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Who is eligible for the lowest interest rates?

To answer this question completely, one must first understand that "lowest interest rate" is a relative term dependent on the program the borrower is trying to qualify for (a point I will digress back to momentarily); with that said, there are certain rules borrowers should follow to ensure they are in a position to qualify for the best lending terms available for the particular program they are seeking.

Generally speaking there are three major factors lenders look at when evaluating a borrower:

1) Equity. How much are you trying to borrow in relation to how much your home is worth (worth is appraised value not what you think it is worth). If you divide these two numbers into one another you get what is called your loan to value or LTV. LTV is a fundamental tool used to assess risk, the higher the LTV the more risk the lender assumes because should something happen and you default, they have a much smaller margin than they would if you had a larger equity position to begin with. For this reason, people with lower LTVs usually get better terms.

2) Credit. Your credit score gives the lender an idea of your ability to pay back debt by looking at your history. Everyone has three credit scores from which the lender will use the middle score, whichever that is, late payments on a mortgage guarantee higher rates because you have already demonstrated an inability to pay back mortgage debt,(never miss a mortgage payment). Assuming you have no mortgage lates, the higher the credit score, the better the interest rate. Your credit score in relation to your equity position can produce pricing improvements, 740 or greater and under 60% LTV for example, If your credit score is low, in combination with high LTV, you could be subject to pricing hits forcing the rates up, so keep a firm eye on your credit and do everything you can to keep your credit score above 740. As a general rule credit in relation to LTV will determine a pricing adjustment. Imagine if you will an excel sheet with credit grades (740 and above, 720-740, 700-720, 680-700, 660-680, etc) running vertical, and LTV (60% or below, 60%-70%, 70%-75%, 75%-80%, etc in increments of 5%) running horizontally. As credit grades fall and LTV goes up on the spread sheet, the pricing adjustments will increase making terms less favorable, as LTV goes down and credit goes up pricing improves making terms more favorable.

3) Income and Assets. Documenting your income and assets for your lender will always get you the best terms possible, because it allows them the opportunity to fully evaluate your ability to pay back the loan, and reduces their risk substantially. To qualify for a full doc loan where you document all your income and assets you will need a debt to income ratio below 50% generally, but with higher LTVs it will be 41%. Debt to Income or DTI is how much money you have coming in, in relation to how much money you are obligated to spend every month in debts reflected on your credit report. Divide these monthly figures into one another (monthly income divided by monthly expenses) and you will know your DTI. As for assets having two months of reserves (principle, interest, taxes, and insurance) will usually suffice, but the more reserve you can document the less risk the lender is taking which is always a good position to prove when trying to command the best rate.

As I mentioned earlier, these are general rules, and depending on the program, and that program's particular guidelines, they do not always apply; for example right now you do not have to document your income or assets, or even get and appraisal (in certain instances) if refinancing a loan Freddie to Freddie (5/7/2009), and you will still get one of the lowest rates available in the market, but programs and guidelines like these will not last while the parameters set out above will stand the test of time. For this reason it is always smart to confer with a broker to discuss current market options and evaluate your particular situation.

In conclusion let me digress further into my original point, rates depend on program. Someone looking to refinance an investment property will not get as low a rate as someone refinancing a second home or primary residence, moreover the size of the loan can determine program type - conforming, jumbo conforming, and non-conforming jumbo. All three of these terms refer to loan size (that size dependent on your region), and will influence rates offered. Furthermore, how you choose to settle closing costs can have a major influence on your interest rate. If you would

1615 DICKEY ST. FALLBROOK CA 92028
831.325.6959 PHONE 866.321.5467 FAX
WWW.CULTUREMORTGAGE.COM
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like to know more about interest rates, and rate pricing I recommend the following article: Evaluating Interest Rates, this will give you a good idea of how pricing works and its influence on rates.

So that is the detailed answer. The simple answer: 740 FICO, primary residence, 60 or below LTV, full doc, 15 year fixed principle and interest, established impound account, conforming loan, 7 day lock - the person who is looking for and qualifies under these terms is probably going to command the best/lowest interest rate the market has to offer.

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