Mortgage - Frequently Asked Questions

What is pre-qualification?
Pre-qualification provides a 'ballpark' estimate of your borrowing power based on summary information of your income and assets. A satisfactory review of the property, financial documents and program requirements are required prior to final approval.

What do I need to bring when I first meet a Mortgage Originator?
To begin the process, it is best to bring several items to the first meeting:
• Your most recent year's W-2s
• Your most recent pay stub
• All pages of your most recent bank statement
• Have an idea of your outstanding debts

Is there a fee charged or any other obligation if I complete the on-line application?
There's no cost at all for completing our application. After your loan application is received, you will be asked to pay the application deposit to cover the cost of the appraisal so we can begin to process your request.

Is comparing APRs the best way to decide which lender has the lowest rates and fees?
The Federal Truth in Lending law requires that all financial institutions disclose the APR when they advertise a rate. The APR is designed to present the actual cost of obtaining financing, by requiring that some, but not all, closing fees are included in the APR calculation. These fees in addition to the interest rate determine the estimated cost of financing over the full term of the loan. Since most people do not keep the mortgage for the entire loan term, it may be misleading to spread the effect of some of these up front costs over the entire loan term.

Also, unfortunately, the APR doesn't include all the closing fees and lenders are allowed to interpret which fees they include. Fees for things like appraisals, title work, and document preparation are not included even though you will probably have to pay them.

For adjustable rate mortgages, the APR can be even more confusing. Since no one knows exactly what market conditions will be in the future, assumptions must be made regarding future rate adjustments. You can use the APR as a guideline to shop for loans but you should not depend solely on the APR in choosing the loan program that's best for you. Look at total fees, possible rate adjustments in the future if you're comparing adjustable rate mortgages, and consider the length of time that you plan on having the mortgage.

Don't forget that the APR is an effective interest rate—not the actual interest rate. Your monthly payments will be based on the actual interest rate, the amount you borrow, and the term of your loan.

What can you expect when you apply for a mortgage?
First, you will complete our on-line application.
The application will ask you questions about the home and your finances and takes less than 20 minutes to complete. As soon as you've finished the application we will review your request and ask you for a deposit to cover the cost of the appraisal on your home so that we can begin to process your request immediately. This deposit will be credited towards your closing fees at closing. After completing your application, a Mortgage Originator will contact you to introduce himself or herself and to answer any questions you may have. Your Mortgage Originator is a mortgage expert and will provide help and guidance along the way. If your request wasn't approved on-line, he or she will ask you for any information required to make a decision about your loan.

If you are purchasing a new home, the Mortgage Originator will also contact the Real Estate Broker or the seller so that they'll know whom to contact with questions.

We will send preliminary application documents for you to review and sign.
We will also send you a list of items that will need to be verified, referencing the information you provided about your finances during the on-line application.

We will order the appraisal from a licensed appraiser who is familiar with home values in your area.

Title insurance will be necessary. If you're purchasing a home, we will ensure the title work is ordered as soon as possible. If you are refinancing we will take care of ordering the title work for you. We'll use the title report to confirm the legal status of your property and to prepare the closing documents.

We will contact you to coordinate your closing date.
After we receive documentation back from you and the appraisal and title work, we will contact you to schedule your loan closing. If you are purchasing a home, we will also schedule the closing with the real estate broker and the seller.

The closing will take place at the office of a title company or attorney in your area who will act as our agent. A few days before closing, your Mortgage Originator will contact you to walk through the final information so that there won't be any surprises at closing.

That's all there is to it! You're on your way to the most convenient home loan ever!

The interest rate you offer is just a little less than what I am paying now. How do I know if it makes sense to refinance?
The simple rule of thumb for determining if it makes sense to refinance is to analyze the amount that it will cost you to refinance compared to the monthly savings you will have by reducing your payment. By dividing the cost of refinancing by the monthly savings you can determine how many monthly payments you will have to make before you've recaptured the initial refinance cost. If you plan on staying in your home longer than the recapture time it may make sense for you to refinance.

To fully analyze whether it's the time to refinance you will have to look deeper. The remaining term of your current loan must also be considered, as well as your tax bracket. Our Mortgage Originators can help you determine if it's the right time to refinance.

How much money will I save by choosing a 15-year loan rather than a 30-year loan?
A 15-year fixed rate mortgage gives you the ability to own your home free and clear in 15 years. And, while the monthly payments are somewhat higher than a 30-year loan, the interest rate on the 15-year mortgage is usually a little lower, and more important - you will pay less than half the total interest cost of the traditional 30-year mortgage.

However, if you can't afford the higher monthly payment of a 15-year mortgage don't feel alone. Many borrowers find the higher payment out of reach and choose a 30-year mortgage. It still makes sense to use a 30-year mortgage for most people.

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Who Should Consider a 15-Year Mortgage?
The 15-year fixed rate mortgage is most popular among younger home buyers with sufficient income to meet the higher monthly payments to pay off the house before their children start college. They own more of their home faster with this kind of mortgage, and can then begin to consider the cost of higher education for their children without having a mortgage payment to make as well. Other home buyers, who are more established in their careers, have higher incomes and whose desire is to own their homes before they retire, may also prefer this mortgage.

Advantages and Disadvantages of a 15-Year Mortgage
The 15-year fixed rate mortgage offers two big advantages for most borrowers:

• You own your home in half the time it would take with a traditional 30-year mortgage.

• You save more than half the amount of interest of a 30-year mortgage. Lenders usually offer this mortgage at a slightly lower interest rate than with 30-year loans - typically up to .5% lower. It is this lower interest rate added to the shorter loan life that creates real savings for 15-year fixed rate borrowers.

The possible disadvantages associated with a 15-year fixed rate mortgage are:

• The monthly payments for this type of loan are roughly 10 percent to 15 percent higher per month than the payment for a 30-year.

• Because you will pay less total interest on the 15-year fixed rate mortgage, you won't have the maximum mortgage interest tax deduction possible.

Compare them yourself by using the Mortgage Calculators available on our website or ask one of our Mortgage Originators for assistance.

How are interest rates determined?
Interest rates fluctuate based on a variety of factors, including inflation, the pace of economic growth, and Federal Reserve policy. Over time, inflation has the largest influence on the level of interest rates. A modest rate of inflation will almost always lead to low interest rates, while concerns about rising inflation normally cause interest rates to increase. Our nation's central bank, the Federal Reserve, implements policies designed to keep inflation and interest rates relatively low and stable.

Should I pay discount points in exchange for a lower interest rate?
Discount points are considered a form of interest. Each point is equal to one percent of the loan amount. You pay them, up front, at your loan closing in exchange for a lower interest rate over the life of your loan. This means more money will be required at closing, however, you will have lower monthly payments over the term of your loan.

To determine whether it makes sense for you to pay discount points, you should compare the cost of the discount points to the monthly payments savings created by the lower interest rate. Divide the total cost of the discount points by the savings in each monthly payment. This calculation provides the number of payments you will make before you actually begin to save money by paying discount points. If the number of months it will take to recoup the discount points is longer than you plan on having this mortgage, you should consider the loan program option that doesn't require discount points to be paid.

When can I lock in my interest rate and discount points?
You can lock in your interest rate and discount points as soon as your loan application is received and you pay the application deposit to cover the cost of your appraisal and final credit report. The application deposit is not another fee, it's actually just the appraisal cost estimate and will be credited to the actual appraisal cost at your closing. If you complete your application today, you will have the opportunity to pay the application deposit and lock in your great rate when your Mortgage Originator contacts you.

If we need to review your information before providing your loan approval, a Mortgage Originator will contact you and you will have the opportunity to lock your rate and fees then.

What is your Rate Lock Policy?
General Statement
The interest rate market is subject to movements without advance notice. Locking in a rate protects you from the time that your lock is confirmed to the day that your lock period expires.

Lock-In Agreement
A lock is an agreement by the borrower and the lender and specifies the number of days for which a loan's interest rate and discount points are guaranteed. Should interest rates rise during that period, we are obligated to honor the committed rate. Should interest rates fall during that period, the borrower must honor the lock.

When Can I Lock?
You will be invited back to lock after we have reviewed your documentation and credit package. We will notify you via email when you are able to request the lock.

Fees
A fee in the amount of one quarter of one percent will be charged to lock in the interest rate. The fee is refunded at time of closing. If the loan is withdrawn or the rate lock expires the fee will not be refunded.

Lock Period
We currently offer 45 day lock-in periods on our site. This means your loan must close and disburse within this number of days from the day your lock is confirmed by us.

Lock Changes
Once we accept your lock, your loan is committed into a secondary market transaction. Therefore, we are not able to renegotiate lock commitments.

What is an adjustable rate mortgage?
An adjustable rate mortgage, or an "ARM" as they are commonly called, is a loan type that offers a lower initial interest rate than most fixed rate loans. The trade off is that the interest rate can change periodically, usually in relation to an index, and the monthly payment will go up or down accordingly.

Against the advantage of the lower payment at the beginning of the loan, you should weigh the risk that an increase in interest rates would lead to higher monthly payments in the future. It's a trade-off. You get a lower rate with an ARM in exchange for assuming more risk.

For many people in a variety of situations, an ARM is the right mortgage choice, particularly if your income is likely to increase in the future or if you only plan on being in the home for three to five years.

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Here is some detailed information explaining how ARM's work.

Adjustment Period
With most ARMs, the interest rate and monthly payment are fixed for an initial time period such as one year, three years, five years, or seven years. After the initial fixed period, the interest rate can change every year. For example, one of our most popular adjustable rate mortgages is a five-year ARM. The interest rate will not change for the first five years (the initial adjustment period) but can change every year after the first five years.

Index
Our ARM interest rate changes are tied to changes in an index rate. Using an index to determine future rate adjustments provides you with assurance that rate adjustments will be based on actual market conditions at the time of the adjustment. The current value of most indices is published weekly in the Wall Street Journal. If the index rate moves up so does your mortgage interest rate, and you will probably have to make a higher monthly payment. On the other hand, if the index rate goes down your monthly payment may decrease.

Margin
To determine the interest rate on an ARM, we will add a pre-disclosed amount to the index called the "margin." If you're still shopping, comparing one lender's margin to another's can be more important than comparing the initial interest rate, since it will be used to calculate the interest rate you will pay in the future.

Interest-Rate Caps
An interest-rate cap places a limit on the amount your interest rate can increase or decrease. There are two types of caps:

1. Periodic or adjustment caps, which limit the interest rate increase or decrease from one adjustment period to the next.

2. Overall or lifetime caps, which limit the interest rate increase over the life of the loan.

As you can imagine, interest rate caps are very important since no one knows what can happen in the future. All of the ARMs we offer have both adjustment and lifetime caps. Please see each product description for full details.

Negative Amortization
"Negative Amortization" occurs when your monthly payment changes to an amount less than the amount required to pay interest due. If a loan has negative amortization, you might end up owing more than you originally borrowed. None of the ARMs we offer allow for negative amortization.

Prepayment Penalties
Some lenders may require you to pay special fees or penalties if you pay off the ARM early. We never charge a penalty for prepayment.

Contact a Mortgage Originator
Selecting a mortgage may be the most important financial decision you will make and you are entitled to all the information you need to make the right decision. Don't hesitate to contact a Mortgage Originator if you have questions about the features of our adjustable rate mortgages.

Are there any prepayment penalties charged for these loan programs?
None of the loan programs we offer have penalties for prepayment. You can pay off your mortgage any time with no additional charges.

Can I apply for a loan before I find a property to purchase?
Yes, applying for a mortgage loan before you find a home may be the best thing you could do! If you apply for your mortgage now, we will issue an approval subject to you finding the perfect home.

When you find the perfect home, you will simply call your Mortgage Originator to complete your application. You will have an opportunity to lock in our great rates and fees then and we will complete the processing of your request.

If I apply, where will the closing take place?
Typically, at our attorney's office.

We will deliver our loan documents to the closing agent or attorney prior to closing so that they'll have plenty of time to prepare for your closing.

Tell me more about closing fees and how they are determined.
A home loan often involves many fees, such as the appraisal fee, title charges, closing fees, and state or local taxes. These fees vary from state to state and also from lender to lender. Any lender or broker should be able to give you an estimate of their fees, but it is more difficult to tell which lenders have done their homework and are providing a complete and accurate estimate. We take quotes very seriously. We've completed the research necessary to make sure that our fee quotes are accurate to the city level - and that is no easy task!

To assist you in evaluating our fees, we've grouped them as follows:

Third Party Fees
Fees that we consider third party fees include the appraisal fee, the credit report fee, the settlement or closing fee, the survey fee, tax service fees, title insurance fees, flood certification fees, and courier/mailing fees.

Third party fees are fees that we will collect and pass on to the person who actually performed the service. For example, an appraiser is paid the appraisal fee, a credit bureau is paid the credit report fee, and a title company or an attorney is paid the title insurance fees.

Typically, you will see some minor variances in third party fees from lender to lender since a lender may have negotiated a special charge from a provider they use often or chooses a provider that offers nationwide coverage at a flat rate. You may also see that some lenders absorb minor third party fees such as the flood certification fee, the tax service fee, or courier/mailing fees.

Taxes and other unavoidables
Fees that we consider to be taxes and other unavoidables include: State/Local Taxes and recording fees. These fees will most likely have to be paid regardless of the lender you choose. If some lenders don't quote you fees that include taxes and other unavoidable fees, don't assume that you won't have to pay it. It probably means that the lender who doesn't tell you about the fee hasn't done the research necessary to provide accurate closing costs.

Lender Fees
Fees such as discount points, document preparation fees, and loan processing fees are retained by the lender and are used to provide you with the lowest rates possible.

This is the category of fees that you should compare very closely from lender to lender before making a decision.

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Required Advances
You may be asked to prepay some items at closing that will actually be due in the future. These fees are sometimes referred to as prepaid items.

One of the more common required advances is called "per diem interest" or "interest due at closing." All of our mortgages have payment due dates of the 1st of the month. If your loan is closed on any day other than the first of the month, you will pay interest, from the date of closing through the end of the month, at closing. For example, if the loan is closed on June 15, we will collect interest from June 15 through June 30 at closing. This also means that you won't make your first mortgage payment until August 1. This type of charge should not vary from lender to lender, and does not need to be considered when comparing lenders. All lenders will charge you interest beginning on the day the loan funds are disbursed. It is simply a matter of when it will be collected.

If an escrow or impound account will be established, you will make an initial deposit into the escrow account at closing so that sufficient funds are available to pay the bills when they become due.

If your loan requires mortgage insurance, up to two months of the mortgage insurance may be collected at closing. Whether or not you must purchase mortgage insurance depends on the size of the down payment you make.

If your loan is a purchase, you will also need to pay for your first year's homeowner's insurance premium prior to closing. We consider this to be a required advance.

What is mortgage insurance and when is it required?
First of all, let's make sure that we mean the same thing when we discuss "mortgage insurance." Mortgage insurance should not be confused with mortgage life insurance, which is designed to pay off a mortgage in the event of a borrower's death. Mortgage insurance makes it possible for you to buy a home with less than a 20% down payment by protecting the lender against the additional risk associated with low down payment lending. Low down payment mortgages are becoming more and more popular, and by purchasing mortgage insurance, lenders are comfortable with down payments as low as 3–5% of the home's value. It also provides you with the ability to buy a more expensive home than might be possible if a 20% down payment were required.

The mortgage insurance premium is based on loan to value ratio, type of loan, and amount of coverage required by the lender. Usually, the premium is included in your monthly payment and one to two months of the premium is collected as a required advance at closing.

It may be possible to cancel private mortgage insurance at some point, such as when your loan balance is reduced to a certain amount—below 75% to 80% of the property value. Recent Federal Legislation requires automatic termination of mortgage insurance for many borrowers when their loan balance has been amortized down to 78% of the original property value. If you have any questions about when your mortgage insurance could be cancelled, please contact your Mortgage Originator.

Does Westerly Community Credit Union provide financing for manufactured homes?
We define manufactured housing as housing units that are factory built with a steel undercarriage that remains as a structural component and limits the structure to a single story. These types of manufactured homes are sometimes known as mobile homes. We do not consider other factory-built housing (not built on a permanent chassis), such as modular, prefabricated, penalized, or sectional housing, to be manufactured housing. If your home is one of these types, please complete the application indicating that your home is a single family home.

In order to qualify for our loan programs a manufactured home must meet the following requirements:

• A manufactured home is any dwelling built on a permanent chassis and attached to a permanent foundation system.

• Be a one-family dwelling that is legally classified as real property.
• The towing hitch, wheels, and axles must have been removed and the home must be permanently attached to a foundation system that meets state and local codes as well as the manufacturer's requirements.

• Foundation system must be appropriate for the soil conditions for the site and meet local and state codes.

• The land on which the manufactured home is situated must be owned by you. We do not provide financing for manufactured homes located on rented or leased land.

• Must have been built in compliance with the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. Generally, compliance with these standards will be evidenced by the presence of a HUD Data Plate that is affixed near the main electrical panel of the home or in another readily accessible and visible location.

• Must be at least double-width, 24 feet wide, and have a minimum 600 square feet of gross living area. Must be acceptable to typical purchasers in the market area.