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AMERICAN SAVINGS MORTGAGE COMPANY

Your Mortgage Professional



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Company

A Message from Beth Williams

Is Your ARM About to Adjust? Here's One Possible Solution

At the height of the housing boom it seemed like everyone wanted to get their piece of the hot real estate market. Unfortunately, some buyers literally mortgaged their future to buy a home by taking out adjustable-rate loans with low introductory rates—and now those rates may be adjusting upwards. A record number of ARM's will adjust this year and some borrowers may see increases of up to 35 percent.

If you're in this situation, your best bet is to refinance into a more affordable fixed-rate loan. Now is the time to get such a loan because interest rates are stable, the rate differential between fixed-rate loans and ARM's is minimal and fixed-rate mortgages can give you peace of mind with a set payment every month.

Currently, interest rates on standard 30-year fixed-rate mortgages are lower than they have been in a very long time. By refinancing your ARM into a fixed-rate loan you'll be able to take advantage of these great interest rates. Even if interest rates don't go up in the future, you'll still be locked in at a decent rate. It's much better to be safe than sorry.

A few years back, fixed-rate loans were at a much higher rate than adjustable loans, but not anymore; today the gap in rates is much less. For example, five years ago you would have paid approximately \$350 more per

month on a 30-year fixed-rate mortgage (on a \$300,000 loan) than you would have for a five-year ARM. Nowadays, you may pay only \$50 more for the same fixed-rate loan. Of course, your actual rate will vary depending on a number of factors, but the fact remains that the rate differential between the two loans is not as great as it once was.

Finally, it makes a lot of sense to get a fixed-rate loan because such a loan eliminates the "worry factor" and allows you to have a set payment. If you're worried *now* about your ARM adjusting in the next few months, you're *still* going to be worried about how much you have to pay every time your ARM adjusts in the future. Also, by having a set payment each month with a fixed-rate mortgage, you'll be able to budget your finances much easier from month-to-month and year-to-year.

As with any type of loan, you'll need to do the math to see if refinancing to a fixed-rate loan makes sense for you financially. Also, your ability to refinance will depend greatly on how much equity you have built up in your home as well as your credit situation.

Check with your mortgage professional to see if refinancing is a viable option. If you can refinance, you may be able to avoid mortgage "sticker shock" and avoid what could be a 35 percent increase in your monthly payments. Δ

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A Message from Beth Williams

Question of the Month

“I’VE USED THE SAME MORTGAGE PROFESSIONAL FOR SEVERAL YEARS. SHOULD I SHOP AROUND TO FIND A BETTER DEAL OR DOES STAYING WITH MY CURRENT LENDER HELP ME IN THE LONG RUN?”

Assuming your current mortgage banker originates the type of loan you’re looking for, **you’ll be much better off staying with your current lender.** Having a “friendly lender” is a definite plus and could be very beneficial to you now *and* in the long run. Since a large portion of a lender’s business comes from repeat clients, most every lender will go out of their way to keep you as a client and thus get your future business (as well as any contacts *you* may have, in terms of referrals). Other lenders may offer similar types of loans, but the chances are good that your tried-and-true lender will offer you the best deal possible—often a deal that they do not advertise or offer to their first-time clients. Also, if you have an existing relationship with a lender, you may be able to streamline parts of the mortgage process as well as the closing process. For example, if you recently refinanced your home, you may be able to save a little bit of money on title insurance by asking for a reissue rate, which your lender will be glad to request on your behalf. Giving your business to the same mortgage professional is definite proof of the old adage: it’s not *what* you know, but *who* you know. Δ

How to Cut Down on Closing Costs—*Before* Closing

You’re closing on your beautiful new home and you sit down at the big conference table for settlement. As you get ready to sign your closing paperwork, you discover the closing costs add up to a lot more than you originally thought. Are the costs correct, you wonder? Do they match the good-faith estimate of settlement fees that your lender provided?

If you do your homework ahead of time—and ask your lender questions—you may be able to avoid or reduce certain fees and charges at settlement. Here are a few simple ways to cut down on your closing costs:

Close at the end of the month. Since all mortgages are due on the first of the month, you will have to pay interest from the day of your closing until the end of the month. This is called pre-paid interest. By closing at the end of the month, you can reduce the amount of pre-paid interest due. Keep in mind that other home-buyers may be trying the same strategy and scheduling your closing at the end of the month may be difficult.

Determine the type of appraisal you will need. Depending on the type of loan and your down payment, you may not need a full-blown appraisal on your home. Make sure you check with your lender to see what kind of appraisal you’ll need for the type of loan you’re getting. Also, if you’re refinancing and your last appraisal was less than 12 months ago, have your lender ask for a recertification of value from the last appraisal.

You may be eligible for a discount. Many title companies also own their own escrow or closing companies

and you may get a discount by using them. Although many of these settlement discounts often apply only to new home loans, it never hurts to ask whether you’re eligible or not.

Apply for a home-equity line of credit at the same time. If you plan on taking out a home-equity line of credit at some point in the future, you may want to consider taking out a line of credit at the same time as your home loan. If you apply for both at the same time, you can avoid paying the additional fees you would have to pay when you file a separate application later.

Roll the closing costs into the home loan. If you are

“Although many of these settlement discounts often apply only to new home loans, it never hurts to ask whether you’re eligible or not...”

refinancing, you might consider rolling your closing costs into your loan. Although you will be paying interest on the closing costs, this option may be right for you if you don’t have a lot of cash at the time of settlement or simply don’t want to pay a lot at once.

The key to cutting costs is to do a little research ahead of time. You should always ask for a HUD-1 form that details your final settlement fees. Lenders are required to provide this form to you 24 hours before closing and it should match the good-faith estimate. And, as always, if you’re unsure about a fee, don’t be afraid to ask questions. Otherwise, you may end up paying for more than you planned. Δ