

MARCH 2010

Volume 2  
Issue 3



AMERICAN SAVINGS MORTGAGE COMPANY

Your Mortgage Professional



American  
Savings  
Mortgage  
Company

# A Message from Beth Williams

## Stay the Course: How to Avoid Losing Your Mortgage Approval

Congratulations! After months of building up your credit score and watching your finances carefully, you were approved for your loan. You can finally exhale and relax, right?

Not so fast.

The time between approval and closing is still critical because any changes to your financial status and credit position could result in losing your loan approval. To help ensure this doesn't happen to you, you'll need to continue to monitor your finances and not make any changes to what got you the loan in the *first place*.

Here are six things to avoid following your loan approval:

**1) Don't make any major purchases.** Major purchases—such as a new car—can drastically change your financial situation and, ultimately, your loan approval status. A sudden drop in your bank account balance or an increase in your debt-to-income ratio may be a red flag to your lender.

**2) Don't change your job status.** Similarly, a change in your income stream could be cause for you to lose your loan approval. Although a termination may be out of your control, there are other things you can control such as quitting your job, changing jobs or taking on a new position that is commission-based.

**3) Don't move around large sums of money.** Not only should you not move large amounts of money between

bank accounts (such as transfers from checking accounts to savings accounts, etc.), but you should also not make any changes to an IRA or to a 401k. Any changes in balances or contribution amounts will change the information on your loan application—after the fact.

**4) Don't open new lines of credit.** Much like avoiding major purchases, you should also avoid opening new lines of credit, especially credit cards. Since available credit is a factor in the mortgage approval process, getting a new credit card is not a good idea.

**5) Don't accept cash gifts.** Accepting a cash gift to be used as a down payment is fine—as long as you have the proper documentation such as a gift letter. Without the proper documentation, a cash gift might be perceived as a suspicious spike in your bank account balance.

**6) Don't be late on any payments.** Although this should go without saying, paying your bills on time is important, even after you're approved for a loan. You need to continue to make all of your payments on time and be extra vigilant about any late payments. If you can, pay your bills early.

Even if you haven't been approved for a mortgage yet, these six "don'ts" can help you *get* approved. In the end, keep in mind that even though the interest rates are fairly low right now, getting—and keeping—a loan approval isn't always easy. Δ

### Inside this issue:

* How to avoid losing your new mortgage approval.	1
* March's Question of the Month: Pre-qualification or pre-approval?	2
* Deciding whether or not to pay points on your loan.	2

### Beth Williams Offers:

- \* Conventional, Jumbo, ARM Loan programs
- \* Up to 85% Financing available
- \* Free Pre-Approvals
- \* Free analysis of your ability to buy a home
- \* Professional and attentive service



American  
Savings  
Mortgage  
Company

## Beth Williams

Assistant Vice President

Direct: 703-883-9587

Fax: 703-564-4693

bwilliams@asmc.com

www.asmc.com

### NEW OFFICE LOCATION:

447 Corporate Drive  
Hancock, VA 20011

***Beth Williams:  
Your Mortgage  
Professional!***

## A Message from Beth Williams

### Question of the Month

**“WHAT IS THE DIFFERENCE BETWEEN A PRE-QUALIFICATION AND A PRE-APPROVAL? ARE THOSE TWO TERMS INTERCHANGEABLE? DO THEY BASICALLY MEAN THE SAME THING?”**

Although both pre-qualification and pre-approval are measurements of how much a buyer is able to afford in terms of a loan, the differences between the two are very important. Put simply, a **pre-qualification is a quick estimate of what a buyer can spend and a pre-approval is a formal process** in which a lender states the maximum amount they are willing to loan based on verification of a buyer's assets, income and employment. More than likely, a pre-qualification is based on a few simple details (such as your yearly income) you provide to the lender; for a pre-qualification, a lender does not verify these details. On the other hand, for a pre-approval, you will need to fill out a mortgage application with a specific lender and the bank will take an in-depth look at all aspects of your finances: employment, income, assets, liabilities, stocks and cash available. Needless to say, the thoroughness of a pre-approval makes it an essential tool in the home-buying process. In the eyes of a seller, a pre-approval shows a serious commitment on the part of a buyer. One thing to note about pre-approval is that it is contingent on the home appraisal and title review. Δ

## Should You Pay Points on Your Loan or Not?

The decision to pay “points” on a mortgage is something you as a borrower may need to make when applying for a loan. Besides the practical consideration of whether or not you can afford to pay points at closing, you also **need to factor in how long you plan to have the loan, if you can invest the savings elsewhere and any gains from potential tax breaks.**

First, let's define paying points. To put it in its simplest terms, paying points mean you pay money up front to get a lower interest rate on your loan. Each point you pay is equal to one percent of the mortgage and you either pay at settlement or roll the points into the loan. By paying points, your interest rate is then lowered one-eighth to one-quarter of a percent for every point you pay. Generally, borrowers choose to pay points on fixed-rate loans, but not in all cases. Also, be aware that paying points isn't always an option in every situation. Whether or not you can pay points will depend on your lender as well as the type of loan you're getting.

The most important question to ask yourself when you're considering paying points is how long you're going to have the mortgage. If you plan on having the loan for a fairly long time (say, ten years or more), the savings on the monthly payments and interest will more than likely cover the cost of paying points up front. For example, if you're getting a \$500,000 fixed-rate loan for thirty years and you can get a rate of 6 percent by paying one point (as opposed to a 6.25 percent rate with no points), you would

need to keep that loan for approximately 57 months to break even on points.

Another consideration is putting your savings (from not paying points) into other ventures such as the stock market or even a basic savings account. Ask yourself this: If you decide not to pay points on your loan, will you invest your savings elsewhere? And if you do invest elsewhere, will you get a better return on your investment? Although investing in the stock market can be risky and unpredictable, you still may be better off if you don't pay points on your loan and instead invest that money in a stock that has the potential

***“The most important question to ask yourself when you're considering paying points is how long you're going to have the mortgage...”***

to give you a more stable return.

Finally, you'll need to take a close look at your current tax situation. In most cases, either in the year you close (for a new loan) or during each year for the full life of the loan (for a refinance) you'll be able to deduct the points you pay on your taxes. Also, even if the seller pays your points for you (which is becoming increasingly common) you'll still be able to deduct those points from your taxes going forward. Although the amount you'll be able to deduct will vary based on a number of different factors, it is a financial consideration that you should think about. Δ