homebuyer education

section 2

mortgage lending

presented by

Insert instructor name
and name or logo of your organization here
preparing for your application

- What is a mortgage?
  - Secured loan - your home is collateral
  - Deed of Trust and Promissory Note

- What does a mortgage payment include?
  - Often referred to as PITI (principal, interest, taxes, and hazard insurance)
  - If includes mortgage insurance, it is PITI + PMI/MIP

- Homeowners’ association (HOA) dues

- Escrow accounts - taxes and hazard insurance
getting prequalified

- Who to see for prequalification
  - Lender
  - Housing counselor
  - Both will pull your credit report

- Prequalification determines the mortgage payment you can qualify for and/or if additional financial planning is needed
  - Prequalification does not include documentation

- Create a spending plan
  - Tell the lender your payment expectations
getting prequalified

- **Ratios**
  - **Housing ratio (aka “front-end ratio”)**
    - The percentage of your monthly income that can go towards your mortgage payment
  - **Debt-to-income ratio (aka “back-end ratio”)**
    - The percentage of your monthly income allowed for your mortgage payment, plus monthly debt
    - Higher than housing ratio because it adds in all your debt
getting prequalified

- Income
  - Lenders use gross pay, not net/“take home” pay
  - This approach will qualify you for a higher mortgage payment that can be outside of your comfort level
  - Possible sources of income:
    - Base pay: hourly or salary
    - Additional income: overtime, bonus, commission
    - Social Security (SSI) and Social Security Disability Income (SSDI)
    - Retirement/Pension
    - Child support/Alimony, etc.
    - Co-borrower or co-signer (if needed)
getting prequalified

- **Assets**
  - Money used for home purchase cannot be borrowed
  - Bank accounts document assets
    - Avoid overdrafting your bank account
    - No cash deposits – cannot be documented
  - Seasoning
  - Do you have a history of saving?
  - Payment shock
  - You will need money for the earnest deposit, inspection, and appraisal before you start shopping for a home.
choosing a lender

- Sources: your bank or credit union, referrals from friends and family, chfainfo.com, nonprofit housing agencies, your real estate broker

- Interview several lenders and ask questions
  - What loan programs do you offer?
  - Can you do FHA, VA, and conventional loans?
  - How long have you been in the mortgage business?
  - Do you work with down payment assistance programs?
  - What are your loan costs? (get a sample itemization)
  - Check their license with DORA
choosing a lender

- Types of financing sources
  - Banks
  - Mortgage companies
  - Mortgage brokers
  - Credit unions
  - Seller financing
  - Investors
    - Fannie Mae, Freddie Mac, CHFA, etc.
down payment assistance

- **Grants**
  - Does not have to be repaid
  - Do not need to be a first time homebuyer
  - Higher income limits to qualify
  - Interest rate on first mortgage could be higher based on the amount of assistance

- **Loans**
  - May require you to be a first time homebuyer
  - Some programs have lower income limits to qualify
  - Interest rate on first mortgage not affected
  - Loan that must be repaid on sale or refinance
applying for your loan

- Getting pre-approved – loan application
  - There are no fees involved with the pre-approval process
- Pre-approval vs. prequalification
  - Pre-approval is based on verified/documentated information
  - Prequalification is based on verbal/unverified information
  - Qualifying for a mortgage you can afford based on your personal spending plan
applying for your loan

- Loan application for pre-approval
  - Requires various documentation
    - Paystubs
    - W-2s and tax returns
    - Bank statements
    - Two-year employment history
    - Two-year rental history
applying for your loan

- Advantage of pre-approval
  - Review of available loan programs
  - Decide if down payment assistance is needed and available options
  - Estimate how much money you will need for your purchase
  - Strengthens your offer on a home
  - Allows for coordination between your lender and your real estate broker
choosing a loan

- Government-insured loans
  - FHA (Federal Housing Administration)
    - Minimum down payment is 3.5 percent
    - Acquisition-rehabilitation mortgages (FHA 203K)
  - VA (U.S. Dept. of Veterans Affairs)
    - Zero down payment required
  - Rural Development
    - Zero down payment required
    - RD 502 Direct
choosing a loan

- Conventional loans
  - Any loan not insured or guaranteed by federal government
  - Down payment requirements from 3 to 20 percent
  - Flexible mortgage insurance options
  - Stricter credit and qualifying standards
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- **Mortgage insurance**
  - **Conventional loan**
    - Private mortgage insurance (PMI) required if down payment less than 20 percent of purchase price
    - The rate of PMI is based on down payment and credit
    - PMI is automatically cancelled at 78 percent LTV
  - **FHA mortgage insurance**
    - Regardless of size of down payment, mortgage insurance premium (MIP) is required
    - MIP cannot be cancelled and remains on the loan for the life of the loan. Exception: with a 10 percent down payment, it will drop off after 11 years.
choosing a loan

- Other loan options
  - Portfolio – specialty programs
  - Lease-purchase/Rent-to-own
  - Assumptions
  - Owner carry/Seller financing
  - Hard money lending – beware!
subprime lending/predatory lending

- Subprime loans
  - Interest rate higher than that of prime mortgages due to impaired credit record

- Predatory lending features
  - Avoid
    - Mortgage life insurance
    - Prepayment penalties
    - Balloon payments
    - Higher interest rates and fees
    - Excessively higher costs and fees
under contract

- Loan disclosures due within three business days
- Loan Estimate
  - Loan term (30 years is the most common term)
  - Loan amount & loan-to-value (LTV) based on down payment
  - Interest rate (fixed or adjustable rate)
  - Interest rate lock
  - Prepayment penalty
  - Balloon payment
  - Estimated closing costs and credits
  - Cash needed to close
under contract

- Loan Estimate – third page
  - Annual Percentage Rate (APR)
    - A more comprehensive measure of cost to borrow
    - Total annual cost of your loan
      - Interest, mortgage insurance, any discount points paid, and a portion of the closing costs
    - Higher than the interest rate
  - Total Interest Percentage (TIP)
    - The amount of interest you will pay over the life of your mortgage loan divided by your loan amount
    - Much higher than the interest rate and the APR
under contract

- Locking your interest rate
  - Always your choice and timing
  - Buy-down to lower interest rate – paying discount points
  - Choosing a higher interest rate to get a lender credit to help pay closing costs
  - Once locked in, you are protected against interest rate increases
  - A commitment between you and your lender
under contract

- **Lender/Loan fees**
  - Paid before closing
    - Appraisal (at time of order)
    - Credit report (possibly)
  - Never pay before closing
    - Rate lock-in fee
    - Origination fee
    - Application fee
loan processing

- Inspection – with your real estate broker
- Appraisal – ordered by the lender
- Updated documentation
  - Verification
- Shop for homeowners (hazard) insurance
- Put your spending on hold until closing
loan processing

- Mortgage players
  - Loan officer
  - Processor
  - Underwriter
  - Closer
loan underwriting and approval

- Most common reasons for delay in approval/denial of a loan
  - High ratios
  - Insufficient funds to close
  - Low appraisal
  - Changes in income, debt, or credit score since pre-approval
loan closing

- Closing Disclosure
  - Compare to Loan Estimate you received at application
  - Outlines final loan terms and closing costs
  - Shows the final APR and TIP percentages
  - Provides the final amount you will need at closing
  - Must be provided to you at least three business days before your closing date
  - You must be clear who is to acknowledge receipt in writing so as not to delay the closing
at closing

- Attendees
  - Title company’s closer
  - Real estate agents
  - Down payment program representative
  - Loan officer
  - Seller
  - You

- What to bring: driver’s license and cashier’s check made payable to the title company
at closing

- Real estate closing – between seller and buyer(s)
- Real estate documents to sign
  - Warranty Deed
  - Buyer’s and Seller’s Statements
  - Final Property Tax Agreement
  - Final Water Agreement
  - HOA fees
at closing

- Loan closing – between borrower(s) and lender
- Loan documents to sign
  - Deed of Trust (mortgage)
  - Promissory Note
  - Closing Disclosure
  - Final affidavits and authorizations
  - First Payment Letter
mortgage lending
section two quiz
true or false

- In a pre-approval, the lender does not verify any of the information you provide, such as income and debt.
- When you apply for a mortgage loan, the lender will use your gross monthly income.
true or false

- A conventional loan is a mortgage loan that is not insured by the federal government.
- The annual percentage rate (APR) is a more comprehensive measure of the cost to borrow money because it includes the interest, closing costs, and mortgage insurance for the full term of the loan.
<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
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</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>A document that contains the loan terms and your promise to repay the loan</td>
</tr>
<tr>
<td>Housing ratio</td>
<td>B. The balance of the mortgage owed on the home compared to the appraised value</td>
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<td>Loan-to-value (LTV)</td>
<td>C. A report that gives the lender an independent evaluation of the property’s current market value</td>
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<td>Deed of Trust</td>
<td>D. A calculation used to determine the percentage of income that can go toward your mortgage payment</td>
</tr>
<tr>
<td>Promissory Note</td>
<td>E. A document that shows the anticipated cost, fees, and APR, along with the loan payment and cash needed for closing.</td>
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<tr>
<td>Loan Estimate</td>
<td>F. A publicly recorded document that secures the loan and is evidence of the debt</td>
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