

# Obtaining a Mortgage.

Homebuying 101



# What is a Mortgage?

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## Definition of Mortgage

A mortgage is a loan to finance real estate, allowing payments over time instead of upfront.

## Repayment and Security

Mortgages require monthly payments of principal and interest and are secured by the property itself.

## Choosing the Right Mortgage

Selecting a mortgage depends on financial situation, credit history, and long-term goals.

## Role of the Lender

Lenders guide buyers through loan options, interest rates, and repayment terms for informed decisions.





# Anatomy of a Mortgage Payment

## Mortgage Payment Break-Down

Mortgage payments include principal, interest, property taxes, insurance, mortgage insurance and sometimes condo fees (HOA), each affecting total monthly cost.

## Principal and Interest Explained

Principal is the loan amount borrowed; interest is the cost charged for borrowing that money over time.

## Taxes and Insurance

Property taxes and homeowner's insurance protect the home and community, often paid through escrow accounts.

## Mortgage Insurance and Escrow for taxes and insurance

Mortgage insurance protects lenders on low down payments; escrow accounts facilitate timely payment of taxes and insurance.





# Importance Of A Loan Officer

## Things to Consider:

### Experience and Reputation

**A loan officer's experience and reputation reflect their trustworthiness and reliability in guiding you through the home financing process.**

### Communication Skills

**Clear communication and willingness to answer questions make the loan officer easy to work with and build confidence in the process.**

### Knowledge of Loan Products

**A knowledgeable loan officer can match you with the best loan products for your financial needs and goals.**

**K e v i n   G r e e l e y**







# Who Decides How Much You Can Afford?

YOU OR THE  
BANK

 **LeaderBank**



# How Much Can You Borrow?

*Pre-qualification*

*vs.*

*Pre-approval*





# Pre-qualification vs. Pre-Approval

## Understanding Pre-qualification

Pre-qualification is an initial financial assessment based on self-reported information to estimate borrowing capacity.

## Details of Pre-approval

Pre-approval involves submitting financial documents and a credit check, leading to a conditional loan commitment.

## Benefits of Pre-approval

Pre-approval shows serious financial capability, strengthening buyer's position when making offers on homes.

## Guidance for First-time Buyers

Lenders assist first-time buyers through document gathering and completing the pre-approval process.



# Information Required for Pre-Approval

- Most recent paystubs -30 days
- Federal tax returns – last 3 years
- W-2s and/or 1099s – 3 years
- Profit and Loss Statement if self-employed
- Bank statements – 2 months
- Most recent retirement account statements –2 months
- Credit Report pulled by the lender
- Divorce Decree/Separation Agreement





# How Does a Lender Evaluate a Borrower?

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## **Credit** History Assessment

Lenders review credit reports and scores to evaluate the borrower's history of repaying debts reliably.

## **Collateral** as Security

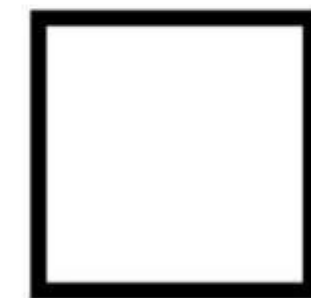
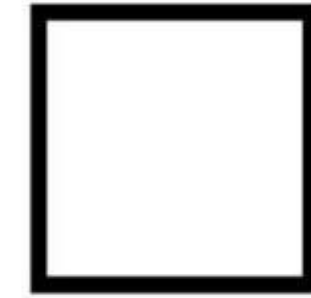
Property or assets serve as collateral, providing security to the lender against the loan amount.

## **Capital** and Financial Stability

Borrower's savings and assets demonstrate financial stability and ability to support the loan commitment.

## **Repayment** Capacity

Lenders assess income, employment history, and debt-to-income ratio to determine repayment ability.



# The For Cs.

Credit

Reliability

Collateral

Property

Capital

Savings

Capacity

Income







# Credit= Reliability

- Credit Score requirements and terminology- What's a FICO score? What's good?
- Tradeline requirements
- Debt
- Student Loan debt
- Non-traditional credit
- Collections/Delinquencies
- Disputes
- Revolving Utilization
- Minimizing Credit Inquiries
- **AnnualCreditReport.Com**



# Understanding FICO Scores

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## What is a FICO Score?

A FICO score is a key credit rating ranging from 300 to 850, indicating a person's creditworthiness.

## Main Influencing Factors

Payment history, amounts owed, and length of credit history are primary factors that determine your FICO score.

## FICO Score Categories

FICO scores are categorized as Poor, Fair, Good, Very Good, and Exceptional, helping lenders assess risk.





# What makes up my Cred

## Payment History

- Late Pays
- Collections
- Charge-Offs
- Repossessions
- Foreclosures
- Tax Liens
- Bankruptcies
- Judgements

## Amounts owed

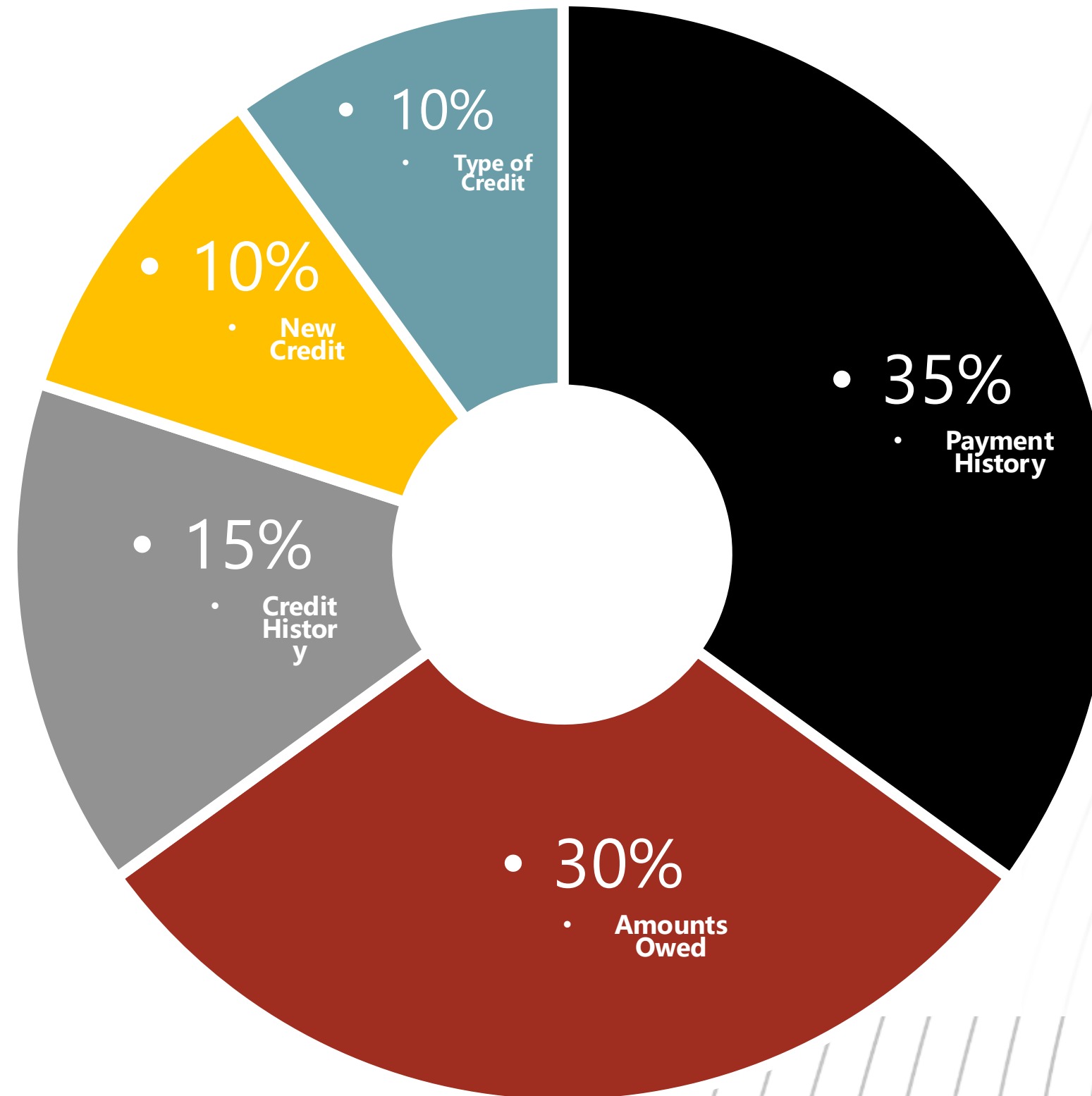
- Credit Cards
- Mortgage Loans
- Auto Loans
- HELOCs
- Installment Loans

## New Credit

- Soft Inquiries
- Hard Inquiries

## Types of Credit used

- A Mortgage Loan
- 2-3 Major Credit Cards
- An Auto Loan



# Collateral=Property

**Your lender will check the following:**

- Appraisal
- Title
- Municipal lien certificate
- 6D certificate





# Appraisal

## An opinion of a property's market value

- Based on property condition and recent comparable sales
- Ensures you are purchasing something of legitimate value
- Usually procured by your lender after you have submitted a full mortgage application; buyer pays for the appraisal at closing
- A licensed appraiser determines the appraised value, reflecting the property's fair market worth. This is not to be confused by the "tax assessed" value, set by local governments, which is often lower than market value.

**Maximum purchase price cannot exceed appraised value, unless buyer can cover "appraisal gap"**



# Capital=Savings

## Savings must be verified

### Acceptable Savings

- Savings/Checking (seasoned 60 days)
- Certificates of Deposit (CD)
- Stocks
- Gifts
- 401(k)

### Unacceptable Savings

- Mystery cash
- Unverifiable funds
- Borrowed funds







# Capital=Savings

## **Savings Will Cover:**

- Down payment
- Closing costs
- Prepaid expenses
- Reserves





# Capacity= Income

## Sources of Underwriting Income:

- Income history and stability -2 years, letters of explanation for gaps
- Verifiable Income
- Full-time income vs. part-time income vs. seasonal income
- W2 income vs. self-employed income (tax return schedules, profit and loss)
- Bonus income and commission Income
- Rental Income –multi unit homes
- Income from investments (dividend and interest income
- Social Security, Pension, Retirement, Alimony, Child Support income





# Mortgage Qualification

**PITI = Principal + Interest + Taxes + Homeowner's Insurance**

+ **Association Fee** : condo fee or homeowner's association fee

+ **PMI or MI** : Private Mortgage Insurance or Mortgage Insurance

**Qualifying Ratios**: how lenders decide how much you can "afford"

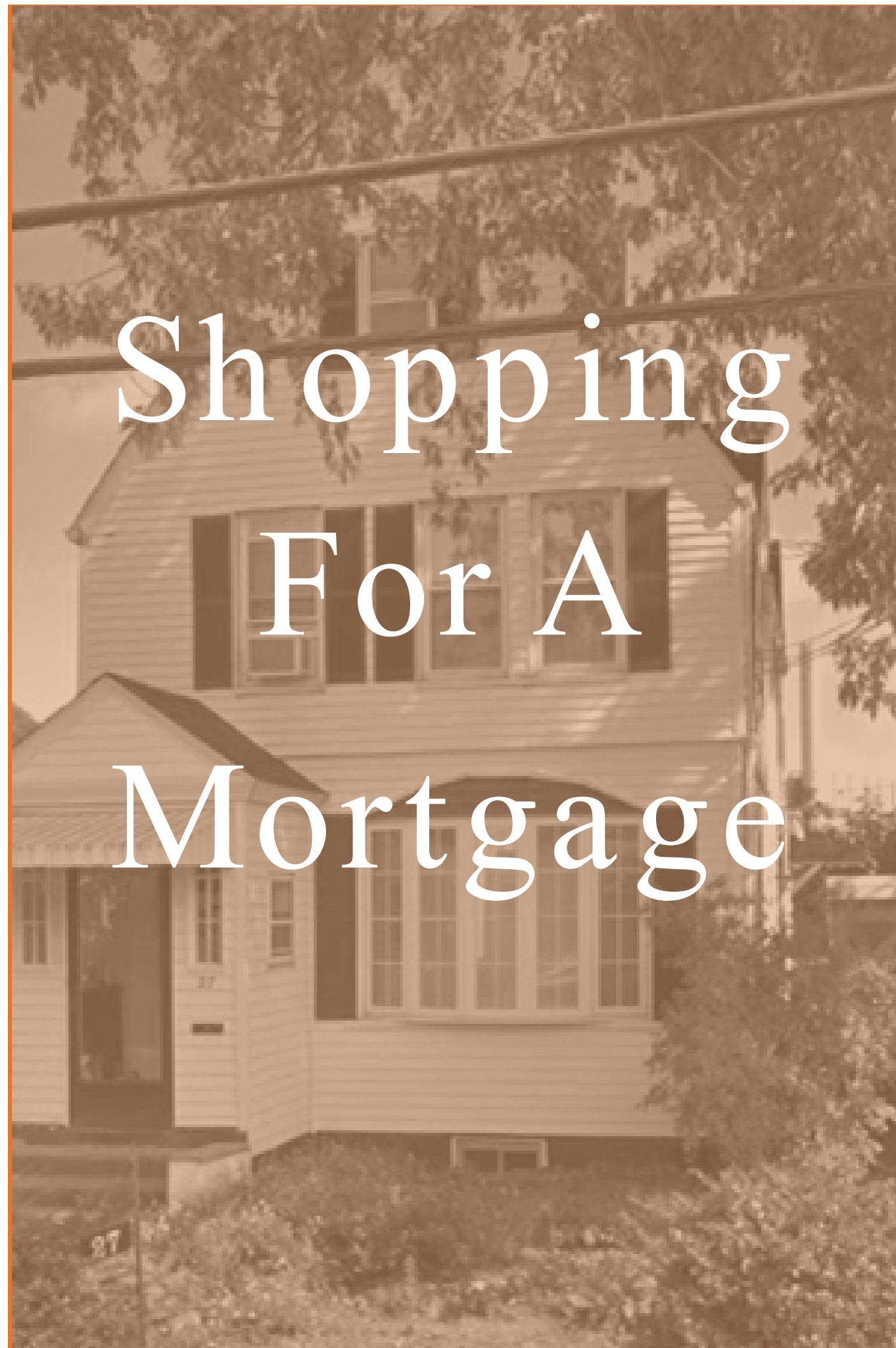
## **Front "Housing" Ratio**

potential mortgage payment (PITI) ÷ gross monthly income

## **Back "Debt to Income" Ratio**

minimum monthly debt payments from credit report + potential mortgage payment(PITI) ÷ gross monthly income





# Shopping For A Mortgage

## Comparing Mortgage Terms

- Interest rate
- Interest rate lock terms and conditions
- Annual Percentage Rate (APR)
- Application Fee
- Points
- Down payment requirements
- Eligibility criteria
- Qualifying ratios
- Closing costs
- Processing time



# Types of Lenders and Mortgages

## Types of Lenders

Lenders include commercial banks, credit unions, savings banks, mortgage companies, and brokers offering various loan services.

## Mortgage Loan Varieties

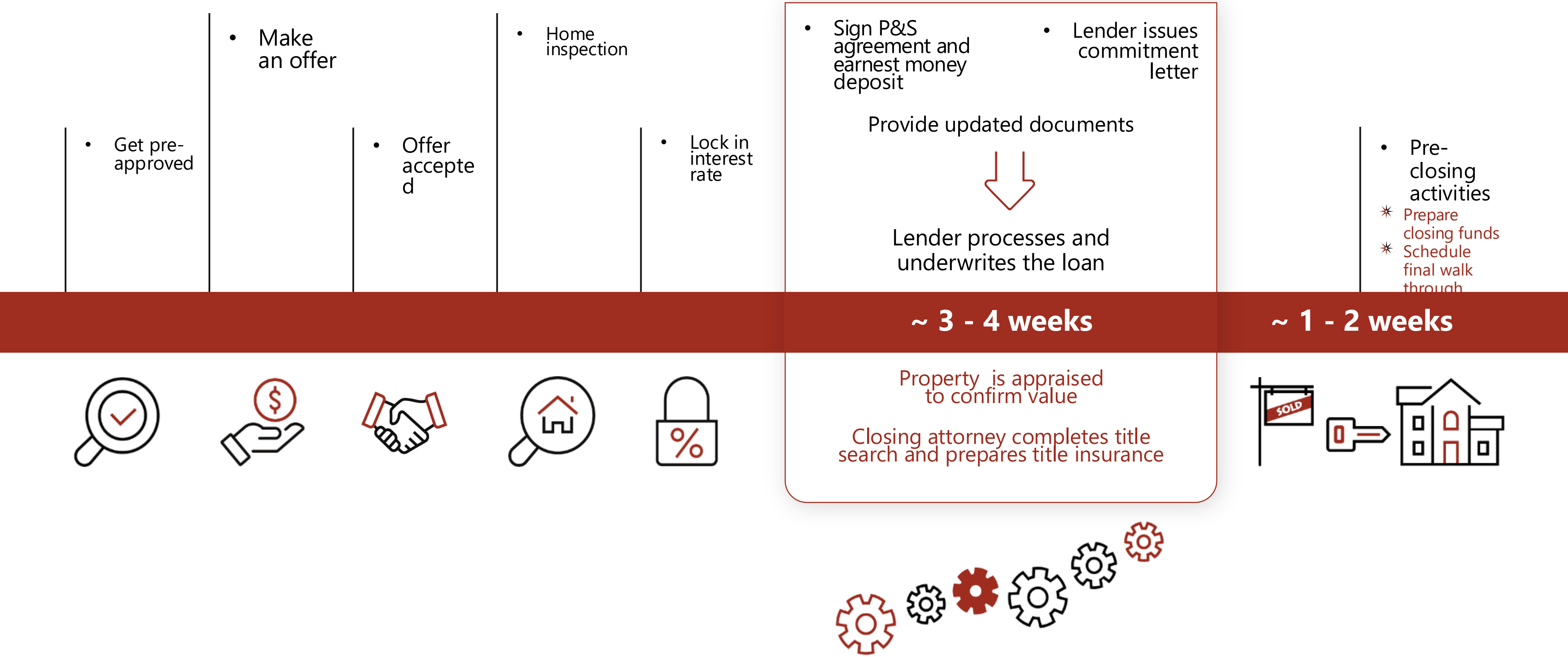
Mortgage types range from Conventional, FHA, VA, to Purchase/Rehab loans, each with unique criteria and benefits.

## Specialized Loan Programs

Programs like VA loans offer no down payment; FHA suits lower credit scores; MHP "One" aids first-time buyers.



# Homebuyer Timeline







# Important Mortgage Forms

- Application (1003)
- Loan Estimate (LE)
- Commitment letter-issued on or before financing date listed on purchase and sale agreement
- Closing Disclosure (CD)





# Mortgage Application

- Usually submitted to loan officer within 3 days of signing Purchase & Sale agreement
- Once property is secured with Purchase & Sale, the collateral piece of the 4 C's can now be reviewed by the bank (Credit, Income, Savings, & Property)
- The mortgage application and "intent to proceed" signals the bank to start their underwriting process
- Most banks take 3-6 weeks to complete
  - underwriting process

# Mortgage Commitment Letter

- The bank's commitment to lend you the money to purchase your home
- Usually, must be received one week prior to closing
  - If no commitment is made one week prior, the buyer can request an extension from the seller
- Can come with or without conditions
  - With conditions – you must satisfy those conditions before closing
  - Without conditions – you are clear to close





# Understanding Loan Terms and Comparing Options

## Mortgage Term Lengths

Common mortgage terms are 10, 20, and 30 years, defining the duration of loan repayment.

## Fixed vs Adjustable Rates

Fixed-rate mortgages keep consistent interest rates, while ARMs have rates that change over time.

## Comparing Mortgage Options

Evaluating programs, interest rates, APR, fees, and eligibility helps buyers choose the best mortgage option.

## Consulting for Best Choice

Buyers should consult lenders considering financial goals to select the most suitable mortgage.







# Fixed Rate

## What are The Benefits of a Fixed-Rate Mortgage?



Predictable Monthly Payments



Potential to Lock in Low Rate



Protection from Fluctuating Interest Rates



Conducive for Long-term Financial Planning



# Adjustable Rate

## What are Adjustable-Rate Mortgages?



**Adjustable-Rate Mortgages (ARMs)** are loans whose interest rate can vary during the loan's term. These loans usually have a fixed interest rate for an initial period of time and then can adjust based on current market conditions. The initial rate on an ARM is lower than on a fixed rate mortgage which allows you to afford and hence purchase a more expensive home. Adjustable-rate mortgages are usually amortized over a period of 30 years with the initial rate being fixed for anywhere from 1 month to 10 years. All ARM loans have a "margin" plus an "index."



When the time comes for the ARM to adjust, the margin will be added to the index and typically rounded to the nearest 1/8 of one percent to arrive at the new interest rate. That rate will then be fixed for the next adjustment period. This adjustment can occur every year, but there are factors limiting how much the rates can adjust. These factors are called "caps."





# Mortgage Program Options

# MassHousing & MHP

MassHousing and MHP offer a variety of down payment assistance programs with the aim of putting home ownership within reach for first time buyers.



one.





# Mass Housing First Time Homebuyer Program

- \* Single Family purchase with as little as 3% down
- \* Multi-family home purchase with 5% down
- \* Credit score as low as 640 for single family and 680 for multi family purchase
- \* Reduced PMI options available
- \* Down payment assistance for single family homes, condos or Multifamily





# MHP One Loan Program

## First Time Homebuyer Program

- \* 30-year fixed rate, Rate is discounted
- \* Income Restrictions apply, They count household income
- \* 3% Down Payment – singles/condo 5% Down Payment – 2 family
- \* Gifts and Grants are allowed – must have 1.5% of your own funds in down payment
- \* No Private Mortgage Insurance (PMI)
- \* Interest rate subsidy is given at certain income limits
- \* Only approved banks or credit unions offer this program





# Government Loan Programs

- ✦ **FHA**
- ✦ **VA**
- ✦ **USDA**



**VA**



U.S. Department  
of Veterans Affairs



FHA

(Federal Housing  
Administration)

- ✦ As little as 3.5% down financing
- ✦ Allows for less than perfect credit
- ✦ NO income limit, but there are county loan limits
- ✦ Gifts are allowed (not just from family members)
- ✦ No FTHB education required
- ✦ Allows for a non-occupant co-signer  
(immediate family member)
- ✦ Can purchase a condo, single family or multi-family  
(up to 4 units)





# FHA 203k: Renovation Financing



## **Purchase and Rehabilitation**

FHA 203k loans enable buyers to finance both buying and renovating a home, simplifying the process for fixer-uppers.



## **Accessibility for Homeownership**

This program makes homeownership more accessible by helping individuals renovate and improve properties that need repairs.



## **Flexible Renovation Options**

FHA 203k offers two loan types: Standard for major repairs and Limited for minor improvements, providing flexibility for various renovation needs.



# VA Loans

(Veterans Administration)

## **0% down** financing

Very competitive interest rates – about 0.50% today, under conventional rates

Allows for less than perfect credit, but could be beneficial to those with great credit

NO income or asset limits, but there are county loan limits

Not just for First-time homebuyers; No FTHB certificate required

Can purchase a condo, single family or multi-family (up to 4 units)

Mortgage insurance waived if the Veteran is exempt from the funding fee

Higher Debt – to – Income ratios – allowing first-time buyers to qualify for more!

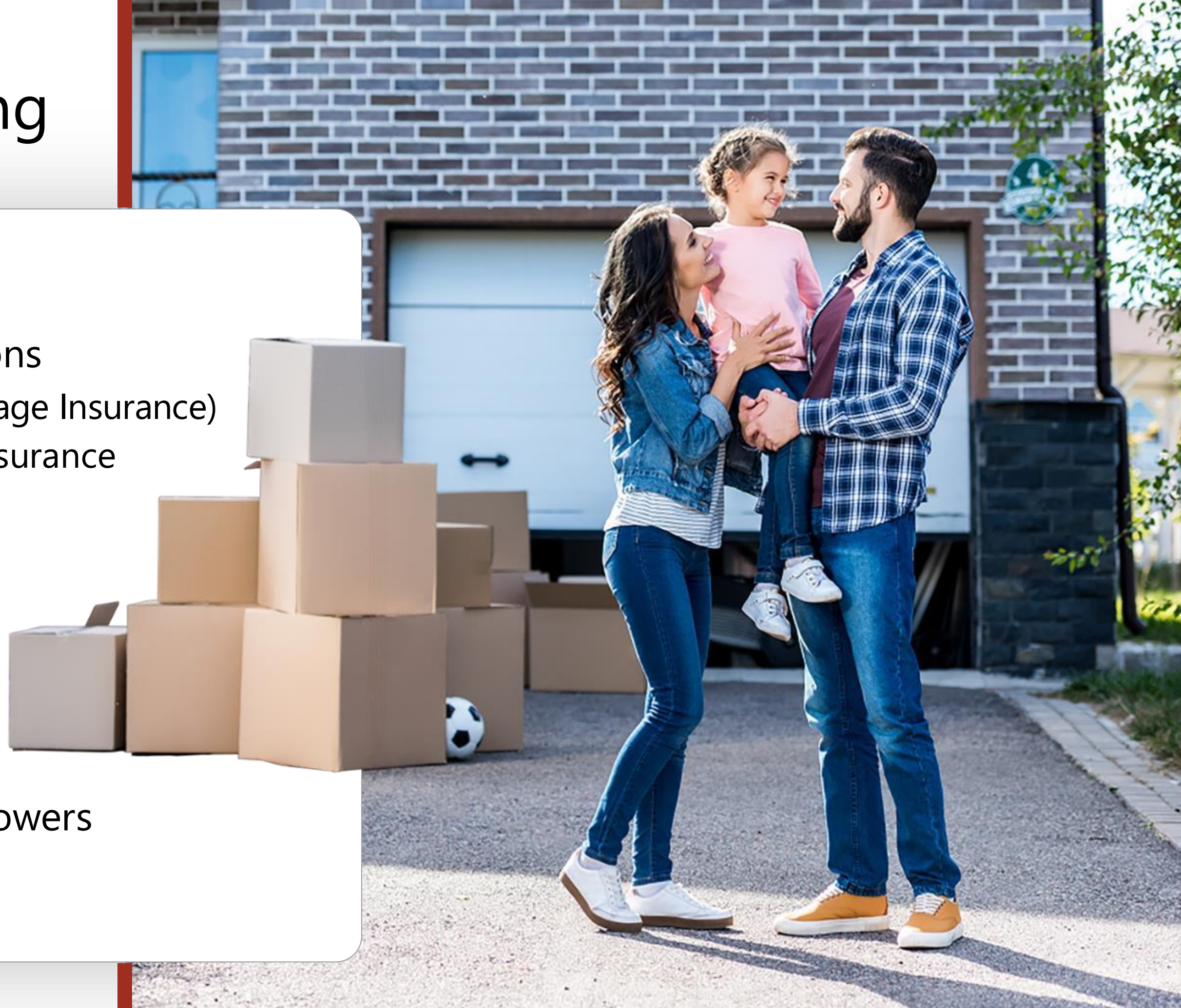
Student loans that are deferred for 12 months prior to the closing date, we don't need to include it in debt – only loan program to allow that





# Conventional Financing

- \* 3-5% down financing
- \* Private Mortgage Insurance options
  - \* Monthly, LPMI (Lender Paid Mortgage Insurance)
  - \* BPMI (Borrower Paid Mortgage Insurance at closing)
- \* Typically, best for borrowers with credit score > 660
- \* Gifts are allowed from immediate family members
- \* Allows for non-occupant co-borrowers





# Other FTHB Programs



## HomeReady

- \* New HomeReady® features offer increased access to homeownership
- \* With a low-down payment and expanded financing flexibility, HomeReady offers an ideal solution that works for today's creditworthy low-income borrowers—whether they're first-time or repeat buyers.
- \* A new benefit of a \$2,500 credit for very low-income borrowers can help overcome two of the greatest barriers to homeownership – down payment and closing costs.

## HomePossible

- \* The Freddie Mac Home Possible® mortgage offers more options and credit flexibilities than ever before to help your very low-to low-income borrowers attain the dream of owning a home.
- \* In addition to its down payment requirement of as little as 3%, Home Possible now offers more options to responsibly increase homeownership for more buyers. Co-borrowers who do not live in the home can be included for a borrower's one-unit residence, borrowers are permitted to have another financed property, and more—all with competitive pricing and the ease of a conventional mortgage.



# Understanding Portfolio Loans

## **What Is a Portfolio Loan**

A portfolio loan is a mortgage kept by the lender in its own investment portfolio, not sold to others.

## **Flexible Underwriting Standards**

Portfolio loans usually have more flexible underwriting criteria, providing options for those who don't fit traditional requirements.

## **Benefits for Unique Borrowers**

Self-employed people or those with unique financial situations can benefit from portfolio loans' adaptability.





# Mortgage Terms



Mortgage



Interest Rate  
vs APR



Down Payment



Home Inspection  
vs Appraisal



Note & Deed



Earnest  
Money Deposits



Closing Costs  
vs Prepaids



Loan to Value



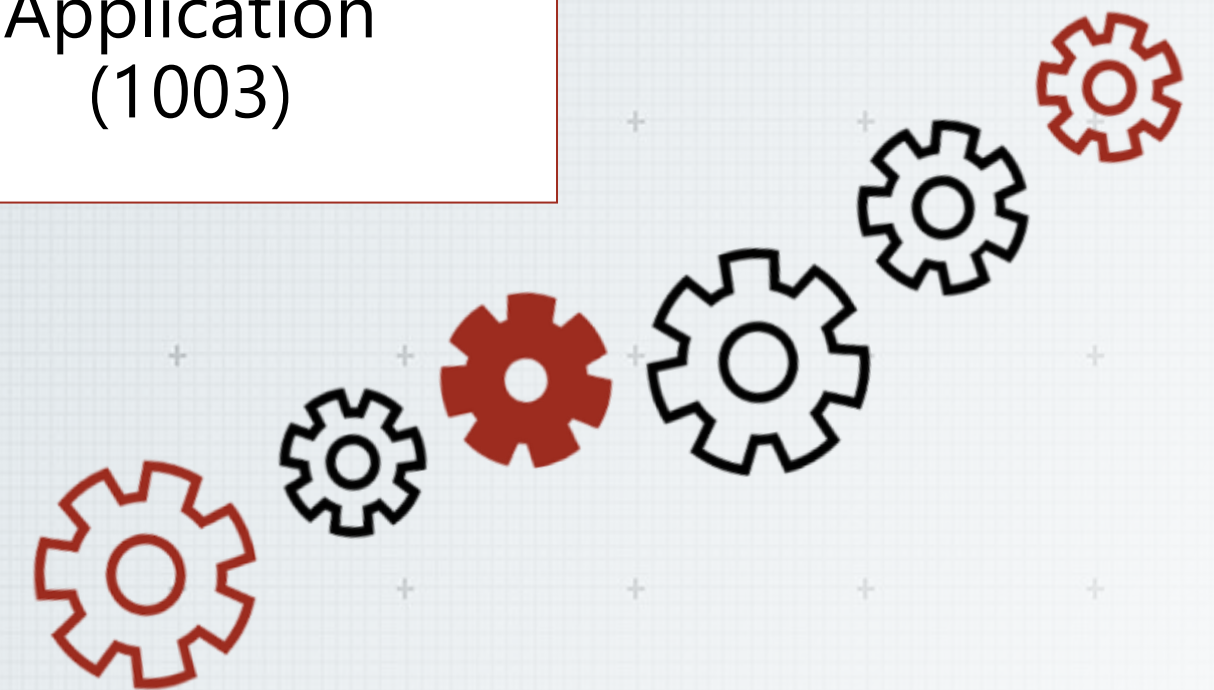
Application  
(1003)



Loan Estimate  
(LE)



Closing Disclosure  
(CD)





# Understanding CD and LE

## Loan Estimate (LE)

A Loan Estimate provides an early overview of expected loan terms and closing costs, helping buyers plan ahead.

## Closing Disclosure (CD)

The Closing Disclosure details final mortgage terms and costs, ensuring buyers have complete clarity before closing on a home.

**These documents allow homebuyers to compare offers and avoid surprises, supporting informed decisions throughout the mortgage process.**



# Home Inspection vs. Appraisal



## **Inspection Assesses Condition**

Home inspections identify physical issues, needed repairs, and safety concerns, safeguarding buyers' interests during the buying process.



## **Appraisal Determines Value**

Appraisals estimate market value based on comparable sales and trends, protecting the lender's investment in the property.



## **Different Purposes and Protection**

Inspections protect buyers by revealing problems, while appraisals protect lenders by confirming loan value and property worth.





# Understanding Earnest Money

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## **Demonstrates Buyer Commitment**

Earnest money shows a buyer's serious intent to purchase real estate and strengthens the offer.

## **Held Securely in Escrow**

Deposits are kept in escrow until closing to protect both parties during the transaction.

## **Applied or Refunded Based on Terms**

If the sale closes, the deposit is applied towards total due at closing; if not, refund depends on contract terms.



# Interest Rate vs. APR

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## Understanding Interest Rate

The interest rate represents the basic cost of borrowing money, shown as a percentage of the loan amount.

## What is APR?

APR includes the interest rate plus additional fees and costs, offering a complete picture of loan expenses.

## Importance of Comparing APRs

Comparing APRs allows borrowers to evaluate the true cost of loans more accurately than interest rates alone.





# Understanding Loan Points

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## What Are Loan Points?

Loan points are upfront fees paid to lower a mortgage's interest rate, often called discount points by lenders.

## Cost and Savings

Each point usually costs 1% of the loan amount and can decrease your monthly mortgage payment over time.

## Consider Your Timeline

Deciding to buy points depends on how long you intend to own the home, affecting your potential long-term savings.



# Closing Costs vs. Prepays



## What Are Closing Costs

Closing costs are one-time fees paid at settlement/closing, including lender fees, appraisal, and title insurance, required to complete the purchase.



## Understanding Prepaid Expenses

Prepays cover future expenses like homeowner's insurance and property taxes, which buyers pay upfront when purchasing a home.



## Importance for Homebuyers

Knowing the difference between these costs helps buyers budget effectively and avoid financial surprises during home buying.





# Note vs. Mortgage vs. Deed

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## **Purpose of the Note**

The note is a formal promise to repay the loan, detailing interest rates and payment schedules for the borrower.

## **Role of the Mortgage**

The mortgage acts as a security instrument, giving the lender a claim on property if payments are not made.

## **Function of the Deed**

The deed legally transfers ownership of the property from the seller to the buyer at the time of sale.





# Common Mistakes to Avoid During the Loan Process

## Avoid Job Changes

Quitting or changing jobs during loan processing can risk approval due to unstable income history.

## Manage Credit Carefully

Avoid opening new credit accounts or charging heavily as it can lower credit scores and increase debt.

## Transparent Financial Documentation

Provide full, accurate documentation and avoid large unexplained deposits to build lender trust.

## Timely Submission and Communication

Submit documents promptly and maintain open communication with your lender to prevent delays.





# Questions

