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Presents – Real Estate Broker Finance Course

Presented by: NJ CE Approved Course Instructor

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Mortgage Financing

Real Estate CE Course RE Brokers

YOU HAVE SIGNED CONTRACTS FROM YOUR BUYER
TIME FOR ESCROW DEPOSIT

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ASK THE QUESTION – EDUCATE YOUR BUYER
WHERE ARE YOUR FUNDS COMING FROM FOR DEPOSIT?

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Mortgage Terms/Definitions

- ***Industry Terms:***

✓ FHA – Federal Housing Administration – Regulations and rules set forth by government/HUD

✓ VA – Veterans Administration –Regulations and rules set forth by VA/Government

✓ FNMA – Federal National Mortgage Association or "Fannie Mae"

✓ FHLMC – Federal Home Loan Mortgage Corporation or "Freddie Mac

✓ Conventional – Rules and regulations set forth by Fannie Mae and Freddie Mac

✓ Portfolio – Mortgage loans not government by any of the above. Set by individual banks/ lender(s). Usually non compliant to the above mortgage rules of each institution.

✓ USDA Home Loan – Also known as USDA Rural Development Guarantee Housing Loan

Mortgage Insurance and Definitions

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- **Mortgage Insurances:**

✓ **PMI** – Private Mortgage Insurance (Conventional Loans)

✓ **MIP** – Mortgage Insurance Premium (FHA Loans)

✓ **FF** – Funding Fee (VA Loans)

✓ **GF** – Guarantee Fee (USDA Loans)

FHA Financing – Federal Housing Administration

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- **FHA HIGHLIGHTS**

✓ Minimum down payment 3.5%

✓ Low Interest Rate

✓ FICO Score(s) 600+ (easier than Conventional)

✓ No Add on pricing for Condo or LTV

✓ No Reserve Requirements

✓ Seller Concessions up to 6% of Sales price regardless of down payment

FHA – FEDERAL HOUSING ADMINISTRATION

- ✓ **FHA SECTION 203B** – This is the most commonly used sections of the National Housing Act. This section covers home mortgages to finance one to four family dwellings. Similar to all FHA Mortgage loans, the maximum term is thirty years, this is no prepayment penalty, and the loan is fully assumable

- ✓ The FHA Changed the assumption rules December of 1986 and again in December of 1989. Today, FHA loans are fully assumable to qualified borrowers.

- ✓ FHA also changed the upfront MIP in January 2015. The current Up Front Mortgage Insurance Premium is currently 1.75%. This can be financed over the term of the loan(most popular), or can be paid in a lump sum at closing

- ✓ The FHA 234C condominium program also requires the same upfront MIP and monthly MIP premiums as the 203B section of the act

- ✓ **Loan to Value** – the minimum down payment requirement for a FHA mortgage is 96.50% (which equals 3.5% down payment)

Example Calculation of Maximum Mortgage

Base Loan Amount Information for Contracts

- ✓ Sales Price: $100,000
- ✓ Down Payment: $3,500 (3.5% down payment)
- ✓ Base Loan Amount: $96,500
- ✓ Financed MIP: $1,688 (1.75% of base loan amount)
- ✓ Total Loan Amount: $ 98,188

Let's figure out payment

What is my monthly Payment?

- FHA
- Total base loan amount $96,500
- Total loan amount with MIP $98,188

Interest Rate: 3.50% Factor = 4.49

Principal and Interest	$440.86
Taxes: $4000/yr	$333.33
H/O: $600/yr	$ 50.00
FHA MIP .85/base:	$ 68.35
Total Monthly Payment:	$892.54

What is my payment ?

TAXES: $8500/YR, Homeowners $850/yr

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- Sales Price $200,000
- FHA D/P $_____
- Base Loan Amt $_____
- Mtg Amount $_____
- Taxes $_____
- Home Owners $_____
- MIP FHA $_____
- Total Payment $_____

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Conventional Financing

- **HIGHLIGHTS:**

✓ Minimum down payment 5% - some home owners may qualify for 3% down Home Ready Program – PMI approval Required.

✓ Minimum Conventional Credit Score 620

✓ 10% down payment – allowable financed PMI (no monthly)

✓ 20% down payment – No PMI

✓ 80/15/5 – NO PMI – 1st & Second Mortgage

✓ Investment Properties – 20% Down payment (S/F) 25% (2-4 Family)

VA (Veterans Administration) Financing

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- **HIGHLIGHTS:**

✓ 100% Financing

✓ No Monthly PMI

✓ Lower Interest rate vs. Conventional

✓ No reserve requirements

✓ 100% Disabled Veterans – No property taxes

✓ No reserve requirements

✓ No limit of VA Seller Concessions

✓ Seller must pay for buyers termite certification

Conventional Financing w/no PMI

- No PMI usually means 20% down
- Options
- 10% down financed PMI (no Monthly payment)
- Finance PMI upfront into loan
- 80/15/5% - with First Colonial Community Bank
- Second Mortgage is HELOC – excellent resource!
- No PMI, No Jumbo rules or regulations

VA MORTGAGE LOAN

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- Veterans must have served in the military.
- Veteran must have received and honorable discharge (if discharged and not still active).
- Veteran must have a DD214 and a Certificate of Eligibility from VA
- VA loans are assumable with the permission of VA
- No co-borrower's on the loan unless they are married
- Down payment is zero – 100% financing
- FF – VA loans require an upfront funding fee that can be financed into the loan amount. If 100% Disabled Veteran No Funding Fee is Required.
- Ratio for VA is 41%
- VA appraisals are ordered through a VA system and appraisers are assigned by the VA
- Homes must meet all the same requirements as FHA

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USDA FINANCING

- **HIGHLIGHTS**:

✓ 100% Financing

✓ Very low monthly and Upfront MIP

✓ Fico Score required by USDA 645 Min

✓ Seller contributions up to 6% of sales price

✓ Must be in USDA Target area

✓ Must meet Income Eligibility Limits

USDA
Rural Development
Single Family Housing Guaranteed Loan Program

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- ✓ The guaranteed program authority provides Rural Development with another tool to serve low and moderate income applicants in eligible rural areas. Income limits are statutory.

- ✓ The Guaranteed Housing Program may be used to buy new or existing homes and related facilities. Houses may be built on individual tracts or in subdivisions. All dwellings financed must provide decent, safe, and sanitary housing and be modest in size, design and cost. Existing condominiums may qualify for financial assistance.

- ✓ A guaranteed loan secured by Rural Development is made by an approved mortgage lender (1st Colonial) to a borrower who is unable to qualify fully for a conventional loan, because of substantial down-payment requirements.

- ✓ **<u>An applicant must:</u>**

- ✓ Have a satisfactory credit history
- ✓ Have adequate and dependable income that confirms to established agency limits and regulations
- ✓ Posses the legal capacity to enter into a loan obligation
- ✓ Qualify for loan eligibility with debt to income ratio of 29%(PITI) and 41%(MOTI) respectively. Flexibility in ratios can be granted if borrower qualifies.

- ✓ Loan rates are negotiated between the applicant and lender. However, loan repayment terms cannot exceed 30 years. There is a minimum monthly MIP of .35% premium. The current guarantee fee is 1.0 financed upfront.

- ✓ The amount of the loan may not exceed the maximum dollar limits established by investors (Fannie Mae, Freddie Mac, HUD/FHA, VA, etc.)

- ✓ Rural Development allows loans of up to the lesser amount of 100% of the market value of the dwelling or 102% of the acquisition costs including the guarantee fee and customary closing costs.

- ✓ Approved lenders process loans to the point of approval and submit information on the applicant and the loan proposal to Rural Development. Rural Development will evaluate the application and respond to the lender within 48 hours with a determination on the loan proposal.

RATIOS

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- **Program Ratio Standards/Guides**

✓ Conventional – 35/45%

✓ FHA – 35/46.7 *needs DU download to determine

✓ VA – 41%

✓ USDA – 29/41%

✓ Front Ratio – (total mortgage PITI) divided into gross monthly income

✓ Back Ratio – (total mortgage PITI + debts including child support, alimony, loans, credit cards, student loans, etc) divided into gross monthly income.

First Time Home Buyers

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- Can buy a home if they have not owned a home in last 3 years. (tax returns required)
- Income limits (see charts)
- Purchase Price (see charts)
- $10,000 Grant money forgiven after 5 years!
- Close within 30-45 days!
- Helps families with no funds to buy a home

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Credit Scoring

- **Minimum Fico Scores**

❖ Conventional loans – 620 Minimum credit score (required by Fannie Mae and Freddie Mac)

❖ FHA – 600 minimum*

❖ VA -620 minimum

❖ USDA 645 Minimum – required by USDA

❖ Portfolio 620 Minimum

*varies upon conditions/servicer

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Credit Analysis/Risk

- **Credit Analysis**

✓ Most lenders require good credit history.

✓ FICO scores do not always indicate credit worthiness

✓ Minimum of two repositories required

✓ Need credit score to obtain a mortgage

✓ Only one time mortgage late in last 12 months

✓ Bankruptcy – minimum 2 years – FHA without foreclosure

✓ Bankruptcy – with foreclosure 3 years from date of deed transfer

✓ Bankruptcy – minimum 4 years – Conventional

✓ Bankruptcy – minimum 3 years - USDA

Loan Terms/Types/Amortizing

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- ARM – Adjustable Rate Mortgage – The interest rate adjusts based on the adjustment years. Usually 1/1, 3/1 or 5/1 arms are most popular.
- Balloon Mortgage – The loan uses a 30 year term but is not amortized over its life. It is payable and due in full in usually 5 or 7 years.
- FRM – Fixed Rate Mortgage – Rate is fixed and never changes over the term.
- Term – Timeframe of loan amortized. (IE: 30, 20, 15, 10 years)
- Amortization schedule – Table detailing each periodic payment on a amortizing loan – The process of paying off a debt over time through regular payments.
- Interest Only Loans – Loan only pays on interest and no principal.
- Points – Each point buys down the interest rate of a loan based on market conditions for that time period. Each point is 1% of the loan amount not sales price.
- LTV – Loan To Value – This represents the amount of the loan or loan balance to the value of the home.
- Factor – This is the amount per thousand based upon the rate and term which determines the borrower's monthly Principal and Interest.

GIFTS

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- Gift – very important for real estate agents to know:
- The gift should be given to the applicant and should appear in the applicant's account.
- The donor does not have to be a family member, but a close personal relationship must be evident.
- The donor must provide evidence that the gift was given. This means no cash gifts!
- The lender is obligated to show the monies leaving the donor's account and entering the applicant's account. A cancelled check from the donor's personal checking is the best option along with a 30 day printout of account.
- A gift may be given at closing but the donor must provide source of funds to give the gift before the loan is submitted for approval. The underwriter will then condition for a copy of the certified check from the donor at closing.

Lending Process

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- Borrower applies to lender and signs 1003 (which is the mortgage application)
- Borrower also brings documentation to show lender
  - ✓ Income – Paystubs, last two years of tax returns
  - ✓ Assets – Last two months bank statements
  - ✓ Photo ID and Check for appraisal
  - ✓ Contracts and and any other important information needed
- Processor starts by opening and ordering, Flood Cert, Appraisal, 4506 – Tax Returns, EV, and reviews credit
- Once processed and all is in – file goes to Underwriting
- Once committed, processor sends approval – Commitment
- Processor reviews conditions, and makes sure conditions are clear and checks on Homeowners insurance is in the file before sending to closing department.
- Once in closing – File is set up and sent to title company for CD review and then CD sent to borrower 3 days prior to closing.

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Daily Real Estate/Financing

- Things you should know that are used in the real estate and finance industry daily:

✓ Always ask your borrower where their down payment is coming from for escrow deposit.

✓ Send copy of Escrow check with contracts to lender.

✓ Give lender plenty of time if any changes are made prior to closing (ie: closing costs credits, closing date changes, etc).

✓ If selling the home, always be prepared to confirm how you arrived at value when listing. Do not go miles away from subject to obtain value when there are homes closer to subject that should will be considered.

✓ Confirm contracts have enough time for commitment and closing date including TRID time, holidays and weekends.

✓ Understand if a property meets property standards for FHA, VA and Conventional before accepting offers. IE: Condo approval, etc.

TRID

TRID – THE TILA-RESPA INTEGRATED DISCLOSURE RULE

As of October 3, 2015 the CFPB integrated the (TILA) Truth in Lending Act (Regulation Z) and (RESPA) Real Estate Settlement Procedures Act (Regulation X) disclosures.

There are now two forms that lenders are required to send out within 3 business days of receiving a loan application.

The Dodd-Frank Wall Street Reform Act directs the CFPB (Consumer Financial Protection Bureau) to integrate the TILA and RESPA disclosures. These two new integrated disclosures are now called the Loan estimate and the Closing Disclosure.

RESPA'S Good Faith Estimate (GFE) AND TILA's Truth in Lending Disclosure were integrated creating the Loan Estimate.

The Final TIL and the HUD-1 Settlement Statement were integrated creating the new closing disclosure.

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What is the purpose of TRID?

- ✓ TRID provides consumers with a clearer more easy to understand estimate of the costs involved in a mortgage.
- ✓ **Loan Estimate**: This replaces the GFE, or Good Faith Estimate. A GFE has always been provided from lenders 3 days after receiving a loan application. A loan estimate will be standardized with all lenders and will more clearly state the terms and estimated fees.
- ✓ **Closing Disclosure:** – The HUD-1 statement has been replaced with the closing disclosure. The disclosure will also be more accurate.

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NOTE AND MORTGAGE

- **MORTGAGE** – A legal agreement by which a bank or other creditor lends money at interest in exchange for taking title of the debtor's property, with the condition that the conveyance of title becomes void upon the payment of the debt.

- **NOTE** – A Mortgage Note (also known as a real estate lien note, borrower's note) is a promissory note secured by a specific mortgage loan. Mortgage notes are a written promise to repay a specific sum of money plus interest at a specified rate and length of time to fulfill the promise.

- What is the **difference** between the mortgage and note? – It's the promissory note that contains the promise to repay the amount borrowed. While a promissory note is basically an IOU that contains the promise to repay the loan, the Mortgage or deed of trust is the document that pledges the property as security for the loan.

What Have You Learned?

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- ***Review***
- FHA=_____
- FNMA=_____
- FHLMC=_____
- USDA = _____
- VA = _____
- FHA upfront MIP=_____%
- FHA monthly MIP=_____% div. by 12 months (30 yrs 3.5% down)
- FHA monthly MIP is calculated on the _____ amount and not the _____ amount.
- The most widely used section of the act is FHA_____.
- What is an important question to ask borrower when asking for Escrow check?
- WHAT IS TRID and how many days are required for disclosure to borrower prior to closing.

Review Continued

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- What is a factor?_____
- What does LTV stand for?_____
- The minimum down payment for conventional loans is?
- Fannie Mae has add on pricing for condos and low fico scores? True or False
- A borrower needs a credit score to obtain a mortgage? True or False
- FHA has an approved condominium list? True or false
- When taking a deposit from a buyer at contract signing ask where the funds are derived from as they need to be sourced. Cash is not ok.
- Back ratios is the borrowers monthly debt divided by their gross monthly income? True or false
- First time Home buyers can buy a home if they have owned one in last 2 years.