

MORTGAGES *The Insider's Guide*

Shopping Toolkit for Refinancing

IMPORTANT NOTES BEFORE USING THE TOOLKIT:

If you are shopping for a mortgage you need to understand the fundamentals of loan pricing and the costs associated with a loan. Read *Loan pricing, points, and lender credits* either on the website or in the book before proceeding.

TOOLKIT WORKSHEETS:

Borrower Information worksheet:

To give you an accurate quote, your lender needs some basic information. This worksheet will help you organize that information, alert the lender to issues in your financial situation that need to be explained, and provide the information necessary to fill out the 'Ask the right question' worksheet.

Ask the right question worksheet:

In writing the worksheets I decided to word the 'Ask the right question' worksheet using the terminology from the new GFE so that you can easily and accurately compare quotes. Every lender you are working with should understand this terminology.

Loan Comparison worksheet:

I want to point out that in the last few years the specific terminology historically used in loan pricing has been muddled because of a new Good Faith Estimate of Closing Costs form, or GFE, mandated by the government. You need to know the terminology and how loan pricing works to understand the loan pricing you are being quoted.

Loan pricing has always consisted of two primary parts, the **loan fees**, and any **charge (points) or credits** associated with the interest rate that you are being offered.

1. **Loan fees:** In the current GFE the loan fees are all lumped together as one fee called 'Origination Cost'. In the past these fees comprised a smorgasbord of charges, often called 'junk fees', which included some combination of loan processing, underwriting, document preparation, credit report, and a host of other fees. The average origination fee is currently around \$1500.
2. **Charge (points) or credits:** The new GFE uses two separate lines, the 'Charge for this rate' and the 'Credit for this rate' to list what used to be called points and lender credits. Often these fees/credits were quoted as points, or percentages of the loan amount; on the GFE they are quoted as dollar amounts. There also may be no charge or credit at all for the rate you choose; this has always been referred to as a 'no point' loan.

Borrowers often used to ask, "What rate can I get if I pay one or more points?" Now, 'points' are called a 'Charge for this rate'. Borrowers can lower the interest rate by paying a higher 'Charge for this rate' just like they could by paying 'points' in the past, the higher the 'Charge for this rate' the lower the rate. If you want a credit for some or all of the closing costs, as in the past the lender can quote you pricing at steadily increasing rates, with the 'Credit for this rate' increasing as the rate increases. Again, this is covered clearly in the *Loan pricing, points and lender credit* section of the website and book.

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Borrower Information for Refinancing

Basic information most lenders need when discussing qualifying, options, and loan pricing

Subject value: \$ _____ current appraisal (or) estimated

CURRENT MORTGAGE

Payoff amount \$ _____

Payment (principle + interest) \$ _____

Type of loan (i.e. 30 yr fixed) _____

Date obtained (mo/yr) _____ / _____

Home equity Line? Yes No

Current balance \$ _____

Paying off with refi? Yes No

Keep HELOC open? Yes No

CREDIT – from a tri-merge mortgage credit report

TYPE OF LOAN YOU WANT TO CONSIDER

Borrower

Co-Borrower

30 yr FIXED

15 yr FIXED

3/1 ARM

5/1 ARM

7/1 ARM

10/1 ARM

EMPLOYMENT

Y/N

Y/N

W-2 employee?

Self-employed, schedule C

Partner, Schedule E

Investor, finance or RE

25% or more owner of a company?

Employer change past 2 yrs?

Significant income change past 2 yrs?

At least 2 yrs in same line of work?

At least 2 yrs with same employer?

Currently monthly income:

\$ _____

\$ _____

ASSETS

Non-retirement: checking, savings, brokerage

\$ _____

Retirement: 401K, IRA, etc.

\$ _____

OTHER PROPERTY OWNED

Estimated value

Pmt. w/tax & ins

Primary Second Investment

\$ _____

\$ _____

Primary Second Investment

\$ _____

\$ _____

Primary Second Investment

\$ _____

\$ _____

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Ask the Right Question Worksheet - Refinancing

This worksheet will help you quickly formulate the question you will ask when looking for clear, comprehensive, and comparable rate quotes for a residential refinance loan. The loan comparison worksheet above provides a simple format for gathering and assessing the answers. **It is very important that you read *Loan pricing, points, and lender credits* on the website or in the book and the *Shopping Toolkit Intro* on the first page of this toolkit before you proceed.** Also, keep in mind, interest rates change every day, and sometimes during the day, and that most lenders don't allow locking after 4PM. For the best results, call everyone within a two-hour window before 4PM.

Here is an example of the right question which I'll use this to walk you through the steps in formulating your question on the next page:

I want a rate quote. I estimate the value of my property to be \$800,000. It is a duplex and it is my primary residence; my middle credit score is 714. What interest rate can I lock in for 30 days on a 30-year fixed rate mortgage, with a loan amount \$640,000 on a cash-out refinance. As per the good faith estimate, I want to know to know your origination cost and the charge or credit for this rate. I want a credit to cover the closing costs for this refi.

COMPONENTS:

I want a rate quote. I estimate the value of my property to be [1-estimated value]. It is a [2-property type] and it is my [3-use]; my middle credit score is [4-credit score]. What interest rate can I lock in for [5-lock period] days on a [6-loan type] mortgage with a loan amount of [7-loan amount] on a [8-transaction type]. As per the good faith estimate, I also want to know your origination cost and the charge or credit for this rate. I want to [9-loan pricing, charge or credit]

1- estimated value: the lender may want to know what you are basing this on, for example a current appraisal

2-property type: single family, a duplex, a condo, a TIC, 3-4 units

3-use: primary residence, second home, investment property

4-credit score: your middle credit score; the residential mortgage credit report gives three scores for each borrower; use the middle score, and the lower of the two middle scores if there are two borrowers

5-lock period: 30, 45, or 60 days. Remember, although a 30 day lock will have better pricing than a 45 or 60 day, if the market is busy or your lender is backed up you may have to do a 45 or 60 day lock.

6-loan type: 30 or 15 year fixed, or ARM fixed for 3, 5, 7, or 10 years - see Loan option if you have questions

7-loan amount: the loan amount you are requesting

8-transaction type: cash-out refinance, or no cash-out refinance; if you are taking cash-out, the lender may want to know the balance on your current loan

9 – loan pricing, charge or credit: 3 basic options -

a - keep the charge or credit for this rate close to zero

b - get a credit to cover the closing costs for this refi

c - pay one or more points to lower the interest rate

Most borrowers opt for 'a', also called 'no-points', and have the lender quote a rate that has either no charge for the rate, or only a small charge or credit.

Note: the origination cost on the Good Faith Estimate combines all the traditional loan fees for processing and underwriting the loan. Loan points will be listed as 'Charge for this rate' on the GFE.

Additional information the lender may need:

Describe any unusual property features: Manufactured home, geodesic dome, live-work loft, large acreage, off-the grid. If you have had a bankruptcy let the lender know, and provide the discharge date; if you have had a short sale or foreclosure, let the lender know when this took place.

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Create Your Question - Refinancing

EXAMPLE

I want a rate quote. I estimate the value of my property to be **\$800,000**. It is a **duplex** and it is my **primary residence**; my middle credit score is **714**.

What interest rate I can lock in for **30 days** on a **30-year fixed rate** mortgage, with a loan amount **\$640,000** on a **cash-out refinance**. As per the good faith estimate, I want to know your origination cost and the charge or credit for this rate. I want to **get a credit to cover the closing costs for this refi**.

CREATE YOUR QUESTION HERE:

I want a rate quote. I estimate the value of my property to be \$_____ **[1-estimated value]**

It is a _____ and it is my _____ ;
[2-property type] **[3-use]**

my middle credit score is _____.
[4-credit score]

What interest rate can I lock in for _____ days on a _____ mortgage
[5-lock period] **[6-loan type]**

with a loan amount of \$_____ on a _____ .
[7-loan amount] **[8-transaction type]**

As per the good faith estimate, I want to know your origination cost and the charge or credit

for this rate. I want to _____.
[9-loan pricing, charge or credit]

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Loan Comparison Worksheet

Note: have your Borrower Information worksheet ready before you call

	Example	Lender 1	Lender 2	Lender 3
Date	3/16			
Time	2:15 PM			
Lender	Acme			
Loan officer	Katherine			
Contact info	415-555-1000			
Loan Amount	\$745,000			
Origination charge	\$1501.95			
Charge for this rate (points) ----- (or)----- Credit for this rate	-0- <hr/> \$2,555.45	<hr/>	<hr/>	<hr/>
If Fixed:				
- Interest rate	4.50%			
- Term in years	30			
If ARM:				
- Initial rate	3.75%			
- Initial term	7 years			
- Margin	2.50			
- Index	1 yr. LIBOR			
Caps:				
- Initial adj.	2.00%			
- Future adj.	2.00%			
- Life	5.00%			