

BUSINESS

Finance

Mortgage tips for home shoppers

MORE THAN MONEY



SID MITRA, PH.D.

Springtime is the time of year when many individuals find themselves in the market for a new home. A critical factor in the home buying process is whether financing is available on acceptable terms. The following discussion focuses on some of the more important considerations in shopping for a conventional mortgage loan.

Mortgage Lenders

Financing for most single family homes is provided by thrift institutions, mortgage companies, credit unions, and commercial banks. Although not a source of funds, mortgage brokers often can assist home buyers in finding a lender. Using a mortgage broker should not create additional costs to the home buyer because the lender typically gives the broker a discount on the loan.

Shopping for a lender may be as important as shopping for a home. Here are a few tips:

- Seek referrals from attorneys, real estate brokers, and friends who have recently

financed or refinanced a home (especially if there is no referral fee).

- Check out the history and reputation of the lender with The Better Business Bureau or state and Federal regulatory authorities.

- Ask the lender whether it has local underwriting capabilities? If not, the loan application and approval may be delayed.

- Ask if it services the mortgage (i.e., the accepting, processing, and recording of mortgage payments.) It generally is desirable for the lender to service the loan it originates unless the servicing company has a comparable reputation.

Requirements of Lenders

The lender is required to make (and the borrower should insist on) the following disclosures: a good faith estimate of the borrower's settlement costs, the annual percentage rate ("APR") of the loan (the cost of the credit expressed as a yearly rate), the lender's intent regarding the servicing of the loan after closing and what percentage of loans have been transferred for servicing in the past and a "worst case" scenario of how monthly payments could be affected over the term of the loan if the interest rate is adjustable.

In most cases, the lender will

require the borrower to establish creditworthiness based on a credit bureau's report, financial statement and supporting documentation, and meet such standard lending ratios as mortgage loan principal and interest payments not to exceed 28 percent of gross income, and mortgage and other debt payments, combined, not to exceed 36 percent of gross income.

Mortgage Terms

A familiarity with mortgage terms will make you a more informed borrower and might prove helpful in negotiating a more favorable mortgage loan.

Interest rate - In addition to market factors, the interest rate will depend on such matters as the loan's maturity date, whether the rate is fixed, adjustable, or delayed-adjustable (a hybrid with fixed and adjustable features), and points paid. Be aware that rates on certain adjustable rate mortgages can rise as much as 2 percentage points per year and 6 percentage points over the life of a loan.

Points - A point is a percentage of the face value of the loan. **Maturity** - The advantages of both 15- and 30-year fixed-rate mortgages should be considered. Although monthly payments will be higher with a 1-year loan, it may well be worth it in terms of

long-term interest savings.

Down Payment - A down payment of up to 20 percent of the purchase price will generally be required, depending upon the borrower's available resources and the lender's requirements. The down payment may affect the interest rate, standard lending ratios and, when the amount paid is less than 20 percent, whether the borrower must purchase private mortgage insurance (PMI).

Fees - Fees will vary depending on the lender and the locality, and should be carefully considered as to their cumulative impact on the cost of the loan. Examples include loan origination fees, application fees, appraisal fees, and miscellaneous charges (e.g., documentation preparation, credit check, verification of tax returns and courier charges).

Prequalification and preapproval - Prequalification simply means that the borrower has satisfied the standard lending ratios.

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Investment firm joins program to mentor youth

The Southfield investment firm of Smith Barney and the nonprofit Reggie McKenzie Foundation are launching a joint-venture mentoring and scholarship program entitled, "Connect" and "Connect Plus."

The Highland Park-based foundation will operate the program in conjunction with Smith

Barney's community investment program. The joint project will promote and attract scholarship opportunities, mentors and students in grades 7-8 from the foundation's existing metro-Detroit programs.

On Tuesday, the Foundation and Smith Barney formally announced the program.


Smith Barney employees will serve as mentors, interacting with middle-school-age children as well as their parents. Company employees can use their financial expertise to aid other volunteers in fund-raising.

Under the "Plus" feature, students will be eligible for \$2,500 per year, for up to four years, in

scholarships for post-secondary education.

"Connect" will provide 100 metro area youngsters with one-to-one guidance in developing various skills and goals.

Mentors will be recruited from businesses and from community and alumni organizations.



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