

# Financing Your Waterfront Home Purchase

by Joe Catalano

The good news for buyers is that the real estate market has slowed from its torrid pace since 2000. The number of waterfront and water view homes on the market has increased, and as a result, selling prices have come down in most areas, but the bad news is that obtaining a mortgage has gotten harder. In addition, interest rates have started to creep up slowly, although they are still, historically, near the low end. What's causing this tightening of funds is the years of freewheeling lending that helped fuel the recent real estate boom and make those ever-rising prices still doable for many buyers.

People who took low interest adjustable loans are starting to see their payments adjust upwards. Lenders who made sub-prime loans - mortgages to people with less than perfect credit - are watching borrowers struggle to keep their payments timely. Some sub-prime lenders are experiencing financial difficulty themselves, with one, Melville, New York-based American Home Mortgage Investment Corp, once the nation's 10<sup>th</sup> largest home lender, declaring bankruptcy. The result is a growing number of home foreclosures. The lending pendulum now is swinging back towards tightening.

Today, the buyers having the least trou-

ble getting a mortgage are those with the best credit and highest FICO scores (a measurement used by lenders based on factors such as debt and on-time payment of other loans). So, how do you improve your chances of getting a mortgage and purchasing that waterfront home you've been eyeing?

First, get a copy of your credit report to make sure that what's listed is correct. Everyone is entitled, by law, to one free credit report a year (go to [annualcreditreport.com](http://annualcreditreport.com)). If the credit report has things that are inaccurate, contact the credit-reporting agency. They will ask for proof, and it could take weeks or even months to sort everything out which is why you should do this prior to beginning your home search.

Another thing to do prior to shopping is to eliminate as much debt as you can. Pay off a student loan. Pay off, or at least pay down, any outstanding credit card balances you have. Doing this shows the lender two things: that you have less debt and that you have a history of repaying loans on a timely basis.

And speaking of loans, don't take out any new ones as you start your home search. One mistake people make is that they buy a car or purchase furniture on time

right before applying for a mortgage. What this does is decrease the loan amount a bank is willing to lend for your home. Banks use a debt-to-income ratio, and all debt is included in this.

You also can improve your odds of getting a mortgage by putting more money down. Those zero and 5 percent-down loans exist, but are harder to come by, with more banks favoring 20 percent. And, with home prices still declining, lenders feel even more comfortable if you put down 25 percent or more. This gives the lender added insurance that the outstanding loan balance won't one day be greater than what the home is worth even if prices decline further. There are also advantages for the borrower. He starts with more home equity that he can later tap if needed. His monthly payment will be less because it is based on a smaller loan amount.

This loan tightening also has led to an increase in the amount of documentation that you may have to show. Along with tax returns and W-2 forms, lenders may want divorce decrees and proof of other sources of income.

Which brings up the point of whether or not you should use a mortgage broker.

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# Waterfront Real Estate

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Brokers don't make loans. They match lenders with borrowers, working for the latter and earning a fee in the process. Over 75 percent of loans are now made through mortgage brokers.

In theory, they help borrowers find lenders who will approve a mortgage given their good or shaky credit background and for the type of loan that best suits their needs. A mortgage broker also can help you put together the documentation, show you how to present it favorably and make sure the lender gets everything in a timely fashion. In addition, a good broker can help you get the best rate for the type of mortgage you decide on.

However, the number of mortgage brokers has grown nationwide to more than 330,000. While there are many good ones, as usually happens with rapid expansion, some not-so-qualified people also have entered the business, even though licensing is required in many states, including New York. In addition, critics contend that some brokers steer borrowers not to the loans best suited to them, but to the ones that give the broker the highest fee.

If you know the loan you want and have

a good working relationship with a lender you trust, you probably don't need to bring in a third party. If you haven't been in the mortgage market for a while and need some hand holding and tutoring on the vast array of mortgage products out there, then consider a broker. Finding a good one can be tricky. Ask friends and relatives, keeping in mind that it may be hard for them to know if they got the best deal, but ask how the service was and if the broker was attentive and prompt with submitting the application and documentation.

You also can ask your real estate attorney or real estate agent for recommendations. Beware that, while these mortgage brokers may be good, they may have some kind of financial tie, such as a referral fee, with the attorney or agent.

Once you have at least three names, call them all on the same day and ask what loan they recommend. Also ask the rate and what fees are associated with the loan, including the broker's own. Brokers deserve to be paid a fee, but find out how it's figured. Some charge a straight one or two percent of the loan amount. Others get paid either from part of a closing fee or from what's called the yield spread premium. What the later means

is that the higher the interest rate they sell the loan for, the more they will make. This leaves open the question of the borrower being steered towards the right loan. Most experts recommend going with a broker charging a percentage fee. Before choosing, make one final phone call or online search to your state's banking department. See what the broker's complaint record is.

Whether you use a broker or not, stay on top of things throughout the whole lending process. Make sure an appraisal is done promptly and ask the results. This helps you determine if you are overpaying for a home and, more importantly, if the lender will give you the full amount you need to borrow. Make sure that a title search is done and that the seller has all certificates of occupancy for changes made to the home.

But above all, stay on top of your current credit card and other debt payments. Missing a payment or falling behind - even if it's only because you were away on vacation - can result in your getting a higher rate or even jeopardize your loan's approval, keeping you from buying the waterfront home you've always wanted.



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