

# Navigating the Mortgage Minefield

By Victoria Pressley

The housing boom and resulting subprime loan debacle has left a lot of people wondering about mortgages. The good news is that the riskier types of mortgages are no longer available. The bad news is that it can be difficult to qualify for a loan. The best news is that you're probably eligible for a VA loan.

## Start Here

Do you have a down payment? How's your credit history? Will you need a large cash reserve for home repair, renovations or setup after purchasing your home? Answering these questions will help determine if you need (or want) a government-backed loan or a conventional loan.

## Government-Backed or Conventional Loan?

A government-backed loan is insured (or backed) by a federal agency. You apply in the private sector, as with a conventional loan, but there may be specific loan or property requirements and additional paperwork at closing time.

Conventional loans are not insured, so if you default on the loan it's you the bank harasses. Typically, you need a down payment of 20 percent.

## The VA Loan

Managed by the Department of Veterans Affairs, the VA loan program is only available to military service members (past and present) and their immediate families. Last year, the VA processed about 135,000 loans valued at nearly \$24 billion. You may be eligible for a VA loan if any one of the following are true:

- You have served 181 days during peacetime (Active Duty)
- You have served 90 days during war time (Active Duty)

- You have served six years in the Reserves or National Guard
- You are the spouse of a service member who was killed in the line of duty

If you have no (or low) down payment, this may be your best option. If you had a previous VA loan, you may need to prove you have paid off that loan before you can obtain another one.

You can obtain your certificate of eligibility for a VA Loan by going online at [www.ebenefits.va.gov](http://www.ebenefits.va.gov), applying through a lender or even by mail. Visit [www.va.gov](http://www.va.gov) or call 1-888-768-2132 for more information.

## FHA Loan

The HUD 203(b) Mortgage Insurance Program, also known as the FHA loan, is insured by the Federal Housing Administration. To take advantage of this program, you must:

- Work with an "FHA-approved lender"
- Have a small down payment — at least 3.5 percent
- Meet debt to income ratios.
- Be purchasing a primary residence
- Pay Private Mortgage Insurance (PMI) — probably

Additionally:

- FHA loans offer reduced closing fees
- There's flexible credit approval and qualifying terms

If you are not eligible to use your VA loan for one reason or another, or if you are having trouble getting

## To VA or not to VA

You know there's room in your budget for a mortgage payment (the amount of your current rent payment, for example) but you do not have a down payment. The purpose of the VA loan is to help you purchase your own home so you can build your own equity.

## VA Loan Advantages

- You can finance 100 percent of the property. About 90 percent of last year's loans were made with no down payment.
- No Primary Mortgage Insurance — which can save you hundreds of dollars on your monthly mortgage payment, and thousands over time.
- Prohibits excessive closing costs and prepayment penalties.
- You may finance the VA funding fee and closing costs, absorbing them into your mortgage.
- The Streamline Refinancing Program allows veterans to refinance at little or no cost.

## Disadvantages

- There's a VA funding fee of between 1.4 percent and 2.8 percent of the loan associated with no (or reduced) down payment loans.
- You must purchase a primary residence, not an investment property. If it becomes an investment property when you move that's ok.
- The VA will lend a total maximum loan amount of \$417,000.
- If your VA entitlement is already tied up in a loan, the limited remaining entitlement may not cover the cost of the new mortgage.

*continued on page 14*

qualified, this option may be for you. Check out the FHA website ([www.hud.gov/buying/loans.cfm](http://www.hud.gov/buying/loans.cfm)) to find an approved lender or to speak with a HUD-approved housing counselor.

## USDA Loan

This program is managed by the United States Department of Agriculture (USDA) and is designed to assist low-income residents in rural communities. Both the property and your income must meet their requirements. Visit <http://eligibility.sc.egov.usda.gov> for more information and to see if you qualify.

## What Next?

How long do you intend to live on the property? Are you comfortable with risk? How much of a mortgage payment can you afford? Could you still afford an Adjustable Rate Mortgage if interest rates rise? Answering these questions will help you decide if you want a fixed or an adjustable rate mortgage (ARM).

## Fixed Rate Loans

Fixed-rate mortgages charge a set interest rate for the loan's term — making budgeting easy. The amount of principal and interest paid each month varies per year, but usually not by much. Once a year, lenders evaluate your loan to make sure you are paying the correct amount for your insurance and property taxes, if you elect to have those taken out through your mortgage. As the name implies, the interest rate remains the same throughout the life of the loan.

Earlier payments go mostly toward paying down the interest, not the principle. To pay the loan down faster, you will need to make additional principle payments. Financial guru David Bach says that one additional payment per year

can shave seven years off the life of a 30-year fixed rate mortgage.

While 30-year terms are most popular, you can get shorter terms, like 10, 15 or 20 years. Your interest rate will be lower and the payments higher, but in the long run, you'll pay significantly less interest — and accumulate equity all the faster.

## ARMs

Adjustable-rate mortgages (ARMs) have interest rates that are set for a term, and then adjust with the market. Your interest rate can change over time and your mortgage payment will rise or fall as rates change. Initially, rates are lower than those of fixed rate mortgages and there should be a rate ceiling rate your rate cannot adjust above.

If you plan to sell up in a few years and /or you suspect that interest rates will drop, this option maybe for you.

## Tips and Traps

**Clean Your Credit.** Check your credit scores and your credit reports. Dispute any discrepancies and clear up any negative notes.

**Postpone Big Purchases.** Looking to buy a new car or a big screen TV? Buy big-ticket items after you close on your house. Multiple credit checks and big purchases affect your credit score and the lender's assumption of your ability to pay your mortgage.

**Real Estate Agents.** Great agents can save you time and money. Bad agents will happily, and possibly knowingly, lead you into a bad deal. Ask around, anyone who's worked with a great agent will gladly tell you. USAA's Movers Advantage Program recommends local agents and a pays you up to \$3100 if you use one of them.

**Shop Around.** Your financial company may be great with your other financial products, but they may not be right for your mortgage. Read reviews, ask around and try local banks and credit unions, in addition to the big lenders. Check out sites including [www.bankrate.com](http://www.bankrate.com) or [www.lendingtree.com](http://www.lendingtree.com) to compare various companies and to see their best rates.

**Scrutinize Fees.** Ask for an itemization and explanations of each charge. Military spouse Jennifer Palagonia says, "Check the Good-Faith Estimate, the Truth-in-Lending Statement and your HUD-1 Settlement Statement. The VA prohibits real estate agents, lenders and brokers from charging you some fees. I found several errors on ours."

**Read, Read, Read!** That pile of mortgage papers may be intimidating, but be sure to read every word before your sign anything. It may not be a bad idea to have an attorney of your choosing take a look at the files before you sign your name. After all, this is one of the largest purchases you likely will make in your lifetime.

**Prepayment Penalties.** Some lenders penalize you with excessive early payoff fees. Double, triple check your contract and avoid this.

**Check Statements.** Watch that your extra payments are applied to the principle — not to the interest — that your escrow is reasonable, and that there are no hidden charges on your monthly statements.

Now go get pre-qualified (which is not a commitment to buy anything), and good luck house hunting!

The evidence you need to get your VA eligibility certificate depends on the nature of your eligibility. **This chart explains.**

If You Are A(n):	You Should Submit . . .
Veteran (Includes a member or former member of the National Guard or Reserves who was once activated for Federal Service)	DD Form 214; The VA is required to have a copy showing the character of service (item 24) and the narrative reason for separation (item 28).
Active duty servicemember	<p>A current statement of service</p> <p>signed by (or by the direction of): the adjutant, personnel office, or commander of the unit or higher headquarters</p> <p>showing: Your full name Social Security Number Date of birth Entry date on active duty The duration of any lost time The name of the command providing the information</p>
If You Are:	You Should Submit . . .
Serving now in the Selected Reserve or the National Guard and have never been activated for federal service	<p>Statement of service</p> <p>signed by (or by the direction of): the adjutant, personnel officer or commander of your unit or higher headquarters</p> <p>showing: Your full name Social Security Number Date of birth Entry date on duty The total number of creditable years of service The duration of any lost time The name of the command providing the information</p>
A discharged member of the National Guard who has never been activated for federal service	Either: NGB Form 22, Report of Separation and Record of Service, for each period of National Guard service OR NGB Form 23, Retirement Points Accounting, and proof of the character of service
A discharged member of the Selected Reserve who has never been activated for federal service	Copy of your latest annual retirement points statement and evidence of honorable service
If You Are:	You Should Submit . . .
The surviving spouse of a service member who died on active duty	<p>If you're already receiving Dependency and Indemnity Compensation (DIC), you don't need to send any documents.</p> <p>If you don't receive DIC, please send us</p> <p>A copy of the DD Form 1300 (Report of Casualty) from the military</p> <p>A copy of your marriage certificate</p> <p>It would be a good idea to add a simple signed statement saying that you would like to apply for DIC. If you qualify for the home loan benefit, you probably qualify for monthly payments under DIC.</p> <p>Put the servicemember's Social Security number on all documents.</p>