



Finding The Best Mortgage in 2009

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You pick up the phone to refinance or qualify to purchase a new home. You make your list of top three lenders, call and ask “what’s your rate?” Your answers are as similar and reliable as the weather forecast. Why? The following will help you understand the **WHY** and give you pointers on how to **best position yourself to receive the lowest interest rate and the best terms on your next mortgage loan.**

Why Can't I Get a Reliable Rate quote with a 5 minute phone call anymore?

The answer - risk based pricing. A set of underwriting guidelines adopted by Fannie Mae and Freddie Mac in January 2008 in direct response to the number of defaults taking place in multiple segments of the lending industry. Loan are now priced based on the overall risk of the individual borrower(s).

What Is Risk Based Pricing?

Before this was announced, a 30 year fixed rate loan was basically the same price for any borrower under a more Pass/Fail system. A credit score of 660 or higher and a loan amount up to 95% of the home value, would qualify buyers for the best rates available. Now credit score and LTV are factors in a pricing matrix of approximately 40 risk factors. Use of this matrix is the foundation of the Fannie/Freddie risk based pricing mandate. A borrower's risk factors are determined during loan underwriting.

The Prevailing Rate is...?

The current lending rate plus your personal risk factors.

How Can I be sure I close my loan with the Rate and Fees Quoted?

Get an estimate and advice in writing from a Licensed Mortgage Lender. If you are given a quote and the lender is unable to *guarantee* it in writing, you have *no guarantee that rate and fee offering is actually available to you at closing.*

You will be required to provide personal information and authorize a credit report prior to receiving reliable information.

Following Underwriting am I assured I can purchase or refinance my property?

Oh so close at this point. You have been through preliminary underwriting, you have a written preapproval for a specific loan amount with a designated rate and fee. Final piece, your property must appraise to meet the guidelines of the mortgage loan you are qualifying for. In other words, the terms of your down payment amount, loan to value and property value must all fit within the risk based pricing model.

That's the simplified explanation of why *What is Your Rate today?* doesn't work anymore. You need to rephrase and ask, **What is My Rate today?** Then be prepared to lock it in as rates fluctuate hourly.

How to position yourself for the best rate and terms.

Manage Your Credit

- Keep your credit card balances at 50% or less of the total credit limit.
- Maintain 5 active credit accounts with a combination of 2 installment accounts (mortgage loans, car loans) and 3 revolving accounts (credit cards and small equity lines)

Positioning yourself properly prior to underwriting, can help ensure you qualify for the amount and type of loan you seek. Contact your lending professional for advice on resolving credit blemishes and improving your credit score.

What Loans Are Available?

In general, you will need a 3.5% minimum down payment to obtain a home loan in 2009. (Exception, VA loans.) You will also need to provide full documentation of all income, savings and investments. That said, there is still money available and much of it is now **VERY AFFORDABLE!**

Conforming Fannie/Freddie Loans - Most loan products available from Fannie and Freddie before the credit crunch are still available with rates hovering near 5.0% Difference being, very credit score and LTV sensitive. Conforming products with the lowest rates require a 740 minimum credit score and LTV rates up to 95% after pricing adjustment add-ons. A minimum 620 credit score is needed to qualify for a conforming program.

FHA - offers a buyer a lower down payment option at 3.5% with a minimum credit score requirement of 580. These are government sponsored programs offering low cost mortgage insurance, and are the largest growing single category of mortgage financing. Down payment can be a gift or loan from a FAMILY member.

Jumbo Loans-defined as loan amounts higher than \$417K, are the hardest hit category in traditional markets as their popularity for purchase on Wallstreet has significantly declined. That said, there are products available carrying rates only marginally higher than those of Fannie/Freddie, but you'll need to find a lender with access to the select group of offerings.

Investment Properties - loan products are available.

- Fannie/Freddie allow up to 4 financed properties.(one primary residence and three investment properties. Minimum down payment on investments is 20% for a single family, 25% for plexes.
- Non Fannie/ Freddie products are available for investors over four properties. Investment properties carry price adjustments (discount points) over and above primary residence terms.