

# How We Get You the Best Rate

As Certified Mortgage Planning Specialists™, The HomeW.I.S.E. Team at Residential Mortgage of Colorado is committed, qualified and equipped to help you get the best rate possible. It's something we do for our clients every day.

Interest rates are based on a variety of factors: credit, type of loan, loan size, property type, size of the loan compared to total value of the home, and market volatility. All of these factors impact what your best rate might be and this is why every rate we quote is customized to fit your unique situation.

## The Six Factors That Impact Your Interest Rate:

### 1. Credit

Your credit has a huge impact in determining interest rate. Credit scores range from 350 to 850, with 850 being the best possible credit score and 350 being the worst possible credit score. There are five areas that affect credit score and they are:

1. Payment History (35% impact to your credit score)
2. Balances you owe vs. available credit (30% impact to your credit score)
3. How long your accounts have been open (15% impact on your score)
4. Types of credit accounts that you have (10% impact on your score)
5. Number of recent inquiries (10% impact on your score)

To get the best rate possible there are certain credit score benchmarks that a borrower must meet. If you are applying for an **FHA** loan, the minimum FICO score required for the best rates available is a **680** mid FICO. For a **Conventional** loan this benchmark is set at a **740** mid FICO. For most **Jumbo** loan programs, a **700** mid FICO score is required and rates tend to be dramatically better for FICO scores over **740**.

If your current FICO scores do not meet these standards, don't be dismayed. The HomeW.I.S.E. Team has helped numerous clients improve their credit scores. We are happy to help and it may not take as long or cost as much out of pocket as you might think!

### 2. Type of loan

Most mortgages fit into one of three categories: Government loan (FHA and VA), Conventional loans (best known as Fannie Mae and Freddie Mac), and Jumbo loans (typically anything over \$417,000 loan amount although this amount varies depending on location and loan type). Within these loan categories there are also fixed rate loans and adjustable rate loans (ARMs). Each type of loan comes with a series of pros and cons depending on your individual situation.

When comparing rates between fixed rate FHA and Conventional mortgages, FHA is often better priced by as much as .25% in rate. If your loan size is over the Conventional lending limit, you may need a Jumbo loan. These rates are often at least .25% to .5% higher in rate than Conventional. Rates for 5 or 7 year ARM's can be as much as 1% lower in rate than a 30 year fixed loan of the same type and size.

### What Impacts Your Interest Rate?

- Credit
- Type of Loan
- Loan Size
- Property Type
- Loan-to-value
- Market Volatility

As you can see, rate can vary tremendously depending on which type of loan you choose. The HomeW.I.S.E. Team might recommend you take a look at a few different loan types to make sure the loan you choose provides the best rate and terms for your individual needs.

### 3. Loan Size

The size of your mortgage will affect your rate because most best priced loan products have loan size limits. Conventional loan limits for a single family home are currently \$417,000 in most parts of Colorado. FHA loan limits vary by county. The current FHA loan limit for Denver County is \$406,250 while in Boulder County it's \$460,000 for a single family residence.

We often employ strategies to help our clients make sure the rate they get is the best for the loan size they need. For example, since FHA rates are much lower than Jumbo rates for a 30 year fixed loan, if you were buying a home in Boulder County at around a \$450,000 to \$500,000 purchase price, we might suggest you compare FHA to Jumbo loan options to see which loan provided a better value for your particular situation. Regardless of where you buy, if you are close to going over the conforming loan limit of \$417,000, talk to your HomeW.I.S.E. Team professional about some strategies that can help *Save* you money!

### 4. Type of home

Most people don't realize that the type of home you finance can also affect your rate, particularly if the home is a condominium. If you are looking to buy a condo and using a Conventional loan to do so, you will pay on average anywhere from .25% to .5% higher in rate than if you were buying a single family home or townhome. How much worse will depend on loan-to-value, credit score and market fluctuation. Why charge a premium for condo financing?

A major factor in determining interest rate is risk assessment - the higher the risk to the bank, the higher the interest rate. National statistics demonstrate that mortgages for condos have had consistently higher default rates than loans for any other type of residential real estate. While there are a number of factors that play into this result, the main reason is because the overall quality and condition of the property is dependent on the co-owners in your building. While you may take good care of your individual unit and pay your homeowners association dues and mortgage payments on time, there's no way you can guarantee your neighbor will.

FHA does not currently charge a premium for condo financing. If the condo project is eligible for FHA financing and you are putting less than 20% down, you may want to consider using an FHA loan.

Both Conventional and FHA underwriting guidelines require condo projects meet certain guidelines in order to be financeable. If the condo you want to buy can't meet these requirements, not only will rates be higher, you may find it challenging to obtain financing at all.

At The HomeW.I.S.E. Team, we are experts when it comes to condo financing. We have helped developers obtain FHA financing for their projects, have found financing for projects that were not eligible for Conventional or FHA financing, and have advised clients on many ways to make sure the rate and terms they got for their condo financing were the best available every time. We can help you determine which condo projects in your area are FHA approved. We can also run pricing and payment comparisons between different types of homes before you submit an offer so you understand the impact of premium pricing on rate and overall payment.

## 5. Loan-to-value

Whether you are looking to purchase or refinance your home, the loan amount compared to the total value of the home, called loan-to-value, can have a significant impact on your rate. For Conventional financing, there is a dramatic rate improvement at a 75% loan-to-value or better (i.e. you have at least 25% to put down on a purchase or 25% equity in your home for a refinance). For Jumbo financing, loan-to-value often impacts rate significantly as well.

If you have some flexibility in how much money you choose to put down on a new purchase, you might consider talking through your options with a HomeW.I.S.E. Team advisor. While it may or may not make sense to put more money down depending on the tax implications, how the money is currently being invested and other factors, it is best to know how this aspect of the transaction might affect your choice.

## 6. Market Volatility

Interest rates change daily as the financial markets fluctuate. The more volatile the market, the harder it can be to determine the absolute lowest point in the market. The HomeW.I.S.E. Team employs a variety of tools to track and analyze market trends in real time, so as not to miss any opportunity to provide our clients with the most competitive interest rates possible.

We subscribe to and review a number of financial industry publications daily and utilize analysis tools that help us determine which direction the market is trending at any one time. While none of us has a crystal ball when it comes to predicting market shifts, we have been successfully using these tools to secure rates for our clients within .125% to .25% of the best rates in the market for more than 10 years. As the stock traders say, while past performance can never guarantee future results, we are confident you will find we are able to provide you with unsurpassed service in this area. After your rate is locked, we have also been able to renegotiate that lock when markets have moved so much that the current locked rate is no longer within .25% of the bottom.

We are happy to discuss our locking strategies with you. Please just ask.



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