

House Hunting: Demystify the Financing Process

By Betsy Sullivan

Spring is traditionally a time of rebirth, new growth, and house hunting. As the snow melts and the South Shore emerges from a fairly easy winter, many potential Homeowners will begin the pursuit for the perfect home. Whether they seek to add a bedroom or bath, downsize to a more useable space, cash in on some accrued equity, or begin to create a real estate portfolio, the search will continue throughout the spring months. With this quest comes the inevitable realization that some type of financing will be necessary to achieve the desired goal. The good news is that the availability of financing is as varied as the clients themselves. The less than good news is that the spectrum of loan products is confusing even to seasoned homeowners.

One way to demystify the process is to prepare for the inevitable need for documentation for your lender. Understanding that quick response times are a valuable tool in negotiating your purchase should provide adequate incentive to organize your files.

Typical documentation involves information on income, assets, and credit history. Income information varies depending on whether you are a salaried employee or own your own business. A salaried or 'W-2' employee can usually supply a copy of the previous two years W-2's and the most recent pay stub as verification of income, so saving a recent pay detail will be helpful. Income from self-employment will necessitate copies of your two most recent Federal tax returns. If you are more than a 25% owner of a corporation, corporate returns will also be requested.

Investment income can often be tracked through tax returns and should be accompanied by relevant financial statements. A simple solution to the paper glut that this can trigger is to ask your accountant to provide your returns to you in a PDF file. Being able to simply forward the returns makes the process less of a burden for everyone. Other requests for tax returns can be due to commission income, income from retirement, annuities, or rental income. Each situation is unique and each borrower's income deserves to be presented as accurately as possible to ensure a successful and smooth approval process.

Asset information usually refers to your recent financial statements. Although many clients have numerous possessions of value such as: boats, antiques, artwork, cars, etc., a lender is interested only in cash, liquid assets and retirement accounts. Assets that will be used for the financed transaction are particularly important for the underwriting process. Retirement fund statements can be required as a means of demonstrating reserves or as a source of funds. Any asset statement that is the source of reported investment income needs to be provided as proof of a continued income stream. Lenders vary in their need for one or two months of statements or whether all pages of the statements will be required (yes even the ones that truly have nothing on

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them but a page number!). It is easier to hang on to incoming statements in their entirety, just in case.

Credit history can be the most difficult aspect to manage in the financial preparation process. Very few of us have a recent view of what the credit reporting bureaus portray as our credit history. Requesting an annual credit report is too often filed with our New Year's resolutions for next year. Lenders often have to deliver unpleasant and unexpected information to too many unsuspecting clients. Identity theft, incorrect billing, and improper reporting by creditors, can create credit scores that in no way reflect the credit of the person being reported. If there is an issue, it can usually be resolved to your lender's satisfaction.

Documentation showing payment of an account, a letter explaining a credit situation, or follow up with previous creditors to correct their accounts, can be accomplished with a little time and effort. Information regarding how to research your own credit is readily available on the Internet or contact information can be accessed with help from your lender.

Now that you have done your credit homework, you need to pick a loan product. The abundance of programs in the marketplace today provides home buying opportunities to almost every buyer. Finding the right program for your family can be a bit harder. First, consult with your accountant. Ask him or her, what is the advantage to securing a mortgage in the first place. Each client's needs and situation are unique; a 'one size fits all' approach from a lender should be considered a red flag. Try to answer a few questions surrounding the proposed purchase. Are you going to stay in the property for the foreseeable future, will you outgrow the house within a defined period of time, or will the house become too much to take care of after a time? These are just a few of the questions that can direct you to a specific loan type. If you are reasonably certain that your family will outgrow a property in less than five years, then an adjustable rate mortgage with a lower interest rate in the first years of the loan makes sense. If you are paid a base salary during the year with a substantial bonus at the end of the year, maybe an interest only mortgage makes your cash flow manageable. If knowing that your payment will remain stable for as long as you live in the home is important, fixed rate financing will fulfill that need. Your lender should help you through this process and help you find the best fit for your financing needs.

I am sure that some readers find it odd that this article would finish with the first question that many potential homebuyers ask. "How do I find the best rate?" is by far the most common question asked each day. The answer is research, perseverance and luck! Understand your marketplace. Each community has an abundance of lenders; banks, mortgage brokers, real estate company programs, the list goes on. However, all lenders are not created equal; each type has different regulations that govern its ability to lend money. Understand the fees associated with the programs proposed and ask for a 'good faith estimate' to determine any surprise expenses. Some costs cannot be avoided, but many lenders are so comfortable with the process that many

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forget you are not aware of certain obligations associated with closing a loan. A low rate with high points may not be the bargain you expect or need. Persevere. If you are not comfortable with the information being dispensed, get a second (or third) opinion. Each client is unique and there are many ways to solve a financing need, each with an individual pricing structure. Try to determine if the comparisons are “apples to apples.” A program that addresses a unique client need cannot be replaced with a product that is almost the same. Remember, your father was right, “If it seems too good to be true, it probably is!” Finally, the man on the next street, whose brother-in-law got a fifty year fixed rate at 3%, no points, and zero closing costs was not good, he was lucky. Chances are he also doesn't exist. Try and stay current with the rates in the market and, when it comes time to lock in a rate, make sure it makes sense. Ask your lender if he or she has the ability to 'float down' a rate if the market improves before you close and how to monitor that process. Buying a new home is an exciting time, financing it shouldn't be. With a bit of preparation, securing a mortgage on your new home should be only a small part of the home buying process. Good Hunting!

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