

Corky Hyatt Seminars Presents Missouri Real Estate Practice Course by Home Study
Textbook: Financing Workshop

Financing Workshop

Introduction: This Financing Workshop is divided into four sections as follows:

1. **The Underwriting Process:** This section explains how loan underwriters make a decision about whether or not to approve a buyer's loan application, detailing the elements that make a borrower attractive to an underwriter. Remember that loan underwriters are generally in some other city from the property and the borrower, so they make decisions on factual, imperative information basis rather than on an emotional basis which is how buyers choose their new properties! Therefore, presenting a borrower in the best light makes the loan process go smoother, faster, and have a better outcome.
2. **Conventional Financing:** This section details the elements of conventional loans, including ratios, terms, and conditions applicable only to these public sector loans.
3. **Government Financing – FHA:** This section explains the specifications of Federal Housing Administration loans which are insured by FHA, a division of HUD, the Department of Housing and Urban Development.
4. **Government Financing – DVA:** This section details the terms and specifications of loans guaranteed for veterans by the Department of Veterans Affairs, formerly know as VA loans.



In each of loan sections, all the terms and specifications are listed in the same order so that you can compare two or three loan types for your purchaser. Simply go to the condition about which you have a question, such as Gift Funds Letter, and look under that heading in each loan program section.

Part 1: The Underwriting Process

Ninety-four percent of all home purchases in the United States involve a mortgage loan. When you can't reach a loan originator, it's your job to pre-qualify a purchaser.



Lender's Perspective:

What concerns the underwriter who decides whether or not your purchaser will be approved for their mortgage loan? Lenders have two major concerns which include limiting their exposure in the event of Borrower default and the purchaser's (1) ability and (2) willingness to repay the loan.

Loan Underwriting:

How does loan underwriting work? Simply, underwriters determine the purchaser's "ability" to repay the loan by considering two aspects of the borrower's income: amount of income and source of income. By "amount of income" the underwriter is investigating how much the buyer earns

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Updated on 8/14/2007

Disclaimer! (If you're not used to disclaimers, you soon will be!) Please note that all of these terms and conditions are subject to change without notice. Although this textbook is updated annually, there can be changes during the year which will appear here between updates. Check with your local lender to be sure that you understand how each program works, the maximum loan limits, and any other special requirements as they impact your customer or client!

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annually. The second consideration is the source of the borrower’s income. For example, the income may be salary or salary plus bonus, because the borrower is an employee. Another possibility is that the borrower is an independent contractor, earning commission income.

In addition to the amount and source of the borrower’s income, an important consideration is the length or “track record” of income. Most lenders look for a two-year history of income. Some exceptions include new college graduates who go to work in the field for which they were trained.



The self-employed borrower requires additional documentation, specifically requiring tax returns for a period of two to three years. If a self-employed person has significant differences between the two to three years tax return-documented income, the lender will generally average their income to determine how much will apply for mortgage approval.

Debts:

Debts considered when approving a purchaser for a home loan include fixed obligations such as car payments; furniture loans; child support and alimony; student loans; credit cards and revolving charge cards; as well as negative cash flow on rentals also count as debt (i.e. the difference between the rental income and the expenses, including mortgage, taxes, vacancy, and maintenance.)

Do the purchasers Mortgage and/or Rent History matter?

Yes! The borrower’s history of mortgage or rent payment – probably the single most important issue. Why? Because when the renter or property owner has financial challenges, their willingness to continue making housing payments indicates how well they will pay their mortgage payments. Negative “housing” payment history frequently results in “declined” loan approvals! The owner or renter who does not regularly pay their housing payments on time is a poor risk for a mortgage lender.

What is the Best Indicator of future behavior, it is past behavior. Therefore, the borrower’s willingness to repay the mortgage is best predicted by his/her history of repayment of past obligations!

Credit Scoring: Credit scoring has been the lending industry’s response to purchasers demand for faster and more efficient loan origination. Credit scores allow lenders to evaluate purchasers quickly, more consistently, and on objective criteria from their credit history and income picture. Lenders consider multiple scores from multiple scoring sources. If they use two credit scores, they may average the two. If they use three credit scores, they may take the middle score. Their choices are based on the lender’s policies and experience.

“Generic” Credit Scores Guidelines: If the buyer’s credit score falls into each of the following score categories, the buyer will probably qualify for the LTV (Loan to Value) ratio listed in this “generic” chart. Each lender uses his own guidelines. If the Buyer’s Credit Score is 620, he will qualify for an 80% LTV mortgage (20% down payment required)

Credit Score	LTV (Loan to Value)
660	90% LTV
680	95-97% LTV
700+	Almost anything will be approved! ¹

¹ A 700 credit score indicates good income and credit histories.

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Lenders use a combination of credit scores + LTV + cash reserves to determine whether they will make the loan and how much they will loan. Do not automatically determine a buyer to be unqualified if ratios are well above 28/36%!

Do buyer's Court Records play a role in their approval? Credit bureau checks court records for tax liens, judgments, and pending lawsuits (Do you know what "Lis pendens" means?)

Credit reports show the following information:

- i) From whom the purchaser has "borrowed"
- ii) How much?
- iii) For how long?
- iv) How they've repaid (30, 60, and 90 day lates!)
- v) Other lenders inquiring
 - (1) Lender may required evidence that no new credit obligations were created as result of inquiries
 - (2) *If other mortgage lender has inquired, new lender will want to know if borrower was turned down*

Bankruptcy:

It is possible to get a new loan with a minimum of 2-3 year period elapsed since the bankruptcy was discharged. To do so, the borrower must have demonstrated and documented the following: petition for bankruptcy; schedule of debts; proof of discharge; and a Letter of Explanation, i.e. what led to the bankruptcy.

Employment History:

Underwriters want to see a stable employment history which is generally defined as two or more years on "job." In absence of "stability," underwriters look for a growth pattern which may include more income, more responsibility, or more opportunity. Recent college graduates who go to work in the field for which they have been educated are not, generally, required to document a two year track record!

Down Payment and Closing Costs:

Buyers will have to prove their source of down payment & settlement costs. Lenders may use a "VOD" or Verification of deposit. *Generally require letter of explanation for new accounts or major change in balance*

Appraisal: The second qualification process

The majority of home loans require two approvals: the buyer's approval and the property's approval. The property approval is accomplished through the appraisal process. Once equal in importance, the appraisal has been relegated to a lesser position in the "new world" of consumer-driven quicker closings!

Important questions on the appraisal which the underwriter must know to make a decision about the buyer's approval:

- *Is property compatible with others in area?*
- *Is property selling higher than range in area?*
- *Is property located adjacent to commercial, etc.?*
- *Is property in area of stable or increasing value?*
- *Were all comparables sold in last 6 months?*
- *Were all comparables property adjusted?*

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Financing Workshop:
Part 2: Conventional Financing

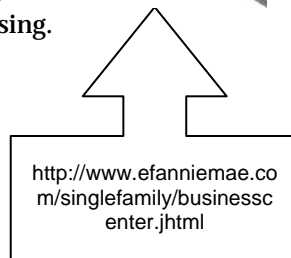
“Conventional” Financing

A conventional loan is a loan that is not insured or guaranteed by agency of the federal government. The difference between a conventional and an insured conventional loan is that any conventional loan of 80% LTV (loan to value) or less does not require mortgage insurance. Any conventional loan of 81% or more LTV requires not only mortgage insurance but also an additional approval by the private mortgage insurance company. The insuring premium for mortgage insurance depends upon the type of loan (fixed or adjustable) and the down payment (19% or less). PMI (private mortgage insurance) may be financed as a part of the monthly payment or may be paid in full at closing.



Advantages of conventional financing:

The advantages of conventional financing include (1) all the down payment is immediate equity unlike FHA loans; (2) there is an abundant variety of conventional loan programs from which to choose the best for each buyer; (3) loan approval is quicker than most government loan programs; (4) they require less documentation; (5) the ability to avoid insuring fees or funding fees; and (6) higher loan amounts are available.



In addition, there are other differences between conventional and government programs. Conventional loans may be both owner occupied and investor loans. The rates are negotiable, with lock periods of 45 to 60 days but as high as 270 or more depending upon the lender.

Conventional loans may be assumed only when they are adjustable. Fixed rates are not assumable. Down payments may be as little as three percent. In fact, no down payment may be necessary by using gift funds or monies paid by not-for-profit organizations or the lender.

Cash reserves are required for minimum down payment loans and may require two to three months payments in reserve in order to close the loan.

Insured Conventional Loans and PMI:

PMI or Private Mortgage Insurance is required for conventional loans of less than 20% down payment to reduce the lender's exposure in case of foreclosure. PMI is provided by private sector companies. **Insured conventional loans require essentially two approvals, one by the primary lender and one by the PMI company.**

There are generally two PMI programs available to borrowers with less than 20% down payments, including the standard plan which divides PMI premiums between a closing fee and a monthly premium. The second program has no up-front fee and only a monthly premium added to the monthly loan payment.

To figure the PMI cost for a loan payment, multiply the loan amount by the PMI rate, then divide that annual payment by twelve to determine the monthly payment. For example, a \$150,000 home loan is multiplied by a one percent PMI premium which equals \$1,500.00. Divide that annual premium by twelve to determine that the monthly payment of \$125.00/month which is added to the loan payment.

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Adjustable Rate Mortgages:

There are four elements of ARM's or adjustable rate mortgages: the rate, the index, the margin, the caps (adjustment caps and the lifetime caps).

The **rates** for adjustable rate loans are generally lower than fixed rate loans at the same time in order to induce borrowers to consider them rather than simply taking the fixed rate alternative. The **index** is the indicator used to determine future changes in the interest rate. Generally indexes include the weekly average yield on U. S. Treasury securities, the 1-3 year maturities, or the Cost of Funds. The **margin** is the amount or percentage added to the index at each adjustment date to determine the new rate. Margins may be 1.0% but are generally 2.0% to 3.0%. The **caps** safeguard or protect the borrower against an interest rate increase that might result in a payment the borrower couldn't afford. Caps are both adjustment (generally annual which limit the up or down change allowed at each annual adjustment) caps and lifetime caps (the highest or lowest the rate may change during the life of the loan). **Beware of payment caps!** *Payment caps limit the amount that the payment may change but do not limit the rate change and can result in negative amortization (i.e. the loan balance can actually go up!)*



ARM Example: *Begin with an initial rate of 6.75% Secure the Index, for example 7.25% and add the margin, for example 2.5%. Check the caps to make sure that they are not exceeded. Let's say the caps are 2/6 (2% annual and 6% lifetime). Therefore, you begin with the old rate of 6.75%. The new index is 7.25, which is up 1%. Then we add the margin, which is 2.5, so 7.25% plus 2.25% equals 9.5%. However the annual cap is 2.5%, so adding 2.5% to 6.75% would equal 9.25%. Can the rate go to 9.5%? No, it may not go higher than the cap, so their new rate for the next year is 9.25%.*

2007 maximum conventional loan rates can be found, as the current maximums may always be checked on the Fannie Mae (Federal National Mortgage Association) web site, currently at http://www.erate.com/fannie_mae_freddie_mac_limits.htm. For example, the single family maximum in 1999 was \$240,000 which increased to \$252,700 in 2000, to \$275,000 in 2001, and \$200,700 in 2002. At the same times, the four-family limits were \$461,350, \$485,800, \$528,700, and \$578,150.



Currently, the Fannie Mae loan limits are as follows²: One-family loans: \$417,000; Two-family loans: \$533,850; Three-family loans: \$645,300; and Four-family loans: \$801,950.

Conforming and Non-conforming conventional loans:

Conforming loans mean loans that do not exceed FNMA and FHLMC limits. Non-Conforming loans are loans the do exceed the maximums and are also called jumbo loans. Jumbo loans may not be sold on the secondary market under FNMA or FHLMC guidelines, so the lender ends up keeping them in their portfolio. Therefore, they have higher costs and higher rates.

Closing Costs:

² Fannie Mae loan limits effective January 1, 2007, from their website at <http://www.fanniemae.com/aboutfm/loanlimits.jhtml>.

Note: One- to four- family mortgages in Alaska, Hawaii, Guam, and the U.S. Virgin Islands are 50 percent higher than the limits for the rest of the country.

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Sellers may pay all or part of the borrower's closing costs subject to the following limitations: 95% LTV sellers may not pay more than 3% of the sales price and for 90% LTV loans, the seller may not pay more than six percent of the sales price. Borrowers generally are required to pay taxes, interest, insurance, and PMI escrows.

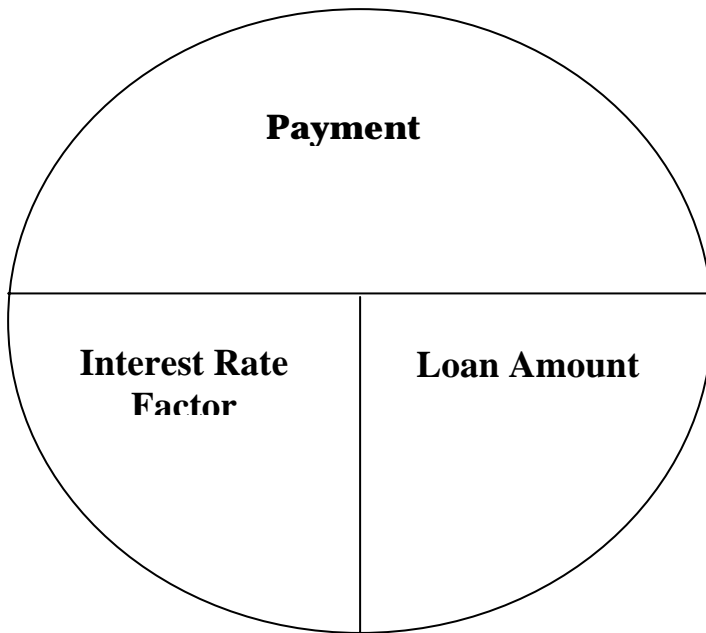
Conventional Buyer Qualification Ratios:

There are two conventional buyer qualifying ratios, the payment side ratio (28% - Borrower's monthly payment of principal, interest, taxes, insurance homes association dues and PMI should not exceed 28% of gross). The debt side ratio (36% - Borrower's total monthly payment (PITI & PMI) plus long-term debt, over 10 months remaining, should not exceed 36% of the borrower's combined gross monthly income.

Calculating loan payments and maximum loan amounts for qualifying purchasers:

If you do not use a real estate or financial calculator, here are the formulas for figuring loan payments and maximum loan amounts.

First, to determine the monthly payment for a mortgage loan, use the "circle" method as follows: Multiply the "interest rate factor" by the "loan amount" to determine the "payment." To determine the "loan amount," divide the "payment" by the "interest rate factor."



For example, if you know that the buyer is paying \$250,000 for a property and putting 20% down, the loan amount will be \$250,000 times 80% or \$200,000. To determine the payment, multiply the loan amount of \$200,000 by the interest rate factor. In our example, let's use 6% interest for a 30 year term which has an "interest rate factor" of \$6.00/\$1,000 of the loan. So, \$200,000 times \$6.00/\$1,000 is \$200 times \$6 which equals \$1,200/month for principle and interest.

To determine what loan amount a borrower qualifies for, figure the monthly payment by multiplying their monthly income by the loan factor for the payment. For a

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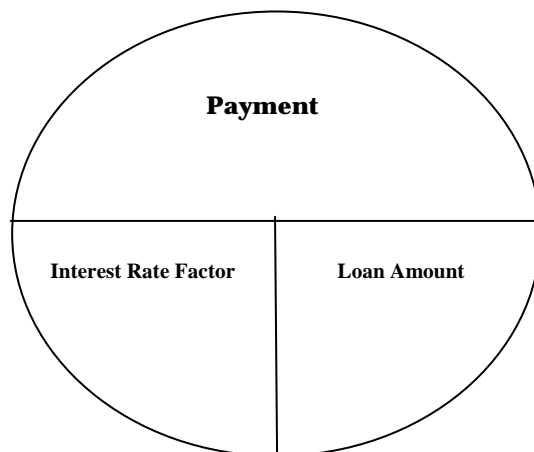
conventional loan, the monthly payment factor is 28% of the gross family income. If the family earns \$6,000 per month, 28% would be \$6000 times .28 or a monthly principle and interest payment of \$1,680. If the taxes for the property are \$3600/year or \$300.00 per month, add the taxes to the payment. If the insurance is \$900/year or \$75.00 per month, add the insurance to the payment. Therefore, the payment is \$1,680 plus \$300 plus \$75 for a total monthly payment of \$2,055/month. Using the circle above, you can determine the loan amount for which the borrower qualifies by dividing the "payment" by the "interest rate factor." At 6% for 30 years, the factor is \$6.00 per \$1000 of loan. Therefore, divide \$2055 by \$6 for a maximum loan amount of \$342.50 X \$1,000 or \$342,500. (Remember that the \$6.00 factor is per \$1,000, so we multiplied the \$342.50 by \$1,000 to get the loan amount). If you need additional help, contact your local lender and have them work with you on qualifying and calculating. The Real Estate Master Qualifier Plus III is an excellent real estate calculator and it's available on the internet from Calculated Industries or from your broker, lender, or real estate school.

Let's figure a buyer's qualification for a conventional loan.

Monthly family income: \$6,000.00
Monthly total debt: \$950.00

\$6,000 X .28 (conventional ratio) equals a maximum house payment of \$1,680.00 including PITI & PMI (Principle, Interest, Taxes, Insurance, and Private Mortgage Insurance). If taxes in your market are 1% of the value of the property, that would allow you to add 1% to the interest rate to cover taxes. If insurance is .75%, you could also add that to the interest rate to figure PITI. Using these figures, the rate will be 6% plus 1% for taxes and .5% for insurance for a total of 7.5%³. Therefore, using our "circle," we'll plug in the following numbers:

The payment is \$1,680.
the interest rate factor
for 7.5% is \$6.99/\$1000
of loan amount.
Therefore, because the
payment is above the line
and the interest rate factor
is below, divide the
payment by the
interest rate factor:
\$1,680 divided by \$6.99



³ Ask you lender, your manager, or an experienced agent in your office for the percentages in your marketplace!

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equals \$240.34 times
\$1,000 = a loan amount of
\$240,340!

Conventional Gift Funds

Conventional borrowers are allowed to use gift funds for their down payment, closing costs, prepaids, and cash reserves, if the gift is from a blood relative and the transfer of funds is documented! The Conventional Gift Letter must state the (1) relationship of the donor to the borrower; (2) the amount of the gift; (3) the purpose of the gift; (4) a statement that repayment is not required; and (5) must be signed by the donor, including his/her address and telephone number.

Conventional Temporary Loan Rate “Buy-downs”

Temporary Buy-downs help borrowers qualify. They generally can not last for more than three years and can not increase by more than one percent per year. For example, If the base rate of the loan is 6% and the buy down is a 3-2-1 buy down, the rate in year one will be 3%, year two will be 4%, year five will be 5%, and the remaining life of the loan will be at 6% fixed.



Another option would be a 2-1-1/2 buy down in which year one would be a 4% rate, year two a 5% rate and year three a 5 1/2% rate while the remaining 27 years would be the base rate of six percent fixed.

To approximate the cost, add up the buy-down percent per year. Therefore, a 2-1-0 buy-down costs 2 + 1 + 0 or approximately 3% of the loan amount.

Special Conventional Programs?

There are as many special conventional loan programs as there are firms developing them! For example, the FNMA 97 (which goes by lots of names!) competes with FHA for the 3% down market and the 3% can come from alternative sources such as not-for-profit groups, churches, family members, and even lenders. The program details include ratios of 33%/36%; up-front 1.55% mortgage insurance premium or finance fee, no “Community Homebuyer Course” required, and credit scores of at least 680 or more.

Other Conventional Alternatives

The Community Home Buyer program features ratios of 33%/38%; requires a special education course for the borrowers who qualify. This course to qualify for these special programs is offered by lenders, Boards of REALTORS, community colleges, real estate companies, and community groups. This program requires no cash reserves.

The Freddie Mac 97 has ratios of 33%/38%, requires a special education course for the borrowers who qualify (offered by lenders, Boards of REALTORS, community colleges, real estate companies, etc.) and credit scores of at least 680 or more. For Conventional Loan – Maximum Loan Limits for Conforming Loans, see above in the ARM section.

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Financing Workshop:
Part 3: Government Financing: FHA

FHA (Federal Housing Administration, a division of HUD or the federal Department of Housing and Urban Development) loans are private sector loans insured by the Federal Housing Administration.

The advantages of FHA loans include their (1) low down payment; (2) all buyers eligible (not restricted to low income, specific area, etc. like FmHA); (3) assumable without rate escalation; (4) closing costs may be financed; (4) mortgage insurance premiums financed; (5) appraiser checks the house to be sure that it is safe and sound; (6) all down payment & closing costs may come from gift funds; and (7) FHA regulations are more forgiving of past credit problems than most conventional programs.

FHA Loan Maximums?

You can check the FHA maximum loan limits with your local lender or on the web at entp.hud.gov/idapp/html/hicostlook.cfm. Below are the larger metropolitan areas in Missouri. You can find the entire list, including the “non-metropolitan” areas of Missouri, at this link <https://entp.hud.gov/idapp/html/hicost1.cfm> or by doing a Google search for “FHA Mortgage Limits.”

MSA Name	County Name	One-Family	Two-Family	Three-Family	Four-Family	Last Revised
KIRKSVILLE, MO (MICRO)	ADAIR	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
ST. JOSEPH, MO-KS (MSA)	ANDREW	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
KANSAS CITY, MO-KS (MSA)	BATES	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006
CAPE GIRARDEAU-JACKSON, MO-IL (MICRO)	BOLLINGER	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
COLUMBIA, MO (MSA)	BOONE	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
ST. JOSEPH, MO-KS (MSA)	BUCHANAN	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
POPLAR BLUFF, MO (MICRO)	BUTLER	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
KANSAS CITY, MO-KS (MSA)	CALDWELL	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006
JEFFERSON CITY, MO (MSA)	CALLAWAY	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
CAPE GIRARDEAU-JACKSON, MO-IL (MICRO)	CAPE GIRARDEAU	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
KANSAS CITY, MO-KS (MSA)	CASS	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006
SPRINGFIELD, MO (MSA)	CHRISTIAN	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
KANSAS CITY, MO-KS (MSA)	CLAY	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006
KANSAS CITY, MO-KS (MSA)	CLINTON	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006
JEFFERSON CITY, MO (MSA)	COLE	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006

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ST. LOUIS, MO-IL (MSA)	CRAWFORD	\$213,750	\$256,248	\$309,744	\$384,936	01/01/2006
SPRINGFIELD, MO (MSA)	DALLAS	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
ST. LOUIS, MO-IL (MSA)	FRANKLIN	\$213,750	\$256,248	\$309,744	\$384,936	01/01/2006
SPRINGFIELD, MO (MSA)	GREENE	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
COLUMBIA, MO (MSA)	HOWARD	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
WEST PLAINS, MO (MICRO)	HOWELL	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
KANSAS CITY, MO-KS (MSA)	JACKSON	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006
JOPLIN, MO (MSA)	JASPER	\$200,160	\$256,248	\$309,744	\$384,936	01/01/2006
ST. LOUIS, MO-IL (MSA)	JEFFERSON	\$213,750	\$256,248	\$309,744	\$384,936	01/01/2006

Mortgage maximums as of July 2007, for Example – Johnson County, KS

MSA Name	State	One-Family	Two-Family	Three-Family	Four-Family	Last Revised
KANSAS CITY, MO-KS (MSA)	JOHNSON	\$204,250	\$256,248	\$309,744	\$384,936	02/06/2006

High cost area limits are subject to a ceiling based on a percent of the Freddie Mac Loan limits
The ceilings are currently:

One-family	Two-family	Three-family	Four-family
\$362,790.00	\$464,449.00	\$561,411.00	\$697,696.00

Section 214 of the National Housing Act provides that mortgage limits for Alaska, Guam, Hawaii, and the Virgin Islands may be adjusted up to 150 percent of the new ceilings. This results in new ceilings for these areas of:

One-family	Two-family	Three-family	Four-family
\$544,185.00	\$696,673.00	\$842,116.00	\$1,046,544.00

Figuring FHA base loans and closing costs are more complicated than conventional loans. For details, check with your local government loan lender.

FHA's Occupancy Requirements:

FHA properties must be owner-occupied! The occupancy requirement has been in effect since December 15, 1989. There's only exception, HUD repossessed properties.

FHA Interest Rates

FHA does not set a maximum interest rate today as it has in the past. The borrower determines his or her rate based on a choice of a rate and points/costs figures that fit his or her budget!

FHA Income Requirements

FHA loans required "income stability" which is described as employers "expectation" of three

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years income stability. A guarantee isn't required. Overtime or Bonus Income can work with FHA. Less than 2 years job history is now allowable with reasonable prospect of continuance (unless income verification indicates it's unlikely to continue).

Part-time Income: A job taken in addition to the normal, regular employment to supplement borrower's income may be used for FHA qualification. If the primary job is worked less than 40 hours per week, the two jobs are not construed as part-time. The borrower may have several "part-time" jobs in place of one full-time job

FHA & Cash

Cash Saved at Home is permitted, but must be verified by the evidence of the ability to accumulate savings. In addition, ethnic/cultural/national groups savings clubs may be the source.



FHA & Points

Discount Points, if necessary for the loan may be paid by seller, the buyer, or shared between them.

FHA & MIP

Notice that FHA couldn't use PMI because it's not private so they came up with Mortgage Insurance Premium or MIP – maybe just to confuse us! All FHA loans are insured loans regardless of the amount of down payment! The Up-Front MIP (closing fee) premium is 1.5% of the base loan. ["In recognition of the financial health of the FHA fund, effective for all loans closed on or after January 1, 2001, the UFMIP will be 1.50%. The borrower does NOT have to be a first time homebuyer or receive housing counseling. Although housing counseling is still highly encouraged by the Department, borrowers that obtain this counseling will no longer receive an additional UFMIP reduction."] This up-front fee may be paid in cash or may be financed; however, if borrowers had that amount to pay at closing they would probably use conventional financing!

The monthly premium is .50% added to the interest rate.

FHA Buyer Qualification:

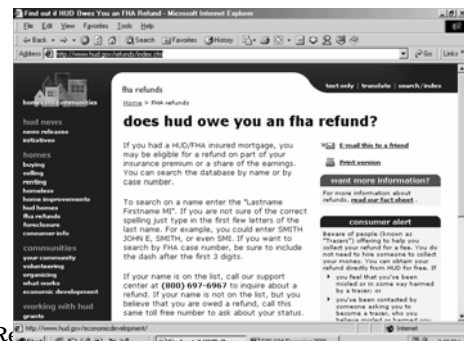
The FHA buyer payment ratio is 29%, meaning that the Borrowers' monthly payment of PITI plus MIP and homes association's association dues can not exceed 29% of their gross family income. The FHA debt side ratio is 41%, meaning that the Borrowers' total monthly payment plus long-term debt (over 10 months payments remaining) can not exceed forty-one percent of their gross family income.

FHA & Second Mortgages

FHA allows second mortgages for down payment if the combined loans don't exceed LTV allowable; if the borrower qualifies for both loans; if the level monthly payments on the second mortgage; not less than 10 year balloon; no pre-payment penalty; and the second can't replace minimum down payment.

FHA & gift funds are the same as for conventional loans.

FHA Allows co-mortgagors for qualification (non-occupant) and temporary buy-downs for qualification, but not more than 2% below note rate.



Disclaimer! (If you're not used to disclaimers, you soon will be!) Please note that all of these terms and conditions are subject to change without notice. Although this textbook is updated annually, there can be changes during the year which will appear here between updates. Check with your local lender to be sure that you understand how each program works, the maximum loan limits, and any other special requirements as they impact your customer or client!

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FHA & Appraisal Requirements: FHA appraisals generally require the following corrections:

- Backfill around foundation
- Exterior paint (no unpainted areas)
- Replace/install gutters and downspouts
- Pressure relief valve for hot water heater
- Full-height partition: garage to hot water heater, furnace
- Roof

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Part 4: Government Financing: DVA

A VA or DVA (Department of Veterans' Affairs) Loan Program is a estate loan that is guaranteed by the Department of Veterans Affairs is a private sector loan (originated by a mortgage banker, broker, or loan originator). For current loan information, check the VA website <http://www.va.gov>.



<http://firstgov.gov>

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Advantages of a DVA loan:

Veterans' loans require no down payment! They are the only truly zero down payment loan program. DVA loans are assumable without a rate increase, but buyer qualification is required. According to www.va.gov, here are the benefits of a VA loan:

- Equal opportunity.
- No down payment (unless required by the lender or the purchase price is more than the reasonable value of the property).
- Buyer informed of reasonable value.
- Negotiable interest rate.
- Ability to finance the VA funding fee (plus reduced funding fees with a down payment of at least 5% and exemption for veterans receiving VA compensation).
- Closing costs are comparable with other financing types (and may be lower).
- No mortgage insurance premiums.

REQUIREMENTS FOR LOAN APPROVAL

To obtain a VA loan, the law requires that:

1. The applicant must be an eligible veteran who has available entitlement.
2. The loan must be for an eligible purpose.
3. The veteran must occupy or intend to occupy the property as a home within a reasonable period of time after closing the loan.
4. The veteran must be a satisfactory credit risk.
5. The income of the veteran and spouse, if any, must be shown to be stable and sufficient to meet the mortgage payments, cover the costs of owning a home, take care of other obligations and expenses, and have enough left over for family support.

Source: http://www.homeloans.va.gov/lgyinfo.htm#Requirements_for_loan_approval

- An assumable mortgage.
- Right to prepay without penalty.
- For homes inspected by VA during construction, a warranty from builder and assistance from VA to obtain cooperation of builder.

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- VA assistance to veteran borrowers in default due to temporary financial difficulty.

DVA Eligibility Requirements:

Eligible veterans include active duty personnel and certain reservists. Two years of active duty has been required for eligibility since 1980. Reservists who were called to active duty during Desert Storm and served 90 days or more are eligible. For other reservists, six years in reserves and an honorable discharge are required. In addition, veterans are required to have their Certificate of Eligibility to qualify for a DVA loan. Their certificate can be obtained with their DD214 (separation) and DVA form 26-1880 sent to the DVA.

How to Get a Certificate of Eligibility:

“ACE (automated certificate of eligibility): It may be possible to obtain a Certificate of Eligibility from your lender. Most lenders have access to the ACE system. This Internet based application can establish eligibility and issue an online Certificate of Eligibility in a matter of seconds. Not all cases can be processed through ACE - only those for which VA has sufficient data in our records. However, veterans are encouraged to ask their lenders about this method of obtaining a certificate.”⁴

VA Eligibility Center Address and Telephone Numbers: Please send request for determination of Eligibility (VA Form 26-1880, along with proof of military service) to: VA Loan Eligibility Center, PO Box 20729, Winston-Salem, NC 27120; For overnight delivery: VA Loan Eligibility Center, 251 N. Main Street, Winston-Salem, NC 27155; Toll free number: 1-888-244-6711; E-mail: nceligib@vba.va.gov; The toll free telephone lines to our Eligibility Center in Winston-Salem Eligibility Center (1-888-244-6711) has been included in our National Automated Response System.⁵

DVA Maximum Loan Amounts:

There is no maximum VA loan. Lenders will generally lend up to 4 times the amount of a veterans entitlement without requiring a down payment. A veteran’s “basic entitlement is \$36,000. For loans in excess of \$144,000 to purchase or construct a home, additional entitlement up to an amount equal to 25 percent of the Freddie Mac conforming loan limit for a single family home may be available. This loan limit changes yearly. This means that qualified veterans could get a no down payment purchase loan of up to \$417,000 through December 31, 2006 effective January 1, 2006.”⁶



DVA: Partial Eligibility

Veterans may be able to purchase a second home with DVA financing through use of partial eligibility. This partial eligibility can not be used for investment property. Veterans may use remaining entitlement plus down payment to secure the remaining loan. For example, if the loan maximum is \$50,750 minus the veteran’s used portion (which may be the maximum loan at the time the loan was taken) \$36,000 equals a partial eligibility of \$14,750. Multiply the partial eligibility times four to determine the loan amount which they may purchase with no down payment!

DVA and Reinstatement of Eligibility

To reinstate a veteran’s eligibility, he or she must have paid off the previous loan in full. Prior to 1994, the veteran also had to sell the property to receive his or her full eligibility back. However, President Clinton signed a “one-time” reinstatement law in 1994 which states that the veteran does not have to dispose of the property.

⁴ Source: <http://www.homeloans.va.gov/faqpreln.htm>

⁵ Source: <https://vip.vba.va.gov/portal/VBAH/Home>

⁶ Source: <http://www.homeloans.va.gov/faqpreln.htm>

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OR Eligibility is reinstated when a veteran's loan is assumed by another veteran who substitutes his/her eligibility, the original veteran is reinstated.

Release of Liability

First, remember that release of liability does not reinstate eligibility! Release of liability does protect the veteran from risk of an assuming buyer's default! Assuming buyer must qualify but doesn't have to be a veteran.

DVA: Occupancy Requirements

"The law requires that you certify that you intend to occupy the property as your home. This requirement is considered satisfied if you actually intend to occupy the property as your home and in fact so occupy it when the loan is closed or within a reasonable time afterward."⁷

"Q: May a veteran join with a non veteran who is not his or her spouse in obtaining a VA loan?

A: Yes, but the guaranty is based only on the veteran's portion of the loan. The guaranty cannot cover the non-veteran's part of the loan. Consult lenders to determine whether they would be willing to accept applications for joint loans of this type. Lenders that are willing to make these types of loans will likely require a down payment to cover risk on the unguaranteed, non-veteran's portion of the loan. Unlike other loans, the lender must submit joint loans to VA for approval before they are made. Both incomes can be used to qualify for the loan. However, the veteran's income must be sufficient to repay at least that portion of the loan related to the veteran's interest in (portion of) the property and the non-veteran's income must be adequate to cover the rest."⁸

DVA loan rates

The veteran determines his or her loan rates in the same way a FHA borrower or the conventional borrower does by selecting a par (no points) loan or paying points to secure a below-par loan rate. DVA loan rates, originally set by the Veteran's Administration, are now re-regulated!

DVA Details

There are no DVA ARM's (adjustable rate mortgages). Discount points may be paid by the veteran. DVA allows the seller to pay the veteran's closing costs and prepaids; however, the seller's concessions are limited to 4% of the established reasonable value (appraisal). Closing costs which may be paid by seller include the funding fee; prepaid taxes/insurance; and discount points for buy-downs.

DVA Funding Fee

"The VA funding fee is required by law. The fee is intended to enable the veteran who obtains a VA home loan to contribute toward the cost of this benefit, and thereby reduce the cost to taxpayers. The funding fee for second time users who do not make a down payment is slightly higher. The idea of a higher fee for second time use is based on the fact that these veterans have already had a chance to use the benefit once, and also that prior users have had time to accumulate equity or save money towards a down payment. Second time users who make a down payment of at least 5 percent pay a reduced funding fee of 1.5 percent, the same as first time users making the same down payment. For a 10 percent down payment, the fee drops to 1.25 percent. The effect of the funding fee on a veteran's financial situation is minimized since the fee may be financed in the loan. National Guard and Reservist veterans pay a slightly higher funding fee percentage."⁹

⁷ <http://www.homeloans.va.gov/faqpreln.htm>

⁸ <http://www.homeloans.va.gov/faqpreln.htm>

⁹ <http://www.homeloans.va.gov/faqpreln.htm>

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Funding Fee Purchase And Construction Loans
Tables 10

Note: The funding fee for regular military first time use from 1/1/04 to 9/30/04 is 2.2 percent. This figure drops to 2.15 percent on 10/1/04.

Type of Veteran	Down Payment	First Time Use	Subsequent Use for loans from 1/1/04 to 9/30/2011
Regular Military	None	2.15%	3.3% *
	5% or more (up to 10%)	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/ National Guard	None	2.4%	3.3% *
	5% or more (up to 10%)	1.75%	1.75%
	10% or more	1.5%	1.5%

DVA Qualification

Veterans total monthly payment plus monthly obligations should not exceed 41% of their gross monthly income (debt side ratio is the only ratio in DVA financing!). Veteran must prove sufficient income for “family support” after deducting taxes, social security, child care, maintenance, and utilities.

DVA Gift Funds are allowed for closing costs, prepaids, and down payment, if required. The requirements and letter are the same as conventional and FHA gift funds/letters.

DVA Appraisal Requirements

DVA can require repairs be made to the property and is most concerned with safety or conditions of substantial concern to the structure. Remember, DVA is a veteran’s benefit program first then a loan program!

DVA & New Homes

New construction qualifies for DVA financing if it meets one of the following criteria (1) covered by an approved ten-year homeowner’s warranty program; (2) built with DVA specifications and inspections; (3) been constructed for at least one year. For details, talk to your lender!

DVA & Non-Realty Items included in the sale?

When negotiating purchases that will be financed by a DVA loan, AVOID including non-realty items in the purchase price! Appraisal can be adjusted to reflect the “value” of the items!

DVA & Homes Associations

See the approved subdivision list in your office or at your lender’s office!

¹⁰ http://www.homeloans.va.gov/docs/funding_fee_tables.doc

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