Dollars & $ense

MUST-ASK MORTGAGE QUESTIONS

Finding the right mortgage is just as important as finding your dream home. If you're in the market for a mortgage, you probably have many questions. To help you on the road to homeownership, here are answers to the most common questions regarding home mortgages.

WHERE DO I GO TO GET A MORTGAGE?

Banks are no longer the only place to get a mortgage. Virtually all financial services companies, including credit unions and brokerage firms, offer mortgages. Other sources include mortgage companies, developers and sellers. The internet is a great way to begin your research of lenders, interest rates and mortgage information. Then contact professionals or ask friends who have had good borrowing experiences for recommendations.

WHAT TYPES OF MORTGAGES ARE AVAILABLE?

The two most common types of mortgages are fixed-rate loans and adjustable rate mortgages (ARM). With a fixed-rate mortgage, the interest rate stays the same for the life of the mortgage. This means your monthly principal and interest payments remain constant for the term you select. The interest rate on a fixed-rate loan is typically higher than for an ARM.

With an ARM, the interest rate changes on a regular schedule, such as annually, based on a pre-determined index. An ARM typically has an annual cap that limits how much the rate can change in a year and a lifetime cap that limits the change over the life of the loan. Because ARMs offer lower initial interest rates, you typically can afford more house for the same monthly payment. You must, however, be prepared for the possibility of rising monthly payments if interest rates go up.

There are hybrid loans that combine features of both fixed and adjustable rate loans. For example, a hybrid loan may offer an initial fixed rate that is in effect for, say, three years, at which time the rate is adjusted to the market rate.

WHICH MORTGAGE IS BEST FOR ME?

There is no simple answer to this question. The right mortgage for you primarily depends on your financial situation, how long you intend to keep the house and whether you are comfortable with having a changing mortgage. Some mortgages have prepayment penalties if you pay off the mortgage before a specified time.

WHAT ARE POINTS?

Points are up-front interest charges paid to the lender that allow you to lower your interest rate. They are essentially prepaid interest, with each point equaling 1 percent of the total loan amount. Paying points makes sense if you plan to stay in your home for several years because the amount you save with a reduced interest rate increases every year you hold the mortgage. Points paid on a mortgage loan for the purchase or improvement of a home and secured by a personal residence are deductible in the year paid.

WHAT'S INCLUDED IN MY MONTHLY MORTGAGE PAYMENT?

The two primary components of your mortgage payment are principal and interest, but most lenders include real estate taxes and homeowner's insurance as well. If your down payment is less than 20 percent, you also may be required to pay private mortgage insurance that protects the lender against default.

WHAT IS THE PROCESS FOR ACQUIRING A MORTGAGE?

The first step is to complete a loan application, which asks for information about your income, employment, assets and liabilities. The lender will ask for documentation to verify this information. A professional appraisal will be ordered to determine the home's market value.

It can take the lender anywhere from two to six weeks to evaluate your application and complete the appraisal. Interest rates can fluctuate during that time, so find out if the lender allows you to "lock in" a specific interest rate for a certain period. Once a loan decision is made, the lender will notify you of the outcome and a closing date will be set.

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