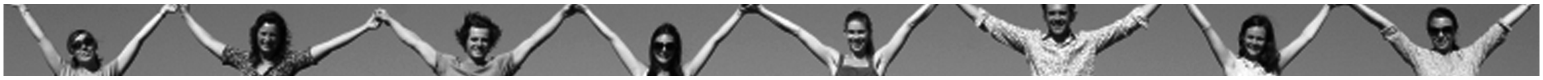
Wealth Planning Made Easy
Chad Danowsky
800-815-3130
ask@wealthplanningmadeeasy.com
www.wealthplanningmadeeasy.com

Borrowing Options: Mortgages



Borrowing Options: Mortgages

What is it?

Unless you can afford to pay cash, you will need to obtain a mortgage loan when purchasing a home or other real estate. In a mortgage transaction, the lender loans you money for the purchase of real estate. You promise to repay the loan and sign a promissory note that sets forth terms of the loan agreement. You also agree that the real estate will serve as collateral for the loan. You sign a mortgage document that grants the lender rights in the collateral (this is also called granting a lien on the property). If you fail to repay the loan as agreed, the mortgage document gives the lender the right to foreclose on (take) and sell your real estate to pay off the balance.

Are all mortgages the same?

There are many different types of mortgage loans. The primary differences involve interest rate variations, terms, and down payment requirements. Another difference relates to the kind of property you are buying (e.g., income-producing property, primary residence, or undeveloped land). Your loan may be a fixed- or adjustable-rate mortgage. Terms commonly include 15- or 30-year repayment schedules. Down payment requirements typically range from 0 to 30 percent, depending upon the loan program and the borrower's credit rating.

So, how do you get a mortgage?

Do your homework and shop around

If you are in the market for a mortgage, you should check with a variety of financial institutions to see if they have mortgage loan programs for which you qualify. Keep in mind that you may get more personalized service from a bank where you already do business. In addition, interest rates can vary significantly from lender to lender, so you'll want to do your homework and shop around.

If applicable, you may want to consider government-insured mortgage programs and mortgage programs for first-time homebuyers. Weigh your options, read the fine print, and remember that the lowest interest rate is not always the best deal. Some other issues to consider are the terms, the down payment amount, the monthly payment amount, closing costs, and private mortgage insurance requirements.

Apply for a mortgage

Typically, you apply for a mortgage loan after you have found a home to purchase or when you are planning to refinance your current mortgage. Some lenders will preapprove mortgage loans up to a certain amount. In either case, you will be requested to complete an application. You must also provide verification of income and other documentation.

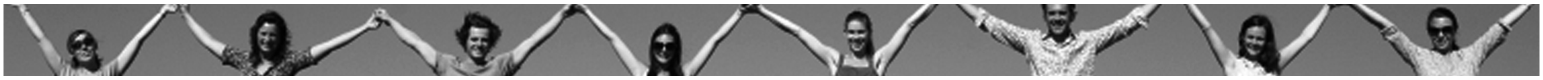
What are the tradeoffs associated with obtaining a mortgage?

You may end up owing more on your mortgage than what your house is worth

The biggest risk associated with mortgage borrowing relates to the value of your purchase. If real estate values drop dramatically and unexpectedly, as they have several times in the past, you may be left owing more on your mortgage balance than your property is worth--what's referred to as being "underwater" on your mortgage

Your freedom to use the home is limited

Your home is collateral for the mortgage loan. For that reason, the lender has a legitimate concern about what you do with your home. Restrictions regarding what you can and cannot do are set forth in the mortgage documents. In most cases, the provisions do not present a problem. The provisions are designed to protect and preserve the value of the collateral. As a homeowner, you are probably as concerned about preserving the value of your home as the bank is. However, homeowners are sometimes surprised when they discover that they cannot rent their house to another family, or make major changes to the premises, without obtaining permission from the lender.



Caution: *Most lenders require you to carry homeowners insurance and may insist on being named on the policy as the mortgagee. The lender is notified directly by the insurance company if your policy is canceled.*

Most mortgages are not negotiable

Gone are the days when you could negotiate the terms of a loan with your local banker. Today, most mortgages are standardized and sold under various programs into the secondary mortgage markets. Accordingly, your choices are to take the mortgage loan as is or not take it. There is little opportunity to strike or rewrite provisions that you don't like.

What about tax implications?

Generally, interest on home mortgage payments is tax deductible.

Wealth Planning Made Easy
Chad Danowsky
800-815-3130
ask@wealthplanningmadeeasy.com
www.wealthplanningmadeeasy.com