

# ***Mortgage Lending Information***

## ***Credit Scoring***

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Credit scoring compares your credit record with the theoretical “perfect borrower.” And throughout the years the credit score has proven to the industry to be predictive of loan performance. As such, it is not ignored. Credit scoring determines the rate you pay on a home loan and whether or not you are able to get the loan.

A credit score is an evaluation of your credit record (accurate or not) at a point in time. It takes time to evaluate the score, the components of the score and the validity of the factors affecting the score. The correct time for you to be aware of your score is long before you need the loan as it takes time for any corrections to become effective.

We have further information concerning credit scoring should you be interested.

## ***Simple Interest Calculation***

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First mortgage loans work like a savings account in reverse. The more that is paid on principal in the early years of the loan, the less that is paid on interest over all. When principal reductions are made, the term is shortened, not because extra monthly payments were made, but because principal reduction is occurring faster.

## ***Preapprovals***

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Not all preapprovals (normally required in a purchase transaction) are the same. The level of experience of the Loan Officer completing the preapproval, the financial strength of the company employing that Loan Officer, the time it takes to complete it and the assumptions that are made within it can all negate the effect of that preapproval.

A professional preapproval and initial “educational session” by a competent Loan Officer can set the whole tone for the transaction

We invite all parties to request our publication, “Prequalified, Pre-approved or Supposition.”

## ***A Lender To Trust***

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For years we’ve talked about going to “My Bank” or “My Broker” for a mortgage loan. While the company and its structure is important to the lending process, the Mortgage Loan Officer becomes the cornerstone of making everything work.

The home buying process is significantly complex, both financially and legally, that many more considerations need to be taken into account when choosing a Loan Officer/Lender. We advise applicants to shop for someone that they can trust and feel comfortable with. There should never be an issue with getting answers or understanding the process. This includes the availability of the Loan Officer and his or her ability to provide the information and service required.

## ***Taxes***

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Real estate taxes can, under State law, take priority over the lien position of the mortgage holder. As such it is important to lenders to see that real estate taxes are paid and is the prime reason real estate taxes are escrowed. Under Federal law a cushion can be held in the escrow account. The requirement to escrow taxes may be waived with the proper equity position, however, most mortgage pricing is done with the assumption that escrows are held and to release that escrow may require an adjustment to price.

## ***Closing Costs/Origination Fees***

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In a given market area, required closing costs should be fairly uniform. There may be some differences based upon suppliers but *generally these differences are not major*. At Sunset, we attempt to control these costs for your benefit. The industry has a series of fees commonly known as "Origination Fees." "Origination Fees" can vary by lender type or market area. They include any fee going to the lender or originator that is not designated to a third party supplier.

When shopping for comparison purposes, most of the differences will be found in this category.

## ***Rate Movements/Market***

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The Mortgage Industry is part of an extremely complex market place. Interest rates are part of the world economy and have moved over .50% in one day. Your Loan Officer needs to be cognizant of what affects that marketplace and thus loan rates. The ability to monitor world markets and understand the movements that will ultimately affect today's, this week's or next month's rates is extremely important in providing service to the applicant in order to provide the best pricing possible.

## ***Market Rate Pricing***

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Rates can change daily, and in some market conditions, hourly. Available pricing will always be a combination of the fees you pay (including "points" – 1% of the mortgage amount) and the interest rate. No closing cost loans are available through "Premium Pricing" or negative points. The higher the rate, the less you need to pay upfront.

This area of Mortgage Lending leads to much confusion and is the biggest area of "bait and switch" tactics. Comparison shopping needs to be completed in short time periods as rate and pricing movements during the day can be common. In order to insure proper pricing comparisons, always ask for a copy of a "Loan Estimate."

Accurate shopping requires full knowledge of the transaction and the borrowers' credit scores.

For further information please ask for our publication, "The Mortgage Lending Bottom Line, Pricing & Costs"