

FAQ on Mortgages

RATE

The posted interest rate is the actual rate used to calculate your monthly loan payment. The interest rate that you will be charged on your loan is set once you have completed our on-line loan application and your loan request is approved. Adjustable Rate Mortgage loan rates are subject to increase over the life of the loan, after a specified time period.

APR

The Annual Percentage Rate (APR) offers a uniform method for consumers to compare mortgage rates. Some closing costs, such as points, are also factored into the APR.

When calculating your monthly loan payments, the interest rate, and not the APR, is used.

POINTS

Points are fees paid by the borrower to obtain a lower mortgage rate. Each point represents 1% of the amount of the mortgage. The cost of the points is included in the closing fees for a comparison of your total costs. Until you lock in your rate, points are subject to charge.

PAYMENT

The monthly payment due is calculated by taking the mortgage amount, plus the total interest due, and dividing the sum by the term of the mortgage. If applicable, any mortgage insurance premium will also be included in the calculation. If an escrow (impound) account is required for the payment of real estate taxes, the amount of escrow will be added to your calculated loan payment.

CLOSING FEES

Closing fees represent the out of pocket money that you will be paying to close your mortgage. We have made every effort to make sure that our fee estimate is as accurate as possible, so that you will not have any surprises at closing.

TOTAL COST

In addition to the closing fees, you may also be asked to make advanced payments for taxes, homeowner's insurance, and interest. The credit union will make every effort to supply you with an accurate total cost outlay that will be required at closing.

Important Notices

- The posted interest rates, annual percentage rates (APR), and discount points are subject to change without notice.
- The posted monthly payment amount includes principal, interest, and, if required, mortgage insurance. The monthly payment will be higher if an escrow (impound) account is established.
- Your actual APR may vary based on your final loan amount and finance charges.
- Additional information for a five year Adjustable Rate Mortgage – the APR, interest rate, and monthly payments are subject to change and may change after the loan closes because of market driven changes to the index. As an example, a 5 year ARM mortgage in the amount of \$225,000 (assuming a 20% down payment) for 30 years will be offered an interest rate of 5.375%, and an APR of 6.105%, subject to increase. The payments will be as follows: 60 payments at \$1,259.94, 299 payments at \$1,393.26, 1 payment at \$1,392.01.

Mortgage FAQ

How are interest rates set?

The credit union looks to the Federal Reserve Bank when setting their loan rates. The Fed looks at a variety of factors, including inflation and the pace of the economic growth, then sets a rate that will keep inflation down and interest rates low and stable.

Should I pay discount points for a lower interest rate?

Discount points are a form of interest, and each point is equal to 1% of the mortgage amount. These points are paid in order to lower your monthly payments by having a lower interest rate.

A key factor when deciding on points is to look at the amount of time you plan to stay in your home. Take the cost of the points and divide that by the monthly payment savings to determine how long it will take you to recoup the money outlaid for the points. If that time frame is longer than the amount of time you plan to stay in your home, you should consider the mortgage program without points. If there is a small difference between the interest rate that I am paying now and your rate, does it make sense to refinance?

In order to answer this question, you will have to look at the monthly savings you will receive by reducing your payment, and how long you plan to remain in your house. To determine how long it will take you to recoup your financial outlay, divide the cost of refinancing by the savings you will have if you reduce your payment.

If you are still unsure of whether or not it is time to refinance, go to our refinance calculator to determine if it is the right time for you.

What are the advantages and disadvantages of a 15 year mortgage?

For those who can afford it, the 15 year mortgage offers you the ability to own your home in a shorter time, pay almost half the interest that you would with a 30 year mortgage, and possibly have a lower interest rate.

The disadvantages of this type of mortgage are the increased payment (typically 10 to 15% higher), and a reduced maximum mortgage tax deduction.

What is an adjustable rate mortgage?

An adjustable rate mortgage (ARM) offers you an initial lower interest rate than most fixed rate loans. The rate is based on an index and can change periodically, along with an increase or decrease in the monthly payment.

There are a number of factors for you to consider when looking at an adjustable rate mortgage –

- Do you think your salary will be steadily increasing? If it will, this type of loan may offer you the ability to purchase the home that you really want now, based on your increased future salary.
- How long will you be staying in this house? If the answer is 5 years or less, you can use this loan to lock in a lower rate and sell before any changes in the interest rate would take effect.

The following are definitions of terms used in Adjustable Rate mortgages:

Adjustment Period

The interest rate and monthly payments are fixed for an initial period of time, afterwards, they can change every year. With the popular 5 year ARM, the rate and payments would remain the same for 5 years and could change in the 6th year.

Index

ARMs are tied to an index. Most of the current indices are published in the Wall Journal. If the index goes up, your payment may go up, if it falls, your payment may fall.

Margin

The margin is the pre-disclosed amount that is added to the index. Along with comparing interest rates, it is equally important to look at any additional margins that will be added to the index.

Interest Rate Caps

A cap on interest rates limit how much your rate can increase or decrease. The adjustment cap limits the percentage change your interest rate can make in one period. The lifetime cap sets a maximum cap for the life of your mortgage.

Selecting a mortgage could be one of the most important financial decisions that you will make. Don't hesitate to contact us if you have any questions about our adjustable rate mortgages.

Are there any prepayment penalties?

No. Any mortgage can be paid off at any time.

Can I apply for a mortgage before I find my home?

Yes, you can apply to pre-qualify for a mortgage with us. In fact, having a pre-approval letter with you when you place an offer on a home may add extra weight to your bid. Once you have been notified that you are the successful bidder for your dream house, just contact us to start the mortgage process rolling.

What are the closing fees?

Buying a home and taking out a mortgage involves many fees. These fees may vary from state to state and from lender to lender.

At the credit union we have broken these fees down into four categories: third party, taxes, lender, and prepaid items.

Third party fees are fees that are paid directly to the person or company who has performed the service. An example of these third party fees would be appraisal, survey, title insurance.

Tax fees would include state and local taxes, and recording fees. These fees will more than likely have to be paid regardless of which lender you choose.

The lender fees consist of points, document preparation, and loan processing fees.

There are certain items which you will be asked to prepay at closing. One of the most common is the per diem interest. The credit union will collect from you interest due from the date of closing to the first of the next month. For example, if your closing date was December 15th, the credit union would collect the interest due from December 15th through January 1st. As a result of paying this per diem interest, your first mortgage payment would not be due until the 1st of February. If an escrow account is opened, you will make a deposit into that account at closing that is sufficient to cover the tax bills that will be coming due. Also, if the credit union is requiring that you purchase mortgage insurance, up to two months premium will be collected at closing. And last, if your mortgage is for a home purchase, you will need to pay your first year's homeowner's insurance premium prior to closing.