

Mortgage Financing

Spring Builder/Buyer Seminar

Midland Holiday Inn

April 20, 2006

Sue Moody

Mortgage Originator

Chemical Bank

Getting Started

- **Know Your Finances** – There no substitute for being prepared, and that means having a real budget. Be honest. Be realistic. Know how much is coming in every month and how much is going out.
- **Choose a Lender Before You Shop**
 - ✓ **Determine how much house you can afford** – there’s nothing worse than falling in love with a house you can’t afford – unless it’s bypassing a house you could have afforded.
 - ✓ **Determine which mortgage is right for you** – a lot of factors could come in to play in this decision: How much money you have for a down payment, how long do you intend to keep the home, how rapidly you want to build equity. I’m not going to go in to all the different types because there are so many options available.
 - ✓ **Obtain a Pre-Approval Letter** – Any realtor will thank you if you have a pre-approval or pre-qualification letter to submit with an offer on house. It just gives you that much more leverage to deal. Know the difference between pre-qualification and pre-approval.
 - ✓ **Obtain a Good-Faith Estimate in Writing** – This will list an estimate of all of the possible closing costs and prepaids to expect at closing. The in writing part is the important part – especially if you are not dealing with a local lender. I’ve heard horror stories from the Title Companies dealing with out of town lenders that have extra charges appear at the closing table.

Be Prepared at Application

- Listen to your Lender and bring What they ask
- Possible Items
 - ✓ Photo ID
 - ✓ Current Month of Pay Stubs
 - ✓ Proof of any other Income
 - ✓ Last Two years of Tax Returns and W2's
 - ✓ Know your Employment History (2 years), including address and phone numbers
 - ✓ Landlords (past 2 years)
 - ✓ Current Two Months Bank Statements
 - ✓ Current Other Investment or Savings Statements (401k, etc.)
 - ✓ Source of Down Payment
 - ✓ Records of any past derogatory credit accounts that have been paid
 - ✓ Records of child support or alimony

Steps in The Process

- **Your lender will verify your Personal Information** – your bank account and employment information will be verified along with funds that you will be using in the purchase transaction.
- **Your lender will look at your Credit Report** – credit report will show your credit history and most lenders charge a fee for this GFE.
- **Your lender will get an Appraisal** – will provide an estimate of the market value of the home – expect a fee for this – GFE.
- **Your lender will obtain a Lender's Title Insurance Policy** – to insure against claims that you do not have clean title to your property and that the lender has a first lien on your property. In most circumstance the seller will provide you with an Owner's Policy.
- **You should have a Home Inspection** – Always be safe and hire a professional home inspector.
- **You will need to obtain Homeowner's Insurance** – Start shopping for homeowners insurance ahead of time – don't wait until the last minute. Most lenders need proof of homeowner's as much as a week prior to closing.
- **Ask your lender "What should I expect at Closing?"** – Who will be present? Sellers, buyers, sellers realtor, buyers realtor, the lender, the closing agent or title company representative; schedule a final walk through with your realtor, if you choose to review your closing documents prior to close, let your lender know of this upfront, make sure you understand all your closing costs – if not don't be afraid to ask about them, funds to close will need to be certified funds and also bring a photo id.

Required Documents –

by law your lender is required to provide you with the following documents within 3 days of application.

- **Truth-in-Lending Disclosure** – This disclosure includes a summary of the total cost of credit, such as the annual percentage rate and other specifics of the loan – if there are any pre-payment penalties they must be listed on this form.
- **Good Faith Estimate -**
- **“A Home Buyer’s Guide to Settlement Costs”** – This guide is a government publication that describes the closing or “settlement” process, associated costs, and your rights.
- **Adjustable-Rate Mortgage Disclosure** – if you have chosen an Adjustable Rate Mortgage – your lender must disclose to you the terms and costs associated with an ARM.

What is a Credit Report?

A history of how you managed your financial obligations.

Credit Report will show:

- **A list of debts (both past and present) and how you've paid them** –items can remain out there for as much as seven years after they have been paid off.
- **Any bills referred to a collection agency** – these items will also remain out there for seven years
- **Public record information** – judgements and bankruptcies will be out there for 10 years and unpaid tax liens for 15 years.
- **Inquiries made about your creditworthiness** – credit report is run every time you apply for credit and this does show up on your credit report. Requesting a lot of credit in a short time span may concern lenders that you won't manage your debt well. So if you plan on purchasing a home in the near future – don't apply for all those store credits.

Credit Scores

- **FICO score method is most commonly used** – Fair Issac & Co. – the company that developed the scoring method.
- **FICO scores range from 300 to 850** – most lenders like to see scores 650 or higher, sometimes scores less than this still qualifies but on a less attractive terms.
- **Your payment history** – late payments will lower your scores, especially late's on mortgages.
- **The amount of debt you owe** – If your credit cards are at or near their limits, this can lower you credit score – even if the amount you isn't large. This also includes consolidating your debts onto one card. Keep balances less than half of you credit limit.
- **How long you've used credit** – Your history is very important. If you show a pattern of managing your credit wisely, keeping credit card balances low, and paying your bills on time, your credit score will be positively affected.
- **How often you apply for new credit and take on new debt** – If you have applied for several credit cards at the same time, your credit score can go down.
- **The types of credit you currently use** – This includes credit cards, retail accounts, installment loans, and mortgages.

Establishing and Maintaining Good Credit

- **Pay your bills on time** – consistently paying on time will raise your scores.
- **Pay at least the minimum amount required** – You can always pay more, but you should never pay less than the minimum
- **Keep your credit card balances low** – don't max out your credit cards – that can lower your scores
- **Don't apply for too many loans or new credit accounts**
- **Establish credit if you don't have any** – also don't close out all your major credit card accounts. If you have had an account for several years – keeping it open shows long term credit worthiness.

Financing Options

- Up to 100% Financing Options:
- 97% and 100% Home Possible Program - reduced mortgage insurance – income limits – only \$500 of your own money – remaining funds can be gift
- 80/15 Program – 80% 1st mortgage and 15% 2nd mortgage – avoid mortgage insurance – minimum 700 credit score required
- MSHDA – up to 103% financing for First Time Home Buyers –income limits apply
- Rural Development – 100% financing and no mortgage insurance – geographic limits
- Low Down Payment Options:
- 80/10 – 80% 1st mortgage with 10% on 2nd mortgage and 10% of your own money

Financing Options

- Fixed Rate, Adjustable Rate and Balloon Mortgage Options
- Interest Only Mortgages – up to 10 years then P&I payments
- Jumbo Mortgages
- Blanket or Bridge Loan Mortgages – use equity in current home as down payment on new home – end loan 80% LTV
- No Income Verification Mortgages – minimum 680 credit score – good for self employed borrowers
- 40 Year Fixed Rate Mortgage
- Lot Loans – qualify for up to 100% financing – no mortgage insurance and 20 year amortization
- Construction Loans