

Mortgage 101: Facts About Mortgages

GREC Course #70376

Through Georgia Real Estate Academy
GREC School #6915

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About Me

MLO with Homestar Financial

Mortgage Business for 12+ years

1 Beautiful Wife; 3 Handsome Sons

GA Tech Graduate – '05 ChBE

Church Music Director

Kids' Ball Coach

Show Me the Money

Mortgage Process

Mortgage Team

Types of Loans

Lender & Real Estate Agent

Loan Estimate and other Misleading Disclosures

Cash to Close vs. Closing Costs

Common Mistakes on the Seller Side

General Understanding

"We are all in this together."

We all want to facilitate good transactions where the buyer gets a good home with good title, the seller gets a fair price, and the lender gets a good loan that will eventually payoff.

And everyone makes Money.



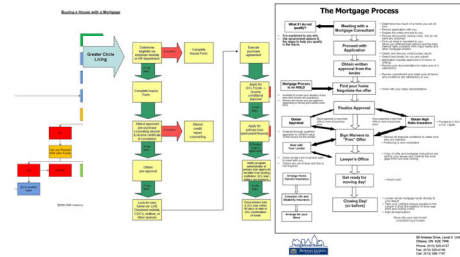
General Understanding

Please Ask Questions

Guidelines vs. Overlays

Exceptions to Rules

The Mortgage Process



The Mortgage Process

4 Criteria Make a Loan:

Income

Assets

Credit

Collateral

The Mortgage Process

Every Mortgage Process is as unique as the individual applying for the loan.

Income:

Length of time on the job (6 months vs. 6 years)

Self Employed vs. Employed

Base pay, commissions, overtime, bonus, tax write-offs, etc.

Assets:

Gifts, Savings, Budgets, Loans

Credit:

Scores, Major Derogatory, Judgments, Tax Liens, Last 12 months, Rent Free

Collateral:

New Construction, Condos vs. Townhouses, "Needs Repairs", Title Concerns

The Mortgage Process

Income

Income can be extremely difficult to determine (think of IRS regulations)
Looking to prove income will continue for 3 years
2 year work history -> 3 year continuance
We look for a 2 year history for: Self-employment, commissions, overtime, bonuses
3 year continuance: Child Support, Alimony, Disability, Income from Assets

The Mortgage Process

Assets

Can be very straightforward
Multiple Sources of Deposits?
Most Fluctuation = Most re-requested item
Assets have the biggest impact on the "type" of loan approval
Computers love reserves

The Mortgage Process

Loan Approval

Automatic vs. Manual
Automatic: DU/LP/Approve Eligible/TOTAL/GUS
*Easy Way: Reduced documentation, little/no explanations
Manual: Verify Everything
*Hard Way: Full Documentation, Stricter Guidelines
Great Question on every transaction: "Is this file an automated approval or a manual approval?"
Great Question to a potential MLO: "Do you offer manual underwrites on your loan programs?"

The Mortgage Process

Credit

What's the score?
Middle of 3 Credit Bureaus
Dozens and Dozens of Scores
Any Bankruptcies/Foreclosures/Judgments/Short-Sales
Traditional vs. Non-Traditional
Need Credit Repair?

The Mortgage Process

Credit Repair

Three Steps for Everyone

- 1: Make current payments on time
- 2: Collections – Leave them alone!
- 3: Credit Cards – Pay down balances and/or open a new bank card

The Mortgage Process

Collateral

- Move-in Ready vs. Fixer-upper
- Appraised Value vs. Sales Price
- Clean Title
- Any title seasoning needed?
- Primary Residence/Second Home/Investment Property

The Mortgage Process

Appraisal

- Ordered after contract is fully executed
- Usually ordered after the home inspection
- 3rd party company
- By law, MLO cannot have a conversation regarding value
- \$450 and about a week

The Mortgage Process

Pre-Qualification/Origination

- Gathering Information
- Good Pre-quals:
 - Job History
 - Amount of Income
 - Pull a Credit Report
 - Funds for Closing
- What type of home and where
- Intention for the Property
- Potential Roadblocks/Limiting Steps
- Path of Least Resistance to Loan Approval
- Recommend top 2-3 loan programs

The Mortgage Process

Pre-Qualification/Origination

3 Questions Answered:

Do I Qualify?

PITA?

Cash to Close?

The Mortgage Process

Processing

Verifying Information

(Can be done before or after the customer is under contract)

Employment Verification

Review paystubs, W-2s, tax returns

Review/Order Credit Supplements

Review Identification

Review Bank Statements (Large Deposits?)

Review Loan Submission vs. Guidelines

The Mortgage Process

Underwriting

Decision the Loan based on the Information
(Can be done before or after the customer is under contract)

Reviews DTI, LTV, Credit, etc. vs. Guidelines/Rules
Reviews file for any problems/issues regarding proper disclosure
Investigative underwriting to uncover any potential fraud

Holds the fiduciary responsibility to decide if the customer has the ability to
repay the mortgage

The Mortgage Process

If I were a professional
wrestler, I'd want a name
that strikes fear in
most people.

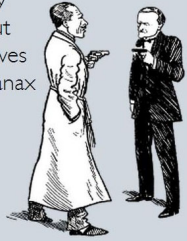
Something like,
"The Underwriter".



 /LighterSideOfRealEstate

The Mortgage Process

Job well done on my client's mortgage, but your underwriter owes me a refill on my Xanax prescription.



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The Mortgage Process

Loan Package

Paperwork provided to the closing attorney for signatures

Includes Security Deed and Promissory Note

And lots and lots of disclosures

Loan Types

Conventional

FHA

VA

USDA

DPA/GA Dream

Non-QM

Loan Types

Conventional

- Fannie Mae / Freddie Mac Loans
- Allow for Owner- Occ, Second Homes, and Investment Property
- Minimum 5% Down*
- Longest waiting periods for Major credit issues (short-sales, BK, Foreclosures, etc)
- Maximum DTI: 50%

Loan Types

Conventional

- Usually have the best payments for well qualified buyers
- Max Loan Amount* - \$484,350
- PMI (Private Mortgage Insurance)
- Special Programs that allow for 3% down (HomeReady, FLEX97, HomePossible, HomePossibleAdvantage, HomeOne)
 - All Kinds of Different Rules for FTHB, PMI, etc.

Loan Types

Conventional

- PMI Can be Cancelled
- Lots of options to structure PMI
 - Monthly
 - Split Premium
 - Single Premium
 - Financed
- Day 1 Certainty*
- Max Seller Contributions depend on LTV
 - 3% up to 10% down
 - 6% with 10% - 25% down
 - 9% with more than 25% down

Loan Types

Conventional

- New 101% Loan Program (Homestar 100)
- 97% First Mortgage and 4% Second Mortgage
- Aggressive Income Limits
- No PMI
- Great option for customers with High Credit Scores

Loan Types

FHA

- Owner-occupied only
- Minimum 3.5% down payment
- Flexible credit requirements
- Flexible Income requirement (DTI up to 55% or more)
- Shortest waiting periods for major credit issues
- Max Loan Amount*: \$379,500

Loan Types

FHA

- Contract Exhibit
 - 1.75% Upfront Fee Financed into the Loan
 - There is no Appraisal Contingency – Escape Clause
- Mortgage Insurance is 0.85% (Think addition to the rate)
- Max Seller Paid Costs of 6%
- Judgments/Tax Liens – 3 Months of Payments
- Collections/Capacity Analysis

Loan Types

FHA Special Programs

- \$100 Down for HUD foreclosures
 - Hudhomestore.com
- 203(k) Renovation Loans
- FHA Back to Work
- Separate CE courses for FHA
- DPA/GRANTS/CHENOA*
- Separate CE Class

Loan Types

DPA/GA Dream

- “Free Money” \$5,000, \$7,500, \$10,000 or even \$15,000
- Income Limits
- Much stricter credit and DTI rules
- Longer Processing Time
- Higher Closing Costs
- Works best on lower priced homes (under \$120k)

Loan Types

VA

- Owner-occupied only
- No down payment
- Flexible credit requirements
- Borrower must have a VA certificate of eligibility
- Flexible Income requirements (DTI up to 65% or more)
 - Residual Income (Cash-Flow Analysis)

Loan Types

VA

- Funding Fees Vary with Scenario
 - Typically 2.15% or 3.3% Financed into loan
- No Max Loan Amount
 - VA Jumbo!
- VA Appraisals
- Seller Pairs – 4% Plus Closing Costs
- Separate CE course

Loan Types

USDA (Rural Housing)

- Owner-occupied only
- No down payment
- Cheap Mortgage Insurance
- Income Limits apply
- Geographic Restrictions apply

Loan Types

USDA (Rural Housing)

- 1% Guarantee Fee, 0.35% Monthly Fee
- No FTHB Requirement, but Customer can't own "adequate housing"
- No Max Loan Amount, but income plus DTI...
- Isitrural.com
- Separate CE course

Student Loans

- The Next Bubble
- VA is the most aggressive
 - No payment if deferred for 12 months
- Conventional Loans
 - Whatever payment is reported (Fannie)
 - Greater of Payment or 0.5% (Freddie)
 - If Deferred/Forebearance – 1%
- FHA/USDA Loans
 - 1% of Balance or
 - Fully Amortized Payment

Lender – Buyer’s Agent

Communication

- Too much or not enough?
- Facilitate by asking the customer about the loan
- Think of Atty/Client Privilege
- Always, always touch base before writing an offer
- Closing Costs, Dates, Addendums, Taxes, HOAs, etc.
- Always communicate any changes to the contract

Lender – Buyer’s Agent

Appraisal Issues

- Don’t go down without a fight
- Provide better comparables or explain the problem with comparables used
- Let customer/lender know up front if there’s pause for concern (bad comps, investor flip, etc.)
- Always remember what is and is not your problem

Questions?