



Financing Your 1st Home

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Financing Your 1st Home

Agenda

- Lending team
- Pre-Approval versus Pre-Qualification
- 4 C's of Lending
- Mortgage Programs
- Ratios
- Closing
- Q & A

Financing Your 1st Home

- The following people work together in the loan application process
 - Loan originator: gathers all your documents and pertinent information
 - Loan assistant: supports loan originator and processor
 - Loan processor: prepares everything for the underwriter
 - Underwriter: reviews application, documentation and makes the final decision
 - Closer: prepares everything for closing and coordinates with the closing attorney



Pre-Qualification versus Pre-Approval

- Pre- Qualification – based on verbal information provided, uses estimates to give range of qualifying for consumer and most importantly is NOT a commitment to lend
- Pre- Approval – is considered a commitment to lend after underwriter has reviewed and approved income and asset documents for applicant(s).





The 4 C's of Lending

- Capacity - income
 - Do you have enough to support the loan amount desired?
- Capital - savings
 - You must have enough savings to cover your down payment and all costs to close the loan
- Credit - it is not just about the score
 - Credit score and amount of debt impact your ability to borrow
- Collateral – the property
 - An appraisal is done to assure the lender of the value of the home



Capacity = Income

- Income must be stable and likely to continue
- W2 Employee uses Gross Monthly income
- Self Employed applicant uses Net Profit from business, not Gross Income
- Min 2 year employment history required & a two year average taken if income is increasing, if it is declining the lower income to be used
- Any gaps between employers require explanation, if out of work for 6 months

Capital – Savings

- Capital = Savings (must be verifiable)
 - Types of acceptable savings
 - Savings and checking accounts
 - Certificates of deposit
 - Gifts
 - From immediate family only
 - Sale of stocks & bonds
 - 401k (must provide the terms of withdrawal)
 - Financial Assistance Programs
 - Available through many municipalities



How much money do you need???

- How much money do you need?
 - Down payment – 3% of purchase price
 - Closing costs
 - Origination fee
 - Title insurance
 - Attorney fees
 - Recording fees
 - Condo questionnaire, municipal lien fee, flood certification, credit report fee
 - Pre-paid expenses
 - Pre-paid interest, funds into escrow for taxes & insurance
 - Reserves
 - Required for a multi-family

4 C's of lending

- Example Scenario - \$300,000 condo

- Real estate taxes - \$4,000 annually
- Condo fee - \$250

**If single or multi - no condo fee but will have monthly amount for insurance

Funds needed

- Down payment: \$9,000 (3% down)
- Closing costs: \$4,500 (estimate)
- Pre-pays: \$1,500 (estimate)
- Total needed to close: \$15,000

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The 4 C's of lending

- Credit – the property you are buying
 - Fico score – requirement varies by loan program and lender
 - Conventional 1st time buyer with Mass Housing: 680 condo/single, 700 multi-family, FHA will lend down to 580 with 3.5% down and 550 with 10% down, Conventional Home Ready/Home Possible loans available with scores starting at 620+
 - Lender uses the middle score
 - From TransUnion, Equifax, Experian
 - 3 tradelines are suggested – may be revolving and/or installment
 - Credit cards, store cards, school loans, auto loans, personal loans
 - Recommend revolving debt to below 30% usage
 - Fraud Alerts – lifted and explained
 - Explain all addresses, inquiries, and late payments

4 C's of Lending

- Non-traditional credit

If you do not have formal credit or you are using less than 3 tradelines you may use non-traditional credit

- 12 months of rent paid on-time (required)
 - In the form of cancelled rent checks or 12 months of bank statements
- A utility bill in your name at the address where you live
 - Examples: Nstar, Eversource, Comcast, RCN
- Other obligations paid monthly (need to be documented on time for 12 months consecutive payments)
 - Examples: car insurance, gym membership, child care

The 4 C's of lending

- Collateral – the property you are buying
 - Appraisal – determines value
 - Title – must have a clear legal right to purchase
 - Municipal lien certificate:
 - Certifies that all taxes, assessments, water and sewer charges owed have been paid by seller
 - 6D certificate
 - Certifies there are no unpaid condo fees

Mortgage Products

- MassHousing
 - 30 year fixed rate, discounted MI options, job loss assistance with MI
 - Loan options
 - Workforce Advantage 2.0
 - <80% AMI and down payment assistance at 0% deferred rate
 - First Time Homebuyer Conventional
 - <100% AMI, down payment assistance up to \$15,000 at a 2% interest rate paid back over 15 years
 - Operation Welcome Home
 - For those on active duty, Veterans, National Guard, Reservists and Gold Star Families
 - MassHousing Mortgage Conventional
 - <135% AMI, standard MI pricing, DPA in Gateway cities
 - Details at www.masshousing.com



Mortgage Products

- Freddie Mac Home Possible
 - Terms of 30, 20, and 15 years
 - Income <80% AMI
 - As low as 3% down for condo/single
 - Multi-family 5% down, 6 months reserves
 - Financial assistance and gifts allowed
 - Credit score low as 620 per DU findings
 - Allows for debt to income ratios up to 49%
 - Automated underwriting required for final determination on DTI, reserves, credit score, down payment requirements



Mortgage Products

- Fannie Mae HomeReady
 - Terms of 30, 20, 15, 10 years
 - Income <80% AMI
 - As low as 3% down for condo/single
 - Financial assistance and gifts allowed
 - Credit Score as low as 620,
 - Debt to Income up to 49%
 - Automated underwriting required for final determination on DTI, reserves, credit score, down payment requirements

Mortgage Products

- Additional options
 - Lender portfolio products “Non-QM Loans” coming back (i.e. bank statement loans)
 - FHA loans
 - Lower credit score requirements
 - 3.5% down with 580 score, 550-579 requires 10% down payment
 - Mortgage insurance required for life of the loan
 - Up front MIP – mortgage insurance payment
 - VA Loans
 - 0% down
 - No private mortgage insurance
 - No minimum credit score required

Qualifying Ratios

- Housing Ratio (front ratio)
 - Total monthly housing expenses target area 33% - 41% of gross monthly income
 - This requirement can fluctuate with strengths per DU/LP Findings
- Housing expense includes PITI
 - Principle
 - Interest
 - Taxes
 - Insurance (or condo fee)

Qualifying Ratios

- Total debt ratio (back ratio)
 - Total monthly debt generally cannot exceed 38% - 49.99% of gross monthly income
 - Total debt includes
 - PITI
 - Car payment (loan and lease)
 - Student loan
 - Installment loan
 - Credit card
 - Alimony/Child Support payments

Before Closing

- Final items:
 - Homeowners/hazard insurance: for a single or multi-family you must purchase an annual policy, paid in full prior to or at closing
 - Closing Disclosure (CD)
 - You will receive it 3 days prior to close
 - Details all costs – indicates exact amount of funds to bring to closing
 - Review with your attorney prior to close
 - Cash to close
 - Must be in the form of a cashiers check – made out to yourself & signed over to the attorney at the closing table

Disclosures

- The following disclosures are provided within 3 days of loan application:
 - Loan estimate (LE): detailed cost estimate
 - Consumer protections
 - Right to a copy of appraisal
 - Statement of joint application
 - Upfront fee requirements and refund limitations
 - Right to have own legal representation
 - Consumer handbooks
 - Your Home Loan Toolkit
 - Consumer Handbook on Adjustable-Rate Mortgage

Before Closing

- Re-Verification
 - Employment – DO NOT change jobs without discussing with your loan officer 1st!!!
 - Credit refresh – your credit will be pulled – do NOT take any new loans prior to closing without discussing with your loan officer 1st!
 - Wait until after closing for all large purchases
 - We recommend that you do not open new accounts and do not incur more debt.
 - Remember:
 - If you make any changes to your loan application profile the lender may need to re-evaluate.
 - This may result in not being able to close on time.
 - This may put your deposit at risk and may cost you additional fees.

Happy House Hunting & Best of Luck

- We wish you all the best in your search for your first home.
- Should you have any questions please feel free to reach out anytime.

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