

FAQ's



Q: What is the best mortgage program?

A: The best loan program truly depends on your personal situation. Your decision depends on your individual needs and various factors such as: your current financial situation, how your finances may change in the future, how long you intend to live in your house, and how comfortable you are with your mortgage payment changing.

The best way to find the 'right' answer is to discuss your finances and your preferences with a mortgage professional.

ARM (Adjustable Rate Mortgage)

Adjustable Rate Mortgage loans usually begin with an interest rate that is 2 to 3 percent below a similar fixed rate mortgage. The interest rates are adjusted, typically every year, depending on the market conditions. An ARM will allow you to qualify for more

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money or buy a more expensive home. These loans are also beneficial if you are planning to move in a few years.

There are four standard ARM programs:

6-Month Certificate of Deposit (CD) ARM

A maximum interest rate adjustment of 1% every six months. The 6-month Certificate of Deposit (CD) index typically reacts quickly to changes in the market.

1-Year Treasury Spot ARM

A maximum interest rate adjustment of 2% every 12 months. The 1-Year Treasury Spot index usually reacts slower than the CD index, but quicker than the Treasury Average index.

6-Month Treasury Average ARM

A maximum interest rate adjustment of 1% every six months. The Treasury Average index generally reacts more slowly in fluctuating markets.

12-Month Treasury Average ARM

A maximum interest rate adjustment of 2% every 12 months. The Treasury Average index normally reacts more slowly in fluctuating markets.

There are also mortgages that combine certain features of fixed and adjustable rate mortgages called hybrid ARM (3/1 ARM, 5/1 ARM, 7/1 ARM). These loans can offer both lower interest rates and a fixed payment for a longer period of time (3 years, five years, and seven years, respectively) than most adjustable rate loans.

Q: Why would I want an ARM vs. a Fixed Rate?

A: An ARM allows you to receive more money at a lower interest rate than a fixed rate loan. If you are planning to move within a few years, you can save money and avoid rising payments.

Fixed Rate

A fixed rate mortgage is when the interest rate remains constant throughout the life of the loan. The most common fixed rate mortgages are repaid over a period of 30 years or 15 years.

Thirty-Year Fixed Rate Mortgage

The traditional 30-year, fixed-rate mortgage has a constant interest rate and monthly payments that never change. If you intend to stay in your home for seven years or longer, this may be a good option for you. However, if you plan to move within seven years, an adjustable rate loan may be less expensive. Fixed rate loans are particularly beneficial when interest rates are low because you can lock in the low

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rate for the duration of your loan.

Fifteen-Year Fixed Rate Mortgage

This loan is paid over a 15-year period and has a constant interest rate and monthly payments that never change. The advantages of a 15-year, fixed rate is that it offers a lower interest rate, and you'll own your home twice as fast. However, the disadvantage is that you commit to higher monthly payments. Many borrowers opt for a 30-year fixed-rate loan and voluntarily make larger payments that will pay off their loan in 15 years. This approach is often safer than committing to a higher monthly payment, since the difference in interest rates isn't that significant.

Q: Can I cancel my PMI?

A: If you would like to cancel your PMI, contact your lender. You can typically cancel your private mortgage insurance after you have built up at least 20% equity in your home. Investors usually set the guidelines for PMI cancellation, and they often require an appraisal of your home. Another way to cancel your PMI is to refinance and get a new loan without a PMI.

Q: Why would I need an appraisal?

A: The most common reason for an appraisal is if you are buying or selling a home. However, an appraisal may also be helpful for the following reasons: obtaining a loan, lowering your taxes, settling an estate, or refinancing.

Private Mortgage Insurance (PMI)

Private Mortgage Insurance (PMI) is a type of insurance that protects the lender against losses that result from defaults or foreclosures on home mortgages. PMI is usually required when you purchase a house with less than a 20% down payment. The advantages of PMI is that it allows mortgage companies to accept lower down payments and accept loans that may be considered high risk, meaning that your loan does not fall under traditional, conforming guidelines.

Q: What is the FHA loan limit?

A: FHA loan limits vary throughout the country depending on the cost of the area. In addition, FHA maximum amounts are linked to the conforming loan limit and average home prices. Therefore, FHA loan limits may change. Be sure to ask your mortgage professional for details

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and current loan limits.

Q: How can I improve my credit rating?

A: There is no guaranteed cure for a poor credit score; however, the best and most efficient way to improve your credit report is to make your payments on time. In addition, do not apply for credit frequently, because a large number of inquiries on your credit report can negatively affect your rating. Try to reduce your credit card balances as well.

Q: What are credit scores?

A: A credit score analyzes your credit history by considering the following factors: late payments, the amount of credit established, the length of time at your present residence, employment history, collections, and bankruptcies. A lender will take into account your credit score when qualifying you for a loan. Lenders generally utilize an A-through D (or comparable) credit ranking system.

The typical breakdown is as follows:

A- MINUS CREDIT: Contains very minor or no credit problems within the last two years, one or two 30-day late payments, and no record of collections.

B CREDIT: This is where the majority of credit reports fall. This may include a few late payments within the last 18 months, and up to four 30-day late payments, or up to two 60-day late payments. If the late payment is a single incident, one 90-day late payment is allowed within the last 12 months.

C CREDIT: May include several late payments in the 30 to 60 day range in the past few years, and any late mortgage payment that is in the 60 or 90 day range. It can also contain a bankruptcy or foreclosure that had been discharged or settled in the last 12 months.

D CREDIT: Includes anything from open collections, charge-offs, notice of defaults, to multiple 30, 60, and 90 day or longer missed payments.

Q: What if there is a mistake on my credit report?

A: If you believe there is an error on your credit report, there are three credit bureaus that you can contact: Experian, Trans Union, and Equifax. Each bureau will give you information on how to dispute errors. It

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is recommended that you do not apply for credit while a dispute is pending. Investigations are typically completed within 30 days of the date the request is received.

Q: What is a rate lock?

A: A rate lock is a contractual agreement between the lender and the buyer. There are four components to a rate lock:

1. Loan program
2. Interest rate
3. Points
4. Length of the lock

Once you have completed a loan application and chosen a property, you can lock in your interest rate. Locking in a rate allows you to keep a certain loan program and interest rate over a specified amount of time, even if the interest rates go up during that time. Usually, rates are locked in on a 45 and 60-day basis. Keep in mind, a lock usually cannot be changed, so it is important to consult your mortgage professional for advice. In addition, most lenders will not adjust your lock if rates drop, unless the drop is substantial.

Q: What are points and how do they work?

A: Points are fees paid to the lender at closing. One “point” is equal to 1% of the total loan amount. For instance, for a \$200,000 loan, one point would equal \$2,000. Most lenders charge between 1 and 2 points.

If you want to lower your interest rate, you can pay more points up front. This is an effective way to save money by lowering your interest rate over the life of your loan. However, if you do not have money to pay upfront, opt for fewer points.

Q: How do I qualify for a loan?

A: Complete a Fannie Mae Form 1003 application with a bank loan officer, credit union loan officer, or licensed mortgage broker. Most banks allow you to apply on line as well. However, if you do not qualify for a conforming loan, for instance, if you have poor credit history or a debt-to-income ratio greater than 40%, consult your licensed mortgage broker for assistance.

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Q: What is a conforming loan?

A: There are several factors that determine whether a loan is non-conforming. For instance, if you have a low credit score and only 5% down, you would be considered a non-conforming borrower. Also, borrowers who want to purchase or refinance a home at a high loan-to-value (LTV), i.e., 95% or 100%, fall under a non-conforming loan. In addition, if a borrower is unable to verify their income, they are considered to be non-conforming. For instance, self-employed borrowers who do not want to disclose income simply state how much they make on their 1003 application. Stated income loans at high LTV's are non-conforming as well.

Q: How do I know how much of a loan amount I qualify for?

A: Your loan officer and/or broker will tell you how much you qualify for after they review your application and pull credit. The loan amount depends on income and debt ratio. Your debt ratio is the total amount of monthly debt you pay out divided by your monthly income. The debt-to-income (GLOSSARY) ratio (DTI) lets the lender know how much mortgage debt you are able to handle.

Pre-qualification

Pre-qualification does not guarantee that you will be approved for the loan.

If you do not pre-qualify under the conforming, Fannie Mae guidelines, your mortgage broker can discuss several options and offer strategies to qualify you for a loan, which may include:

1. Switching to a stated income loan
2. Offering you an Adjustable Rate Mortgage loan at a low starting rate
3. Lowering your down payment by using the money to pay for revolving/installment debt, thereby improving your debt ratio
4. Changing to a non-conforming loan program with a higher debt-to-income ratio
5. Buying down the interest rate

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