



Your Incredible Lender

Secrets from Apex Mortgage Brokers

Do you need to put a large down payment when buying a home?

It depends. If you are buying a home as an investment property you will want to put at least 25% down to get the most favorable interest rates on a conforming FHFA loan (Fannie Mae & Freddie Mac). But, if this will be the home you live in for over 6 months a year as your primary residence, you might want to consider putting a much lower down payment even if it means having mortgage insurance added to your monthly payments.



Why is everyone afraid of paying mortgage insurance?

Most people think that using their life savings for a down payment makes great sense because it helps the home buyer avoid paying mortgage insurance (MI). Everyone has been taught, like Pavlov's Dog, to put at least twenty-percent down into "idle home equity" (that could be generating interest in an investment) when buying a home to avoid the dreaded monthly mortgage insurance.

In reality, for home buyers with higher credit scores getting a conforming FHFA loan (Fannie Mae & Freddie Mac) the monthly mortgage insurance payment is negligible compared to what that money could be doing in a solid investment account. You should talk with your financial advisor before pulling funds out of your retirement account for the home purchase. Most buyers don't know there is a thing called a mortgage insurance factor. In short, the higher your credit score, the lower your MI factor is. Currently, a 760 credit score buyer putting five percent down has a MI factor around .19 with our best lender. This monthly cost is close to what a nice dinner for two would cost. Keep in mind, on conforming loans the monthly MI payment will drop off as the home's equity increases.

What loan should you do if your credit scores are not that great?

In contrast, a buyer with a 639 credit score using our best lender currently has a high MI factor of 1.17. This higher MI factor would cost hundreds of dollars more each month in

mortgage insurance. A low credit score really matters a lot when not putting twenty percent down in this case. The good news is there is an alternative to FHFA loans called the FHA loan that allows buyers with lower scores to have a lower mortgage insurance premium (MIP). Unlike the conforming loan, FHA loans have mortgage insurance that does not change based on the credit score. Instead, the interest rate changes with the credit score and a buyer only needs a 660 credit score for the best rates. For FHA loans, the MIP stays with the loan for a very long time. Most owners refinance to get rid of it.

Is there any way to avoid MI or MIP when putting very little down?

So, assume your mortgage advisor isn't helping you improve your credit score to lower your monthly payments. Instead, they might suggest that they have no MI on their loans for buyers putting less than twenty percent down on a conforming loan. Sounds great, right?

In truth, all low down payment conforming loans have mortgage insurance. What the buyer is not being told is that the mortgage insurance can either be paid each month with the payment or financed into the loan by increasing the interest rate to cover the monthly cost. These two different ways to pay MI are called borrower paid mortgage insurance (BPMI) which are disclosed on the monthly mortgage statement or "hidden" by rolling the cost into the loans initial interest rate as lender paid mortgage insurance (LPMI).

What if my existing home hasn't sold yet? Is there a way to lower my loan amount after closing?

Suppose you are buying a home and selling your current home. Often buyers would like to get a smaller purchase loan by using the proceeds from the home they are selling as a big down payment. This is especially attractive to buyers who want a low monthly payment when they retire. But what if the home they are selling is closing later than the new home? With government loans like FHA and VA loans you would need to refinance the loan. Refinancing would lower the loan amount but you would have closing costs. Instead, a conforming loan from Fannie Mae and Freddie Mac allows you to "recast the loan" for a minimal fee currently around \$150. Making a principal reduction payment and requesting the lender to "recast down" the loan amount can be done many times over the life of the loan. The more principal reduction payments you make the faster you will own your home outright.

What is the difference between a "Fees Worksheet" and a "Loan Estimate"?

Many lenders give a fees worksheet to buyers when quoting the closing costs stating that it is easier to understand. At Apex Mortgage Brokers we give our clients a loan estimate. There is a reason for this.

The fees worksheet is no more than a quote that can change at any time with no penalties if the fees are wrong. Instead, the loan estimate is a federally regulated document that ensures the quote is accurate. If the lender misstates the closing costs that lender is responsible for paying the difference for the buyer. In sections A and B of the loan estimate there is zero tolerance and any charges higher than quoted are the responsibility of the lender. There are other tolerances as well in other sections of the loan estimate. In short, don't settle for a fees worksheet when shopping for the best loan.

Your Incredible Lender has more ways to drive you home



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