MORTGAGES

HERE'S WHAT YOU NEED TO KNOW

TIPS FOR FINANCING YOUR HOME

1 WHAT IS YOUR RELATIONSHIP WITH DEBT?

Paying off your home vs. financing with a mortgage is not only a financial decision, but also psychological. If your emotional connection to having a mortgage and any other debt weigh you down, that is of the utmost importance to take into consideration.

2 WHAT CAN YOU AFFORD & HOW CAN YOU MEASURE THIS?

- Dave Ramsey came up with a helpful rule of thumb - keep your mortgage payment right around 25% of your monthly take home pay (this is a conservative percentage, a great starting point, but don't feel defeat if you are above that 25% range).
- If you have stashed away a large chunk of money or feel that you can afford putting a large amount down, do not jump in without considering your alternate options with that money. Look at the going mortgage rates at your time of purchase and consider the return you could receive on your money if it is invested over time vs. the money you would lose in interest.

3 WHAT IS THE APPROPRIATE DOWN PAYMENT?

The old school recommendation has always been to put 20% down. If you have less than 20% down on a loan, there is added PMI within your monthly payment (Private Mortgage Insurance) since you are a higher risk for the lender on paper. However, if PMI rates are low enough, it is worth considering putting less down because of both #1 & #2; your emotional connection to debt & potential investment return vs. interest paid.

EDGE FINANCIAL ADVISORS

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TIPS FOR REFINANCING YOUR HOME

1 HOW DO YOU DETERMINE IF IT'S WORTH IT TO REFINANCE?

If the going rate is less than what you are currently paying, it's worth it to take a look. If it is, then calculate:

COST OF REFINANCING/MONTHLY MORTGAGE PAYMENT =
OF MONTHS TO RECOUP COST

If it's within a reasonable time frame relative to how long you'll be living in the house, it's worth it (ex. It will take 21 months to recoup the cost and you expect to be in the house 10-30 more years).

2 WHAT IF YOU DON'T WANT TO ADJUST TO 15- OR 30-YEAR TERMS?

In the industry today, you have the flexibility to refinance with custom terms with conventional loans. If you have 26 years left – you don't have to push it out to 30 or consolidate it down to 15 if you're somewhere in the middle. Make sure to confirm that the lender you are working with has the ability to do this.

3 WHAT IF RATES AREN'T ATTRACTIVE?

If interest rates aren't attractive, a loan recast could help lower your monthly payments on your existing mortgage. If you submit an extra payment without recasting, that amount will go towards the principal and your monthly payment will remain the same. If you pay a lump sum down and recast your mortgage, you can reduce your monthly payment.

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TIPS FOR NAVIGATING THE MORTGAGE PROCESS

1 NOT ALL LENDERS ARE CREATED EQUAL

Two Main Types of Lenders:

1. Traditional Banks (depository – use money in the bank): Banks churn loans out in larger quantities so there is naturally less individual involvement and less room to accommodate complicated situations.
2. Independent Mortgage Brokers/Bankers (non-depository - fund their own loans or find investors to fund): Independent lenders can typically tackle more complicated situations (for example, they can legally help prove income for self-employed people who don't show a lot of income on paper)

Your team is comprised of a real estate agent, an attorney, and a lender. Make sure you have a solid, dynamic team that hears one another throughout the process.

2 CREDIT SCORE: WHAT'S IMPORTANT & WHAT LENDERS MEASURE

It's important to note that lenders use different scoring methods than credit monitoring services that you may use (ex. Experian, Credit Karma, etc.) so while it is a good personal indicator to help keep you in line, it's not your exact score. Here are the two most important factors in most lender's calculations:

1. 33% of your credit score accounts for timely payments, typically dating back the last 12 months. They mainly focus on 30-day late payments and often times you aren't penalized for <30 days late.
2. Credit utilization rate – this is your balance to limit ratio on your credit cards. Aim to keep your balance at 40% or less of what the limit is.

3 BEWARE: YOU'RE PRE-APPROVED FOR $X, YOU DON'T NEED TO SPEND $X

Always run a pre-approval.

Often times, you are pre-approved for an amount that is greater than might be healthiest for your situation. Consider all of the moving pieces of your income, your investments, and your mental relationship with your debt before jumping on that number.