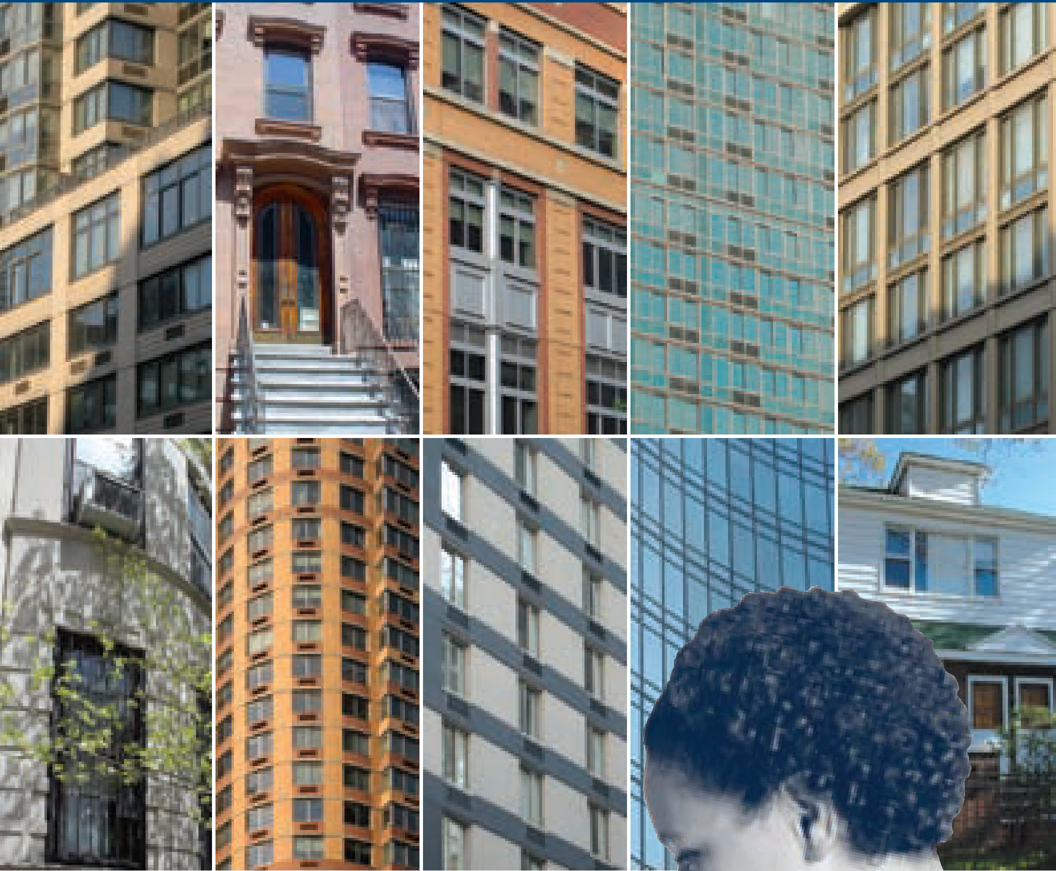
Guide to Buying a Home



PAN AM MORTGAGE
Integrity first.

The idea of purchasing a home is bound to bring many questions to mind. For most, the purchase of a home is the largest purchase they will make. Rest assured, my team and I are here to assist you in understanding the loan process. Our ultimate goal is to make your experience a pleasurable one.

This book covers the basics about buying a home. It is designed to answer commonly asked questions and provide clear definitions of terms you may be unfamiliar with.

CONTENTS

Pre-Qualification vs. Pre-Approval	2
Rate Shopping	3
What About my Credit Score?	4
Condos vs. Co-ops	6
Fixed vs. Adjustable Rate Mortgages	8
Points vs. No Points	10
Closing Costs	12
Appraisal	15
Rate Chart	16
Title Insurance	18
Pre-Payment Penalties	19
Junk Fees	19
Negative Amortization	20

Pre-Qualification vs. Pre-Approval

Many real estate agents and sellers will ask for either a pre-qualification letter or a pre-approval. What is the difference between pre-qualification and pre-approval?

A **pre-qualification letter** is the starting point in your search for mortgage financing. A quick snapshot is taken which includes income, existing debt, savings, length of employment, etc. All of these factors are then analyzed by your loan officer to determine your loan eligibility. After a short phone call, a pre-qualification letter outlining your buying power will be sent to you.

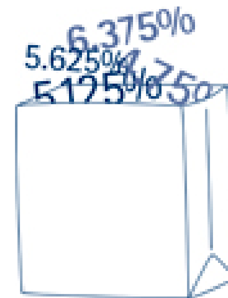
A **pre-approval** takes the idea of a pre-qualification letter one step further. A pre-approval is an actual commitment letter from a lender. It means your loan application has been reviewed by an underwriter. Based on your income, debt ratio and savings, the underwriter provides the dollar amount you are eligible to borrow. Now you can shop around for homes that fit into that loan amount category. Once a property is found, the pre-approval can become an actual full approval.

Here is the nice thing about the pre-approval: **It gives you the leverage to shop as a cash buyer!** With a pre-approval in hand, you now have the power to negotiate. The seller will take your offer much more seriously knowing you are already approved by a lender.

A pre-approval is free and can help to make the search for a property that much easier. You have absolutely nothing to lose and everything to gain.

Rate Shopping

Most people feel that rate shopping is a breeze with easy access to hundreds of internet-based mortgage companies. However, many advertisers make their rates look appealing but don't give you the whole picture. The most common deception is to quote a rate with a very brief lock-in period. This is called **short pricing**. If you don't have your paperwork in order within the designated timeframe, you lose the rate. Likewise, **low ball pricing** is a low rate that is not intended to be available for you. Kind of like a bait and switch, the lender will say the rate is no longer available when you're ready to close your loan, but will offer you something else.



All lenders are required to disclose the **Annual Percentage Rate** (APR) in their advertising when an interest rate is quoted. This is the fine print that gives you a more realistic idea of what the cost of your financing is, because it takes into account the fees that are also associated with the loan. While this can be helpful in determining the real costs, all lenders do not calculate APR in the same way and it is not an entirely failsafe method of comparing loan programs.

It is most important to let your Loan Consultant know what your **personal goals** are, and to shop for a loan that fits your specific needs. How long are you planning to live in the home? Are you planning a family? Do you have children who will be getting married and moving out? Do you have children who intend to go to college in the future? These are all questions that can help your Loan Consultant determine what the best program is for you, and to ensure a sound financial future.

What About my Credit Score?

Your credit score is a factor that will be considered by the lender when they look at your loan application. They want to know what your credit history is, and whether you have the ability to pay back the loan you are asking for. In short, good credit translates into lower rates for the home buyer that represents less risk to the lender.

Credit scores can range between a low score of 300 and a high of 900. Most commonly, we deal with scores ranging from 400 to 800. The higher the client's score is, the less likely they are to default on their loan. We will run a credit report and determine what your credit score is, and if necessary, we can point out some simple and effective ways to help you improve your credit score at little or no cost to you.

Once you fill out a loan application and enter into the loan process, you should not run up your charge cards! This would have an adverse affect on how the underwriter looks at your file.

If you have a poor credit score, it doesn't mean you can't qualify at all for a loan. There are loan programs available even if you've had a recent bankruptcy. While you may not get the interest rate you hoped for, it is an opportunity to start building your credit up again. Once you begin making mortgage payments on time and in full, your credit standing will improve and we can seek to refinance you at a lower rate as soon as the opportunity arises.

Below is a short list of things you should avoid during the mortgage process:

Don't apply for new credit of any kind including those "You have been pre-approved" credit card invitations that you receive in the mail. Every time that you have your credit pulled by a potential creditor or lender, your credit score drops.

Don't pay off collections or charge offs during the loan process. Paying collections will decrease your credit score immediately due to the date of last activity becoming recent. If you want to pay off old accounts, do it through escrow, and make sure that 1) you validate that the debt is yours, and 2) that the creditor agrees to give you a letter of deletion.

Don't close credit card accounts. If you close a credit card account it will appear that your debt ratio has gone up. Also, closing a card will affect other factors in the score such as length of credit history. If you have to close a credit card account, do it after closing, and make sure it is a more recent account.

Don't max out or over charge on your credit card accounts. Try to keep your credit card balances below 30% of their available limit at all times during the loan process. If you decide to pay down balances, do it across the board. Meaning, make an extra payment on all of your cards at the same time.

Don't consolidate your debt onto 1 or 2 credit cards. It seems like it would be the smart thing to do, however, when you consolidate all of your debt onto one card, it appears that you are maxed out on that card, and the system will penalize you. If you want to save money on credit card interest rates, wait until after closing.

And, most importantly, pay all of your bills on time during the mortgage process. The last thing a bank wants to see is a missed payment weeks before a loan is set to close.

Apartments come in two varieties – cooperatives, or co-ops and condominiums, or condos. In Manhattan, over 75% of the units that you will be looking to buy will be co-ops. Co-ops are distinctly different from condos and understanding the differences is important when you are in the market for a new home.

Condos vs. Co-ops

Co-ops came of age in the 1980s and were established as a useful tool to help reduce the expenses of buying and selling of property in New York. The idea of a co-op was to create a corporation that owns a particular building rather than having individual units for sale. When you buy a co-op, you are actually buying shares in a corporation that allow you to own a certain unit within the building.

This idea of buying shares in a corporation as opposed to buying real property drastically reduces the cost of buying an apartment. The savings come from the fees thas a buyer incurrs when buying a condo but are bypassed when buying a co-op, fees like mortgage recording tax and title insurance. These closing costs are attached only to real property. Since a co-op is not real property, these fees do not apply.

When purchasing a co-op, a new buyer has to be approved not only by a lender but also by a co-op board. A **co-op board** is a group of individuals who determine which individuals are able to buy into a particular building. The criteria are generally financial — most co-op buildings in New York require that the new buyers spend no more than 25% to 30% of their pre-tax income on their housing expenses, including maintenance fees.

Buildings are also known to have a requirement for **post-closing liquid reserves**. This is money that is not part of the down payment or closing costs that will assure the co-op board that the buyer will have some savings after their purchase is complete. These liquid reserve requirements can be quite high so it is always best to get as much information about a building's requirements up front.

Co-op boards are also unique because they can restrict how a property may be used. Treating a condo as a rental property is common — finding a co-op that can be rented out is far more rare. This fact alone can make a buyer prefer one over the other.

As you can see, there are many benefits to owning a **condo** – and their prices reflect that. A condo can cost as much as 15% – 20% more than a comparable co-op. For many, the higher price for a condo is worth the freedom that owning a condo offers.

Fixed vs. Adjustable Rate Mortgages

Loan programs fall in to two general categories: Fixed Rate Mortgages and Adjustable Rate Mortgages (ARMs.)

The difference between the two is simple. A **fixed rate mortgage offers a fixed rate for the entire term of the loan**. This can be anywhere from 5 to 40 years.

With an **adjustable rate mortgage, the rate is fixed for a limited amount of time**, anywhere from one month to ten years.

Since the ARMs are not securing a rate for the life of a loan, their start rates are generally lower than the Fixed Rate Mortgages. When chosen correctly, these lower start rates can result in huge savings for most home buyers.

With so many loan programs out there, it might be difficult to choose, as there is no one program that will work for all buyers. An understanding of how each loan program works is the key to selecting the right one for you.

The fixed rate mortgages offer the most stability, since the rate you get at the beginning will never change. While a Fixed Rate Mortgage is right for many home buyers, it is not always the best option.

Statistically, a first time home buyer usually stays in their new home for about 4 years. In New York, this length of time is even shorter. One of the common mistakes made by first time home buyers is selecting a 30 year fixed rate mortgage for financing. Since the chance of these buyers staying in their new home for the full 30 years is slim to none, they would have saved money by opting for an ARM with an interest rate that was fixed for three, five or seven years. Here is where a little education and a talk with your loan officer can prove invaluable.

A popular mortgage option that has evolved over the past few years is the **Interest Only Mortgage**. An Interest Only Mortgage allows you to pay only interest and no principal for a designated period of time, usually between two and ten years. Paying only interest helps bring down your monthly payment and helps maximize your tax deduction, as the interest you pay on the first $1,100,000 in home loans on your primary residence is tax deductible. But, be sure to realize that paying only interest will mean that you are not paying down the principal of your loan. So, if you borrow $500,000 and make only interest payment for five years, you will owe back the same $500,000 after those five years.

Taking advantage of the multitude of loan programs that are available can help assure that you put more money in your pocket and less money in the bank's pocket.

Buyers often want to know whether or not they should pay points on a loan. The truth is each borrower needs to consider their own unique needs to answer this question. **Each point is equal to one percent of the loan amount.** For example, on a $100,000 loan, two points would equal $2,000.

There are two types of points charged by lenders.

Origination fees

Some lenders charge origination fees in the form of points to cover their cost of putting the loan together. These fees are not tax deductible, and most borrowers try to avoid paying origination fees in the form of points.

Discount points

Usually points are paid up front to pre-pay interest on the loan. This results in a discount on the interest rate over the life of the loan. Take into consideration whether you can afford to pay points up front, and also determine if you will be in the home for an extended period of time. The longer you plan to stay in the home, the longer you will reap the rewards of having paid upfront points to secure a lower interest rate. In many cases, paying discount points up front is a worthy investment.

As a general rule, paying one point can lower the interest rate by about 0.25%. It takes about five years to recoup the cost of that point that you paid through the savings you benefit from by having the lower rate.

Here's an example:

Let's say you take out a 30-Year Fixed Rate loan in the amount of $150,000 at an interest rate of 7.5% with no points. Your numbers work out to give you a monthly payment (mortgage principal + interest) of $1,049.

If you choose to pay 2 discount points, you would pay $3,000 up front and get an interest rate of 7.0% and bring your monthly payment down to $998 for the remainder of the 30-Year loan. This constitutes a monthly savings of $51.

If you will be in the home for more than five years, this might be a good choice. It would take a total of 59 months to recoup the $3,000 you spent up front on points, but over the life of the loan you're saving over $15,000 in interest payments.

If you knew you were only going to be in the home for three years, it would be wise to consider investing that same $3,000 in some other instrument that would pay you a higher dividend. Another option is to use the $3,000 to make a larger down payment on the home, which lowers the balance on your loan amount. In some cases, the larger down payment can eliminate the need for Private Mortgage Insurance (PMI) and you can save money there.

There is always the option of taking that $3,000 and paying down existing credit card debt. If this is enough to boost you into a better credit score, it could open the door to different loan programs that you previously may not have qualified for.

Discount points paid for on a purchase transaction for a primary residence are tax deductible in the year that they are paid. Meanwhile, your non-recurring closing costs are not tax deductible. You can choose to pay a point to cover those fees. This is a clever way to turn the expense of closing costs into a tax deduction. Depending on your tax bracket, this could result in significant savings.

It's all a matter of looking at your individual needs, the amount you want to invest up front, and your long-term goals. We can provide you with a spreadsheet that is easy to read, and demonstrates an analysis of various loan options and outlines your monthly financial commitment to help you determine what the best choice is for you. In addition, we make it our business to continually monitor rates on behalf of our clients and let them know when an opportunity arises to lower their interest rate with a No Points, No Fees refinance.

Closing Costs

Understanding closing costs is a vital part of understanding the process of buying a home. Closing costs can be anywhere from a few thousand to tens of thousands of dollars, depending on the details of the purchase, so it is important educate yourself in this area.

There are certain costs that apply to just about all transactions. An **appraisal** is required on all properties being financed – larger, more expensive properties will have a higher fee than other properties. The bank will have an underwriting fee and will require that you pay for the bank attorney who will close your loan.

Closing costs differ from co-ops to condos and 1 to 4 family homes. The reason for this is simple — when you buy a co-op, you are not buying real property but rather shares in a corporation. This legal distinction allows a co-op buyer to be exempt from the mortgage **recording taxes** and **title fees** that those buying real property will be faced with. To see more clearly what these costs are, refer to the chart to page 15.

Another important concept to understand is the idea of **per diem interest**. A mortgage is always paid in arrears, since a bank cannot collect interest on money that has not yet been borrowed. So, you will always pay your mortgage on the first of the month for the month preceding.

So, if you close on a loan, say, on June 15, the bank will collect, at closing, interest for June 15 through June 30. Your first payment will then be due on August 1, for the month of July. This interest is calculated based on your loan amount, your interest rate and how many days are left in the month in which you are closing.

Closing towards the first of the month will increase this per diem number, while closing towards the end of the month will make this fee decrease. But don't be fooled into thinking that a closing late in the month saves you money — you are still paying for the exact amount of days that you own the property and a closing later in the month means your first payment is due that much sooner.

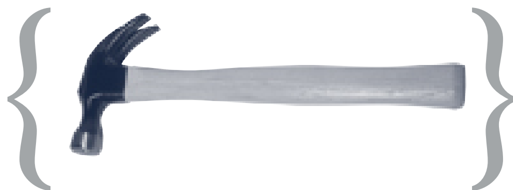
Banks will also look to set up an escrow account for **property taxes** and **homeowners insurance** for purchase of real property. At the closing, the amount collected to begin these escrow accounts will vary based on the dollar amount and immediacy of the next tax payment due. For homeowner's insurance, two months worth of payments is the norm for a bank to collect. If these escrow accounts are created, the bank will be paying the bills each year moving forward.

Closing Costs
for New Construction

New construction projects are booming as developers are working fast and furious to build. These new projects offer a wonderful opportunity to live in a brand new home in some of the most desirable neighborhoods.

There are a few things to realize when purchasing a new construction property. **In New York, the majority of these properties are condos.** In addition to the condo closing costs mention previously, buyers are often required to pay the city and state transfer taxes on these transactions. The New York City transfer tax is 1.00% of the purchase price for all units priced below $500,000 and 1.425% on all units priced $500,000 and above. The New York State transfer tax is .4% of the purchase price regardless of what that price may be. It is also common in New York for the buyer to pay for the attorney fees for the seller.

One of the many advantages to new construction is the tax benefit most buildings enjoy. Since the developer is adding value through the new homes, the city will often abate the taxes for an extended period of time. It is not uncommon for this tax abatement to drastically reduce your monthly tax payments on the property for years to come. Each project will have its own unique setup, so be sure to look into this.



	State	Co-ops	1-4 Family and Condos
Appraisal*	All	$300	$300
Application Fee	All	$350	$350
Bank Attorney	NY	$650	$650
Flood Cert	All	$29	$29
Underwriting Fee	All	$500	$500
Processing Fee	All	$350	$350
Mortgage Tax	NY	N/A	• 1.80% of loan amount less $25 • 1.925% of loan amount above $500,000, less $25 • 1.25% of loan amount less $25 in Yonkers • 0.75% of loan amount less $25 outside of New York City
New York City Transfer Tax (New Construction)			1% of purchase price for units below $500,000; 1.425% on units priced above $500,000
New York State Transfer Tax (New Construction)			0.4% of the purchase price
Intangible Tax	FL	N/A	0.2% of loan amount
Mortgage Doc Stamps	FL	N/A	0.35% of loan amount
Title Insurance	All	N/A	Varies based on purchase price and loan amount, but a good estimate would be 0.75% of loan amount
Recording Fee	All	$150	$200, but will vary
Tax Service Fee	All	N/A	$90
Mansion Tax	NY/NJ		1% of purchase price

*An appraisal is the bank's assurance that the property that you are buying is worth what you are paying. The appraised value is derived by comparing other properties that have recently sold. Attributes such as square footage, location, amenities, condition of the home and desirability are all gauged to come up with a value. This value is than compared to the purchase price. The bank will take the lesser of these two values and use that figure as the true value of the property. All calculations are then based off of this number.

The appraisal is ordered from a third party that is approved by the bank to do appraisals on the bank's behalf. Getting a qualified appraiser to inspect the property is an important step in the loan process.

Rate Chart

This chart can help you determine your monthly payments for your mortgage loan amount. Follow these steps:

1. Decide if you will be choosing a 15 or 30 year mortgage (most loans are 30 year mortgages.)
2. Find the current rate for the loan program you are considering (I can help you with this.) The mortgage factor can be found where your loan term and interest rate intersect.
3. Multiply this mortgage factor by the number of thousands that you wish to borrow. The resulting figure is the monthly principal and interest payment you can expect to pay.

So, if you were looking to borrow $425,000 at a rate of 7.25% on a thirty year term, you would multiply the mortgage factor of 6.83 by the 425 (the number of thousands that you will be borrowing.) The resulting principal and interest payment would be $2,902.75.

For **interest only loans**, the process is more simple. In the example above, you would multiply $425,000 by 7.25%. Divide this number by 12 to get the monthly interest only payment due. In this case, the payment would be $2,567.71.

	15 Years	30 Years
4.50	7.65	5.07
4.625	7.72	5.15
4.75	7.78	5.22
4.875	7.85	5.30
5.00	7.91	5.37
5.125	7.98	5.45
5.25	8.04	5.53
5.375	8.11	5.60
5.50	8.16	5.68
5.625	8.24	5.76
5.75	8.31	5.84
5.875	8.38	5.92
6.0	8.44	6.00
6.125	8.51	6.08
6.25	8.58	6.16
6.375	8.65	6.24
6.50	8.72	6.33
6.625	8.78	6.41
6.75	8.85	6.49
6.875	8.92	6.57
7.00	8.99	6.66
7.125	9.06	6.74
7.25	9.13	6.83
7.375	9.20	6.91
7.50	9.28	7.00
7.625	9.35	7.08

	15 Years	30 Years
7.75	9.42	7.17
7.875	9.49	7.26
8.00	9.58	7.34
8.125	9.63	7.43
8.25	9.71	7.52
8.375	9.78	7.61
8.50	9.85	7.69
8.625	9.93	7.78
8.75	10.00	7.87
8.875	10.07	7.96
9.00	10.15	8.05
9.125	10.22	8.14
9.25	10.30	8.23
9.375	10.37	8.32
9.50	10.45	8.41
9.625	10.52	8.50
9.75	10.60	8.60
9.875	10.67	8.69
10.00	10.75	8.78
10.125	10.83	8.87
10.25	10.90	8.97
10.375	10.98	9.06
10.50	11.06	9.15
10.625	11.14	9.25
10.75	11.21	9.34
10.875	11.29	9.43

Title Insurance

Title insurance is a policy that is usually issued by a title company to protect the lender against something adverse that might have happened to the chain of ownership of the property in the past, rather than something that might occur in the future.

In essence, an extensive search of public records is conducted by the title company to validate who has held title to the property in the past. **The lender wants to know if there are any liens, judgments or easements on the property.** Title insurance also guards against hidden risks or unknown factors that might cause an encumbrance at some point in the future, such as unknown heirs, forged deeds or wills, misinterpreted wills, false impersonation of the true owner of the property, deeds signed over by persons of unsound mind, or defects in the recording of past titles. Title insurance covers the cost of the title search, and any legal fees that may result from any dispute over past property ownership. It is required by the lender and paid for by the buyer.

The smart home buyer will also purchase title insurance to protect their own interests. This is a one-time premium that protects the buyer or their heirs, as long as they retain an interest in the property.

Prepayment Penalties

If your loan is structured to include a prepayment penalty, the lender has probably done this to protect their interests and discourage you from refinancing at a lower rate. **In many cases, there is no penalty if you sell the home, but if you refinance it represents a financial loss.** Take caution with these types of loans! If you decide to make additional payments to your principal, you could end up with a prepayment penalty in the long run!

A loan program with no prepayment penalty may have a higher interest rate associated with it, but the home owner has the flexibility of being able to make decisions about managing their mortgage debt wisely in the future. We recommend loans with no prepayment penalties whenever possible.

Junk Fees

A **junk fee** is a derogatory term defining extra fees tacked on by the lender, which are charged as a dollar figure rather than a percentage. It is important to know that you can often negotiate these fees or have them removed if they have not been properly disclosed to you. The lender is required to provide you with a **Good Faith Estimate** disclosing their fees within three days of your application.

Other fees that are NOT considered junk fees are the appraisal fee, credit report fee, escrow or attorney fee, title insurance fee, recording fee, notary fee and transfer taxes. These are legitimate fees that are paid to third parties and are necessary to complete the transaction.

Negative Amortization

Loans that involve negative amortization are the most complicated to understand. In an amortized mortgage payment, part of the payment goes toward a portion of the principal, and part of it goes toward the interest. In a loan that involves a potential for negative amortization, you have several choices each month. **You can pay a low introductory rate payment, an interest only payment, or a fully amortized payment.** This is convenient for people who have income that fluctuates, as it provides some room for flexibility in cash flow. However, it can be a juggling game. When the minimum payment option is selected, you are paying less than the interest only payment amount. The difference is then tacked back onto your principle balance. In other words, the remainder is negatively amortized and you are not gaining equity in the home in that particular month.

Pan Am Mortgage | *Integrity first.*

The process of finding and buying a place of your own is complex enough without having to worry about getting a mortgage. That's why we at Pan Am Mortgage put integrity first – so you can feel absolutely confident that you will be treated with the utmost of respect and discretion while we work to obtain the best rate for you. When you call us, you'll be assigned a personal mortgage broker who understands the New York market and who has access to a national network of lenders. Your broker will get to understand your needs, present you with options, and then advocate for the best deal that meets your needs – not the banks'. In the chaotic world of real estate, think of us as your beacon of hope – because we know you wouldn't want it any other way.

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