

Homebuyer
Education
Section 5
Borrowing for a Home
How Lenders Decide to Loan
You Money

Finding out what you can buy

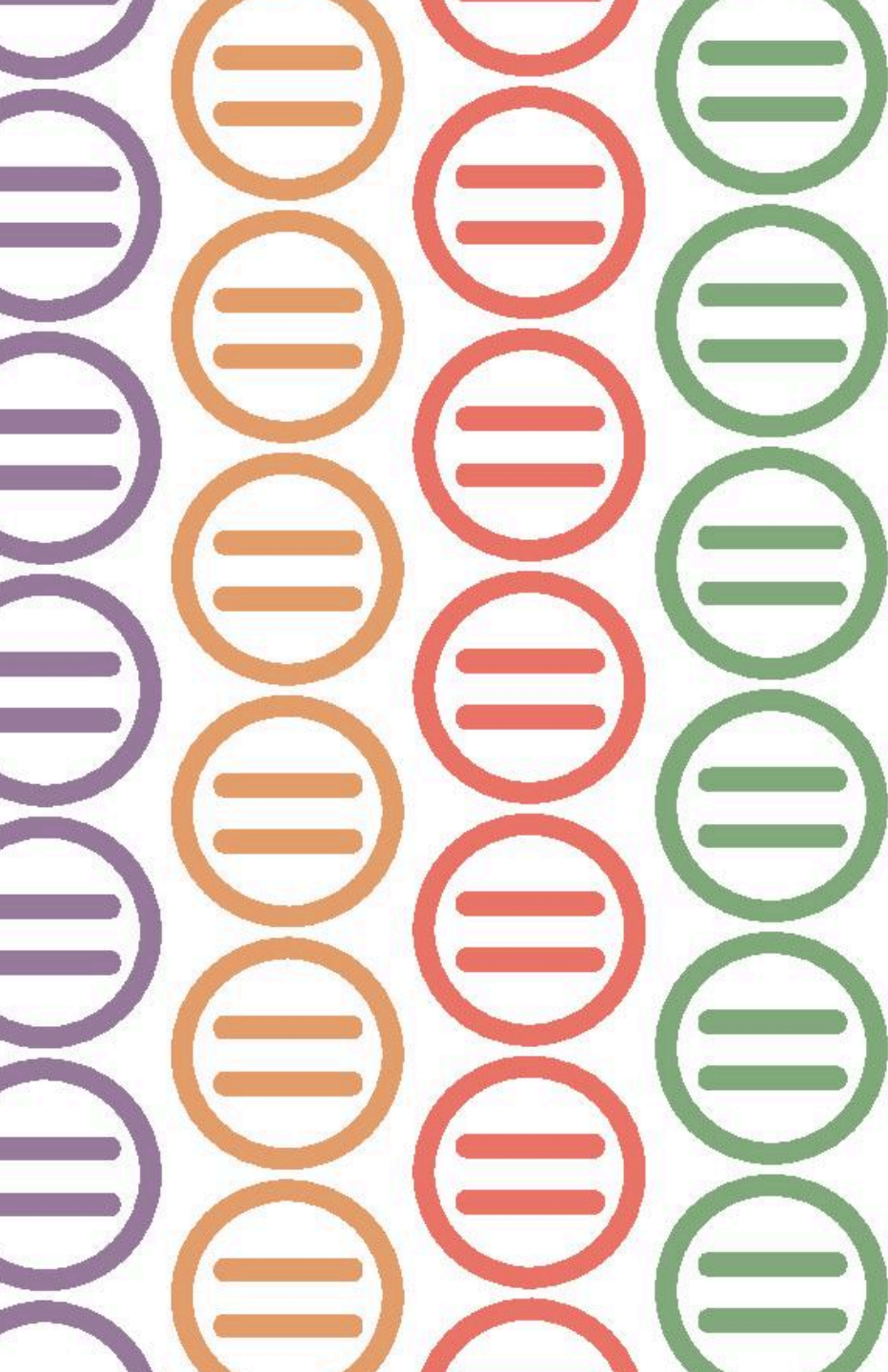
- Rough Estimates
 - Rough Rule of Thumb #1: Housing costs should be no more than 25% of gross pay or 35% of take home pay-Housing costs included (utilities, insurance, maintenance).
 - Rough Rule of Thumb #2: Price should be no greater than 2.5- 3x gross income
- Pre-Qualifying: Preliminary look to determine how much you might borrow
 - Lots of calculators for estimating affordability are available online
 - Benefits for pre-qualifying
 - Generally involves using a worksheet
- Pre-Approval: Formal process to determine exactly how much you can borrow
 - Requires you submit info and supporting documents
 - Generally results in a letter stating :
 1. How much you can borrow
 2. Specific term for the terms and amount of the loan
 - Can be difficult to obtain
 - Pre-approval is popular



The Four C's of Credit

Capacity

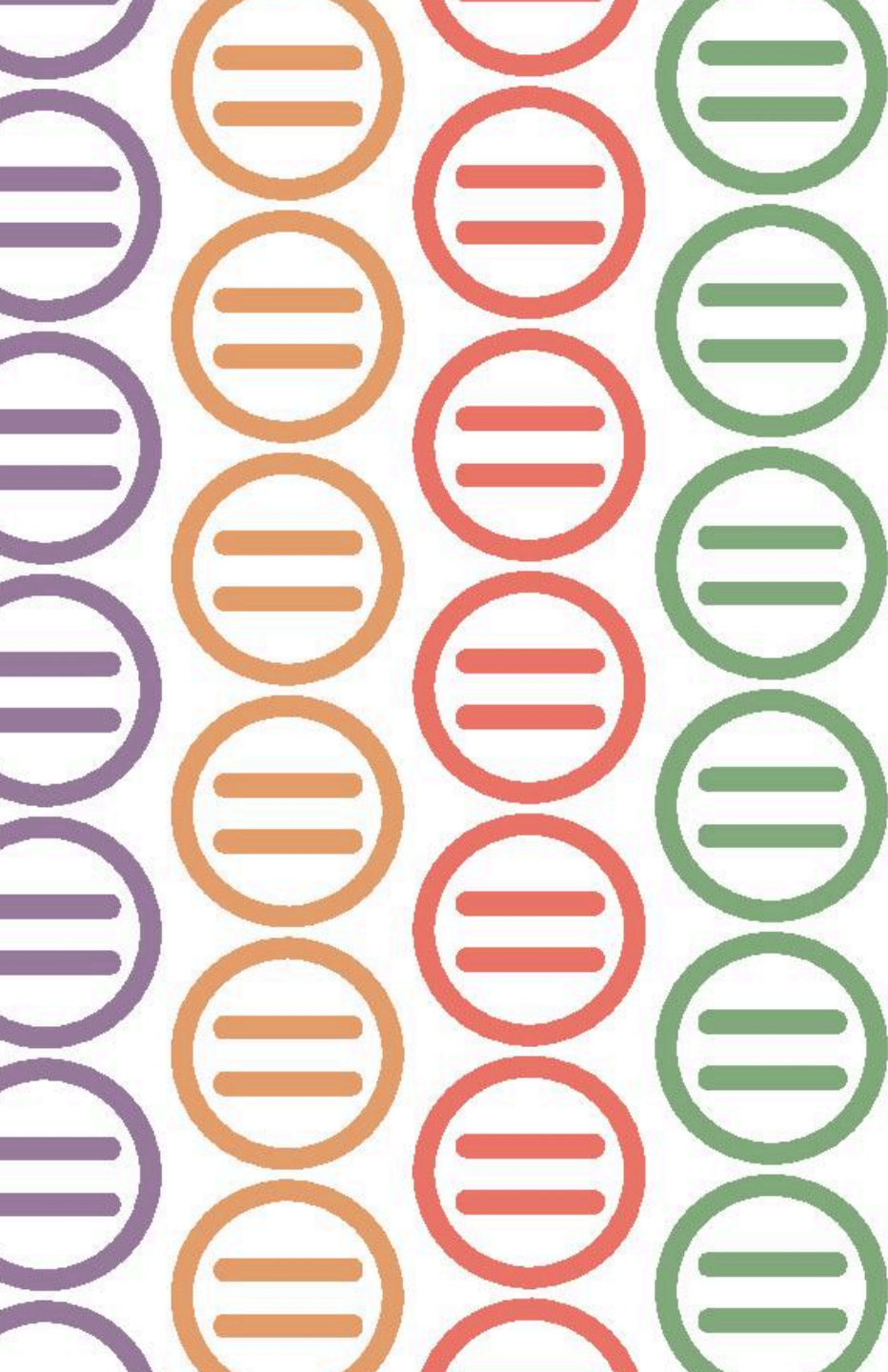
- Gross monthly income – income before income and deductions
- Steadily employed for at least 2 years and can be documented as reliable income
- Remember, you must document your income



The Four C's of Credit

Capital

- Down payments demonstrate your commitment
- Savings must be entirely under the control of the borrower
- Gifts from household members okay if documented as unconditional
- Assets must convert to cash prior to closing if required for down payment



The Four C's of Credit

Credit History

Lenders want to see

- How much you owe
- How often you use credit
- That you pay on time



The Four C's of Credit

Collateral

- If you cannot make your payments, the lender gets the house (foreclosure)
- The lender will then sell it to get his money back
- Most lenders will loan a percentage of the value of the house

Lenders Think of your Debt in Terms of Ratios

Front End Ratio

Compares your total monthly housing (mortgage principal and interest, real estate taxes and insurance) with your gross monthly income.

Back End Ratio

Compares all monthly debt payments (housing expenses plus other consumer loans such as car payments and credit cards)

Qualifying Ratios

The front and back end ratios required for a particular loan

Special Loan Products

Special loan products, such as those for persons with disabilities, may allow higher percentages of housing and total debt

What You Can't Borrow

Down Payment

Money paid to a lender at closing that is the difference between what you are paying for the house and the amount of the loan

- **Sources of down payment money**
 - Lenders like to see the down payment coming from savings by the buyer
 - Can use a gift from another household member if you can prove that it is a true gift
 - Loans cannot be used for down payments: Grants can be used
 - Down payment assistance programs can be used

What You Can't Borrow

Closing Costs

- Not usually borrowed, but can be a true gift from parents or others
- Result from different parts of the purchasing process
- Costs associated with the loan
- Costs associated with obtaining title to the property
- Costs associated with real estate transfer taxes
- Costs associated with service providers
- Taxes
- Assessments for neighborhood associations, if applicable
- Negotiate closing costs

Insurance associated with the loan

- Title Insurance
- Private Mortgage Insurance (PMI)

Federal Law regarding Private Mortgage Insurance

- conventional loans closed on or after July 29, 1999
- For loans closed prior to July 29, 1999
- Borrower- initiated cancellation
- Automatic termination
- As of January 31, 2013, HUD Mortgagee Letter 2013-04

What Lender Needs to Know to Give You a Loan

- Personal Identification
- Information on your residences for past 2-6 years
- Banking information for all bank accounts
- Employment information
- Information on debts



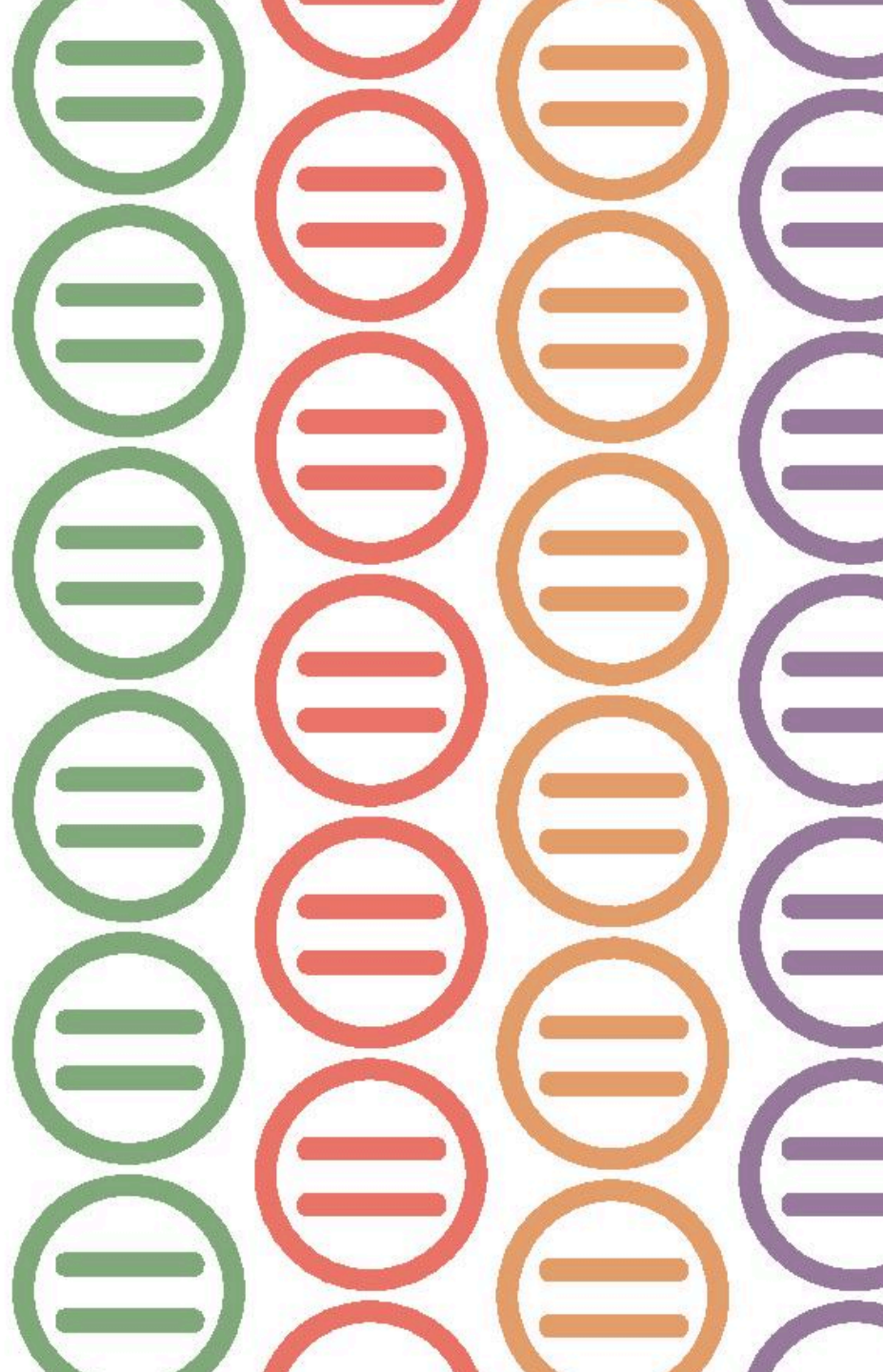
What Happens When You Go to a Lender

- Expect Lots of questions
- Be prepared to provide the needed documentation
- You will sign letters or releases
- Discuss any housing purchase assistance you have or the lender know
- Ask lots of questions



Things to Remember

- You need to supply complete information that encourage the lender to trust you
- Supplying information in a quick and orderly manner
- Be patient with the process
- The law only care about what you sign



If Your Loan is Denied

- You have the right to be told why
- Make sure your credit records are correct
- You can apply somewhere else but be careful
- You can take the reason you were denied and use it to plan your next step



Use the Good Faith Estimate to Shop and Compare Loans

- A GFE lists all cost and fees you will expect to pay at closing cost
- You'll receive a form from each lender
- APR combines interest, fees and all costs and expresses them as a percentage rate
- The Center for Responsible Lending warns that too much focus on APR can reduce awareness of unfairly high fees.