

HOW TO CHOOSE THE RIGHT LOAN FOR YOUR FINANCIAL SITUATION.

Purchasing a home is the single largest expenditure you will make and as such the financing of your home should be managed with great consideration given to your particular financial situation. There are many different loan products available today and it is often difficult to pick the one best suited toward your financial goals. Here at Westmont we have designed a few basic questions that can help guide you in the right direction. Remember we are always for individualized, one-on-one counseling. Just call us at 720/449.0200 to set an appointment.

There are a few factors that come into play when trying to structure your mortgage financing. These questions are quite simple but their answers are road maps to help you determine the right type of loan. Take a moment to consider the following: How long do you plan to be in your new home? Would you prefer a lower monthly payment or a more rapid accumulation of equity? What is your opinion on future fluctuations in interest rates; do you feel they will rise, fall or stay the same? Can you tolerate a change in interest rates or are you uncomfortable with the notion of being vulnerable to market fluctuations? Please chart your answers below.

HOW LONG DO YOU INTEND TO OCCUPY THIS PROPERTY?

LENGTH OF STAY IN PROPERTY:	LOAN PROGRAMS TO CONSIDER:
1-3 Years	1 or 3-Year Adjustable Rate Mortgage (ARM)
4-6 Years	5 or 7-Year ARM, 5-Year Balloon
7 plus Years	10-Year ARM, 7-Year Balloon, 15, 20 or 30-Year Fixed Rate Mortgage

WOULD YOU PREFER A LOWER PAYMENT OR MORE RAPID ACCUMULATION OF EQUITY?

FINANCIAL GOAL:	LOAN PROGRAMS TO CONSIDER:
Equity Buildup	15 or 20-Year Fixed 5 or 7-Year Balloon
Minimize Payment	1,3,5 or 7-Year ARM 30-Year Fixed Interest Only ARM

WHAT DO YOU FEEL INTEREST RATES WILL DO IN THE FUTURE?

OVERALL I BELIEVE INTEREST RATES WILL:	LOAN PROGRAMS TO CONSIDER:
RISE	30, 20 OR 15-YEAR FIXED, 7 OR 10-YEAR ARM, 7-YEAR BALLOON
FALL	1, 3 OR 5-YEAR ARM Interest Only ARM
STAY ABOUT THE SAME	1, 3 OR 5-YEAR ARM Interest Only ARM

HOW WELL DO YOU TOLERATE RISK?

RISK TOLERATION:	LOAN PROGRAMS TO CONSIDER:
UNCOMFORTABLE WITH VULNERABILITY TO INTEREST RATE FLUCTUATIONS	15 OR 30-YEAR FIXED 10-YEAR ARM
COMFORTABLE WITH MARKET CHANGES	1, 3, 5 OR 7-YEAR ARM 5 OR 7-YEAR BALLOON Interest Only ARM

Now that you have an idea of which loan program is best suited to your needs let's go over the specifics of each program. Keep in mind there are 3 different loan categories that will each offer a variety of the loan products above: Conventional, FHA and VA. They differ mainly through qualifying factors and maximum loan amounts. Choosing the loan type will depend on your particular loan needs.

A Conventional loan is any mortgage loan that is not insured by FHA or VA. Conventional loans are broken down further into two separate categories: Conforming and Jumbo. Requirements for conforming and jumbo loans vary by loan amounts, qualifying and pricing. The maximum conforming loan amount is currently \$333,700.00, for a one-unit property, while larger loan amounts would be considered Jumbo loans. Rate and points will usually be higher for a Jumbo loan than a conforming loan and qualifying will be a little more difficult with most of the focus on debt to income ratios and financial reserves.

30 and 15-year fixed loans are available under the Conventional, FHA and VA loan categories. A 30-year fixed will have a fixed interest rate over a 30-year amortization while a 15-year will have a 15-year amortization and fixed rate. Qualifying consideration will be given to credit history, financial reserves and debt to income ratios. Amount of down payment or equity in the property will also be given consideration. On a purchase most lenders will allow you to borrow as much as 97% of the sales price but you will be required to pay monthly mortgage insurance until the loan amount reaches 80% of the property value. Refinance loan amounts will vary by lender but most lenders will allow you to borrow up to 80% of the appraised value without requiring credit insurance. Please contact us for specific details.

Adjustable rate mortgages (ARM) are fixed rate mortgages for a designated time then are subject to rate fluctuations based on current market conditions. For example a 1-year ARM would have a fixed starting rate for the first year and then the rate is subject to adjustment every year for the life of the loan, a 3-year ARM is fixed for three years then adjusts every year. Like a 30-year fixed ARMs have a 30-year amortization period. ARM requirements are similar to the 30 and 15 fixed qualifications however some lenders will add 2% to your starting interest rate to determine debt ratios. All other qualifying factors will be the same as above. All ARMs will have a CAP rate that determines the maximum increase in interest at each adjustment period and for the life of the loan. A typical CAP would be 2/6, in this case the interest rate can rise at a maximum rate of 2% a year and 6% total over the life of the loan. An FHA ARM is always capped at 1% per year and 5% for the life of the loan.

Longer ARMs are identical to the 1 and 3-year ARMS except they maintain a fixed rate for 7 or 10-years. Like the short ARMs 7 and 10-year ARMs are subject to CAP rates. Most lenders will use the initial interest rate for calculating debt ratio and qualifying purposes.

In recent years lenders have begun offering adjustable rate mortgages with an option that allows for interest only payments. Most interest only options will be offered for a specific amount of time then the payment will adjust to a fully amortized amount for the remainder of the loan term. For example one lender offers an interest only payment option for years 1 through 5, on the first month of the sixth year the payment will adjust to a 25-year amortized payment based on the current principal balance due and any interest rate changes. This particular loan program is designed for individuals who want to maximize their cash flow and aren't concerned with increasing their home equity.

5 and 7-year Balloons are similar to ARMs in that they have a lower starting rate than fixed mortgages but instead of adjusting the rate at the end of the initial period the entire balance of the loan becomes due in full. Some Balloons are convertible to a fixed rate while others will require that you refinance to pay off the balance of the note. There are no special qualifying requirements for either the 5 or 7-year Balloon.

An FHA loan is any loan insured by the Federal Housing Administration and requires a minimum 3% down payment. Maximum loan amounts available will vary by the county that the property is located in and the property type but in general an FHA loan is intended for the financing of moderately priced homes. A monthly Mortgage Insurance Premium in the amount of .5% of the total loan amount will be required on all FHA loans and an up-front premium in an amount no greater than 2.25% will need to be paid at closing. The up-front premium may be rolled into the loan amount.

FHA loans offer easier qualification requirements than Conventional financing. Credit requirements are looser and higher debt to income ratios are allowed. If qualifying ratios are a little high an FHA ARM may be used to assist in lowering ratios since lenders use the initial interest rate plus 1% to calculate payment ratios. You will also be able to obtain a gift from a family member for the entire down payment while a Conventional loan will require a minimum of 3% - 5% of the down payment come from your own funds. FHA loans are available as 30 and 15-year fixed rate or as a 1-year ARM. No other ARM programs are available through FHA at this time.

VA loans are insured by the Veteran's Administration and are available to all eligible veterans. A Certificate of Eligibility issued by the Veteran's Administration is used to determine eligibility and amount of financing available. The entire amount of the purchase price may be financed but like FHA loans a VA loan is intended for the financing of more moderately priced homes and maximum loan amounts will depend on eligibility available, reasonable value of property, qualifying ratios, residual income and lenders secondary marketing requirements. Currently the maximum loan available through secondary marketing is \$203,000.00. A funding fee will apply to all VA loans and the amount is determined by factors such as previous entitlement use, veteran service status and amount of down payment. The funding fee will be required at closing but can

be rolled into the loan amount. The funding fee for refinances varies by transaction type. Please feel free to call us to discuss specifics.

Qualifying for a VA loan requires at least 12-months credit rated paid as agreed and like FHA debt to income ratios may be higher than with Conventional financing. VA offers only fixed rate loan programs under 15, 20 or 30-year amortization periods.

Westmont Mortgage also offers some unique financing opportunities. Some of our more popular programs include; Home Equity Lines of Credit or closed end second mortgages, 100% financing, and mortgages for individuals who have previously been denied financing. We also have several Portfolio programs for use by clients looking to acquire unique properties or who choose not to follow Conventional documentation requirements such as income verification. Please feel free to contact us for further information on these programs or for further guidance on selecting mortgage financing.