McAlister & Young
125 Belle Forest Circle # 103
Nashville, TN 37221
Phone: (615) 673-2998

McAlister & Young

# 7 Secrets For Saving Thousands When Financing Your Home

*A Valuable Consumer Guide For Saving Money And Getting The Right Home Financing For Your Needs…*

**"You Don't Make Money**
**When You Sell A Home**
**You Make Money**
**When You *BUY* It"**

## Why Even Experienced Home Buyers Make Costly Mistakes When Financing Their Homes…

Dear Friend,

Did you know that your knowledge about home financing can mean the difference between making and *losing* tens of thousands of dollars?

If you're like most people, home financing…with all its hidden costs and games…can be a daunting and confusing event. And for about 80% of people out there, borrowing $100,000…$200,000…or even $500,000 or more is the largest financial transaction you will incur in your life.

Small mistakes can leverage themselves into big losses of money. That's why you need to be armed to the teeth, not only with helpful knowledge, but with proven, helpful strategies and questions that will get you the very best mortgage for your situation for the absolute lowest cost available in the market.

And that's why we created this report…to give you a number of helpful, straightforward tips for avoiding costly mistakes and getting the very best financing for your dollar.

Here are **seven** strategies (we call them "secrets" because so many home buyers disregard them when buying a home) you should consider when financing your home:

### Secret #1: Clearly Understand How Much Financing You Can Afford

Like it or not, there are two guidelines bankers and mortgage lenders use to determine how much loan you can afford.

The first guideline is the *Payment To Income Ratio*. This guideline compares your income – or your total household income – to the amount of mortgage payment you're considering.

To calculate the "payment" part of the formula, the lender will take the mortgage payment (principal + interest) and add to it Property Taxes and Insurance. Hence the term "PITI" (principal, interest, taxes, and insurance).

Usually lenders will loan up to 28% of your total household income.

But before you think you're home free, there's something else you need to know…

It's called the *Debt To Income Ratio*. Debt refers to ALL the major monthly payments other than your mortgage payment (PITI). To arrive at this amount, the lender will consider…

Your car payment.
Your credit card debt and payments.
Any IRS liens or payments due.
Any other payments and debts you have (boat, second home, etc.)

Then, they'll compare your total debt to your ability to make current payments with your new home loan added into the equation.

Now, here's the "catch." Each mortgage company sets different limits on your Debt To Income ratio, which is why it's critically important to find a MOTIVATED LENDER!

Don't follow the "canned" financial advice like you see on TV. Most of that advice is "rule of thumb," and designed for the lowest credit rating and highest interest rates.

Think about this…

If you spend two or three days to find a loan that saves you $40,000 to $150,000 or more over its term, your time is WELL WORTH SPENT! Doing a little homework on your own will literally save you thousands over the term of your loan.

## Secret #2: Be Financially Prepared – Ahead of Time!

Many people go about the home finding process backwards. They go through the entire process of searching, evaluating, and writing an offer on their home, WITHOUT being financially prepared.

And it usually costs them money. A lot of money!

Doing a few things up front, BEFORE you go searching, will save you a lot of money, time, and hassles. What are those things?

First, find a MOTIVATED lender.

No, don't just go down to your local bank where you'll likely to be slowly tortured by bureaucracy and paperwork. Your banker may be a good friend for your checking, savings and perhaps an auto loan. But most bankers are not motivated to work hard to earn your real estate business (although some are changing their ways).

That's because one of the quotas bankers have to live by is*: "How many BAD loans did you originate?*"

They don't get measured by their production…

They don't get measured by their service…

They only get measured by the MISTAKES THEY AVOID!

Now, I know if your local banker sees this, he's going to cringe a bit, and start reciting all the ad campaign jargon most banks are spouting these days. But the truth is…

### There Is Absolutely NO Incentive For A Traditional Banker To Serve Your Best Interests…

What you want to do is find a mortgage lender who is MOTIVATED to take your loan. One who represents many different products, and can offer you many options for making your loan most affordable.

**Here's an important tip:** Ask your REALTOR® to refer one or two lenders to you. Why? Because your agent has influence over lenders because they send lots of clients. It's not just YOU alone talking to them.

If they don't give you first class service, the REALTOR® who sent you will refer (ALL) their clients to someone else. So they're motivated to SERVE YOU. And the minute you have a problem with your loan, you can turn to your REALTOR®…who has much more influence and leverage over the lender than you alone.

After all, your REALTOR® and lender both want to see the transaction close. There's power in numbers and influence. Use it to your advantage.

Now, the second thing you want to do is GET PRE-QUALIFIED with a lender. Better yet, try to get PRE-APPROVED.

Why?

Because the first question any home seller will ask when an offer is presented is "*Is your buyer approved for a mortgage?*"

And rightfully so! The seller doesn't want the deal to fall through because you couldn't get financing. When they accept your offer, their home comes OFF the active market. If you fall through, it costs them time and money.

Plus, there's one more reason to get pre-qualified or approved…

## You Will Have Much More Power To Negotiate Price And Terms When You're Financially Qualified!

When you have money behind you, the seller knows your serious. And a serious buyer ALWAYS has more influence to negotiate. So do yourself a favor, GET PRE-QUALIFIED or PRE-APPROVED!

Now, the third way to become financially prepared is to have deposit funds available immediately. One way to do this is to write a check for 3% of the highest price you've been qualified for financing.

Make the check out to the Brokers Trust Account, or the Title Agency you will use. The broker or title company are trustworthy fiduciaries by law, and will hold the check un-cashed until you make an offer that's accepted.

Now I know what you're thinking… "It'll be a cold day in Ecuador before I write a check before we've even located a home." I understand.

But you may want to consider this…

Jim and Susan were buyers from outside their immediate area. Because of their distance, they could only get together with their agent with two days notice. And the market was pretty good.

Three homes came on the market, and were sold before they could get together to visit them. Twice, they lost other deals because of bidding wars.

Finally, out of frustration, they placed an un-cashed deposit with their broker.

When they finally found the right home, they decided to write an offer…

And because they placed an un-cashed check on deposit, their agent could enter negotiations with verbal authority to make the offer. And because the agent could demonstrate that he had earnest funds, the buyers were able to sign a faxed copy of the offer, and their deal was secured.

And it's a good thing! The very next day, three more offers came in on the home they just put into escrow!

## Secret #3: Understand The Basics Of Home Financing

Your ability to afford a home will be related to a number of items. They are:

1. The PRICE of the home.
2. Your DOWN PAYMENT on your home, and thus the amount financed.
3. The INTEREST RATE and POINTS of your loan – the amount a bank charges you for the money.
4. The TERM of your loan: 10 year, 15 year, 30 year.
5. The overall TYPE of your loan: Most common is fixed vs. variable rates. But there are hundreds of loan packages to choose from.

And just in case you were looking for a specific "rule of thumb" for financing your home, you should know that…

**There Are NO General Rules Of Thumb About Financing Your Home.**

Each case is different, and your personal financial circumstances will have an impact on how much home you can afford.

However, you MUST understand the relationship and impact interest rates, term of loan, points, and type of loan can have on your overall financial picture.

Let's start with the "amount financed" first. Many people often pay cash or put 20% or more down as equity. The reasons they do this are:

"The bank required us to…"
"We've just always put down this amount…"
"We wanted a lower payment."

Problem is these reasons could cost you thousands of $$$'s!

The answer for how much you can put down on your home is different for most people. However, I have learned over time that…

**Many People Put Down More Cash On Their Home Than They Need To, And Could Have Received A Better Return On Investment Had They Invested The Money Instead Of Putting It Into Their Home**

Here's a simple and fast way to "ballpark" the actual annual return on investment you get from the money you put down on your home:

1. Take a look at the homes in your area. How much have they appreciated, each year on average, over the past five years? For example, you might find that values have increased an average of 1.5% a year.

2. Now, take the total cost of your home, multiply that value times 1.5% (the average expected annual appreciation of your home). For example, a $150,000 home increasing value at 1.5% for the first year. Thus, the home will be worth $2,250 more a year from now.

3. Now, divide the amount of increase in your home ($2,250 in the example) by the total amount of Down Payment you put into the home. For example, if you put down 20% (or $30,000), then $2,250/$30,000 = 7.5%.

Now 7.5% sounds like a fair investment. But the question you need to ask is this: Can you make more than 7.5% elsewhere?

And did you notice something else here? Had you put down just $15,000, your return on your Down Payment would be 15%!

The moral of the story: Putting more money into your home may make your banker happy, because it lowers the risk of getting his money out if you default.

And it may make your overall payment a little lower…

But it may be a wiser decision to put less into your home, IF you can locate an alternate investment that will pay greater interest on your hard-earned equity.

Now, let's shift gears a little and talk about the impact Term and Interest rate will have on your overall financial picture…

## How INTEREST RATE and TERM can make or COST you thousands.

Mortgage lenders toss around interest rate numbers as if they didn't matter.

They DO!

And to illustrate the impact interest rates can have on your overall financial picture, we have presented a table below showing the interest you pay over the term of a 30-year, $150,000 loan at 8%, 7% and 6%.

And here's the clincher: Just ONE percentage point on a $150,000 loan can cost you almost $37,000 over the term of the loan! TWO percentage points will cost you over $72,000!!

Your banker might tell you his "slightly higher rate" is only a matter of $103 a month in payment. But YOU should know better! Take a look at the table below…

| Loan Amount | Interest Rate | Monthly Pmt. | Interest Paid | Savings |
|---|---|---|---|---|
| $150,000 | 8% | $1,101 | $246,233 | -- |
| $150,000 | 7% | $998 | $209,263 | **$36,970** |
| $150,000 | 6% | $899 | $173,757 | **$72,476** |

That's money taken out of your pocket if you don't look for good rates!

And if you think interest rate has an impact on your overall financial picture, take a look at what modifying the TERM of your loan can do…

Here's another example of a $150,000 loan at 7% interest. But this time, we examine the total interest paid when you select a 30 year vs. a 15 year vs. a 10 year amortization…

| Term | Interest Rate | Monthly Pmt. | Interest Paid | Savings |
|---|---|---|---|---|
| 30 Year | 7% | $998 | $209,280 | -- |
| 15 Year | 7% | $1,348 | $92,640 | **$116,640** |
| 10 Year | 7% | $1,742 | $59,040 | **$150,240** |

The "bottom line?" Estimate the maximum amount of payment you can afford, and adjust TERM and INTEREST RATE of your loan to minimize the amount of total interest you'll pay.

But then your banker cuts in and says, "but the interest you pay is Tax Deductible…" And you should know this: If you're in the 28% tax bracket, for every dollar in interest you pay, you only save 28 cents. Don't go spending a dollar to save 28 cents if you can help it!

### Here's How To Instantly Know How Many Points You Should Pay…

Another consideration in the formula is the amount of POINTS your lender will charge you to initiate your loan. And what you'll notice is there's a GAME being played with you.

And if you don't know the rules of the game, YOU LOSE!

Sitting across from a banker while he throws obscure numbers at you like you're a human dartboard can be pretty overwhelming. And frequently you'll hear terms like "7.5% with 1.5 points," or "7.25 with 1 point."

All-the-while you're thinking to yourself, "I have no idea what the financial impact of this guy's blabbering means to me." And quite frankly, your banker knows…

### The Less You Know About What You're Paying
### The Better For HIM!

So hopefully this little "ballpark" example will help you quickly determine the best points-to-interest rate for you, how many points should you pay, and what formula is best for you? Here's a little help…

If a banker is giving you several options of interest rates and points, you need to sort out the financial consequences so you don't lose money. Say, for example, you were considering two loans. Both are for $150,000, and both are 30 year amortization.

**DEAL #1:** One loan he offers you is 7.5% with 0 points for origination.

**DEAL #2:** Another loan he offers you is 7%, but he wants two points to originate the loan.

What's the ONE factor that will determine which loan is better?

### How LONG You Keep The Loan!

The first thing you need to think about is how long you're going to live in that home. The average homeowner spends about 5.5 years in their home before selling for whatever reason.

So, for example sake, let's say you plan to live in the home five years. Here's how you determine which deal is better…

1. Take the difference in monthly payments (principal and interest only) of EACH loan.

2. Multiply that amount by 12 months to get the annual amount of difference.

3. DIVIDE that amount into the $$ amount of points you pay to determine the number of years at which you recover the points paid up front. If the number of years is LESS than your anticipated time in your home, you'll be better off paying the points and getting the lower rate. If it's higher than you plan to spend in the home, opt for the lower points.

### Here's an Example…

| Loan | Points | $$ Points | Interest Rate | Mo. Payment |
|---|---|---|---|---|
| **#1**, $150,000 | 0 | $0 | 7.5% | $1,049 |
| **#2**, $150,000 | 2.5 | $3,750 | 7.0% | $998 |

1. The difference in monthly payments is $51 a month ($1049 - $998 = $51).
2. $51 X 12 months is a savings on (approximate) interest of $612 per year.
3. Total Cost Of Points divided by $612 is 6.13 years ($3,750/$612 = 6.13).

The result? If you stay in your home for five years, you will NOT recoup the points you paid up front with the savings in a lower interest rate. Recoup time is about six years and two months to breakeven.

So your best bet would be to select loan #1.

If, however, you planned to keep your home beyond six years and two months, you'd be better off with loan #2 (i.e. the overall savings in interest rate will exceed the amount you paid in points – not considering the time value of money).

Are you starting to see how important it is to understand your home's financing, and how important it is to shop for the best rates, terms, and points?

## Secret #4: Know The "Insider Secrets" Mortgage Lenders Use To Take Money Out Of *YOUR* Pocket!

OK, so you've decided you know how much you want to put down on a home. You know the importance of understanding Term vs. Rate and how Points affect your loan. You're ready to move forward.

Before you sit down and sign on the bottom line, you're next step is to understand the language you're going to see, AND the hidden areas you might need to pay more than you should. And remember this…

### Many Of The Fees And Costs You Think Are *Not* Negotiable Are Very Much Negotiable

And if not negotiable, you can certainly learn how to effectively judge one loan program from another, and make the right decision for your situation. That's what you're going to learn to do here.

So let's cover first things first. When shopping for a mortgage, you better know the language. The more you know, the better you'll be able to make an informed decision on which loan…and loan company…is best for you.

Here's a rundown of the terms you're going to see and the important items you need to watch out for:

**PAR**. PAR is the lowest interest rate available without paying any discount points. And it should be the baseline for all your comparisons. Most mortgage lenders get hourly computer updates on the current PAR rate. You have every right to see the current PAR rate, so you can make a wise decision on whether to go for PAR, or buy down the interest rate on your loan by paying points (as we talked about earlier).

**ORIGINATION FEE**. Watch out here! This is what most mortgage companies charge to "originate" your loan. And it's pure profit for the mortgage lender. The traditional fee is 1% of your total loan amount. If it is more than 1% you need to know why.

**DISCOUNT POINTS.** Watch out here as well! As I mentioned earlier, discount points are actually pre-paid interest amounts that can be used to buy down, or lower, your interest rate over the life of your loan.

Make sure you know what the current PAR rate is when making your decision about whether to pay discount points. Otherwise, you won't know if your points (usually 1% of your loan amount) are actually being used to reduce your interest rate or simply being put into your lender's pocket!

**LOCK PERIOD.** Watch out here as well! Make certain you know what your lender is quoting you! The lock period is the period of time that a quoted interest rate/discount point combination can be guaranteed. The shorter the lock period, the lower the rates. If you're quoted a 15 day lock, make sure you can close your loan in 15 days, otherwise if market rates to up, you'll be subject to a higher rate loan at closing.

**YIELD SPREAD PREMIUM (YSP)**. This is a hidden kick-back to the mortgage lender! You need to ask if your loan will have a Yield Spread Premium at closing. If there is, then you're paying a higher interest rate than you should be.

See, YSP's are payments the mortgage lender receives for selling you a higher interest rate than you could qualify for. This is, in essence, a kickback lenders can get that won't be disclosed until closing. Although it's not money directly out of your pocket, you will pay the difference by paying higher interest rates every month for the life of your loan.

**SERVICE RELEASE PREMIUM**. Here's another hidden kickback! SRP's are additional fees mortgage lenders can receive for giving another company the right to collect your mortgage payments. This fee can range from ½ point to 2 points, depending on the type of loan and the loan size. Most mortgage brokers keep this cash as additional profit.

**JUNK FEES.** Pay attention here! Junk fees are all of those small items, such as warehouse fees, document preparation fees and messenger services, flood fees, tax service fees, administration fees, processing fees, underwriting fees, etc., that most lenders add on to their origination fees. Some mortgage lenders mark these fees up to generate extra profit. Make certain you find out what fees you'll have to pay – and make certain they're not marked-up!

**APPRAISAL AND CREDIT REPORTS.** Warning! Make sure these outside services are not marked-up by your lender. Appraisal and credit reports are provided by outside vendors and are usually standard in each market. Other costs are also standard, including insurance and tax impounds; termite inspections; and title, escrow, and recording fees. These expenses are NOT part of the cost of the loan itself and should not figure into your mortgage lender decision.

## Secret #5: Here Are 17 Questions You MUST Ask A Mortgage Lender.

OK, so you're now armed to the teeth with information…probably more information than you ever *wanted* to know. But you can see the importance of this process. By taking a few minutes to understand how the "game" works, you can save yourself thousands of dollars, and get a loan that best fits your personal situation.

But we're not done yet. It's now time to meet with your lender, or lenders, face-to-face. Now, at this point, he or she is going to ask you a lot of questions. And it's easy to let this game go down a "one way street," with them asking all the questions. But that's not in your best interests.

You need to ask a few questions of your own. And to help you in the process, I've provided you with 17 important, probing questions to help you "flush-out" the very best mortgage for you:

1. What is the PAR interest for my type of loan today?
2. Will I be charged an origination fee? If so, how much?
3. Will I be charged separate discount points? If so, how much?
4. Will you get a Yield Spread Premium payment for placing my loan? If so, how much is it? (*Remember, this is nothing but a kickback mortgage lenders get for selling you a higher interest loan than you qualify for. Watch out here!*)
5. If there is a YSP, ask: Can I receive full credit for the Yield Spread Premium to reduce my closing costs?
6. Do you get a Service Release Premium? How much is it?
7. Will I be charged a separate processing fee? How much is it?
8. Will I be charged a separate document preparation fee? How much is it?
9. Will I be charged a separate underwriting fee?
10. Will I be charged a separate tax service fee?
11. Will I be charged a separate flood certification fee?
12. Will there be additional fees at closing?
13. What is the total of all these costs?
14. If I apply for a loan this afternoon, can I hold you to these costs?
15. Is there a Lock Period with this loan? If so, how long?
16. What will my annual percentage rate be with this loan?
17. Instead of all these separate charges, can you offer just one simple fee, and promise to give me the PAR interest rate?

Remember, you have a right to this information, and any reputable mortgage lender will answer these questions without hesitation.

Never feel that you're imposing on them. Don't let them confuse you.

This is a game, and you must know the rules and strategy in order to compete effectively.

## Secret #6: Work Out A Cost Comparison On Several Lenders To Locate The Perfect Loan!

OK, here's where all your hard work pays off. At some point you're going to need a way to evaluate one loan program from another.

Here's a helpful cost comparison sheet to help in the process…

| | Example | Lender #1 | Lender #2 | Lender #3 | Lender #4 |
|---|---|---|---|---|---|
| Loan Type | 30 Year Fxd | | | | |
| Interest Rate | 7.125% | | | | |
| PAR Rate | 7.000% | | | | |
| Purchase Price Of Home | $ 156,250 | | | | |
| Loan Amount | $ 125,000 | | | | |
| Lock Period | 30 days | | | | |
| **Fees:** | | | | | |
| Origination Fee | $ 1,250 | | | | |
| Mortgage Service Fee | - | | | | |
| Discount Points | - | | | | |
| Yield Spread Premium | - | | | | |
| Service Release Premium | - | | | | |
| Processing Fee | 200 | | | | |
| Underwriting Fee | 225 | | | | |
| Document Prep Fee | 200 | | | | |
| Tax Service Fee | 69 | | | | |
| Flood Certification | 24 | | | | |
| Other Loan Fees | unknown | | | | |
| **Total Loan Fees:** | $ 1,968 | | | | |
| Annual Percentage Rate (APR) | 7.187% | | | | |

**NOTE:** The Yield Service Premium is a kickback lenders give to mortgage companies to sell you a loan higher than the lowest rate you could get. In this example, the rate quoted is 1/8th percentage higher than par, but the Yield Service Premium goes to you, the borrower to offset loan costs. It's your choice: take a slightly higher rate and lower your costs, or get the lowest interest rate available.

Once you've taken the time to compare your financial alternatives with several lenders, you'll have a good picture of all the costs you'll have to pay to get the right home loan for you.

Now, there's another little tip we want to give you that can save you tens of thousands of dollars in interest once you get your loan. And here it is…

## Secret #7: Here's A Special Technique To Save You Tens Of Thousands On Mortgage Interest

Did you know that on a $150,000, 8% fixed-rate, 30-year loan you would save over $68,868 in interest and pay off your loan seven years early if you made just the equivalent of *ONE* extra mortgage payment every year??

What's the catch? Nothing really…just a little "smart" financial management at work. Now, you may have heard of programs that do things like this, called "*Bi-Weekly*" payment programs. There are lots of bi-weekly programs out there and lenders promote them frequently.
What are "Bi-Weekly" programs? It's where either a third party or your lender collects your mortgage payment bi-weekly rather than monthly and applies it to your outstanding principal balance on your loan. This helps to minimize the total interest you pay on your loan by increasing the frequency of payments you make (each payment being about half your normal amount).

And the reason why they promote them is because the lender (or third party) makes money off administering these programs to you. But what you probably didn't know is…

## There Is A Much Simpler Way To Accomplish The Same Thing Without Lenders Or Third Parties Taking Their "Cut" Out Of Your Pocket!

No kidding! Here's how it works…

Just about every loan you get will allow you to prepay it in whole or in part without any penalty. Here's what you do. Take your current monthly principal and interest payment you make on your current loan (don't include impounds for taxes, fees, or other costs – just principal and interest). If you don't know what it is, ask your mortgage lender for an amortization schedule of your loan. Multiply that number by 13. Then divide that total by 12 to get your new "accelerated" monthly payment.

That number becomes your new mortgage payment that will give you these whopping savings. Let's take an example using the $150,000, 8% fixed, 30-year loan mentioned above. Here' what you do:

| How To Save A Fortune On Your Mortgage: | Example | Your Loan |
|---|---|---|
| 1. Enter Your Monthly Principal & Interest Payment | $ 1,100.65 | |
| 2. Multiply That Payment By 13 | 14,308.45 | |
| 3. Divide That Amount (#2) By 12 Again | 1,192.37 | |
| 4. Subtract #1 from #3: For Your Accelerated Monthly Payment | $ 91.72 | |

Do you see what's happening here? By adding just $91.72 per month to your current mortgage payment, you can save over $68,868 in interest over the term of your loan, PLUS pay your loan off seven years earlier than a conventional payment schedule.

Just a slight accelerated payment schedule can make a world of difference in savings to you…and your ultimate net worth! The larger your mortgage and the higher your interest rate, the more benefit you get by using this simple mortgage acceleration calculation.

We would love to refer you to a trusted mortgage lender (615) 673-2998