

## My Florida Home Book 1.5: Finding a Mortgage<sup>1</sup>

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### Mortgage Search

Failing to shop comparatively among local mortgage sources can be costly. For example, the difference between an eight and nine percent interest rate on a \$60,000 fixed rate mortgage could save about \$35 per month and \$12,600 over 30 years. A difference of three discount points could save \$1,800 in closing costs.

Selecting the best mortgage is not an easy task. Among the factors to consider are your current and projected income, your marginal tax bracket, current market conditions, the size of your investment portfolio, and how long you plan to live in the house.

To make a good decision about the best mortgage for you, basic knowledge of current mortgage alternatives is needed first. Then you will need to find a lender and analyze available financing options. All mortgages of the same type are not exactly alike.

The lender will likely be a loan originator who then sells your loan to a secondary market mortgage buyer. The originator will have the promissory note prepared along with the mortgage or deed of trust drawn to secure the property for the lender should you default on the loan.

### Mortgage Searches

#### Search Methods

Here are some ideas on how you might locate your mortgage options and narrow the list to a few prospects.

#### Newspaper

Newspapers generally publish a weekly mortgage rate report in the Sunday paper. If all local lenders do not choose to participate, the list is not complete. However, it helps if you follow rate trends and weed out some choices to provide you with a basis for comparison. Check mortgage advertisements in newspaper and direct-mail promotions. Ads should be interpreted carefully and not become the sole basis for

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a selection decision. They do not usually contain enough information for a fair comparison.

### Internet

Another way to check current mortgage rates in your area is through the Internet. At <http://www.bankrate.com> you can personalize your search and find what local lenders are offering based on the type of loan you want.

### Local real estate agents

Local real estate agents are often an excellent source of current information about mortgage rates and terms. Most agencies survey all major lenders in town every week or two as a service to their clientele. Here again, the information gathered is probably not enough to make a good choice.

If you cannot get a comprehensive mortgage report, invest the time to call several financial institutions for their rates and basic credit terms. Use the lender comparison sheet and call various types of lenders (including savings and loans, banks, mortgage companies and credit unions) to compare current offers.

## Types of Mortgages

Today's mortgages are complex, and home ownership is no longer a nearly risk-free investment. It is recommended to compare mortgage alternatives to find the best balance of risk and opportunity. Figure out which loan has the most advantageous combination of interest rate, up-front costs, tax advantages, monthly payment, and terms for your particular situation.

### Long-term, Fixed Rate Mortgages (FRM)

#### Types of Fixed-Rate Loans

#### 30 Year Fixed-Rate Mortgage

##### Advantages

- You can borrow money on a long-term basis that is fixed.

- Monthly payments are lower because they are amortized over a longer period.
- The lower monthly payments free up money that borrowers can pour into investments that yield more than their home.
- It increases the amount you can deduct at tax time.

##### Disadvantages

- The overall interest bill is much higher because of the longer amortization term.
- The interest rates are higher than on shorter term loans (e.g. 15-year loans).

### 15-Year Fixed Rate Mortgage

##### Advantages

- Allows you to own your home debt-free in less time and for half the total interest cost of a 30-year fixed rate loan.
- Borrowers build equity much more quickly due to a shorter amortization schedule.
- Overall interest bills (because principal balance is reduced quicker) are dramatically lower than those on longer-term loans
- The interest rates may be lower than 30-year loans.

##### Disadvantages

- Monthly payments can be significantly higher (roughly 15–30%) than those on 30-year loans.
- Restricts home buyers to smaller house than they might be able to afford due to higher payment.
- Because principal balance is paid down faster, total mortgage-interest is reduced, affecting the tax shelter benefit of owning a home.

### Bi-Weekly Fixed-Rate Mortgage

##### Advantages

- It speeds up amortization.
- Reduces total interest paid.
- Shortens the term of the loan to about 18–22 years.
- It can be converted to a 30-year fixed-rate mortgage.

### **Disadvantages**

- Lenders and private companies usually charge for this service. The same objective can be accomplished through a 30-year fixed-rate loan by making an extra payment or two a year and applying towards principal. However, be aware of any prepayment penalties that may exist on the loan.
- You trade saving money in total interest and lose reducing tax cost reductions.

### **Interest-Only Fixed-Rate Mortgage**

Interest-only fixed-rate mortgage terms are divided into two periods; the first period payment is smaller because you are paying interest only and no principal, the second period you pay both interest and principal.

### **Adjustable Rate Mortgage (ARM)**

Adjustable Rate Mortgages (ARMs) may also be called variable-rate loans, adjustable-rate loans, or adjustable-mortgage loans. Whatever they are called, the interest rate on an ARM can move upward or downward, usually causing changes in the monthly payment. In some cases, the loan term and/or principal may change. Most ARM rates start lower with an initial fixed-rate period and move to a variable rate after a specified time.

The interest rate is based upon a recognized financial index, such as the one-year U.S. Treasury securities yield. The margin is the percentage amount added to the index rate to get the ARM's interest rate. For example, say the index rate is six percent and the margin was two percent, the annual percentage rate (APR) of the ARM would be eight percent. To lure in customers, the starting rate of an ARM may be less

than the index plus margin. However, be aware this rate is temporary and will most likely rise.

ARMs come with caps, which limit the amount both the rate and payment can adjust. There are three caps that are generally set with an ARM; periodic rate cap, lifetime cap and payment cap. The periodic rate cap limits how much the rate can change at any one time. These are usually annual caps or caps that prevent the rate from raising more than a certain number of percentage points in any given year. The lifetime cap limits how much the interest rate can rise over the life of the loan.

Lastly, the payment cap is offered on some ARMs. It limits the amount the monthly payment can rise over the life of the loan in dollars, rather than how much the rate can change in percentage points. Payment caps can cause "negative amortization" when the interest rate is higher than what the payment cap will allow. Because the capped payments are not enough to cover the interest due on the loan, the unpaid interest is added to the principal balance. ARMs which allow negative amortization and ARMs without rate caps are very risky, but are generally avoided by lenders today, because of the high default rates associated with them.

### **Advantages**

- The initial interest rate is lower than a fixed rate loan (usually by one to two percent), but when interest rates are high the difference may be three to four percent. As a result, monthly payments start out much smaller and qualifying for an ARM is much easier.
- If interest rates fall, the ARM rate also falls, meaning greater savings without having to incur the high costs of refinancing.

### **Disadvantages**

- If interest rates rise, then the loan rate and monthly payments will rise accordingly on the adjustment dates.
- If your income does not keep pace with the rise in payments, you could be forced to incur the costs of refinancing to obtain a FRM at the current higher rate for protection against further increases.

- Long-term (30-year) ARMs have slow equity build-up, similar to an FRM.

### **Other Characteristics of ARMs**

#### *Other Characteristics of ARMs*

##### **The Number System**

ARMs start with a fixed rate and monthly payment for a specified period of time and then switch to an adjustable rate and payment for the remaining of the loan term. There are several options such as 3/1, 5/1, 7/1 or 10/1. The first number (such as 5) is the number of years for the fixed rate. The second number (such as 1) is how often the ARM is adjusted after the initial period. For example, with a 5/1 ARM the interest stays the same for the first five years and then can adjust once a year up to the allowable cap. The amount it can be adjusted to depends on the caps that are set with the ARM.

##### **Interest-only ARMs**

With an interest-only ARM the borrower is required to pay only the interest for a specified period, often 10 years. After that, it adjusts to the going interest rate as tracked by a specified index. The loan then amortizes at an accelerated rate. During the interest-only period, the borrower can choose to pay some principal. By providing flexibility in the size of monthly payments, interest-only mortgages often are a good match for people with fluctuating monthly incomes (i.e., salespeople who are paid by commission).

##### **Conversion ARMs**

Some ARMs are "convertible" to a FRM at the prevailing rate for a much smaller fee than the cost of refinancing (sometimes as little as \$100). Conversion is generally allowed only during certain years of the loan. Lenders may offer a range of interest rate-discount point combinations from which to choose.

ARMs are best suited for a buyer who expects to own the home for less than five years, accepts the risk of future higher rates (in return for immediate use of extra cash that would have gone into higher FRM payments), believes interest rates are declining and doesn't want a higher-rate FRM. Consumers must

live with the risk of higher future payments to receive initial short-term savings and potential longer-term savings if they are able to refinance and get a lower fixed rate later.

### **Balloon Reset/Refinance Mortgages**

Balloon/reset mortgages offer monthly mortgage payments based on a 30-year amortization schedule with a choice of a five- or seven-year term to either pay off the loan or "reset"/refinance the mortgage to a current market interest rate for the rest of the amortization period. Balloons can be fixed-rate or adjustable-rate loans.

You do not have to re-qualify for the loan when refinancing. However, the refinance option is not automatic, so you must exercise the option. There are a few conditions on the option to refinance:

- You still own and occupy the home.
- You have made all mortgage payments within the past year on time.
- There are not any liens on the property.
- You may have to pay closing costs and lender fees to refinance.

#### **Advantages**

- Interest rates on balloons are generally lower than the going rates on 30-year fixed mortgages.
- Buyers who plan on living in the home less than the balloon term will pay less than they would with a 30-year fixed rate loan.
- The refinance option provides a "safety net" in case a planned relocation doesn't take place or economic conditions prevent you from moving to a larger home.
- It is possible to qualify for a larger loan amount with a balloon/reset mortgage than with a fixed-rate mortgage.

#### **Disadvantages**

- If your financial situation changes at the end of the balloon term (i.e., a decline in income or a

family medical problem, etc.), you may have difficulty refinancing into an acceptable new mortgage.

- You could lose your right to refinance by falling behind on payments or allowing a lien to be placed on the property.
- Interest rates could be higher at the time of refinancing and you could be turned down.
- You could be charged closing costs and other lender fees.

## Questions to Ask when Choosing a Mortgage

Once you have completed the mortgage search, narrow your list to the two or three most appealing mortgages and make a thorough investigation and analysis.

### Questions to Ask for Mortgage Comparison

#### *What is the simple interest rate and number of discount points?*

Discount points are a form of interest which is paid up front at closing. Each point equals 1% of the loan amount. Most lenders offer a choice of interest rates and discount points – the lower the interest rate, the more points charged. For example, say you pay two points, or \$4,000, to borrow \$200,000—you have really borrowed only \$196,000. However, you will pay back the full \$200,000 face value of the loan plus interest. As a general rule, the longer you plan to stay in your home, the greater the advantage of paying more points to get a lower interest rate.

#### *What other rate/point combinations are available?*

One point lowers the annual percentage rate (APR) one-eighth of one percent on the interest rate of a 30-year fixed-rate mortgage. For example, the APR of a 6% 30-year fixed-rate loan with no points is equivalent to the APR of a 5% loan with eight points. An additional consideration is that (for new loans only, not refinancing) points are fully tax deductible in the year paid (unless they are financed).

#### *What is the annual percentage rate (APR)?*

The APR takes into account all costs of financing including the interest, discount points, mortgage insurance, etc., and amortizes them over the full term of the loan. This gives you an easy way to compare mortgages, if you keep that loan until you pay it off. If you don't intend to stay in the home that long, the APR becomes biased and is not the best basis for comparison.

#### *Will you lock in the interest rate until closing?*

The loan approval process typically takes from three to eight weeks, (or longer if applications have backed up). If not "locked in," the mortgage interest rate could change (upward or downward) before closing. Some lenders will lock in rates at no charge for 45 to 60 days while others charge a fee. Some allow you to lock in by telephone at any time during loan processing. This is advantageous when market rates fall.

#### *What is the required down payment? What will mortgage insurance cost?*

Most mortgages require a 20% down payment unless you pay for mortgage insurance to protect the lender in case you default. Getting mortgage insurance can reduce your down payment to as little as 5% of the home's appraised value. However, many companies no longer insure low down payment loans in Florida because of current economic conditions.

Private mortgage insurance usually requires you to pay a first-year premium (up to 1% of the loan amount). After that, you pay a smaller percentage each year until your loan balance is reduced to 80% of your home's value. At that point your insurance payments and coverage should stop. For Federal Housing Administration (FHA) loans, you are charged a fixed insurance premium (1.75% of the loan amount).

#### *Is there an application fee? If so, is it refundable?*

Some lenders have no application fee. Others may charge as much as \$250 and may or may not refund it if the loan is not approved or if you decide not to take the loan.

***What are the closing costs?***

The closing costs can total 2–4% of the loan amount. Most lenders can give you a form which estimates closing costs for your potential loan. This estimate may include the origination fees (for making the loan), title changes and items (such as insurance and taxes) which must be paid at closing. There may be additional expenses that are not listed on the form and some of the fees may be paid by either the seller or buyer. Ask the lender about any other possible closing costs, in addition to those on the standard form.

In general, the actual closing and document preparations may be conducted by an attorney or a title insurance company (usually at no additional charge if the title insurance is purchased from them).

***Are there any prepayment penalties?***

Today, most mortgages do not charge penalties for prepayment of principal. This is important if you later decide to sell your home or if you want to make extra payments to shorten the loan term. However, loans with prepayment penalties may have lower finance costs. Such a loan may be a good choice if you do not intend to pre-pay or sell the home within the penalty period.

***Is the loan assumable?***

An assumable loan can be passed on to the buyer of your home if you sell. It may or may not guarantee the same interest rate. Either way, the closing costs on an assumed loan are less than for a new loan, so that characteristic of a loan may help you sell your home in the future.

Today, fixed rate mortgages are rarely assumable. They have a "due-on-sale" clause. However, most adjustable rate mortgages are assumable.

***Is there a late payment charge?***

Most lenders charge a late payment fee, but they vary in how much is charged and when the fee is imposed.

**Questions Regarding Adjustable Rate Mortgage (ARM)*****Is the initial interest rate discounted? If so, when and how will the interest rate ever change?***

Some lenders (and builders) may offer very low initial interest rates to attract borrowers. At the end of a time span the interest rate is raised to its normal level according to the loan agreement's formula.

Unless you intend to have the mortgage for only a short time, it is better to make comparisons based on the "formula" interest rate rather than the initial rate. However, if you plan to sell soon, the savings from the initial discounted interest rate can mean substantial savings for you.

***How often can the interest rate and payment amount change?***

In general, the shorter the rate adjustment period, the lower the interest rate and vice versa. Frequent adjustments are advantageous when rates are falling but offer less protection when rates rise.

***What is an adjustment index and when is it used?***

The interest rate of an adjustable rate mortgage follows a published market "index." Indexes based upon U.S. Treasury securities reflect true economic conditions. Indexes based upon "cost of fund" to financial institutions nationwide reflect what financial institutions must pay to attract deposits.

In general, indexes tied to long-term indicators (such as three-year and five-year securities) are less risky than those tied to short-term indicators (such as three-month Treasury bills). Long term is advantageous when rates are rising; short term is better when rates are falling.

***What is the margin?***

The margin or spread above the index determines what your mortgage interest rate will be at each adjustment date. The smaller the margin, the closer your interest rate is to the index rate and the less you pay. Remember that the same margin over two different indexes may produce two different interest rates—if the indexes are different.

### *Are there periodic, lifetime or payment rate caps?*

Rate caps limit how much the interest rate can rise or fall at the adjustment dates, over the life of the loan or the amount the payment can increase. In general, the lower the rate caps, the smaller the risk, but the higher the starting interest rate. Most ARMs today have 5–7% lifetime rate caps and 1–2% annual rate caps.

It is a good idea to figure out or ask the lender to provide what happens to the monthly payment amount if: (a) rates rise to the upper limits of the caps (the "worst case scenario") and (b) if rates drop two or three percent. This provides a clear picture of the risk and the realistic opportunity for savings if rates fall.

### *Is negative amortization possible?*

If interest rates rise, payment caps (limits on your monthly payment) can change your debt to grow instead of shrink. Loans which allow your debt to grow (negative amortization) are low rate because of their high risk. However, loans with payment caps can be structured with rate caps to avoid negative amortization.

## Construction Loan

When you build a home, there are two loans involved: Construction loan and home mortgage. A construction loan covers the contractor's expenses in building your home including purchase of the supplies. A construction loan is set up at a lending institution. Ask your lender how they handle the two loans. The construction loan **must be paid off before** the permanent home mortgage loan begins. Be sure you inspect your home very carefully before you sign off on your construction loan.

You are responsible for paying the interest on the construction loan while the house is being built. Construction loan interest could be different than the permanent mortgage interest rate. Because of that, the risk is greater for interest rates to rise with new construction. The loan period ranges 45–60 days depending on the lending institution. The nearer your house is to completion the more the contractor needs to draw from the construction loan at the bank.

As in any other loan there are closing costs. You need to be aware that in building a house there are **up-front** or out of pocket costs.

Lending institution requires:

- House plans
- Specifications
- Contract with contractor

Be sure you have a **lock and key** contract with the contractor and you understand what that is. If changes are requested after signing the contract it usually will cost you more. This is a set amount of what the house will cost, **not a cost plus** or other plans.

Find out who pays for electric line to property, wells, septic tank, walkways, driveways, grass and cleanup. Budget for possible additional cost or include them in your contract with the contractor.

## Special Programs

### No- or Low-down Mortgage Options

Lenders are offering financing up to 100% of the appraised cost of a home. With no- or low-down mortgages you will pay as high as 3% down and as little as \$500 towards closing costs.

A no-down mortgage consists of two mortgages: the first mortgage covers up to 80% of the home price, and the second covers the remaining up to 20%. Another feature of no- or low-down mortgages is that they do not require private mortgage insurance. The catch with these types of mortgages is that they usually have higher rates of 3–4%. Ask your lender about no- or low-down financing options.

### Federal Housing Administration (FHA) Insured Loans

Housing and Urban Development (HUD) insures loans made by a lending institution, such as a mortgage company, bank or savings and loan association for up to 97% of the property value and for up to 30 years. The loans finance homes in both urban and rural areas. Though the typical HUD-insured loan is a fixed-rate mortgage, they do

insure other types of mortgage loans such as adjustable rate mortgages. The interest rate is established by the market, not the government. HUD-insured loans are readily available, but some of the different types of HUD-insured loans may not be available locally.

An origination fee can be charged for up to 1% of the loan amount and there are no restrictions from paying points. The maximum loan amount may be capped, except for certain high-cost areas, which allow for larger loan amounts. There are no limits on family income and no subsidies on the monthly payments.

#### **Advantages**

- Allows for a lower down-payment.
- Some closing costs may be financed in the loan.
- No prepayment penalties may be collected.

#### **Disadvantages**

- There is a mortgage insurance premium that is typically financed in the loan. The premium is 1.75% of the loan amount for first-time homebuyers.

### **Veterans Administration (VA) Guaranteed Loans**

Veterans Administration (VA) guaranteed loans provide mortgage insurance for low- and no-down-payment loans to eligible veterans. Local lenders (not the government) supply the loans. VA loans are either fixed- or adjustable-rate loans with a repayment period of up to 30 years and one month.

There is no maximum VA loan, except it cannot exceed the lesser of the appraised value or purchase price, plus VA funding fee and energy efficient improvements. However, the VA sets the maximum interest rate and how much of the loan is guaranteed. Using the full entitlement for a no-down payment loan, the maximum one could borrow would be \$359,650.

The VA will guarantee up to 50 percent of a home loan up to \$45,000. For loans between \$45,000 and \$144,000, the minimum guaranty amount is

\$22,500 with a maximum guaranty of up to 40% of the loan up to \$36,000, subject to the amount of entitlement a veteran has available. In most states, it will guarantee no more than \$89,912 on loans over \$144,000.

If using the VA guarantee, the buyer is responsible for the following closing costs: discount points (which can be negotiated with the seller), appraisal, credit report fee, survey, title search, recording fees, and VA funding fee. Brokerage fees should not be charged to you for the loan.

Also, the VA does not require a down payment if the purchase price or cost of the property is a reasonable value as determined by the VA. However, the lender may require one. On no-down-payment loans, the VA charges a funding fee equal to 2.15% of the loan at the closing. This amount is reduced to 1.5% for down payments under 10%, and to 1.25% for down payments of 10% or more. The fee may be included in the loan and paid from loan proceeds. Specific information about the funding fee can be found at <http://www.homeloans.va.gov/new.htm>.

VA loans can be paid off at any time without penalty. Partial payments cannot be less than one monthly installment or \$100, whichever is less.

#### **Advantages**

- Eligible veterans pay no mortgage insurance premiums and may obtain a 100% loan-to-value mortgage (no down payment), up to a fairly high loan limit.
- There is no maximum land value to the loan amount and no pre-payment penalty.

#### **Disadvantages**

- Non-veterans are ineligible.
- Discount points are usually charged, and if a seller pays them, the price of the house may be higher.
- The little or no-down-payment option results in both larger debt and heftier monthly payments. If the home depreciates, the housing debt may exceed the value of the house, and the sale of the home would not cover the loan.

- Any down payment, closing costs, or points cannot be borrowed. Processing time is 30 days.

### **Rural Development—Housing Loans**

Rural Development provides loan guaranties for purchasing rural property to qualified low- and moderate-income applicants. To qualify for the loan guaranty, the applicant's adjusted family income must not exceed 115% of the median income for the area, have stable employment and demonstrate their capacity to repay the loan, personally occupy the home, and have a good credit history. Applicants must purchase or build in an eligible rural area as defined by Rural Development. Loans are guarantied with 30-year fixed-rate mortgages.

Rural Development arranges all aspects of the loan origination, including appraisal and inspection. The applicant pays for the legal services necessary to guarantee a satisfactory title to the site, credit report, and other incidental loan-closing costs. Except for the credit report, these expenses may be included in the loan.

Rural Development offices are located throughout the state. To find the office nearest to you, visit the Rural Development Web site at <http://www.rurdev.usda.gov/rhs>.

#### **Advantages**

- These loans make home ownership possible to those who perhaps could not otherwise obtain adequate housing.
- The interest rate and down payment vary with household income.
- Closing costs are low. Borrowers who suffer a reduction in income may receive government assistance.
- Loan terms may be arranged for longer terms than for conventional mortgages.

#### **Disadvantages**

- This type of home financing is available only to those who meet the criteria outlined by Rural Development.

### **State Housing Initiative Partnership (SHIP) Housing Assistance Program**

SHIP is a down payment assistance loan program that assists first-time home buyers with the purchase of a home which has been constructed or substantially rehabilitated within the year of purchase. This program is designed for low- to moderate-income households that do not have adequate resources for down payment and closing costs.

How the program functions varies from county to county within the state of Florida. The program provides a low- or interest-free loan to reduce down payment and closing costs to qualified, eligible home buyers. A second mortgage is placed on the property and the recapture of SHIP funds are either deferred until point of sale, transfer, or refinancing, or forgiven after a specified period of time. Maximum loan amounts vary based on available funds and meeting income requirements adjusted by family size. The maximum sales price, funds available, and recapture of funds are determined by the local management of the SHIP program.

SHIP funds may be matched with private funds, bank loans, credit union loans, Community Development Block Grant (CDBG) Funds, Rural Economic Community Development funds, or any other state or federal grant.

#### **Advantages**

- Provides down payment and closing cost assistance for very low- to moderate-income families.
- The loan is deferred with little or no interest. It is either forgiven after a specified time, or payable if the house is sold, refinanced, or the title is transferred.

#### **Disadvantages**

- Must qualify by local income guidelines.
- Fund availability is limited.
- Must live in the county/city limits of the program administering the funds.

- Homes must be owner-occupied.

### **Other First-Time Homebuyer Financing Programs**

#### **Florida Assist Program**

The Florida Assist Loan is another down payment assistance program that provides up to \$10,000 for down payment and closing costs. This program targets applicants whose incomes are at or below 80% of the area median income.

The Florida Assist Loan is a zero-percent interest, non-amortizing second mortgage loan, which means you do not make any monthly payments on the amount borrowed. You repay the loan if you sell the home, transfer ownership, satisfy or refinance the first mortgage, or cease to occupy the home.

#### **Homeownership Assistance for Moderate Income Loan Program**

The Homeownership Assistance for Moderate Income (HAMI) Loan program enables borrowers with moderate incomes to also qualify for down payment and closing cost assistance. HAMI Loans provide up to \$5,000 to assist with down payment and closing costs. HAMI is an amortized loan that is offered at 5% interest.

You may qualify for this loan if your income exceeds the limits for the Florida Assist Loan, but does not exceed the maximum annual income limits for Florida's First Time Homebuyer Program.

#### **Florida Plus Program**

This program offers a low 30-year fixed-rate loan and 4% of the loan amount back to borrowers as a grant to help pay down payment and closing costs.

#### **Florida Heroes Program**

This program helps borrowers that are education professionals, sworn officers of the state of Florida, healthcare professionals, and all active duty military and veterans with a very low interest rate on a mortgage.

#### **Florida Advantage Program**

This program offers a very low rate to borrowers in urban infill areas, federally designated targeted areas, Front Porch project areas, HOPE VI communities, and participants in the USDA Mutual Self-Help Housing Program.

#### **Florida 40 Program**

This program helps borrowers by allowing them to spread their loan payments over a 40 year time frame.

#### **Florida 40 Plus Program**

This program offers the benefits of a 40-year loan term and 4% of the loan amount back as a grant to the borrowers to help pay for down payment and closing costs.

For more information about these housing programs, or to find the lenders who work with these programs in your area, visit <http://www.floridahousing.org>.

### **Other Mortgage Features**

Other mortgage features are Assumable Loans and Seller Financing. Assumable mortgages, such as VA and FHA loans, allow a buyer to take over a seller's original mortgage. The buyer must then obtain a loan for the balance of the purchase price. If lenders agree to an assumption, they may review the new buyer's credit history and adjust the interest rate of the loan to current market conditions. Many fixed-rate mortgages written since the late 1970s contain a "due-on-sale" clause, however, which prohibits an assumption. This protects the lenders when buyers want to assume sellers' existing low-rate mortgages.

With seller financing, a seller provides all or part of a buyer's first and second mortgage. While sellers may offer a slightly below-market interest rate, they may also require a balloon payment of the entire loan balance within a few years of refinancing at market rates. To eliminate possible pitfalls, seller-financed loans should be prepared and reviewed by an attorney.

Other options include balloon, reverse annuity, shared appreciation, and renting with an option to buy.