

# the Mortgage Commentary

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## Thoughts about loan limits and other things

As we have previously reported, unless congress acts to extend the temporary high balance conforming loan limits, what is \$729,750 will become \$625,500 effective October 1st.

And to be perfectly clear, this means that \$729,750 loans must be funded and closed by the end of September. Lock commitments on these loans cannot be extended beyond September 30th. Period.

Congress can't even agree on a basis for raising the debt ceiling, knowing that failure to do so before August 2nd could create a world-wide economic disaster.

When our elected politicians can't come together and act to prevent an obvious and real potential problem that could impact the entire planet, do you think they'll act on the temporary high balance loan limits before the present limits expire? Not likely.

If one were to assume that there might be a last minute surge of loan applications in order to take advantage of the present limits, it's going to take around 45 days to close these loans.

So to be safe, that means applications should be made no later than August 15th.

When the limit is reduced by \$104,250, it will not be a sign that the world is coming to an end. But it will make a difference to home buyers and home owners in the \$900,000 to \$1,000,000 price range.

A \$725,000 thirty year fixed rate loan will cost about \$330 more per month if closing on October 1st rather than on September 30th. Over ten years, that's an extra \$39,600: nearly enough for a year's college expenses.

Thankfully, true Jumbo loans have come back after a long and uncomfortable absence. So borrowers needing loans over \$625,500 will have plenty of sources. And the rates for Jumbo loans are very good -- historically.

Following is a range of Jumbo rates during the last week of June.

Thirty year fixed rate — between 5.375%

and 5.625%.

Fifteen year fixed rate — between 5.000% and 5.375%.

10/1 ARM loans — between 5.000% and 5.250%.

7/1 ARM loans — between 4.375% and 4.500%

5/1 ARM loans — between 3.875% and 4.000%.

During a period of historically low mortgage rates, which has been the case for nearly two years, many borrowers have opted for thirty year fixed rate loans.

The thinking has been “while rates are low I want to lock my rate for a long time and not worry”.

There is absolutely nothing wrong with this thinking, in the abstract. But — before making this decision, consider the following.

What are the odds that you will need the loan for thirty years? For more than ten years? Seven years?

Do some math.

How much would you save in monthly payments over the next ten years if you took a 10/1 rather than a thirty year fixed?

Answer — About \$3,700 per \$100,00 in loan amount.

What would the difference be in principal balance at the end of ten years — thirty year fixed versus 10/1 ARM for each \$100,000 loan?

Answer — your balance would be about \$9,000 lower.

So — for a \$750,000 loan, the combination of smaller monthly payments and equity gain produces a difference after ten years of \$95,250 — 10/1ARM versus thirty year fixed.

The security of a having a thirty year fixed rate on your \$750,000 loan could be worth \$95,250 — but a 10/1 ARM certainly is something to think about, depending on your horizon of time.

Lenders do not care what percent ownership each party has. That's up to the parties.

## Summertime tips

This is not about using sun block. It's about typical summertime events that can impact a mortgage transaction.

Summer is vacation time so make sure to coordinate your vacation with your mortgage broker so it does not interfere with any planned mortgage loan.

Whether contemplating a refinance or a purchase, you'll need time and availability: time to assemble documents, and availability to review and sign reports and disclosures — including loan papers.

Your mortgage broker should have your schedule and contact information if you will be away from home during the transaction. Faxes and emails can work, but only if the contact information is known.

Co-borrowers -- consider granting each other power of attorney (POA) to sign documents in case one may be out of the area when needed. Do this in advance because the lender needs to approve POA. It's easy and your title company can help.

Another thing associated with summer time and vacations is increased use of credit cards. This is not a problem unless you are pushing the debt to income ratio --- monthly payments to income.

Even if your loan is already approved, lenders will run a last minute pre-closing credit report to see if any new debt was taken out. If your ratios are tight, charging a few thousand dollars on your credit cards could push ratios beyond the limit. Talk to your mortgage broker about this. If ratios are tight, consider paying for vacation expenses by check, cash, or debit cards.

Nothing would spoil the pleasant recollection of a great summer vacation like having your loan denied after you return. Be careful and keep your mortgage broker informed.

## A helping hand

Regardless of the cost of housing in their area, it is difficult for people just starting out to purchase a home. Either they don't make enough income or they don't have enough down payment. There are ways that parents can help, if they have the capacity.

A very common way to help is a gift for down payment. Ground rules vary from lender to lender, so discuss your specific situation with your mortgage broker.

In general, the donor (parents or relative) sign a gift letter stating the relationship, the amount of the gift, purpose of the gift, and that no repayment is expected. In some cases, the entire down payment can be a gift, and in others a minimum — usually 5% of the purchase price — must come from the buyer's own funds.

Documentation required is usually a paper trail of funds from the donor to the borrower and into escrow. But, if a gift is given in advance — like four or five months in advance — no gift letter or documentation is required.

Or parents can be on the loan and on title with the buyer. The best lender for this is one that offers "fully blended ratio" loans in which all the assets, incomes, and debts of all borrowers are blended as one borrower. Not all lenders offer fully blended ratio loans. Some require the buyer to fully or partially qualify on their own.

Lenders do not care what percent ownership each party has. That's up to the parties.

A CPA, financial advisor, attorney, or all three should be consulted. You need advice about tax and other aspects of joint ownership.

What happens if: One party does not fulfill their responsibilities? If one party wants to sell and the others don't? How are deductions for taxes and mortgage interest divided?

Just be sure to get good advice before proceeding.

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