

Qualifying for a Mortgage

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The Four C's

Capacity

Credit

Capital

Collateral

What does the Bank look for?



Capacity

CAPACITY = INCOME

- **Must be stable and likely to continue for next 2 years**
- 2 year employment history
- No Gaps/exemptions

SOURCES OF UNDERWRITING INCOME

- Gross monthly income
- Full-time occupation, part-time, seasonal employment, trust income, self-employment, social security, alimony/child support, projected rental income.

CAPACITY

Income Exercise

BASE INCOME

John (Supervisor Home Depot) 3 years
Jennifer (Teacher aid in Tewksbury) 4 years
Daughter – 6 year old

Johnny	Jenny
2021 = \$28,000	2021 = \$31,900
2022 = \$31,000	2022 = \$40,000
2023 = \$35,000	2023 = \$45,000

2023 projected income for Johnny and Jennifer: \$80,000

TOTAL GROSS MONTHLY INCOME = \$6,666.00



Credit

CREDIT AND DEBT

HAVE YOU BEEN MANAGING YOUR DEBT?

OTHER MONTHLY OBLIGATIONS

- **Credit report: clean payment history, inquiries (90 days)**
 - 3 lines of open and active lines of credit
- **Non Traditional Credit:**
 - Rental, utilities, cell phone, car/life insurance payments, etc.
- **FICO Scores: 640-660 (single/condo) > 660 multi-family**
- Banks use the **median score** of all 3 credit bureaus.



CREDIT

Debt Exercise

FICO SCORES

John

Transunion: 740

Equifax: 690

Experian: 710

Jennifer

Transunion: 710

Equifax: 740

Experian: 720

MONTHLY PAYMENTS:

Student loan: \$250

Credit card (Visa): \$35

Department store card (Macy's): + \$50

Total monthly debt: \$335



Capital

CAPITAL = SAVINGS

SAVINGS – Importance of verifying most recent 2 months history

ACCEPTABLE

- Savings/Checking
- CD's
- Stocks
- 401 (k)
- Gifts

UNACCEPTABLE

- Mystery cash
- Unverifiable funds
- Borrowed money

**Financial assistance: City, Agencies, MassDREAMS, Mass Housing,
Closing cost credits from Banks, Lenders or Seller Concessions.**

CAPITAL = SAVINGS

WHAT IT MUST COVER?

Minimum down payment (3% - 5%)

CLOSING COSTS:

- Bank & Title services fees: application, UW, processing, credit report, appraisal, lenders/title insurance, recording, etc.
- Prepaid items: Escrows (taxes, insurance), mortgage interests.
- Reserves

CAPITAL

Savings Exercise

Purchasing a Single Family - Price \$300,000

Property taxes \$3,800/year - Home insurance \$800/year

Down payment 3%	\$ 9,000
Closing Costs, estimate (including lenders/owners title ins)	\$ 5,000
Prepaid items, estimate (including 30 day prepaid interests)	\$ 2,500
	+ _____
Total required funds to close =	\$16,500

AVAILABLE FUNDS

Checking	\$2,000
Savings	\$7,000
MassDREAMS	\$15,000 + CC
City's LDFC fund	\$5,000
	+ _____
Total Assets	\$29,000

Reserves 401K - \$20,000.



Collateral

COLLATERAL = PROPERTY

The lender will check the following:

- Appraisal
- Title
- Municipal Lien Certificate
- 6D Certificate

HOW MUCH CAN I BORROW?

Pre-qualification

VS.

Pre-approval

PRE-APPROVAL LETTER SAMPLE



A Division of First Citizens Bank

4/05/2023

John and Jennifer
123 Happy Street Apt. 3
Lowell MA 01853

Re: Acquisition Financing for a Yet to Be Determined Property Single or Condo

Notice: Your actual rate, payment, and costs could be higher. Get an official Loan Estimate before choosing a loan.

Dear John and Jen,
Based upon the credit information that you provided, you are Pre-Approved for a mortgage with Silicon Valley Bank in the amount up to \$291,000.00. This first mortgage *pre-approval* is based on the terms of our 30 Year Fixed Rate Mortgage product at the current interest rate of 5.00%*, with no points *The current interest rate is subject to change without notice.

This *pre-approval* is subject to Silicon Valley Bank's banking policies and guidelines including, but not limited to:

- An appraisal acceptable to Silicon Valley Bank, on the subject property, supporting the proposed purchase price and a maximum loan to value ratio of 97%.
- A satisfactory fully executed purchase and sale agreement for the subject property.
- Verification that taxes, insurance and condo fees do not exceed \$450/month.
- Verification that condominium project and restrictions meet the Bank's guidelines (if applicable).
- Subject to Final MHP approval.
- Subject to MHP subsidy approval in the amount of \$129.59/month.
- Subject to no material change in your financial condition or credit worthiness prior to closing.
- Total assets not to exceed \$75,000.00
- Verification of the first time home buyers qualifying for the Bank's portfolio CRA Program, the property must be located in a town/county that meets the banks designated CRA area.

This is not a loan approval. **This *pre-approval* is not a contract between you and Silicon Valley Bank, and is not a commitment by Silicon Valley Bank to make you a loan.** Finally, this *pre-approval* does not lock in or guarantee loan terms, interest rate or fees.

Please do not hesitate to contact me at (978) 409-0000 if you require further information regarding this matter. We look forward to assisting you with this purchase.

This *pre-approval* will expire on 07/05/2023.

Sincerely,

Francisco Espallat
Mortgage Advisor
NMLS ID: 609815
Fespallat@svb.com
978-409-0000



A Division of First Citizens Bank

123-ABC BANK

May 3, 2017

Mr. Client
123 Fantasy Lane
Boston, Ma 02100

Dear Mr. Client,

Congratulations on your pre-approval!

We were able to determine that you qualify to purchase a \$290,000 primary residence with 97% in 123-ABC Bank sponsored One Mortgage Program financing based on your proven level of income, savings, and credit history. We understand that your finalized mortgage amount may adjust downwards to reflect a larger down payment, or a lower purchase price.

Also, this pre-approval is not subject to the sale of any owned real estate.

Let me know if you have any questions or concerns. Thank you for your application, we look forward to working with you!

Sincerely,

Jane Smith
ABCD Bank
405 The Other Guys Blvd
Boston, Ma 02100
(999) 999-9999



DOCUMENTATION NEEDED FOR A PRE-APPROVAL

- W2's and tax returns for the past 3 years
- Most recent month of pay check stubs
- Last 2 months bank statements for: checking & savings
- Your Credit Report – Explanation of any questions on your report

*This information is collected from each applicant for a Pre-Approval.

RATIOS

Qualifying Ratios

- **Housing Ratio**

- Allowable housing debt vary with programs (33%-46%)
- PITI vs Gross monthly income

PITI definition (**P**rincipal, **I**nterest, **T**axes, **I**nsurance, condo fee, and PMI)

- **Debt Ratio**

- Allowable Total Debt- varies with programs (38-55%) of Gross monthly income
- PITI + Other Debt vs Gross monthly Income +(*75% rental income if applicable)

RATIOS

Sample Exercise

Qualifying Ratios – for MHPOne + MassDREAMS

- **Housing Ratio:** (36%) $\$6,666 = \$2,399$
PITI (Principal, Interest, Taxes, Insurance, condo fee)
- **Debt Ratio:** (43%) $\$6,666 = \$2,866$
(PITI + \$335 other monthly debt)

PITI

Exercise

Product: MHPOne + MassDREAMS
(3% down, 640 FICO, Max Ratio: 36/43%)

Purchase Price:	\$300,000
MassDREAMS	\$ 15,000
Borrower Min down 1.5%	\$ 4,500
Loan Amount:.....	\$280,500
Rate: 4.50% (Base Rate 5% -2pts with MassDREAMS)	

PITI:

Principal and Interest	\$1,421
PMI	\$ 0
Taxes: \$3,800/year	\$ 316
<u>Insurance: \$800/year</u>	<u>+\$ 66</u>
	\$1,803
<u>MHP Subsidy</u>	<u>\$ -162</u>
Your monthly payment	\$1,641

Housing ratio:

$\frac{\$1,641 \text{ PITI}}{\$6,666} = 24.62\% < 36\%$

Debt ratio

$\$1,641 \text{ PITI} + \$335 \text{ debt} = \frac{\$1,976}{\$6,666} = 29.64\% < 43\%$.

TYPES OF MORTGAGE

- Fixed rate mortgages (30, 20, 15, 10 yrs.) - Conventional Fannie and Freddie products
- Adjustable rate mortgages (3, 5, 7, 10 yrs.)
 - (Variable Rate = Index + Bank Margin) 7/1/1 - Fixed term/adjustment rate/ how often changes after maturity
- Special mortgages for First time homebuyers (MHP ONE Mortgage, Mass Housing)
- Government Loans (FHA, VA, USDA, etc.)

Mortgage Product Comparison

	FHA	MassHousing with MI, LPMI (various options)	ONE (ONE + Boston)	SVB Community Program
Min. FICO Score	620 or less	640-660-680-700	640- 660	640-660
Income limits	N/A	Different limits. www.masshousing.com	\$103,550 Middlesex, 3 HH) / by county and household size. Includes income from all adult HH members. www.mhp.net	\$140,000 or up to \$196,000 + BP designated areas
Loan limits	1 unit \$726,200. 2 Unit \$929,850. 3 Unit \$1,123,900.	1 unit \$726,200. 2 Unit \$929,850. 3 Unit \$1,123,900.	1 unit \$726,200. 2 Unit \$929,850. 3 Unit \$1,123,900.	1 unit \$726,200. 2 Unit \$929,850. 3 Unit \$1,123,900.
Down payment`	3.5% (0% own funds)	3% -5% (3% own funds) multi	3% (1.5% own funds) single/condo- 2 family, 5% (3% own funds) 3 family	3% (0% own funds) single/condo 2 family 5% (3% own funds) 3 family
Reserves	Multi	Multi	1 PITI = 2 Family 2 PITI = 3 Family	1 PITI = 2 Family 2 PITI = 3 Family
Up Front PMI	YES	Optional	N/A	N/A
Monthly PMI	YES	Optional or N/A DPA loan, MI plus	N/A	N/A
Savings		\$\$	\$\$	\$\$

MassDREAMS: Attleboro, Barnstable, Boston, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Framingham, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Randolph, Revere, Salem, Springfield, Taunton, Westfield, Worcester. Visit: www.mymasshome.org/dreams

This evaluation contains estimates only, is not a loan approval, used only as an educational tool.

Silicon Valley Bank Mortgage Product Comparison

Gov Loan (FHA)		MASSHOUSING HFA Preferred 105		MHP ONE		SVB Community Portfolio Program	
Purchase Amount	\$ 300,000.00	Purchase Amount	\$300,000.00	Purchase Amount	\$300,000.00	Purchase Amount	\$300,000.00
Down payment (3.5%)	\$ 10,500.00	Down Payment 5%	\$15,000.00	Down Payment 6.5% (1.5% your \$ +5% MassDREAMS)	\$19,500.00	Down Payment (3%)	\$9,000.00
Loan Amount	\$ 289,500.00	Loan Amount	\$285,000.00	Loan Amount	\$280,500.00	Loan Amount	\$291,000.00
Up-Front PMI	\$ 5,066	Up-Front PMI	N/A	Up-Front PMI	N/A	Up-Front PMI	N/A
Total Loan Amount	\$ 294,566.00	Total Loan Amount	\$285,000.00	Total Loan Amount	\$280,500.00	Total Loan Amount	\$291,000.00
# Monthly Payments	360	# Monthly Payments	360	# Monthly Payments	360	# Monthly Payments	360
Interest Rate (Fixed)	6.375%	Interest Rate (Fixed)	6.5%	Interest Rate (Fixed)*(base 5.00% minus 2pts MassDREAMS)	4.50%	Interest Rate (Fixed)*	4.625%
Principal & Interest payment	\$1,837.70	Principle & Interest Payment	\$1,801.39	Principle & Interest Payment	\$1,421.25	Principle & Interest Payment	\$1,496.15
Taxes	\$316	Taxes	\$316	Taxes	\$316	Taxes	\$316
Insurance	\$66	Insurance	\$66	Insurance	\$66	Insurance	\$66
Mortgage Insurance	\$205.06	NO MI/ PMI	0.00	NO MI/ PMI	0.00	NO MI/ PMI	0.00
Total Monthly Payment	\$2,424.76	Total Monthly Payment	\$2,183.39	Total Monthly Payment	\$1,641.58	Total Monthly Payment	\$1,878.15
				MassDREAMS	\$15,000+CC	SVB assistance up to*	\$30,000

*SVB down payment assistance of \$15k up to a \$30K max for eligible applicants with income below qualifying limits of LMI areas.

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IMPORTANT MORTGAGE FORMS

- Application (1003)
- LE – Loan Estimate
- Commitment letter
- CD - Closing Disclosure

IMPORTANCE OF A MORTGAGE OFFICER

- Experience
- Lender/Reputation
- UW/Processing
- Costs (Application fee, credit, financial assistance) / Rate
- Loan Servicing

Thank You!

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Silicon Valley Bank
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MVHP.org April, 2023



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