Assess Your Debt

Mortgage Check Up: Are You a Healthy Homeowner?

The housing market is ailing in some parts of the country, leaving homeowners hurting. Unfortunately, home loan troubles can spread like a virus, affecting even those with healthy loans by depressing home values and restricting mortgage programs.

Here are four questions to help you understand whether you are in good shape when it comes to your home loan:

1. What Type of Loan Do I Have? Don't be embarrassed if you aren't quite sure how your loan works. Some of the loans homeowners took out in the past few years practically required an advanced degree in finance to decipher.

To familiarize yourself with your loan's terms, dig out your paperwork from your closing. Review the note, which describes the terms of your loan. Look for answers to these questions:

- *What type of interest rate do you have?* Is it fixed or adjustable? If it is adjustable, do you understand when it will change and how much it can change? Are you making interest-only payments? If so, when will your loan "amortize" or start requiring payments that include principal? Can you afford those higher payments?
- *Is there a pre-payment penalty?* If your loan has a prepayment penalty your lender will charge a fee, usually six month's worth of interest, if you pay off your loan before the penalty expires. A "soft" prepayment penalty applies only if you refinance your home, but a hard prepayment penalty applies if you sell *or* refinance. Find out when yours expires, and keep in mind that lenders may waive prepayment penalties in hardship situations.
- *Does your loan have the potential for negative amortization?* With negative amortization, your loan balance gets larger instead of smaller even though you make your payments on time. Your note will warn you of this possibility. If you obtained your loan through **Union Plus Mortgage**, you're safe. These loans never feature negative amortization.

Important: If you cannot locate your loan documents, ask your lender for a copy of your file. If you decide to refinance or have difficulty making your payments, you may need this information, and it can take time to get a copy.

Tip: Some adjustable rate mortgage loan programs allow the borrower to convert an adjustable-rate loan to one with a fixed rate loan. There may be a fee for this, but it will almost always be cheaper than refinancing. Talk with your lender if you are not sure whether your loan offers this option. If it does, you may want to consider locking into a fixed rate.

2. How Much Is My Home Worth? Traditionally, mortgage lenders required borrowers to make a down payment of 10 – 20% of the loan amount. This cushion helped protect both lenders and homeowners. If the home was sold, the loan balance could likely be paid off. But between the recent popularity of low down payment loans and slumping home values in some parts of the country, a number of people are "underwater" on their loans, owing more than their homes are worth.

To estimate your home's value, check out free real estate valuation websites such as **Zillow**, **Cyberhomes** or **Yahoo! Real Estate**. But be careful: you may get what you pay for with these services. The data on these sites may be slow to reflect changes in local markets that change quickly. In addition, values are based on property descriptions available from public sources, and they may not be correct. Finally, keep in mind that if your home is different from typical homes in your neighborhood an appraisal will take that into account when determining your home's value, but these sites may not.

If you think you may need to sell or refinance your home in the near future but you are not sure how much equity you have, talk with a real estate professional. He or she will be able to research "comps" and give you a listing showing how much properties similar to yours sold for. You'll also be able to find out the number of days homes have been on the market before selling, and whether the number of homes for sale in your locale ("inventory") has been increasing or holding steady. All of these factors help determine a more realistic listing price or value for your home. Ultimately, though, your home is only worth the amount a buyer is willing to pay for it.

3. Am I Protecting My Home? Your lender likely requires you to maintain homeowner's insurance, but if you have not reviewed your coverage recently you may be underinsured. Higher costs for fuel and building materials may make it more expensive to repair or rebuild your home in the event of a fire or other damage. And remember, you must purchase separate flood insurance to cover that catastrophe. In 2006, one-third of all floods occurred in areas of low to moderate flood risk. Review your insurance policy with your agent to find out if you have adequate coverage, and visit **Floodsmart.gov** to learn about flood insurance.

4. Is My Credit Strong? Lenders often use FICO credit scores to help determine whether a borrower qualifies for a loan, and if so, what programs and interest rates are available. FICO scores range from 300 – 850, and the highest scores go to those who demonstrate the best track records managing their credit. The median FICO credit score nationwide is 723.

Even though your credit score may have been strong enough for you to qualify for your current loan, you can't assume that is still the case, for a couple of reasons:

1. Changes in credit scores: FICO is in the process of updating its credit scoring formula, beginning in the spring of 2008. Some consumers will see their credit scores rise under FICO 08, while others may find their scores drop even though their credit habits remain the same. Learn more about how **FICO scores are changing here**.

2. Stricter lender requirements: Many lenders are requiring higher credit scores. Fannie Mae, which is the largest purchaser of mortgage loans, will stop buying most loans if a borrower's credit score is lower than 580 ("subprime"). Since many lenders follow Fannie Mae guidelines so they can later sell their loans to Fannie Mae or other investors, borrowers with low scores will find it more challenging to get loans.

Subprime loans aren't the only ones that have been affected, though. Lenders have also significantly cut back on "Alt A" loan programs, which have been popular for borrowers who have decent credit scores but lack the ability to fully document their income or assets, or have higher levels of debt. Many subprime and Alt A loan programs have disappeared. Those that are available often carry higher interest rates and/or require a larger down payment.

All these changes make it more important than ever to monitor your credit reports and scores and fix problems quickly. If you are planning to buy or refinance a home it's essential you stay on top of your credit.

Helpful Resources for Union Members

- **Check your FICO credit score** so you will know what they are, and so you can understand how they may affect your ability to get a mortgage loan. Keep in mind that other companies selling credit scores may be selling "educational" credit scores that are very different from FICO scores.

- Learn about mortgage and homeowner programs for union members with special member-only benefits including low closing costs and the strike and unemployment/disability fund. Visit the **Home Finance Center** to learn more.

- Call the **Union Plus Save My Home Hotline** if you are having trouble keeping up with your current mortgage, or you are worried about falling behind in the future. Free help is available 24 hours a day, 7 days a week from a HUD-certified housing counselor by calling 1-866-490-5361.

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