

DCC Dollars & Sense

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Mortgage Lending Changes In Borrower's Favor?

This month's newsletter focuses on a hot topic for potential homebuyers. The following information is written by James Webb, a Mortgage Specialist from Chase. Webb's contact information is available subsequent to this timely piece.

Everyone these days, including the folks on Wall Street are buzzing about the mortgage crisis and about the many changes that come and are still to come with our current mortgage lending practices. Will the lenders themselves be able to curb us from mortgage meltdown with their suggested guideline revisions, or will the Feds step in and write legislature that will dictate an even more drastic change to the ways people will qualify for a home loan? Only time will tell, but there are some of us that need a solution sooner than later. For those of us out there, here are a few things you can expect to see in today's market while you're shopping for your home loan:

Short Term ARMS: Most of the largest lenders in the U.S. have all followed suite and stopped offering the short-term adjustable loans all together. In order for a lender to offer you the much lower interest rate you receive during your initial fixed period on an adjustable loan, they now need to be able to document that the client has the ability to qualify for that same loan at the interest rate your loan adjusts to after your fixed period has expired. As a mortgage specialist, let me be the first to tell you that I would love to qualify every single one of my clients with a comfortable fixed rate mortgage, but for some of us, we needed that extra little break in interest rate to squeeze inside the lending guidelines.

Where can we find a positive in this? Now that they have done away with the shortest fixed rate periods, most lenders are scrambling to price their 5, 7, and 10 year adjustable loans more competitively in order to capture business. For the consumer who is finding themselves still not quite able to afford the fixed rate programs in today's market, consider these adjustable products that are available today and at least leave the table with some piece in mind knowing that you will not have to refinance again for several more years before being faced with an adjustment in your mortgage payment, as opposed to the quick 2 or 3 year periods offered in past loans.

100% Financing: The companies that offer 100% financing on a home loan are disappearing on a daily basis. More and more, lenders want to see that the client does in fact have some "skin in the game" typically with 5% of the borrower's own funds down. In our more expensive states like California and New York, this means that the number of first time homebuyers is shrinking and that homes for sale are staying on the market for a much longer period of time. Where's the positive? If you are a buyer who has your down payment saved, there is a ton of inventory available for you to find the dream home you've been looking for. You may also still avoid the 5% down if your income and credit history are solid. In short, gone are the times of bidding wars and when buyers made hasty uninformed decisions. Now, not only can you take your time to find the perfect house but you will be able to get a great price for it.

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My advice is to simply be knowledgeable of your financial situation and know what you qualify for as well as what you can afford. Make sure that you find a home that fits your family and your lifestyle while obtaining solid advice from professionals along the way. Don't be deterred by those who say that now is a bad time to buy a house with the so-called housing crisis. Let's not forget the investment credo "buy low sell high." Now that the ball is in your court, take advantage of a struggling market and find your dream house for a dream price!

Pre-payment penalties: Yes, these penalties still exist in today's market and I don't see them going away anytime soon. A pre-payment penalty is a lender's way of guaranteeing themselves a targeted amount of dollars in revenue per the loans they are selling. The good news is that if you are taking one of these longer fixed rate period adjustable loans, chances are that your pre-payment period will have expired by the time that your loan begins to adjust in interest rate. If you are a client that is considering taking the fixed rate mortgage for the safety it provides but are not sure how long you plan on staying in the home, please do some soul searching and work the math before making a decision. Here's how it works:

Typically, a pre-payment penalty works out to be 6 months of interest on your loan. If you are taking a loan in the amount of \$100,000 with an 8% interest rate, the amount of your pre-payment penalty would equal \$4,000

$((\$100,000 \times .08\%) / 12 \text{ months}) \times 6 \text{ months of interest}$

In my example of a \$100,000 loan, the monthly payment (principal and interest) over a 30 year term would equate to \$733 / month. Even if your lender wants to increase your interest rate on the same loan a whole 1% to remove the pre-payment penalty, your monthly payment would increase to \$804 / month, creating a difference of \$71 / month.

Now that we know the actual difference in payment, simply divide your prepayment penalty amount by the monthly difference in payment to solve for how many months you would have to keep this loan in order for the penalty to become a wash.

$\$4,000 / \$71 = 56 \text{ month (4 years, 8 months)}$

Decision Time! Do your soul searching! If you do not see yourself staying in this home for longer than 4 years and 8 months or if you plan to refinance this loan you are taking now on the assumption that your credit score will be in a better position 12 months from now, consider taking the higher interest rate now with no pre-payment penalty and save yourself money in the long run. If you plan to stay in this home for a long time and your equation dictates a time frame that is smaller than the time you intend to live in the home, than do not be scared of the penalty and take advantage of the lower monthly payment you'll receive on your loan.

If history is our teacher, we can all agree that at some point the housing market will recover and there will never be a decrease in demand for places for humans to live.

I wish each of you the best in luck in finding your dream homes!

If you have any questions about the terms of your current loan or would like me to send you a free market value analysis report for your area, send an email to: james.x.webb@chase.com.

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