

Mortgage 101: Realtor's Guide to Financing

Content Overview:

Part 1 - The Basic Requirements of Every Mortgage

Part 2 - Loan Types and Programs to Know

Part 3 - The Loan Process

Part One: The Basic Requirements of Every Mortgage

Each Mortgage is as unique as the individual for whom it is tailored.

4 common elements:

- Credit history of the borrowers
- Income of the borrowers
- Assets of the borrowers
- Loan to Value (LTV)

Mortgage: *noun*

a legal agreement by which a bank or other creditor lends money at interest in exchange for putting a lien on the debtor's property, with the condition that lien is released upon the payment of the mortgage loan in full.

Terms to Know:

- **Down Payment:** The part of the purchase price not financed with a mortgage.
- **Debt-to-Income Ratio:** Comparison of Gross Income to New Housing Payment and Comparison of Gross Income to Total Debt Payments.
- **Credit Score:** Lenders only use FICO scoring model and take middle score from Three Bureaus.
- **APR:** A percentage that represents the interest rate and costs over the life of the loan.
- **Closing Costs:** The items paid at closing, including non-recurring items and pre-paids.
- **Seller Concession:** Also called Seller Paid Closing Costs. Concession given by Seller to pay Buyer's closing costs and pre-paids.
- **Reserves:** Amount of funds left over after closing that are Borrower's Own Funds. Cannot Be Gift Funds.

Every Mortgage Loan will consider:

- Income
- Credit
- Down Payment
- DTI - Debt to Income Ratio
- Assets
- Capacity to Repay

Qualifying Income:

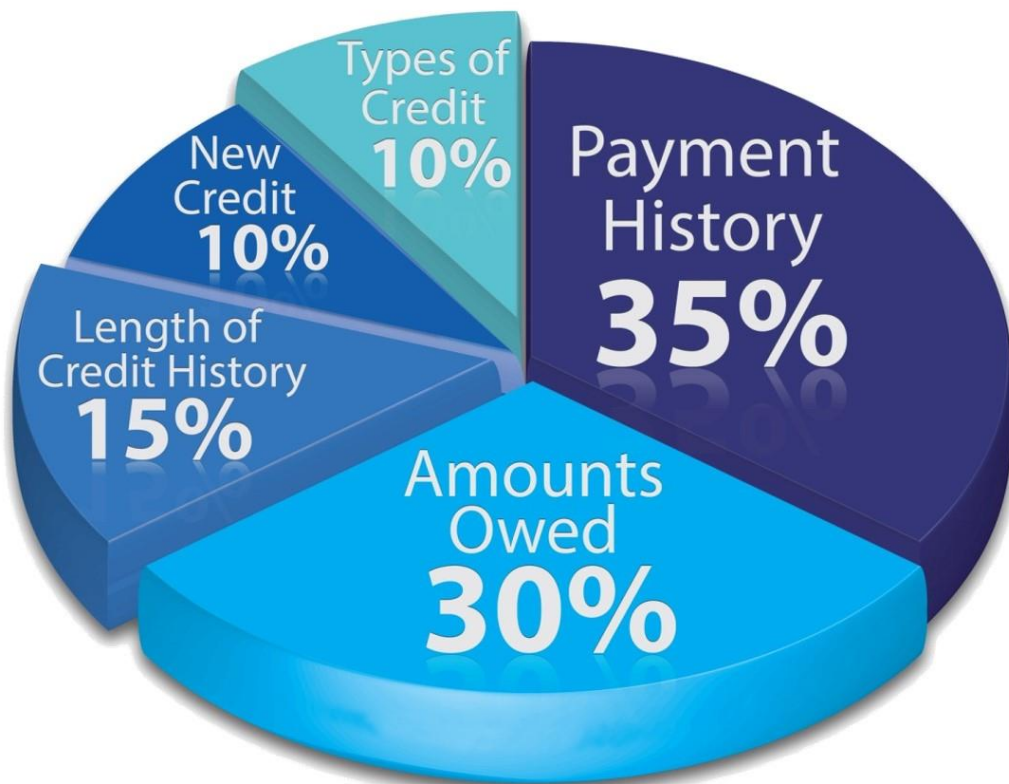
- 2-year employment history.
- Exceptions are allowed in some cases. Ex: Recent graduate entering the workforce. In this case, school transcripts are required to complete the 2-year history.
- 2-year history is required when changing from W2 to 1099 income (**or Self-Employed**).

- Overtime, commissions & bonuses are allowed to be part of qualifying income if there is a 2-year history.
- It is also averaged out for the past 2 years. Some exceptions apply.
- Part time employment can only be used if there is a 2-year history.

Credit:

Credit Score is a 3-digit number used by lenders to evaluate the risk associated with lending money to a consumer. It is generated by a mathematical model created by Fair Isaac & Company in the 1950s and is commonly called the FICO Scoring model. Mortgage Credit Score 350-850.

FICO Scoring Model



- 3 Credit Bureaus – Transunion, Equifax, Experian
- Must Use Lowest Middle Score.
- Credit dictates programs and loan requirements

- Cannot Mix & Match Income and Credit Between Borrowers. Everybody on the Loan MUST Credit Qualify.

What is the Minimum Credit Score? Depends on the Program!

- FHA is 500 with 10% Down & 580 with 3.5% Down
- Conventional is 620
- VA is 580
- USDA is 620

Minimum Score to Apply Doesn't Mean Approved!

Down Payment:

- Asset Accounts
- Retirement Accounts
- Permanent Life Insurance
- Secured Loan
- Gift Funds
- Approved Down Payment Assistance Program

Debt-to-Income Ratio (DTI):

- Debt-to-income Ratio (DTI)
- Calculation of the borrower's total gross monthly debts or payments divided by their total gross monthly income.
- The lower the number, the more likely they will be approved for the loan.
- Lenders Use Two DTI Calculations to Determine Eligibility
- Front DTI Ratio is the Housing DTI which is

$$\text{Front DTI} = \frac{\text{New Housing Payment}}{\text{Gross Monthly Income}}$$

- Back DTI Ratio is Total Debt DTI which is

$$\text{Back DTI} = \frac{\text{Housing Plus Other Debts}}{\text{Gross Monthly Income}}$$

Each Loan Program has Different Front & Back DTI Ratios in order to qualify.

If Front End DTI is too High can only lower by Increasing Income or Lowering Mortgage Payment.

If Back End DTI is too High, they can lower it by either paying off current debt or increasing monthly income.

Assets:

Asset Guidelines

- Any borrower funds must be seasoned for 2 months
- Gift money needs to be seasoned for 1 month
- EMD checks should be provided with contract & Must Be Sourced
- Large deposits need to be explained and/or Sourced

Acceptable sources:

- Checking and Savings Accounts
- Gift Documentation
- Sale of Property (HUD1)
- 401K and other retirement accounts
- Sale of Stocks/Bonds/Mutual Funds
- Verify assets
- Most recent 2 Month Statements/Last Quarterly Statements
- Proof of liquidation for funds to close

Gift Funds:

- Can be used as full or partial down payment, closing costs or to fulfill a reserve requirement.
- Must be verifiable and sourced. This means cash cannot be counted as a gift fund because you can't prove where cash came from. It has to be in

form of written check or wired so that your lender can confirm the source of the money.

- Gift funds cannot come from people who aren't family members. It has to come from a parent, grandparent or sibling. It is also generally acceptable to receive gift funds from your spouse, domestic partner or fiancée/fiancé.
- The gift giver should make a "gift letter" stating the address of the property being purchased, the amount of the gift, the source of their funds and the relationship between you both.
- Gift Letter should also state that the funds will be applied to your home purchase, the money wasn't obtained behind the scenes from people associated with the transaction, and that you are not expected to repay the gift. Other details include the date the funds were transferred and their signature. Your lender may request copies of withdrawal and deposit slips or something similar.
- Could involve paying income tax on gifts above \$10,000. Gift of equity would not fall under this category and would only be taxable on the sale of the property as capital gains.

GIFTS - MORTGAGE LOAN PROGRAM COMPARISON

	Fannie Mae	Freddie Mac	FHA	VA	USDA
Family Status Requirement	YES	YES	YES	NO	NO
Property Types	* Primary Residence * 1-4 Units * Second Home * No Investment Property	* Primary Residence * 1-4 Units * Second Home * No Investment Property	* Primary Residence * 1-4 Units	* Primary Residence	* Primary Residence
Minimum Borrower Contribution	LTV > 80% 0% on 1 Unit 5%* on 2-4 Unit 5%* Second Home LTV ≤ 80% 0% 2-4 Unit 0% Second Home	LTV > 80% 0% on 1 Unit 5%* on 2-4 Unit 5%* Second Home LTV ≤ 80% 0% 2-4 Unit 0% Second Home	None	None	None
Gift Allowed	Closing Costs or Down payment – Outside of any Minimum Borrower Req. Note: IPC gift NOT Allowed for Down Payment	Closing Costs or Down payment – Outside of any Minimum Borrower Req. Note: IPC gift NOT Allowed for Down Payment	Closing Costs or Down Payment	Closing Costs or Down Payment	Closing Costs or Down Payment

Capacity to Repay:

Calculating DTI

Monthly Income: \$15/hour for 40 hrs/ week = \$2600/month

Monthly Debt:

Credit Card: \$50/month

Auto Loan: \$200/month

New House Payment: \$800/month

Front Ratio : \$800 (new house payment)/ \$2600 (Income) = 31%

Back Ratio: \$1050(Debt)/ \$2600 (Income) = 40%

PREQUALIFICATION VS. PRE-APPROVAL

Prequalification:

- Usually taken over the phone.
- Credit may be run, but documents are not normally collected/ reviewed.
- An opinion by a lender on what they think can be lent by the information provided.

Pre-Approval:

- Credit run
- Collected and reviewed income, asset & tax documents
- Ran through an Automated Underwriting System (AUS)

	Pre-Qualify	Pre-Approval
Credit Check	YES	YES
Loan Application	NO	YES
Income Verified	NO	YES
Assets Verified	NO	YES
Loan Guideline Approval	NO	YES
Shop With Confidence	NO	YES

What Should Be on Pre-Approval

- Loan Type – (FHA, VA, Conventional, etc)
- Purchase Price (Matching Monthly Payment)
- Estimated Monthly Payment (PITI & MI)
- How much Seller Paid Closing Costs
- How much money you need
- Down Payment Assistance Program
- Do you have an action plan?

Part Two: Loan Types

Types of Loans:

- Conventional
- FHA
- VA
- USDA
- Reverse
- Renovation
- Jumbo
- Portfolio/Non-QM

Conventional Loans:

Credit Score: 620+

Debt-to-Income Ratio: 28%/42%

(Fannie Mae/ Freddie Mac)

Conventional Loan Highlights

- Backed by Fannie Mae or Freddie Mac
- Minimum 5% Down or 3% Down with Special Program
- Private Mortgage Insurance (PMI) Required if Less than 20% Down Payment
- Maximum Loan Amount \$484,350 Unless in High Balance Area
- Escrows can be Waived
- Reserves Required for Rental Properties and Second Homes.
- Mortgage Insurance Risk Based Pricing
 - Credit Score
 - LTV
 - DTI

Ideal Client

- First-time Homebuyers
- Repeat Buyers
- Second Homes
- Real Estate Investors
- Better Credit Scores

Conventional Credit Requirements

- 620 Minimum Credit Score
- Ch 7 Bankruptcy – 4 Years from Discharge
- *2 Year with Extenuating Circumstance
- CH 13 Bankruptcy – 2 Years from Discharge
- Short Sale – 4 Years from Short Sale Date
- Foreclosure – 7 Years from Date

Property Types Allowed

- Primary Residence
- Second Homes
- Investment Properties
- SFR & 2-4 Units
- Condo
- Manufactured Homes

Seller Paid Closing Costs

Based on Down Payment:

3-9% down- 3% Concession

10% down- 6% Concession

20% Down- 9% Concession

Seller Concessions

- All Closing Costs
- All Pre-Paid Items
- Discount Points
- Seller Buy Downs

FHA Loans:

Credit Score: 580 for 3.5% Down

500-580 for 10% Down

Debt-to-Income Ratio: 28%/42%

FHA Loan Highlights

- Government loan program provided by the Federal Housing Authority and insured by HUD.
- The down-payment is 3.5%
- Up-front mortgage insurance and monthly MIP for the life of the loan if less than 10% down
- Can Use 100% gift funds
- Buyers can have lower credit scores & much higher debt ratios
- Can use non-occupying co-borrowers

Ideal Clients:

- First-Time Homebuyers
- Repeat Buyers
- Low Down Payment
- Credit Challenged
- High DTI Ratios

FHA Credit Requirements

- 580 Minimum Credit Score for 3.5% Down
- 500 Minimum Credit Score with 10% Down
- Ch 7 Bankruptcy – 2 Years from Discharge
- CH 13 Bankruptcy – 1 Year on Time Payments or Discharged
- Short Sale – 3 Years from Short Sale Date
- Foreclosure – 3 Years from Date

Property Types Allowed

- Primary Residence
- SFR
- Condo (FHA Approved)
- Manufactured Homes
- 2-4 Property Units

Cash Reserves

- Determined by AUS
- 1-6 Months
- More if Rental Property
- Not Always Required
- *Can Be Difference for Approval!

Seller Concessions (Seller Paid Closing Costs)

- Allowed Up to 6% of the Purchase Price

Includes:

- All closing costs
- Discount Points
- Pre-Paid Items

FHA Flip Rule

- Not Eligible for FHA Loan if Less than 90 Day Flip (Deed Date)
- Flip 91 Days to 180 Days

Requires 2nd Appraisal

VA Loans

Credit Score: 580

Debt-to-income ratio: 28%/42%

No Limit as Long as Meet Residual Income

VA Loan Highlights:

- Veterans can have a 0 down-payment Up to County loan Limit (\$483,350 for 2019)
- Down-payment is determined by a Certificate of Eligibility & Loan Limit
- Requires a funding fee and no monthly mortgage insurance
- Veterans can have a 0 down-payment Up to County loan Limit (\$483,350 for 2019)
- Down-payment is determined by a Certificate of Eligibility & Loan Limit
- Requires a funding fee and no monthly mortgage insurance

Ideal Clients:

- Active Duty Military
- Veteran
- Reservist or National Guard
- Spouse of Deceased Veteran

VA Credit Requirements

- 580 Minimum Credit Score
- Ch 7 Bankruptcy – 2 Years from Discharge
- Short Sale – 2 Years from Short Sale Date
- Foreclosure – 2 Years from Date

Property Types Allowed

- Primary Residence
- SFR
- Condo (VA Approved)
- Manufactured Homes
- 2-4 Unit Properties

Seller Concessions:

- All Allowable Closing Costs
- 4% Cap Toward Discount Points and Paying Off Borrower Debt

USDA Loans:

Credit Score: 620

Debt-to-income ratio: 28%/42%

USDA Loan Program Highlights

- USDA is a loan program sponsored by the United States Department of Agriculture.
- Upfront Guarantee Fee of 1% to use the program.
- Cheapest Monthly Mortgage Insurance premium (Life of the loan)
- Zero Down Payment! 100% Financing up to Appraised Value
- Maximum Income Restrictions based on Household Size and County

- Property MUST be in Eligible Area for USDA Loan.

USDA Credit Requirements

- 620 Minimum Credit Score
- Ch 7 Bankruptcy – 2 Years from Discharge
- CH 13 Bankruptcy – 1 Year on Time Payments or Discharged
- Short Sale – 3 Years from Short Sale Date
- Foreclosure – 3 Years from Date

Property Types Allowed

- Primary Residence
- SFR 1 Unit Only!
- Condo
- Manufactured Homes

*Only New Properties!

Seller Concessions

Limited to 6%

Includes:

- All closing costs
- Discount Points
- Pre-Paid Items

Renovation Loans:

Renovation Loan Highlights:

- Can be used to purchase REO, HUD, Cash only, Homepath properties. Can also be used to update outdated property
- 203k is an FHA program – 3.5% down-payment for purchase + renovations
- Homestyle is the Conventional program – 5% down-payment for purchase + renovations
- VA Renovation Loans – 0% Down
- Can be closed in “As Is” condition
- Appraised value is based on after improved value
- Contractor is paid by Lender from Escrow Account
- Can do most work desired, including upgrades

What is a 203k / Homestyle Loan?

FHA / Conventional program for existing single-family homes which allows for repair or renovation to existing homes in two formats.

- Standard 203(k) for major renovation.
- Limited 203(k) for limited repairs.
- Fannie Mae Homestyle
- The purpose of the program is to promote and facilitate the restoration and preservation of the nations existing housing stock.

How is it Different?

- Property does not meet minimum property standards at closing.
- Funds for the rehabilitation costs are financed into the mortgage amount.
- “After improved” value is used for the basis of collateral evaluation.
- Renovation Loan is a permanent transaction.

Portfolio and Non-QM Loans:

Non-QM Highlights

- Form of home financing that is not eligible to be purchased, guaranteed or securitized by Fannie Mae or Freddie Mac.
- May not meet Fannie or Freddie credit history requirements
- Credit score as low as 500
- Requires a larger down payment
- No PMI
- Higher Interest Rates
- Foreign Nationals & ITIN
- Self-employment

Non-QM Loan Programs:

- Non-Warrantable Condos
- Bank Statement Loans for Self-Employed
- Investor Cash Flow Loan in Name of LLC
- 1 day out of bankruptcy, short sale & foreclosure (Fresh Start Program)

Reverse Mortgage Loans:

Reverse Highlights:

- Can be used for purchase
- FHA mortgage
- Minimum age of 62
- Must check for FHA approval on 55+ communities
- Approved amount is based on age & Purchase Price
- Non-credit qualifying

Jumbo Loans:

Jumbo Loans Highlights:

- A form of home financing for whose amount exceeds the conforming loan limits set by the Federal Housing Finance Agency (FHFA).
- Unlike conventional mortgages, it is not eligible to be purchased, guaranteed or securitized by Fannie Mae or Freddie Mac.
- Unique underwriting requirements and tax implications.
- Loan amounts \$484,351 and above
- 680 and higher credit scores
- DTI max 43%
- Requires reserves after closing
- Minimum down payment 5%

	Down payment	Credit Score	Seller Contributions	Uniqueness	Max Loan Amounts
FHA	3.50% 10%	580 500	6%	Most flexible loan Program	County Limit
VA	No Down Payment Up to \$484,350	580	4%	No MI, for Veterans and their spouses	\$484,350 for 100% 1,000,000
USDA	No Down Payment	620	6%	Has to be in USDA eligible area, can finance in closing costs if appraised value permits. Income limits to qualify.	None
Conventional	3-5%	620	if LTV > 90: 3% if LTV < 90: 6%	MI can be cancelled	\$484,350
Jumbo Loan	5% 10%	720 680	3%-6%	Loan amounts above \$484,350	\$3,000,000
Non-Qualified Mortgage	5% 10%	720 600	3%-6%	Specialty loans for buyers with credit issues, recent housing events (foreclosures/ short sale)	\$3,000,000

Part Three: The Loan Process

- Ratified Sales Contract Received
- Initial Disclosures & LE are issued
- Verification documents are ordered
- Appraisal & Title are Ordered
- File is submitted to Underwriting

- Commitment is issued with conditions (appraisal is required for a commitment)
- Conditions are requested from borrower and all 3rd parties
- Resubmission to Underwriting
- CD issued at least 3 Days Prior
- Clear to Close
- Closing

When Can a CD Be Ordered?

CD Can Be Ordered When the Following have Been Completed:

- File has been Approved by UW
- Appraisal Signed Off by UW

3 Day Wait Period to Close

Problems and Complications

Mortgage Don'ts:

- Quitting your job.
- Lying on the application.
- Making large purchases during the loan process.
- Not doing what you say you're going to do when you say you're going to do it.
- Not paying bills on time.
- Maxing out your credit cards.
- Applying for new credit during the loan process.
- Causing a red flag during the process.
- Unsourced Cash Deposits or Unsourced/Unacceptable Gifts



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