realinterest
REAL ESTATE FINANCE

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LOAN PROGRAM DESCRIPTION DETAILS.

FIXED RATE MORTGAGES (FRM): Fixed rate loans feature a constant interest rate charged for the life of the loan and generally have monthly payments that remain constant. Available amortization periods for these loans are for 40 years, 30 years, 20 years and 15 years.

- **40 Year Fixed Loan**
  Benefits: Lowest fixed monthly payments
- **30 Year Fixed Loan**
  Benefits: Low fixed monthly payments
- **20 Year Fixed Loan**
  Benefits: Lower rate than the 40 or 30 Year fixed rate loans
- **15 Year Fixed Loan**
  Benefits: Lower rate than the 30 or 20 Yes fixed rate loans

SHORT TERM FIXED RATE which later become Adjustable Rate Mortgages: These loans are actually adjustable rate mortgages and after the initial period, the interest rate can change once every 6 or 12 months. These loans function similarly to 6 and 12 month adjustable rate mortgages (the new rate charged is based on a changing index plus a fixed margin. Most of these loans have 30 year amortization periods.

- **3/1 ARM:** *Fixed Rate for 3 Years, then is Adjustable Rate Mortgage for the remaining 27 years*
- **5/1 ARM:** *Fixed Rate for 5 Years, then is Adjustable Rate Mortgage for the remaining 25 years*
- **7/1 ARM:** *Fixed Rate for 7 Years, Adjustable Rate Mortgage for the remaining 23 years*
- **10/1 ARM:** *Fixed Rate for 10 Years, Adjustable Rate Mortgage for the remaining 20 years*

ADJUSTABLE RATE Mortgages (ARMs): Adjustable rate mortgages have interest rates that are generally recalculated yearly or semi-annually based on market rates that change over time. As interest rates are adjusted so is the borrower's monthly payment. ARM loans usually have lower START rates than fixed rate loans, but then eventually have higher rates than similar risk fixed rate loans offered at the time. Generally people choose ARM loans when they plan on owning the property for a short period of time.

- **6 Month ARM:** *Initial "Start" Rate for 6 months and then adjusts every six months for the term of the loan (usually 30 years)*
- **12 Month ARM:** *Initial "Start" Rate for 12 months and then adjusts every twelve months for the term of the loan (usually 30 years)*

Fully Indexed Rate (the rate charged on the loan) = Index rate (changes): + Margin (constant)

Annual Rate Cap: Even if the "fully indexed rate" has increased substantially since the previous rate adjustment period, the new rate can't exceed the previous rate by the following amount: previous rate + annual cap.

Lifetime Rate Cap: Under no circumstances (even if the "fully indexed rate" has increased substantially) can the interest rate on the loan exceed the lifetime rate cap.

Commonly-used ARM indexes include the T-Bill, CMT, COFI, LIBOR and MTA. Here's a brief summary of these indexes which are all measures of financial activity:

T-Bill: Prices paid at federal auctions of 12-month Treasury Bills and bond determine the value of this index.

CMT: The one-year Contant maturity Treasury (CMT) is similar to the T-Bill index as it is derived from auction prices pf government backed debt. The Federal Reserve board calculates this index from the monthly average yield of a range of treasury securities, adjusted to a one-ear term.

COFI: The 11th District Cost of Funds (COFI) index reflects the rate which savings institutions pay to depositors. It's a lagging index, based on costs for the previous month. The COFi tends to move more slowly than some of the other indexes which means if can be a good index to be tied to when interest rates are increasing.

Libor: The six-month London Interbank Offered Rate (Libor) is a commonly used index that reflects the rate that European banks charge to each other. There are also one month, three month and one year Libor indexes. The Libor often index varies more widely than other indexes.

MTA: The Monthly Treasury Average (MTA) aka the 12-month moving treasury average index is comparable to the CMT as it is an average of other rates. Since it is based on an average of other rates, this index often moves slowly which could be a good index to be tied to if interest rates are increasing.

BUY-DOWN LOAN: This loan is actually a fixed rate mortgage, with the initial years having a rate that is temporarily bought down for one, two or three years. The initial rate is bought down by either paying points upfront, or by accepting a higher rate after that initial bought-down period. With this loan type, the initial payments are lower which may help for qualifying.

SECOND MORTGAGE (FIXED RATE): This type of loan is in a junior lien position (subordinate) to either a new first mortgage or an existing first mortgage. Interest rates on this loan type are typically higher than rates charged for a first mortgage, but this type of loan allows a property owner to access equity to their property without having to pay off an existing first mortgage which may have good terms. Most of these loans are fixed rate mortgages with amortization periods of 30, 20 or 15 years.

HOME EQUITY LINE OF CREDIT (Heloc): This is a loan is in a junior lien position (subordinate) to either a new first mortgage or an existing first mortgage. Interest rates on this loan type are typically higher than rates charged for a first mortgage, but this type of loan allows a property owner to access equity to their property without having to pay off an existing first mortgage which may have good terms. They can use that equity for all sort of way such as consolidating debt, buying other property, paying for school tuition, etc.

Most of these loans are adjustable rate loans tied to a changing index, and so the interest rate charged and the payments on this type of loan can change. A positive feature of this loan type is that interest is only charged on the balance, so a borrower can obtain HELOC for an amount above the balance actually used, but not have to pay interest on the unused portion. Also, it can often be accessed multiple times for the first ten years, then the line is frozen and can no longer be accessed. After that initial draw period, the borrower is typically given another 15 years to pay off the line.

<u>REVERSE MORTGAGE LOAN</u>: Reverse mortgage loans, also known as reverse equity loans, are only available to homeowners 62 or older and for properties which are occupied by the borrower. This loan type PAYS TO the borrower ether a one-time large lump sum amount, or monthly installments. Since no payments are being made to the lender, interest is accruing and must eventually be paid along with the original principle loan balance. A reverse mortgage loan is not required to be paid off until the home is no longer the borrowers primary residence, if they fail to maintain the property, fail to pay property taxes and / or homeowner's insurance or do not otherwise comply with the terms of the loan.

Reverse mortgages typically charge higher interest rates and higher closing costs (points) than are charged for traditional mortgages. Reverse mortgage loans can be great options for seniors looking to improve their cash flow (no payments), or to increase their monthly incomes.

<u>CONVENTIONAL LOANS</u>: Conventional Mortgage Loans are NOT insured by the government (like FHA, VA, USDA Loans), but instead typically meet lending guidelines set by Fannie Mae or Freddie Mac. Most conventional loans have better rates, terms and/or fees than other types of loans. However, conventional loans typically require a borrower to have good-to-excellent credit, reasonable amounts of monthly debt obligations, a down payment of 5-20% and reliable monthly income. Conventional loans are ideal for borrowers with excellent credit and at least a 5% down payment.

For Purchase transactions Conventional Loans require the buyer to put down at least 5% - 20% of the purchase price of the home. For a Refinance transaction, most lenders require at least 10% equity in the property. Most conventional loan programs allow a buyer to purchase single-family homes, warrantable condos, planned unit developments, and 1-4 family residences. A conventional loan can be used to finance a primary residence, second home and investment property.

<u>CONFORMING LOANS</u>: There are two main tiers for Fannie-Mae and Freddie Mac conforming loans: 1) Conforming loan limits which are allowed in the entire country. 2) High-Balance conforming loan amounts are allowed only in high price areas of the nation, including most of Southern California and the Northern California Bay area. For 2024, these are the new loan limits:

	Conforming Max	High-Balance Conforming Max
1 unit	$766,550	$1,149,825
2 units	$981,500	$1,472,250
3 units	$1,186,350	$1,779,525
4 units	$1,474,400	$2,211,600

<u>JUMBO LOANS</u>: A jumbo (non-conforming loan amount) usually means a loan program which allows loan amounts higher than the Fannie-Mae and Freddie-Mac conforming loan limits for that corresponding type of occupancy or property type. It can also include loans which allow other borrower or property characteristics that do not meet "conforming" guidelines. Jumbo loans ae available for fixed rate, short-term fixed rate and adjustable rate programs. There are even FHA jumbo loans. Jumbo loans generally have higher interest rates and points that are charged for conforming loans.

NON- QM LOANS: After the mortgage meltdown in 2008, federal regulators tightened borrower requirements on mortgage loans that could be backed and bought by government agencies. Loans that meet all the new criteria are called "qualified mortgages." Any loan that falls outside of those qualifications is called a "non-qualified mortgage" or non-QM.

Many buyers or property owners don't have standard or consistent sources of income that is typically required by mortgage lenders. Those borrowers may not be able to qualify for a conventional loan but they may have enough income or assets to either buy or refinance. For these borrowers, a non-qualified mortgage (non-QM) may be the solution. A non-QM is a mortgage loan that uses alternate methods to verify income to qualify borrowers. Even though these loans do not meet the standard requirements, they are not necessarily riskier loans. All borrowers are still required to prove their ability to repay the loan. Because there is more work required to process non-QM loans, the interest rates are higher than QM loans.

VA LOAN (Non Conventional/Government Loan): A VA loan is a mortgage loan guaranteed by the U.S. Department of Veteran Affairs (VA) that is available to most US service members. It offers some very great benefits to those that have served our country. Some benefits of VA Loans:

- Purchase money loans allow the purchase of a property with no money down.
- Sellers can pay closing costs for buyer.
- PMI (Private Mortgage Insurance) is not required.
- Qualifying can often be easier than for conventional loans since the government insures the loan which provides the lender with reduced risk.
- Disabled Veterans may qualify for a waiver of the Funding Fee if they receive any disability payments from the VA or if they are considered to be at least 10% disabled.
- Refinance loans available up to 100% of the property value.
- VA Streamline Refinance loans available to refinance an existing higher rate VA loan, often with easier qualifying requirements.

FHA LOAN (Non Conventional/Government Loan): FHA loans are private loans insured by the federal government. These loans are popular with borrowers who don't have enough funds to pay a traditional 20 percent down payment, as FHA loan program can allow a 3 percent down payment. Those who choose these loans are required to pay mortgage insurance (PMI) which increases their monthly payments. Lenders that originate these loans must be approved by the Department of Housing and Urban Development (HUD). FHA loans often have lower interest rates, and similar loan programs as conventional loans.

CONSTRUCTION LOANS: Construction loans are used to finance the construction of a new structure. Construction financing is available for a new building to occupy as a residence, or for an apartment or commercial building to be leased out or owner occupied. Loan rates and points charged are typically higher than with financing on existing loans, and the terms are usually short (18 to 24 moths while the construction is being completed. Often these loans require no payments during the construction period, but interest is accrued on the loan balance. These loans typically require a substantial amount of equity in the land being built on, and if that equity is available then almost all or all of the construction costs can be covered by the lender. Costs are paid out to the contractor(s) in incremental portions as the project progresses and as inspections are met with approval by the city building deportment permits are signed off on as the project moves towards completion.

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