Frequently Asked Questions

Should I refinance?

In some cases, refinancing your existing loan can save you money. While a lower interest rate will mean lower monthly payments and less paid interest paid over the life of the loan, a refinance also will mean paying closing costs and, in some cases, points. If the monthly savings exceeds these closing costs, refinancing is a good option. To estimate how many months it will take to break even with closing costs, use this Refinance Calculator to enter your loan details.

Should I rent or buy?

Which is better for you: renting or buying? Everyone is different. Use the Rent vs. Buy Calculator to help you to compare the estimated costs of owning a home to the estimated costs of renting.

What is a FICO score?

A FICO score is a method used to determine the likelihood that credit users will pay their bills. Credit scoring is widely accepted by lenders as a reliable means of credit evaluation.

Credit scores analyze a borrower's credit history and consider numerous factors such as:

- Late payments
- The amount of time credit has been established
- The amount of credit used versus the amount of credit available
- Length of time at present residence
- Negative credit information such as bankruptcies, charge-offs, collections, etc.

To obtain a copy of your credit report, contact any of these credit-reporting agencies:

- Experian, www.experian.com
- Trans Union LLC, www.transunion.com
- Equifax www.equifax.com

How can I increase my credit score?

While it is difficult to increase your score over the short run, here are some tips to increase your score over a period of time:

- **Pay your bills on time.** Late payments and collections can have a serious negative impact on your score.
- **Do not apply for credit frequently.** Having a large number of inquiries on your credit report can worsen your score.
- **Reduce your credit-card balances.** If you are "maxed" out on your credit cards, this will affect your credit score negatively.
- **If you have limited credit, obtain additional credit.** Not having sufficient credit can negatively affect your score.

What if there is an error on my credit report?

To correct any errors on your credit report, you may dispute it online on the creditor's site or call the telephone number on your credit report.

Be specific when disputing the error by including the account number of the item and explaining why you feel it is inaccurate.

Inflation drives interest rates

Higher inflation is associated with a growing economy. When the economy grows too quickly, the Federal Reserve increases interest rates to slow the economy down and reduce inflation. Inflation results from prices of goods and services increasing.

When the economy is strong, there is more demand for goods and services, so the producers of those goods and services can increase prices. A strong economy therefore results in higher real-estate prices, higher rents on apartments and higher mortgage rates.

What is the difference between being pre-qualified and pre-approved?

Pre-qualification is normally determined by a loan officer. After interviewing you, the loan officer determines the potential loan amount for which you may be approved. The loan officer does not issue loan approval; therefore, pre-qualification is not a commitment to lend.

After the loan officer determines that you pre-qualify, he/she then issues a pre-qualification letter. The pre-qualification letter is used when you make an offer on a property. The pre-qualification letter informs the seller that your financial situation has been reviewed by a professional, and you will likely be approved for a loan to purchase the home.

Pre-approval is a step above pre-qualification. Pre-approval involves verifying your credit, down payment, employment history, etc. Your loan application is submitted to a lender's underwriter, and a decision is made regarding your loan application.

When your loan is pre-approved, you receive a pre-approval certificate. Getting your loan pre-approved allows you to close very quickly when you do find a home. Pre-approval can also help you negotiate a better price with the seller.

What is a rate lock?

A rate lock is a lender's promise to "lock" a specified interest rate and a specified number of points for a specified period of time while your loan application is processed.

During that time, interest rates may change, but your interest rate and points will remain the same. You will be protected against increases, however, if rates drop, a lender might not be inclined to renegotiate the deal. Some will, but they are generally under no obligation to do so.

There are four components to a rate lock:

1. Loan program
2. Interest rate
3. Points
4. Length of the lock period

The longer the length of the lock period, the higher the points or the interest rate will be. This is because the longer the lock, the greater the risk for the lender offering that lock.

What's the difference between a conventional loan and an FHA loan?

Loans where the borrowers' down payment is less than 20% often require mortgage insurance, which can be provided privately or publicly.

Conventional loans requiring MI are insured by private mortgage insurance. FHA loans are those whose MI is provided by the Federal Housing Administration, a public, government program backed by taxpayers.

Both mortgage insurance options have premiums, often paid by the borrower. Each program has advantages and disadvantages, depending on your unique situation.

What documents will I need to have to secure a loan?

This checklist outlines the principal documents and information that are generally required to complete the application. Additional documentation may be required, depending on the circumstances of your loan. By having the information available, you will save time and avoid delays.

- Copy of Purchase Sales contract or Offer to Purchase and all addenda (signed by buyer and seller)
- Past 2 years' tax returns and W-2s
- Past 2 years' employment history
- Last 3 consecutive paycheck stubs (5 if paid weekly)
- Name, address, and phone for past 2 years' residence(s) and landlord(s) (if renting, evidence of 12 months' rent payments)
- Last 3 months' statements for savings, checking, CD, money market accounts, etc.
- Recent statement on retirement accounts (IRA, 401k, 403-B, Annuity, etc.)
- Monthly payments and balances on all open accounts
- Proof of all additional income
- Divorce Decree (if applicable)
- Bankruptcy schedules/Discharge papers (if applicable)

Additional information that may be required:

- Estimated market value of assets, such as autos, furniture, personal belongings, etc.

Be prepared to discuss where the money for closing will come from, including down payment and closing costs.

How will my monthly payments be calculated?

How much you will pay each month will depend a lot on the term of your loan. That is, how long do you plan on paying the loan back. Most mortgages are either 30-year or 15-year terms. Longer term loans require less to be paid back each month; whereas shorter terms require larger monthly payments, but pay off the debt more quickly.

Most monthly payments are based on four factors: Principal, Interest, Taxes and Insurance, commonly referred to as PITI.

- **Principal:** This is the amount originally borrowed to buy a home. A portion of each monthly payment goes to paying this amount back. In the beginning, only a small fraction of the monthly payment will be applied to the principal balance. The amount applied to principal will then increase until the final years, when most of the payment is applied toward repaying the principal.
- **Interest:** To take on the risk of lending money, a lender will charge interest. This is known as the interest rate, and it has a very direct impact on monthly payments. The higher the interest rate is, the higher the monthly payment.
- **Taxes:** While real estate taxes are due once a year, many mortgage payments include 1/12th of the expected tax bill and collect that amount along with the principal and interest payment. This amount is placed in escrow until the time the tax bill is due. Borrowers may be able to opt out of escrowing this amount, which would reduce the monthly payment, but also leave them responsible for paying taxes on their own.
- **Insurance:** Insurance refers to property insurance, which covers damage to the home or property, and, if applicable, mortgage insurance. Mortgage insurance protects the lender in the event of default and is often required in cases where borrowers have less than 20% equity in the home. Like real estate taxes, insurance payments are often collected with each mortgage payment and placed in escrow until the time the premium is due. Again, borrowers may be able to opt not to escrow the insurance amount, instead paying the total amount due in one lump sum on their own.

Should I pay points?

The best way to decide whether you should pay points or not is to perform a break-even analysis:

1. Calculate the cost of the points. Example: 2 points on a $100,000 loan is $2,000.
2. Calculate the monthly savings on the loan as a result of obtaining a lower interest rate. Example: $50 per month
3. Divide the cost of the points by the monthly savings to come up with the number of months to break even. In the above example, this number is 40 months. If you plan to keep the home for longer than the break-even number of months, then it makes sense to pay points, otherwise it does not.

What is an Annual Percentage Rate (APR)?

A measure of the cost of credit, expressed as a yearly rate. It includes interest as well as other charges. Because all lenders follow the same rules to ensure the accuracy of the annual percentage rate, it provides consumers with a good basis for comparing the cost of loans, including mortgage plans.