get to easily? Are there plenty of comparables in your neighborhood? Often times, the appraisal is what takes the longest to obtain. And during refinancing booms, appraisers can be difficult to schedule. Having your financial paperwork ready to complete your loan requirement helps to speed the approval process to meet your expected closing time frame.