MORTGAGE MADE EASY

The Fast Guide to Mortgage and Credit Management

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PART I

THE IMPORTANCE OF CREDIT

Like most things in life, credit can be a blessing or a curse. How it impacts – and ultimately benefits – your life depends on how you use and manage your credit.

In today's society, credit powers almost every conceivable consumer purchase: from coffee and cars to holidays and homes.

Because credit is such a convenience – and a less visually tangible commodity than cash – it can become an almost invisible and unreal transaction. Until the bills come in.

With cash, you can immediately see the financial impact of a purchase on your balance. With credit, the result is less obvious, though it has the potential to be considerably more harmful to your long-term financial health.

But if you're smart about managing your credit it will enable you to make better purchases – for better repayments. Conversely, if you don't manage your credit well you are more likely to get fewer benefits – for bigger repayments.

Good credit can be the difference between a better home with lower repayments and a lesser home with financially challenging repayments.

Good credit means lower borrowing costs and larger credit lines.

So how do you get better credit?

Just as healthy lifestyle behaviors give us certain benefits – longer lives, less likelihood of certain illnesses, etc. – healthy financial behaviors deliver similar rewards.

A simple rule for building better credit is to borrow as little as possible and pay on time, every time. Late payments and excessive credit are guaranteed to negatively impact your financial health.

CREDIT SCORES

Credit scores exist to provide quick, reliable and consistent yardsticks to measure credit. Most lenders use the FICO system to rate creditworthiness. In essence, the FICO system monitors historic spending and payment patterns from millions of credit reports to project future financial behaviors of consumers.

The credit score – from a low of 300 to a high of 850 under the FICO system – is then used with other information (including application risk scores, customer risk scores and other credit bureau scores) to determine credit suitability.

Better credit management improves your FICO score.

HOW TO IMPROVE YOUR FICO SCORE

- Apply for and open new credit accounts only as needed
- Have credit cards, but manage them responsibly (borrow little, pay on time)
- Remember that closing an account doesn't make it go away

PART II

MORTGAGE

For the majority of us, taking out a mortgage is the only way we can afford to purchase a home. The credit you have developed helps determine how much you can borrow and how much – and at what rate – you will repay.

What is a mortgage?

A mortgage is essentially a loan that you obtain to help you purchase a home. Mortgages typically require that you make monthly payments over the life of the loan to repay your debt.

Mortgage payments are made up of two essential components: interest and principal. Interest is what the lender charges you for the money you borrow. Principal is the actual amount you borrow.

WHAT MAKES A GOOD LENDER

- Straightforward
- Market savvy
- Detail-oriented
- Approve locally
- Competitive
- Reliable

FIXED OR ADJUSTABLE?

Choosing a fixed or an adjustable rate loan will often depend on circumstances and preference. Each has its own advantages and disadvantages based primarily on your tolerance for risk and the rise and fall of interest rates.

Fixed Rate Mortgages

Fixed Rate Mortgages (FRM) have a consistent, unchanging monthly payment and interest rate for principal and interest during the life of the loan.

Advantages: Payments and rates remain the same for the duration of the loan.

Disadvantages: Interest rates tend to be higher than beginning interest rates on ARM.

Adjustable Rate Mortgages

Adjustable Rate Mortgages (ARM) are tied to fluctuating indexes and as such can rise and fall in accordance with index transitions.

Advantages: Commonly result in lower initial payments due to lower interest rates.

Disadvantages: Payments and interest rates will rise and fall depending on the index influences.

THE LIFE OF THE LOAN

Once you've decided which type of loan – fixed or adjustable – you want you need to consider the terms (or life) of the loan.

Typically, mortgages come in 15- and 30-year terms. The main advantage of the 30-year mortgage over the 15-year mortgage is that it has lower repayments, which allows you to use more of your monthly income for other purposes while giving you more financial freedom.

The primary benefit of a 15-year mortgage, if you can afford the higher repayments, is that you will own your home sooner, often paying less for it through interest.

UNDERSTANDING POINTS

Points are up-front interest. Lenders charge points as a means of payment for the work and expense of processing and approving your mortgage. When you purchase a home, the points are tax deductible. In contrast, when you refinance, the points must be spread out for tax purposes and deducted over the life of the new loan.

One point is equal to 1 percent of the amount you're borrowing. For example, if a lender says that the loan being processed has two points, that means that you must pay 2 percent of the loan amount as points. On a $300,000 loan, two points is $6,000.

No-point loans are not necessarily a good option, as many lenders have a points-interest rate tradeoff. So if a loan has zero points, it's going to have a higher interest rate. To obtain a fair comparison of mortgages from different lenders, have the lenders provide interest-rate quotes at the same point level.

OTHER LENDER FEES

- Application and loan processing fees
- Credit report
- Appraisal

PRE-QUALIFICATION AND PRE-APPROVAL

Pre-qualification

Pre-qualification is an informal discussion between you and a lender where the lender provides an opinion of the loan amount you can borrow based solely on the information you provide during that conversation.

Pre-approval

Pre-approval is based on documented information concerning your income, your likelihood of continued employment, your liabilities and the finances you have available to close on a home purchase.

THREE MORTGAGE CHALLENGES – AND HOW TO OVERCOME THEM

Insufficient Income

A good mortgage lender will always tell you if your current standard of income is too low to support a loan. The last thing you want as a borrower is to be living in a house that you can't enjoy – and can't afford. If you know you can afford your dream home and you want to get your loan approved, consider the following tips:

Put more money down

If you can make a substantial down payment, some lenders can approve you for a no-income verification loan. Typically, though, these mortgages come with higher interest rates compared with traditional loans.

Find a cosigner

A cosigner can help alleviate some financial concerns. Just make sure you have an excellent relationship with your cosigner.

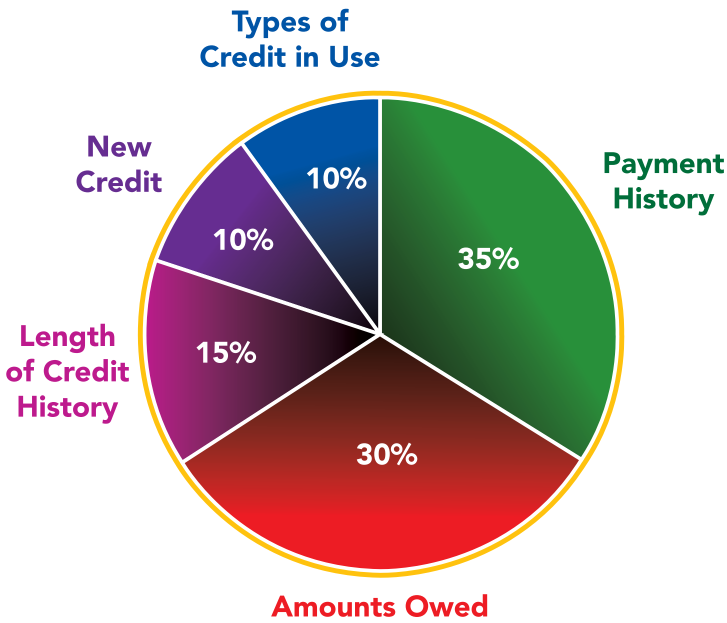
Be patient

If insufficient income is a factor in your loan application, consider waiting and demonstrating a history of savings and higher income over the next year or more.

BEST TIME TO REFINANCE

Mortgage companies make profits and cover their financial risk in two ways: through the loan's interest rate and in up-front fees (points). When deciding to refinance, you should consider how much money you will save by paying now or later. If you plan on having the home – and the loan – for a longer period of time then it may make sense to refinance. Alternatively, if you plan on selling the home – or closing the loan – in a short period of time then refinancing may not be a good option.

HOW A CREDIT SCORE BREAKS DOWN



WHAT YOU NEED TO KNOW BEFORE YOU BORROW

A mortgage is the biggest financial decision and investment you will make in your personal life. Typically, before people purchase a car, an airfare or even a pair of shoes they will spend a lot of time researching for the best deal. They look for a brand that will deliver on its promise. They look for simplicity, honesty and value. Surprisingly, people often spend less time researching their mortgage companies for loans than they do airlines when searching for airfares.

At Activus, we want you as a customer. But more importantly, we want you to make the right choice. That's why we recommend that you do your homework before you decide which company will be your lender of choice. Just as mortgage companies will review your qualifications, you should review theirs. Compare rates and terms, ask for testimonials, read what's written about lenders in the media. Do everything you can to ensure that you pick the right partner.

INFORMATION TO PROVIDE YOUR LENDER

- Financial history
- Credit score
- Income
- Savings
- Credit report
- Employment history
- Monthly expenses
- Estimated net worth

Debt and credit challenges

When lenders check your credit history they assess your debt and liability. To help ensure your debt and credit history doesn't limit your opportunity to secure a loan, consider the following:

Be smarter about your financial health

Save more money, reduce your debt and established a better credit history.

Find a cosigner

As discussed previously, a cosigner can help alleviate some financial concerns. Just make sure you have an excellent relationship with your cosigner.

Monitor your credit records

Credit reporting agencies and creditors have been known to make errors in credit reports. Always review and confirm your credit report. Be patient and persistent in attempting to have errors fixed. Credit reporting agencies are required by law to respond within 30 days to any request.

Identify flexible lenders

Some lenders may be more flexible and understanding than others of debt and credit issues. Do your homework and research various lenders to find one that accommodates your needs. But a word of warning, don't accept terms that will leave you and your family struggling to survive.

Lack of Down-Payment

Depending on your circumstances, finding enough money for a down payment on a home can be a challenge. But not having sufficient funds for a down payment doesn't mean missing out on your dream home. Here are some tips to help overcome the challenge of not having enough money for a down payment.

Look at a less-expensive home

That big home – with the equally big mortgage – may seem like everything you want right now but if it's going to place your family in financial pain then you may need to consider something smaller. A less expensive home means a smaller down payment.

Identify low-down-payment loan options

Some lenders offer low-down-payment programs, though these typically accompany higher interest rates and more up-front fees. You will also need to have excellent credit and you may need to purchase private mortgage insurance (PMI).

Reach out to family

Sometimes family members are prepared to help finance home down payments. Make sure though that you place the loan terms in writing and that all parties totally agree with the conditions – unless the down payment is a financial gift.

NEED MORE HELP?

If you need more help or information, please consider contacting one of the following independent, reliable organizations:

SPRINGBOARD

Springboard is a nonprofit consumer credit management organization.
www.springboard.org

ACORN HOUSING

Acorn Housing provides free counseling for low and moderate income earners.
www.acornhousing.com

NATIONAL FAIR HOUSING ALLIANCE

National Fair Housing Alliance is a coalition of fair housing organizations.
www.nationalfairhousing.org