

RTC Mortgage Corporation



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"No-Cost" Mortgage. Is it the Right Choice?

Just like there is no free lunch, there really is no such thing as a true "no-cost" loan. But, it is possible to get a loan without coming out of pocket for closing costs, points and other expenses. Let me explain how it works.....

There is always a correlation between interest rate and the cost for a loan. All lenders should (whether a direct lender or a mortgage broker) offer all borrowers both a no-cost loan and a loan with standard costs to see which one is best for the client. It's not hard to figure out and the answer varies according to how long the borrower keeps the property and the amount of cash that they have.

Let's look at a simple example:

Let's compare a \$300,000 No-Cost Loan to one with standard Closing Costs of \$3000 and also to a third loan with standard closing costs plus a cost of 1-point. Figure that the standard closing costs are \$3000 and include Escrow, Title Insurance, Appraisal and Lender Fees. If the borrower is paying a point, this would add an additional cost of \$3000. You can see that the "No-Cost" Loan comes with a higher interest rate than a loan where the borrower pays for the closing costs. And, if the borrower is willing to pay a point (1% of the loan amount) in addition to the closing costs, the rate goes down even further.

Now, let's look at the cost of each loan over time. The chart below shows the total cost of each option over the 30-year life of the loan.

	No-Cost Loan	Standard Cost Loan	1-Point Loan
Total all Pmts:	\$547,200	\$531,295	\$515,609
Total Interest	\$247,220	\$231,295	\$215,609
Cost of Loan:	\$0	\$3,000	\$6,000
Net Savings:	\$0	\$12,925	\$25,612

Now you can see that the no-cost loan costs less up front but over time, a loan with a lower interest rate and lower payments saves the borrower considerable money when compared to the loan with no costs.

When deciding which option is best for you or your clients, it is helpful to know the **Break-Even Point** in time. In this example, the Break-Even Point is 4 years. So if the borrower intends to keep the property and the loan more than 4 years, they are better off paying closing costs. And, if they pay a point too, the savings is even greater over time.

As a mortgage professional and Certified Mortgage Planner, I provide an in-depth Analysis for all clients. It's important to make the right choice up front since it could be one that you live with for 30-years.

30-Day Escrows—Still Possible?

The answer is **YES!** But it pays to plan ahead.

The introduction of new Federal Regulations during the past couple of years were designed to protect the Borrower but they also lengthen the process. Certain Disclosures must be provided and appraisals can't be ordered until certain processes are followed.

But, Homebuyers and Realtors can still close a transaction in 30 days with some advance planning. The most important thing to do is meet with your mortgage broker before making an offer on a home. By going through the pre-approval process first, we will advise you of the documentation required to document your loan. If the Borrower provides what is needed before they shop, we can shave 1 or 2 weeks off the process.

Your Trusted Mortgage Advisor with 35 years of Experience