Knowing About Mortgage

The best financial deals are found only after a thorough investigation into home loans and mortgages. Many people dream of owning their own home, but the high cost of homes generally requires a home mortgage to make it a reality. A mortgage is just like any other product; thus whether it is a home purchase, refinancing or a home equity loan, the price and terms of a mortgage can be negotiated. If you decide to apply for a home equity loan, you shouldn't necessarily automatically go with the same bank that holds your first mortgage. Instead, shop around to find the best rates and loan terms. Finding the right loan is always a challenge; it requires checking different lenders and comparing options to select the home equity loan that best meets your needs!

There are different types of mortgages today to suit different classes of people. To make life easier for the old and the retired, the government has even introduced reverse mortgages. This type of mortgage is a loan against the home that does not have to be paid back as long as the owner is alive and living in the home, and at the same time provides income to the owner.

Until recently, bad credit was something of a mystery. However, after the establishment of the FICO score, a uniform credit scoring agency, measuring people's credit behavior has become easier. Your future credit behavior can more easily be predicted based on this data. Most lenders use the FICO score as a starting point when deciding whether or not to extend credit to you. Moreover, if you don't pay your monthly mortgage payments, the mortgage company can foreclose leading you to lose your home and affecting your creditworthiness in the future.

In a rapidly changing economic scenario it is often difficult to keep up with the complexities of the financial world. We at mortgageproguide.com have made every effort to elucidate and enunciate in simple terms, matters related to money and mortgage. Mortgageproguide.com is a comprehensive site offering free and unbiased information on home loans, conventional mortgages, bad credit mortgages, home equity loans and reverse mortgage. So go through to moneyproguide.com in detail and make an informed decision on all matters concerning money and mortgage.

Selecting a Mortgage

Selecting a mortgage is not only time consuming but confusing, given the large variety of loan packages on offer in the market today. With different mortgage rates, varied costs and fees and multiple terms and conditions, you need to be well informed to make the correct decision about which mortgage is best suited for you.

Among other things, mortgage rates are extremely important while selecting a mortgage. Interest rates fluctuate depending on different factors that influence the economy like prime rate, Treasury bill rates, federal fund rate, federal discount rate and certificate of deposit rate etc. If the economy is doing well and the demand for mortgages is high, the interest rates will also see a climb. On the other hand, if the demand for mortgages is low in a poor economy the interest rates will drop as well.

However, there are several other factors that are as or perhaps more important than interest rates that determine which mortgage is right for you. These primarily include your financial situation such as income, savings and liquidity, your housing needs and duration of stay, the level of risk you are willing to take as well as the term of your loan. All these factors need to be considered equally and balanced with one’s present position and future goals.

Before you decided on which mortgage is best for you, you will need a mortgage lender approval who based on your credit rating will offer you a loan that he feels is within your reasonable risk limits. The mortgage lender will take into consideration your ability to pay and then adjust your interest rates, points, terms etc accordingly. Only after this will you be able to select a mortgage that fits your requirements both, personally as well as financially. You can go in for mortgage refinancing at the end of the term if such a need arises.

BASIC FEATURES WHILE SELECTING:

1. Interest rate – fixed or variable:

In a fixed rate mortgage your interest rate will not change during the entire duration of your loan. This will enable you to know exactly what your periodic payout is and how much of the mortgage will be paid off at the end of the term.

• Federal Housing Administration Insured Loans (FHA)
• Veterans Administration Loans (VA)
• Farmers Home Administration Loans (FmHA)

With a variable rate, the interest will vary periodically during the life of the loan, depending on interest rates in financial markets.

2) Duration of mortgage: short term or long term

The duration of mortgage is the length of current mortgage agreement. A mortgage typically has duration of six months to ten years. Usually, if the term of the loan is short, the interest rates will tend to be low. A short term mortgage is for two years or less and is appropriate for people who feel that the interest rates will drop in the future, especially when it is time for renewal. A long term mortgage is for three years or more and most suited for people who believe that current rates are stable and reasonable and want the security of budgeting for the future. After the expiration of the term loan, you can either go for a renewal in mortgage at the current rates or repay the balance principal owing on the mortgage.

3) Open or closed mortgages

Open mortgages are typically short-term loans and can be paid off at any time without penalty. Homeowners who are planning to sell in the near future or require the flexibility to make large, lump-sum payments before maturity choose these kinds of mortgages. Closed mortgages are committed after taking into consideration specific terms. If you want to pay off the mortgage balance you will have to wait until the maturity date or pay a penalty.

4) Conventional or high ratio

A conventional mortgage is one that is not more than 75% of the appraised value of purchase price of the property. The balance amount is paid through your own resources and is known as down payment. If you have to borrow more than the stipulated 75%, then you will need a high ratio mortgage. If the down payment is less than 25%, the mortgage will have to be insured. The insurer will charge a fee which will depend on the amount you are borrowing and the percentage of your down payment. Fees range from 1% to 3.5% of the principal amount and can be paid up front or added to the principal amount of the mortgage.

REVERSE MORTGAGES:

Unlike a traditional mortgage where you make monthly payments to a lender, in a "reverse" mortgage, you receive money from the lender. It is a loan against your home or borrowings on home equity, which you do not have to pay back as long as you live there and yet, retain the title to your home. It must only be repaid once you die, sell your home or permanently move out of there. With a reverse mortgage the value of your home can be turned into cash which you can receive as a lump sum and up front, monthly cash advance, credit line which allows you to withdraw as and when you need it or a combination of all.

Reverse mortgages thus help homeowners who are privileged to own a house but are cash strapped stay in their homes and still meet their financial obligations. Reverse mortgage is for seniors. To be eligible for most reverse mortgages, you must own your home and be 62 years of age or older. The proceeds of a reverse mortgage are generally tax-free, and most have no income restrictions. They also do not affect Social Security or Medicare Benefits.

There are typically three types of reverse mortgages:

• Single purpose reverse mortgage– these are offered by some state and local government agencies and nonprofit organizations and have very low costs. To qualify, one should typically belong to a low or moderate-income group. They are not available everywhere and can only be used for a single purpose as specified by the lender like repairs, improvements, paying property taxes etc.

• Federally-insured reverse mortgages- which are also known as Home Equity Conversion Mortgages (HECMs), and are backed by the U. S. Department of Housing and Urban Development (HUD) and

• Proprietary reverse mortgages- which are private loans that are backed by the companies that develop them.

In both, the HCEMs and proprietary reverse mortgages, the costs are relatively higher, widely available and can be used for any purpose. Additionally, the amount of money you can borrow with these mortgages depends on several factors, including your age, type of reverse mortgage you select, appraised value of your home, current interest rates, and the area where you live. In general, the older you are, the more valuable your home, and the less you owe on it, the more money you can get.

Just like a traditional mortgage, there are several fees and costs associated with reverse mortgages. These charges include an origination fee, up-front mortgage insurance premium (for the FHA Home Equity Conversion Mortgage or HECM), an appraisal fee, and certain other standard closing costs. In most cases, these fees and costs are capped and may be financed as part of the reverse mortgage.

Origination fee

This fee covers a lender's operating expenses, office overheads and marketing costs for making the reverse mortgage. Home Keeper borrowers are charged an origination fee that may not exceed 2 % of the value of the home.

Mortgage insurance premium

Under the HECM program, borrowers are charged a mortgage insurance premium (MIP), equal to 2% of the maximum claim amount or home value, whichever is less Additionally there is an annual premium thereafter equal to 0.5% of the loan balance. The MIP guarantees that if the company managing your account goes out of business, the government will intervene to ensure that you have continued access to your loan funds. Moreover the MIP guarantees that your debt will never exceed the value of your home at the time of repayment.

Appraisal fee

It is paid to the appraiser who is in charge of appraising your home and assigning it a current market value. Since Federal regulation mandate that the home be free of structural defects, an appraiser will also ensure as much. If the appraiser uncovers property defects, these will have to be repaired through an independent contractor whose costs can be financed in the loan.

Closing Costs

Include other miscellaneous charges such as credit report fees, flood certification fees, escrow or settlement fees, document preparation fees, recording and courier fees, title insurance, pest inspection and survey fees.

Service fee set-aside is an amount deducted from the remaining loan proceeds at closing to cover the projected costs of servicing your account.

The benefits of reverse mortgages are plenty. Reverse mortgage for seniors is a boon and allows the older generation to live with dignity and happiness.

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About the Author

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