LIBERTY FINANCIAL

A REAL ESTATE LENDING FIRM

FREQUENTLY ASKED QUESTIONS

What is the difference between a broker and a banker?

A banker funds its own loans. Usually, bankers later sell these loans to investors such as Fannie Mae or Freddie Mac. A broker submits processed loans through banks, savings and loans or bankers and receives a fee from the entity that funds the loan in exchange for the broker's service.

What is the difference between a no point loan and a no cost loan?

A loan with no points requires the borrower to pay fees such as escrow, title insurance; appraisal, recording, etc. Some fees are charged by the bank and some fees are outside services required to close a loan. A no cost loan has no points and no fees. The interest rate for a no cost loan is generally .125%-.375% higher in rate than a no point loan. Only larger loan amounts lend themselves to doing a no cost loan.

How does a broker get paid?

A broker receives compensation from the lender in exchange for soliciting, packaging and providing service to the borrowers during a loan transaction. Brokers generally submit their loans to the wholesale division of the banks, savings and loans and mortgage bankers. These entities discount the loans to the brokers because the brokers do the lion's share of the work. A lender can fund many more loans in a wholesale division with fewer employees by using the broker's resources and expertise. Therefore, it benefits these lenders solicit the broker's loan business. In addition, it benefits the borrowers to use the broker's expertise since it costs them nothing extra and exposes them to more products and better protection from problems. Reputable brokers will always keep the borrower's needs at the top of their priority list.

What is a discount point?

A discount point is a loan fee paid to the lender to buy down the interest rate for a set term. For example, if a 30 year fixed rate loan is offered at 4.25% for no discount points, the same loan could be bought down to a rate of 4% for the entire 30 years in exchange for the borrower paying one point. One point simply means one percent of the loan amount.

Is it best to pay points to reduce my interest rate?

The answer is…sometimes. Buying money is just like buying an outfit. You never know if it will go on sale the day after you buy it. If you plan on keeping the loan and the property for a long time (more than 5 years), then buying down the interest rate on a long term loan could make sense. On the other hand, if the rates drop really low and you can refinance to a better rate, you would have wasted money on buying down the interest rate because you didn't hold onto the loan. In the case of a purchase, paying a point at closing to buy down your interest rate is tax deductible in the year the point is paid. In that case, there is a double benefit.

What is the difference between the interest rate and the APR?

The actual interest rate you pay on a loan will differ from the APR most of the time. The 'interest rate' is the actual rate you are paying on the money you have borrowed. The APR is the cost of the loan in percentage terms taking into account the various loan charges, including interest, PMI, origination fees, etc. The APR is calculated by spreading these charges over the life of the loan which results in a higher rate than the interest rate shown on the Note.

What does P.I.T.I. stand for?

P.I.T.I. stands for Principal, Interest, and Taxes & Insurance. It is a term that is used in the mortgage industry to refer to a person's total housing obligation. P.I.T.I.A. is the same except it includes Homeowner's Association dues.

How do I determine how much I can afford?

This is where a good mortgage broker comes in handy. Many lenders have many different requirements for obtaining home financing. The broker will be able to look at your income and financial situation to determine how much of a loan you can qualify for. It is very important to determine this before shopping for homes. In that way you can be assured that the purchase of your property will close without surprises.

Will the lender require an appraisal?

Because the property is the collateral for the loan, most lenders will require some type of appraisal to ensure the value is accurate. Some lenders will do an automated appraisal which searches the surrounding sales in your neighborhood and uses those to determine your property's value. When your property qualifies for an automated value, no written appraisal is required.

What does H.O.A. stand for?

H.O.A. stands for Homeowners Association. It is a group that governs a subdivision, condominium or planned community. The association collects monthly fees from all owners to pay for maintenance and upkeep of any common areas, including community centers, swimming pools, and health club facilities and landscaping. They also handle legal and safety issues and enforce the covenants, conditions, and restrictions (CC&R's) set by the developer.

What is hazard insurance and why do I need it?

A type of insurance that protects the property insured against specified losses such as fire, tornadoes, flood, earthquakes, etc. Often, mortgage lenders require borrowers to maintain an amount of hazard insurance on the mortgaged property that is equal to the cost it would be to rebuild the dwelling. Often times, a homeowner will add liability insurance and extended coverage for personal property.

What is the difference between a conforming loan and a non-conforming/jumbo loan?

A conforming loan is a loan that does not exceed the maximum loan amount allowed for the most common mortgage investors. The current conforming limit is $453,100 or below. Loans that exceed this amount are referred to as a high balance conforming loans. These are loan between $453,100 and $679,650. The rate on a high balance mortgage is generally higher than the rate on a conforming mortgage.

Do I need a realtor?

Buyers and Sellers nowadays are savvier than previous generations. This is due to the fact that with the internet, there is much more information at their fingertips in regards to home loans and internet listings of homes for sale. But even with all the information they can get off the internet, there are some things that Realtors can provide that the average buyer or seller do not know. Realtors study market trends and have specific knowledge of the area where they work. They are also able to negotiate on your behalf. It is their fiduciary duty to get you a fair deal. And often, they know about properties not yet on the market.

Do I have to use the lender my realtor or the builder recommends?

NO! They can only suggest that you use their lender. Often times a builder will require you to at least apply with their lender to ensure you qualify for the loan, but they cannot require you to use them. It is important to find a lender or broker you are comfortable with.

What is an impound account?

An impound account is a trust account established by the lender to pay a borrower's tax and insurance costs. The borrower's monthly mortgage payment is increased to cover these costs, with the additional amount being held in the impound account and distributed by the lender as the payments come due.

What is mortgage insurance and am I required to have it?

Mortgage insurance (commonly called PMI) is an insurance plan that protects the lender in the event the borrower does not repay a loan. Mortgage insurance is required if a loan amount is more than 80% of the value of the home (FHA is the exception). There is an insurance premium that the borrower must pay along with the monthly payment. It could be removed in 2 years with a new appraisal providing evidence the loan amount is now less than 80% of the home's value and the payments have been made on time.

Some lenders offer "No MI" loans above 80% loan-to-value, but those loans just have a higher interest rate to cover the cost of the mortgage insurance. Generally, the payments are lower, if the lender builds the mortgage insurance into the interest rate. This program is often referred to as Lender Paid Mortgage Insurance (LPMI).

What is the difference between a traditional second mortgage and a home equity line of credit?

A "traditional" second mortgage is generally referred to as a home equity loan is a mortgage that is fixed for the entire term of the loan. You borrow money and pay principal and interest on it for the term of the loan, just like a car payment. The terms can be anywhere from 5 to 30 years, sometimes with a balloon payment at the end.

A home equity line of credit is an adjustable rate loan that acts like a credit card and is tied to the equity in your home. You have a set limit and you can borrow and pay back as much as you want, up to the limit of the line. You only pay on what you borrow, and you can make interest only payments for up to 10 years on some equity lines. After the interest only draw period the line converts to a fully amortized repayment period (principal and interest) from 5 to 25 years, depending on the lender.

What are the pros and cons of each?

Home Equity Loan
Pros: The rate is fixed for the entire term, your payment never changes, and you pay principal and interest for the entire period.
Cons: You have to borrow all the money at once; paying a large principal pay down does not adjust your payment in any way.

Home Equity Line of Credit
Pros: Only borrow what you need, only pay interest on the money you borrow, interest only period allows for lower monthly payments, during the interest only draw period if you make a principal pay down your payment will decrease.
Cons: The rate is adjustable, the cap on how high the rate can rise is generally 18% or above, you are not paying any principal during the draw period.

What is the difference between pre-qualification and pre-approval? What are the benefits of each?

Pre-qualification is when someone, like a mortgage broker, looks at your credit report, loan application, income documents and bank statements and determines whether or not they think you can qualify for a loan, based upon their knowledge of the lender's guidelines. The benefit of pre-qualification is that you have an idea of what amount and payment you can qualify for and you can begin to look for a home.

Pre-approval is when all of those documents are actually submitted to the lender and the lender issues a conditional approval. The benefit of pre-approval is that you have actual approval from a lender, which can be a better bargaining tool when it comes to making an offer on a home.

What is a prepayment penalty and am I required to have one?

A prepayment penalty is a fee that a lender may charge if you pay off your mortgage within a specific time period of obtaining the mortgage. It is generally a fee equal to a certain percentage of the loan amount, or equal to a certain number of months interest. Prepayment penalties are not allowed on Fannie Mae or Freddie Mac loans.

Can I use the proceeds of a home loan refinance for any purpose such as the purchase of an automobile?

Once your refinance is complete and the money has been transferred to your account, it's yours to spend as you like. The lender cannot dictate how you spend the money.

How much of a down payment do I need to purchase a home?

Depending on your income, credit score and reserve money, you may qualify for 100% financing. This is usually only available to people with good credit who can prove their income. Most lenders require at least 5% of the purchase price for a down payment.

What is debt-to-income ratio and how does it determine the size of my loan?

Debt-to-income is the relation between what you make (income) and what you owe (debt). You use your gross monthly income, before tax, and your total monthly debt payments including credit cards, installment and mortgage obligation, including taxes and insurance. You divide the monthly debt amount by the monthly gross income and that number is your overall debt-to-income ratio. Most lenders require that your debt-to-income ratio be 45% or below but some lenders will allow you to go as high as 50%.

What are Fannie Mae and Freddie Mac?

Fannie Mae, also seen as FNMA (Federal National Mortgage Association) purchases home mortgages, thus serving as a source of funds for mortgage lenders. It is a privately owned corporation whose shares are traded on the New York Stock Exchange, but it is subject to the strict supervision of the secretary of the US Department of Housing and Urban Development (HUD).

Freddie Mac, also known as FHLMC (Federal Home Loan Mortgage Corporation) is a publicly owned, government-sponsored enterprise that buys qualifying residential mortgages from lenders, packages them into new securities backed by those pooled mortgages, provides certain guarantees, and then resells the securities in the open market.

What is a 1031 exchange?

A 1031 Exchange is a way of structuring a sale of a property so that the proceeds of the property being sold are used to buy another “like kind” property. In order to reap the full benefits, the property must be exchanged for one of an equal or greater value, and all proceeds from the sale must be used to obtain the new property. The idea behind the 1031 Exchange is that since the taxpayer is merely exchanging one property for another property(ies) of “like-kind” there is nothing received by the taxpayer that can be used to pay taxes. In addition, the taxpayer has a continuity of investment by replacing the old property. All gain is still locked up in the exchanged property and so no gain or loss is "recognized" or claimed for income tax purposes.