Unlocking Mortgage Secrets For Home Ownership

Revealing The Myths Behind FHA and VA Lending

Toby Lynn

Helping Buyers & Realtors with Mortgage Financing since 1987

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Revealing The Myths Behind
FHA And VHA Lending

For Realtors And Buyers

Helping to educate everyone on the
benefits to choosing FHA or VHA loans

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Toby has 30+ years of serving the needs of Realtors, home buyers and existing home owners who are refinancing. In Atlanta, she is known as the "Mortgage Loan Goddess" for those relying on her for Happy, Smooth and On Time Closings.

Toby understands the changes and all aspects of the mortgage industry that matter most to Realtors and Borrowers. She specializes in residential mortgage loans including FHA, VA, and Conventional mortgages. Toby helps Realtors stay aware of the ever-changing industry issues that directly affect them. She is also a Boots Across America certified VA Mortgage Loan Officer.

Specialties include: *Purchase and Refinancing loans for Primary Residences, Investment Properties and Second Homes. Conventional, FHA and VA loans.*

It's also important to note some of the guidelines I have outlined in this book are subject to change.

Welcome to this short, informative Home Buying Guide using FHA and VA mortgages.

I want to dedicate this book to all Home Buyers and their Realtors. *Home ownership, in my humble opinion, is a profound choice to make and then even more so to follow through on it.*

It can be a little scary and stressful for the first time perhaps. We work with people who buy for all kinds of reasons and life changes. Scary and stressful can be there for everyone. My goal is to make it as less-so as possible. I purchased my first home in 1982. I was single, my mother was aghast and concerned no great prospective husband would be awaiting me because I would appear too independent. My father was more like; you go girl! And my interest rate was 17.625%, because that's just what they were then.

I provide financing on all loan types including for primary residence, 2nd homes and investment properties. I love FHA and VA loans because different in each case, they allow the perspective home owner an opportunity to own their own home under circumstances that may be otherwise too challenging to do so.

My goal, is to help you if you are reading this as a Buyer, to own a piece of the American Dream. If you are a Realtor, my goal is to help you help that Buyer own a piece of the American Dream.

I am licensed in GA and FL and can close any loan throughout each of those states. Outside of these states, maybe I can help to refer you to someone else who can.

* ***Instead of a Table of Contents, please refer to the index in the back for key words and corresponding page numbers***

“Toby made our home buying process smooth and enjoyable. We will recommend Toby and her team to anyone looking to buy a home.”

“Toby provided impeccable support and service making my customer and client experience amazing. She was thorough, kind throughout the process. What I liked most was how Toby kept us informed all along the way and always anticipated what would be required next in the process. It is clear that she loves what she does to help people secure a new home in the least stressful manner. Her concern throughout the process was felt. I highly recommend Toby for your mortgage needs.”

“Being very uneducated in this process Toby Lynn and her associates guided me step by step and it made the process so much easier and way less stressful.”

This quick read book originated from a Realtor class I instructed recently. The dialog comes much from the transcript of that class and is between myself and the Realtors who attended.

This may not be the most polished book you've ever read, but for me that's ok. I'd rather get the info out there than wait to make it perfect grammar, perfect everything, etc. It's more important for me to help YOU, than polish it off perfectly. If you are a Realtor, I hope this helps you make more home buyers fulfill their dreams of home ownership.

If you come into my office, you'll see a "Dream Maker" hanging on my wall. Do y'all know what I'm talking about? Mine looks like this –

This was a closing gift sent to me by Natalie in approx. 1992 (I started in this business in 1987). She was a single woman, had her own small massage therapy business and only ever

dreamed of becoming a home owner. Nobody in her family had ever owned their own home. I met her through a mutual friend, Wendy, who urged her to get together with me and explore what her options would be, instead of just wishing. She had been renting the same home for 10 years and she had a fabulous flower garden. Natalie had really poured love into her living space. Turned out soon after we met her landlord informed her they wanted to sell the home and she was crushed. Again, Wendy urged her to invest the effort to get me what I needed and let's see what we can do. It's probably needless to tell you at this point she finally did, and the result was she became the *owner* of that same home! No longer a renter, but an owner. This Dream Catcher gift she sent me had a card included that I still cherish; "*A Dream Catcher, for a Dream Maker*". I still get choked up about Natalie and how I helped her make her dream come true, with a FHA mortgage.

One reason I love to instruct government lending classes with Realtors is because a lot of people are afraid of them. Let's get rid of that thought! FHA insured loans and VA guaranteed loans are filled with awesomeness 😊! **For simplicity I'm just going to say "Government" loans, but they are actually either insured or guaranteed to a certain percent to the lender, by either FHA or VA,**

They have their plusses and minuses, just like everything else in life you are trying to make a choice between. The Government loan can be used as a fantastic opportunity for potentially;

- Greater leniency for previous derogatory credit scenarios allowing someone to become a home owner, when there may not be another choice of loan available
- A lower interest rate, which is not determined by a credit score
- A lower mortgage insurance rate, since this rate is not determined by their credit score
- A lower down payment
- Higher seller contributions that will help a buyer with cash to close

To you Realtors, the purpose of this book, is not to try to turn you into a loan officer. It's not trying to make you an expert, it's not trying to equip you to be able to answer loan questions. However, there are many times that you might be driving around or talking with somebody and they say something related to their idea of mortgage financing and you sort of reach out back in your mind and say to yourself; "oh, I know a little something about that". This is all about helping you realize there may be options you would not have thought of otherwise. Also, hopefully this will prevent you from giving out wrong information that could become a problem, or even discouraging.

So, let's get started. Below is the transcript from one of my recent FHA/VA classes:

Let's begin with me asking a question. Have you been in the Real Estate business for over 10 years or more?

Okay. The reason I ask about the 10 years is because a lot of Realtors who have been in the business for a long time, have a negative memory of working with government loans. And I hear you loud and clear! They used to be a lot more difficult than they are right now. Another thing that's happened, is here in SW Florida, we were about 85% for closing real estate sales as cash transactions, and yay for me, we're down to 60%'ish cash transactions now. So even for a Realtor that's been around for a long time as a busy active agent, they've been used to dealing with cash and not necessarily dealing with finance. Even though some of you have been around for a long time, this doesn't mean you may be fully up to speed on financing in today's perceived scary Mortgage World. And if you are new, you may be getting your advice from those "old" agents.

FHA is increasing in popularity (again) as a preferred financing option for many home buyers. There are so many great Buyers out there who have come out of a **short sale, a bankruptcy**,

or a foreclosure in the last several years. FHA and VA allow these derogatory event timeframes to be shorter than Conventional guidelines. As a country, we went through a mortgage meltdown, we all have either lived through it or heard about it. No hiding that fact. And there are many great buyers out there who went through a rough patch. Let's work together to help them back into home ownership and reap the many rewards this offers!

We're focusing today on FHA and VA. These loans enable many buyers to get back into the home buying market. In addition, VA loans are one small reward to our Veterans for their service to us. It's the best loan out there in my opinion, with or without the credit challenges I just mentioned! And we'll talk about the difference if somebody has had a short sale, foreclosure, or a bankruptcy and how that will affect their home purchase options. I'll keep saying it ... there are so many great buyers out there who just don't qualify for conventional financing due to one of these circumstances, but many great buyers are ready to get back in. Let's help them.

These loans offer minimum down payments, allow for much larger seller contributions and relaxed credit requirements. *Winning* 😊!

SOME DIFFERENCES BETWEEN FHA AND VA

FHA is available to all buyers, where VA is only available to qualified veterans. If a veteran lives with their significant other, and is not legally married, that significant other cannot go onto the loan, UNLESS the veteran can qualify for their purchase by using only half of their eligibility. Otherwise; a mother can't cosign for a son, father can't cosign for a daughter. Nobody but the veteran and their spouse, legal spouse, can go onto a VA loan. And, although I know this is available, I don't think many lenders will accommodate this for a closing. Legal same sex marriages are fine.

FHA *insures* the loan to the lender against default, VA *guarantees* the loan to the lender in case of default.

FHA has a minimum of 3 ½ percent down. VA is 100% financing.

Loans must meet FHA or VA guidelines to be eligible and we're going to go further into seller contributions because this to me is one of the big wins possible for going into a government loan. And again, we'll discuss "lender overlays".

I'm also *not* going to get big into the difference into all these programs from a political standpoint. Today, we're just going to keep it simple and figure out why choose one of these loans.

Fannie Mae / Freddie Mac (Conventional) does not insure the loan in case of default to the lender, therefore a borrower going conventional will have to add "Private Mortgage Insurance" (PMI) if they will have less than 20% equity in their home. That is why we have mortgage insurance. The initials get a little confusing too, because FHA is MIP: Mortgage Insurance Premium. On a conventional mortgage it's called PMI, or Private Mortgage Insurance. And sometimes we just say MI to mess you up 😊, I guess. And for a VA loan, an Upfront Funding Fee may be required, UFFF, but there is no additional monthly MI.

Government lending is by far one of my favorite subjects to talk about with agents. Because a lot of times, whether I am talking to a listing agent, or the buyer's agent, I am helping to structure an offer where everyone wins. Many times, I'll get the question '*why should the seller pay closing costs*?' Well, the answer is Easy Squeezy, it's because they want to sell their home.

IT'S NOT ABOUT PRICE, TERMS -OR- RATE. IT'S ABOUT WHAT MAKES THE DEAL WORK AS A WIN FOR THE BUYERS AND SELLERS.

ONE STRATEGY FOR FHA AND VA: Instead of negotiating the purchase price, negotiate the seller's contributions. There's lots of good reasons to do this:

- Maybe the buyers only have enough cash to cover the down payment.
- Maybe the buyers will need new appliances, new flooring, repairs needed once they move in. Maybe the buyers have been living with someone else, and don't have much of their own furniture. Lots of reasons.
- Maybe they want to change out the countertops.
- Maybe they need a new air conditioner, or they know it's going to be needed in a year or so.
- There could be a lot of reasons why somebody has the money, but they don't want to put it into the loan.

Here's what I'm talking about…
Example A: Property is listed for $250,000. A perspective homebuyer does not have excess cash available. Or doesn't want to spend it. The sellers are prepared to negotiate the sales price. Let's say you have the listing and you prepare the the seller upfront, we're going to ask $250,000 for it, but your geographic area averages about 95-97% of the listing price vs. the sale price. So, Mr. / Ms. Seller you just need to be aware that we're going to have some negotiation here. And let's just say now that seller has that 3%-5% range in their mind that they're going to settle for.

Now, let's say the home is worth and will appraise for that full $250,000. Instead of the seller negotiating the price down, instead let's use 3% as the example. They give up the 3% in seller concessions instead of negotiating the price down. They net the same, right? They were going to take 3% off the top. Versus 3% instead that they'll contribute to the closing costs.

Here's how this works out; According to these figures, on FHA, if it's $250,000 sales price, down payment would be $8750 on 3.5% FHA. Up to $0 on a VA. $12,500 and we'll compare with a 5% down conventional mortgage. Approximate closing costs (depending the state this property is located in, has a big determination on the costs to close) approx. $8150, minus $7500 which I took for the seller contribution. Same thing with the VA. $8,000 on the conventional, loan amount was a little bit lower. Cash required at closing, $9400 for the FHA. $800 for the VA, and $20,500 for the conventional 5% down without the contributions.

A note about the tables showing the following examples; This came from an old program I used to use called Mortgage Coach. It was awesome, I loved it, it was easy. But this same software is not available anymore for me to use ☹. It got much fancier, plus had to make some changes to be more compliant, showing APR, etc. But these old copies I kept give a perfect picture of what I'm talking about.

<u>Price vs. Seller Concessions Sample:</u>

SUMMARY					
	Program Name	$250 /basic	$253,000	255,000	$257,000
1ST MTG.	Loan Amount	$237,500	$240,350	$242,250	$244,150
	Interest Rate	4.75%	4.75%	4.75%	4.75%
	Term (months)	360	360	360	360
	Payment	$1,239	$1,254	$1,264	$1,274
	Mtg. Ins.	$133	$134	$135	$136
	Monthly Pmt.	**$1,372**	**$1,388**	**$1,399**	**$1,410**
	Tax Benefits	$235	$238	$240	$242
	After Tax Payment	$1,136	$1,150	$1,159	$1,168
	Net Savings	**$32**	**$18**	**$9**	**$0**
	Total Cash To Close	$20,985	$18,170	$16,325	$14,540

Let's see what that looks like sticking with this exact scenario; $250,000 list price with seller to ultimately accept 3% less, one way or another. Look at the monthly principle and interest payment difference example; $1276, if they paid $250,000 for the home, that also includes the mortgage insurance. Versus $1292. So how much of a difference is that? And how much money did they save out of their pocket? Wowee … That's pretty

huge. Most buyers, I would say most every buyer, is going to opt for the higher price and lower costs assuming they are not flush with cash. If they're going to opt to pay a fair price for the home, and let the seller contribute instead of lowering the price, it's only $20 a month difference in the payment. And in exchange, it could make the difference in being able to close.

Only Veterans are eligible for VA. FHA is available to all.

Let's begin with FHA BUT I'll warn you that we'll be skipping around between the two during our time together in this class.

FHA loans are not just to be thought of for first time homebuyers. Do you think a first-time homebuyer automatically should go with an FHA loan? A lot of people think that. So, ***I'll tell you a big secret***, an industry secret; the mortgage industry might have had something to do with having that happen. Years ago, before mortgage reform, many Loan Officers earned greater income on the Govt loans. I'm just guessing this probably helped to perpetuate the belief of First Time Home Buyers should automatically go with FHA financing. Yikes!

That form of compensation is not allowed anymore. As a part of what I just refer to as "mortgage reform" one of the changes made by the government was to require Loan Officers to be paid the same for every loan closed. This removed the motivation to point borrowers into a loan choice that was possibly not to their best interest. Maybe the borrower could have qualified for a different mortgage finance solution. Many people think because of the minimum down payments and potentially more relaxed credit, a First-Time buyer should automatically go this way. The fact of the matter is, I do lots of first time home buyers on conventional mortgages. Sometimes it's just a better choice for their individual needs.

“Toby was knowledgeable, efficient, an excellent communicator and guided us through the process of applying for our mortgage with skills developed from years of experience. She was always pleasant and upbeat. I would recommend her to anyone applying for a mortgage.”

“Toby and her team were not only knowledgeable and helpful, but they were personable and seemed to care for us as a family too. Loved working with her!”

Since 1965, this is the HUD mission statement (https://www.performance.gov), *“HUD’s mission is to create a strong, sustainable, inclusive community and equality for homes for all. HUD is working to strengthen the housing market, to bolster the economy and protect consumers. Meet the need for quality, affordable rental homes. Utilizing housing as a platform for improving quality of life. Building inclusive and sustainable communities free from discrimination.”*

HUD is all about helping home ownership, for all.

FHA is the Federal Housing Administration and when FHA came along, they simply revolutionized the mortgage system. Their job, as a government entity was to restore consumer confidence. (I’ll leave all politics, bail outs, etc. out of this conversation.) It is a government agency that is entirely self-generating and costs the taxpayers nothing. Moving forward we will also talk about the FHA mortgage insurance premium (MIP), whose premiums are what help fund the program.

FHA was created in 1934, to set standards for construction, underwriting, and insures **loans** made by banks and other private lenders for home building. Prior to FHA, mortgages were limited to a 50% down payment and 5-year terms with balloons. *As a side note, the US is the only country I am aware of, who offers homebuyers a 30-year fully amortized mortgage!* Mortgage insurance for conventional loans came in also to help, because prior to that, a home owner want-to-be couldn't get a loan without putting what eventually became 20% down. So, when somebody tells me about what a rip-off mortgage insurance is, and blah, blah, blah, why do they have to pay mortgage insurance. Easy Squeezy for an answer; your other option is, you can wait a couple years and save up your 20% to put down. Of course, in the time it takes to save that up, how much more or less will the interest rates be, and how much more will the price of that same home be?

I see the mortgage insurance as an **opportunity** to make becoming a homeowner a reality, not kill a dream. It's an opportunity to allow somebody to buy a home with a minimal down payment.

Here's a word that I say a lot: "***overlays***". Have any of you heard this term; lender overlays before? What happens is FHA, VA, Fannie Mae, and Freddie Mac, etc., all lay out minimum guideline requirements. A loan must meet these minimum loan requirements, to be saleable into the secondary market.

"Overlays" is just a word, but very relevant to the success or not of possibly qualifying for a mortgage. Now here is a favorite saying of mine; "*they who have the gold rules*". A lender might say; well, okay, we'll meet these minimum requirements, but we're going to have a few requirements of our own. And they're totally allowed to do that, of course I'll add void of any discriminatory issues, because they're the ones who are writing the check. Not FHA, not VA, not Fannie Mae, not Freddie Mac. The ECOA (Equal Credit Opportunity Act) forbids credit discrimination on the basis of race, color, religion, national

origin, sex, marital status, age, or whether you receive income from a public assistance program. Creditors may ask you for most of this information in certain situations, but they may not use it as a reason to deny you credit or to set the terms of your credit. They are never allowed to ask your religion. Everyone who participates in the decision to grant credit or in setting the terms of that credit, including mortgage lenders who arrange financing, must comply with the ECOA. Yep, just because someone is 88 years old, they can not be turned down for 30 year mortgage if they qualify.

Discrimination aside, here's a few examples of possible lender overlays:

- **Credit scoring** - I can do a government loan, FHA specifically that could go down to a 580-credit score. Another (*many!*) lender may have an overlay that the borrower must have a 620 or a 640-credit score. I'm sure you've heard different minimum requirements.
- Another big overlay is that depending on the borrowers score, they might be required to have 3 open trade lines. A trade line is your Visa card, car loan, student loan. A trade line is a creditor the consumer owes money to and is actively reporting on the credit report.
- Another potential overlay is that the three trade lines must have been open, and show paid on time for 12 months minimum.

It's not just credit related. Here are a few more overlays:

- A lender might not agree to close with the property being placed in the name of a Trust.
- There could be higher "reserve" requirements placed on a borrower. This refers to how much $$$ is in the bank after the home purchase closing takes place
- Last year I closed a loan that a credit union turned down because the buyer was young, had held multiple jobs in the previous two years. He had been at his current job for less than one year. They basically told him he had to grow

up a little. I looked at that borrower differently. His current job was an awesome career path. His base income, not counting any bonus or commission was enough to qualify him for the payment. Even if he did change jobs again he'd easily be able to earn the base income, which he did qualify on. We closed that loan; another happy homeowner. I spoke with his mother not too loan ago and all she could do was tell me how happy he is. He's engaged to be married and what a difference becoming a homeowner made to him. And that new job has become a fabulous and successful new career path. How cool is that?!

There's all sorts of potential guidelines. For myself, we follow the **automated underwriting** system. All lenders use this now, it's underwriting over the computer directly into FNMA or Freddie Mac; if the automated underwriting system approves the loan, as long as everything I have entered is correct, accurate and properly documented, then usually we'll go with those findings instead of adding our own overlays. Of course, the loan still must go through human being underwriting for verifications and plenty of other issues, but it all stars with the automation.

GOING BACK TO STRATEGY....

A buyer can use the same strategy of **seller contributions** on a conventional mortgage. It doesn't have to be a government loan. If it's going to be a VA or an FHA loan, the seller can contribute a greater percentage depending on the down payment a conventional buyer may put down. Just a little aside for info; on a conventional mortgage if the down payment is less than 10%, the seller is limited to 3% contributions. For 10% and more, that contribution can go up to 6% of the sales price. Again though, the contribution can not exceed the actual costs. There is no "cash back" available to a buyer for a purchase from the seller.

The buyer always must have their minimum down payment requirement, so with VA of course it's zero, and FHA it's 3.5% and conventional it's whatever the program is going to be, whether it's 3%, 5%, 10%. They must have their minimum investment requirement. The seller is allowed to contribute up to up to their maximum depending on loan program, as long as it does not actually exceed the costs. That's huge in terms of a turning a possible buyer short on funds into being able to buy.

VA is really awesome generous in what the seller is allowed to contribute. The seller can contribute up to 4% towards prepaids, the funding fee paid upfront, disc. points and a couple other items including paying off buyer's debt to qualify (!!!) **PLUS**, they can then contribute to the closing costs. Holey Moley, hugh?

Different areas of the country have different and misc. ways that might be common to deal with contract issues. The most common way the purchase contracts are written in SWFL is the sellers pay the documentary stamps. And you can check off if the seller will choose the closing attorney or the title company, and if so they will pay the owner's title insurance. But in addition to that, the seller is allowed to make additional contributions, and it just needs one line written into special stipulations. All you have to do is write seller agrees to pay $3000, $5000, whatever it is that y'all agree to, can be credited to the closing costs and prepaid expenses. That's all it takes. You don't need any special paperwork. And whatever they agree to, is going to be fine within the general guidelines I have already laid out.

Florida is the only state I have personally worked with where those contributions can be made in addition to the doc stamps and the title insurance since this is pre-written into the contract. When I close a loan in Georgia, it cannot exceed the maximum contributions including these items mentioned, not in addition to. But in GA (Atlanta is specifically where I am referring to) for instance, nothing is prewritten in, and there is a section where it is simply designated if the seller will

contribute and how much. I don't know first-hand about other states because I have only closed loans in the southeastern states, but I understand it can also quite different in other states.

Example 2:
Home is listed and valued at $150,000. Perspective homebuyer is interested in the property and wants to get a deal, decides to offer $140,000. The sellers, in order to meet their needs, need to sell for at least $145,000.

Again, using FHA as this example the purchase price is $140,000 versus $150,000. We said the house is worth $150,000. Down payment would be $4,900 (3.5%) on $140,000 versus $5,250 on $150,000. Let's say the buyers have the down payment and can reasonably afford the payments on either mortgage scenario but are short of cash.

SUMMARY				
Program Name	$250 @ 95%	$253 @ 95%	$255 @ 95%	$260 @ 95%
1ST MTG.				
Loan Amount	$237,500	$240,350	$242,250	$247,000
Interest Rate	4.75%	4.75%	4.75%	4.75%
Term (months)	360	360	360	360
Payment	$1,239	$1,254	$1,264	$1,288
Mtg. Ins.	$107	$108	$109	$111
Monthly Pmt.	$1,346	$1,362	$1,373	$1,400
Tax Benefits	$235	$238	$240	$244
After Tax Payment	$1,111	$1,124	$1,133	$1,155
Net Savings	**$44**	**$31**	**$22**	**$0**
Total Cash To Close	$12,500	$12,650	$12,750	$13,000

In the profile above, if I am working on a pre-approval, I will talk about this upfront with buyers. If you send me a buyer for pre-approval and I know they don't have plenty of money, this must be a conversation. Maybe they can get the down payment together, but we're going to have a hard time with the rest. I will educate them; you're not going to pay the lowest price for the house, if you are also going to ask the seller to contribute funds for closing costs. Which is more important to you? And we'll go over the numbers. Hands down they always say it is more important to be able to figure out what works to enable them to buy a home, as opposed to getting the lowest price for the home.

There's another way we can help contribute with funds to close—the lender can help contribute towards closing costs, more commonly referred to as "**Lender Paid**" costs. I have a loan closing next week that the seller has made their contribution, but we still needed a little bit more money. I increased the interest rate—this happened to be an FHA loan. In this case it was .25 higher interest rate, and in return, I think we had an additional $2000'ish applied to cash required at closing. It all depends on the loan amount; how much money is involved in this type of calculation. The lower the loan amount it may not even be worth it to do, but in this case, I think we saved him, maybe, $2,200 out of his pocket in return for a $16 increase in payment. The $2,200 was more important because buyer needed money for the move, deposits, etc. Moving can be expensive! We don't want our buyers having only their credit cards to rely on.

EXAMPLE OF LENDER PAID CLOISNG COSTS

SUMMARY

1ST MTG.				
Program Name	**$250@ 4.375**	**$250@4.50%**	**$250@4.625%**	**$250@4.75%**
Loan Amount	$237,500	$237,500	$237,500	$237,500
Interest Rate	4.375%	4.5%	4.625%	4.75%
Term (months)	360	360	360	360
Payment	$1,186	$1,203	$1,221	$1,239
Mtg. Ins.	$107	$107	$107	$107
Monthly Pmt.	**$1,293**	**$1,310**	**$1,328**	**$1,346**
Tax Benefits	$0	$0	$0	$0
After Tax Payment	$1,293	$1,310	$1,328	$1,346
Net Savings	**$53**	**$36**	**$18**	**$0**
Total Cash To Close	$20,985	$19,750	$18,135	$16,945

$4000/ $53/ 75 mo

What are some potential benefits to less cash negotiated for closing or "why would my seller pay closing costs" you might be asking? Seriously, I get this question a lot. My answer is always the same; "so the seller can sell, and the buyer can close".

The buyer's money may be better spent for home improvements.

Need another creative (and very reasonable) reason to conserve cash? It's not unusual when it could make most sense to use the funds to pay down debt. It can make the difference between the ability to qualify a buyer and not qualifying a buyer. I have somebody right now paying off—I think they maybe had $6,000 left on a car loan. The payment was greater than 10 months remaining and a pretty high from a debt-to-income standpoint, so we are using their $ to pay off the car loan. They wouldn't have these funds to spend on their closing cost money if the contract wasn't negotiated using this strategy. Now, I can qualify them to close. I'm getting rid of around $490 month of debt payments, they are more comfortable with their overall monthly expense, and it's a win–win for everybody. **YAY! Who doesn't want that?!**

When you utilize these types of strategies, it's the same net to the seller. I mean, let's face it, that's all the seller cares about is that they get the money that they need, as it should be. And, if you end up keeping a purchase price higher and negotiating closing costs, you've got a higher sale as well.

One more important thing regarding as you're driving around with a buyer, and they start talking about how they can pay off the car or pay off this or that. Do yourself and them a favor and don't tell them to go ahead and do it because sometimes they may need to do something different. When we do pay off debt to qualify, I usually have these payoffs satisfied at the closing table. I don't see any reason for them to have to pay it off in advance. If they do, then we must track the money and change the credit reports. This can be time consuming, when we don't necessarily have the extra time. Also, we must document where did the money come from to pay it off? Then we must correct the credit report to show that it was paid off and possibly loose time waiting for this when we can do it at the closing table. It's easier when they get the payoff statement, we include in the loan closing. It's done. Another negative is what if you tell them to go ahead and do it, and then for some reason they never close? Something comes up. They don't end up buying the

home. Then they've spent the money they didn't really need or want to spend to pay something off.

Same thing having to do with credit, as you're driving around with somebody and they might say that they have some **outstanding collections or charge offs** they need to clean up. Please don't tell them to go ahead and do it! Have they spoken with a loan officer, (preferably me 😊), and let's see if they must really must pay those bad debts off. There are many scenarios that I don't even have to count that debt against them anymore. I'll go over that more when I do a credit class, but just don't give advice. You might be doing both of you a disservice. It might kill a closing for you and for the buyer. There is a potential the payoff of a collection or charge off would trigger a lower credit score because it creates new date of last activity.

The only purpose for FHA and VA are for owner occupied purchases. These loans can't be for a second home or for an investment home. HOWEVER, there could be an FHA co-signer that would not live in the home.

Co-signers are used for income only. They will not make up for credit. If the primary borrower who will be living in the home has non-qualifiable credit, a fantastic co-signer will not be able to make for that.

Another valuable tidbit for Realtors; If you're working with somebody that you know is going to be an FHA or VA loan, and they start talking condominium in Charlotte County no matter what part of town you go into. You've got to see if they'll qualify as conventional, or I don't know, bring them to Lee or Sarasota county. (*Laughter*) The condominium development must be on an approved list for FHA or VA. We don't have hardly any in Charlotte County.

If you would like a link to the site e-mail me, and I will send you the link to get there. It's easy. You can look it up yourself. I'll tell you how to do it. If you are a buyer reading this, I'll send it over to you too!

Regarding condominiums; if you are in Atlanta, Savannah, Sarasota, Tampa; any of the larger cities, you will find a much greater choice for these approved condominiums.

VA condominiums also must be on a VA approved list. Here's the thing about VA; I can actually work with VA on a condominium complex approval. Let me back up to FHA for a minute. Years ago, we were able to do what they call "spot approvals", if anybody's ever heard of that, and you're thinking, well, why aren't you talking about spot approvals? Years ago, I used to be able to take a property that was in a condominium, and let's say it wasn't FHA approved. I could collect all the information, go to HUD, and request a spot approval for that one unit. We can't do that anymore. I've heard rumors talking about allowing it again, but not now available now. With VA, I can go to VA and request an approval for a VA unit. However, the biggest thing about not being able to get a VA approval is because VA is very conscious of no discrimination. Most of the condominiums in SWFL require an application, and the HOA must approve the new buyer. That is potentially discriminatory. They could turn down a veteran, for whatever their choice is, they could turn them down. Maybe that veteran is wheel chair bound and the board thinks they'll tie up the elevator. Whatever the stupid reason could be, VA will not approve a condominium that has any potential chance for discriminating against the vet.

Female: Toby, can I ask you something? Where it says **one to four units**, say they want to get a duplex, so that's got two units as part of the one whole. Will that qualify?

Toby: Absolutely.

Female: Underwriting won't say, well, that's rental property then?

Toby: They have to live in one side.

Female: But they can rent the other, so it can be used as rental for the other remaining attached units?

Toby: Yes. Yes, as long as they're living at the address, they can go up to a quad. I'm glad you asked that. They can go up to a quad as long as they're living in one unit. AND we could potentially count in the rental income.

The **FHA lending limits** just went up. It totally depends on the county the buyer is purchasing. Here are a couple $ examples for you;

- Charlotte County $294,515
- Collier County $450,800
- Broward County $345,000
- Atlanta metro Counties $359,950
- Savannah and most of the other "non-metro" $294,515

Also, important to know, the limits are for single family homes which includes condominiums. There are considerably higher limits for each other category; duplex, tri-plex and quad.

These are the loan limits, not the purchase price limits. Just because a buyer is going with FHA financing, doesn't mean they don't have any money. If they find a home with higher sales price and have more money to put down, that'll work too.

You might say, well, why would somebody that can only qualify for FHA be wanting to even buy more than that, and again, there's a lot of good loans out there that somebody had a credit event and experienced bankruptcy, a foreclosure, or a short sale. Right now, I'm working with an FHA buyer who had foreclosure within the seven years a conventional loan will not allow, but he's putting down a $250,000 down payment. So just because you might have an FHA or VA buyer, that alone does not mean they do not have money!

Many people don't realize this either, but VA can also go with a jumbo loan. If you are working with a veteran who's looking for a $600,000 home, we can do that too. Bring 'em on! There is a

formula for the down payment for the higher priced homes, but it's considerably less than the requirement for going conventional on a **Jumbo loan**.

Renovation loans; yes, I can do them. There are three types of renovation loans. On an FHA the loan down payment is still 3.5% minimum. There is the FHA 203K streamline that's up to $35,000 in costs to renovate. On the streamline there can be no structural work included along with a couple other requirements. There's an FHA full renovation loan. You could do a $100,000 renovation for instance, and that could include structural work. For instance, if they're going to move a wall, adding a bathroom onto the home, etc., this is structural. And there's a conventional renovation loan as well that the borrower can go up to 95% including the purchase price and the renovations. I'm not going to spend a lot of time talking about these because I don't focus on them and I could do a separate class for these loans.

"Toby Lynn and the Mortgage Firm staff were AMAZING! They communicated so very well and managed to close my mortgage on time despite the wide spread devastation of Hurricane Irma. Every question and concern I raised were addressed very quickly. I would not hesitate for second in recommending the Mortgage Firm to my family and friends. I cannot describe how wonderful the entire experience was. I felt like I was the only client that Toby had because of the personal attention I received."

Let's go back to "cash to close", because that's a pretty big category of obstacle possibly preventing a buyer from closing. The purchase contracts here in southwest Florida mostly jump to the standard contract, which is the seller pays Doc stamps and maybe Owner's title insurance. Would you agree that's fair to say, pretty much what everybody typically writes? There is

such a larger market potential for these FHA and VA buyers. All they are required to provide for closing is their minimum down payment percentage.

Again, in other areas, those Realtors are more used to fully negotiating who pays for what since it is not built into the contract.

Let's talk about **gift funds**. I go back a lot to the potential repairs needed in a home because sometimes you might lose the sale. The goal of this class is to get you thinking about how to make a win-win for everybody who is a party to the sale; Buyer and Seller, in addition to their agents.

Have you ever lost a sale because the buyer really wants that house, but it's going to take all their money to do down payment, closing cost, and prepaid expenses ... and then they realize; I don't have any money to fix the bathrooms, or put new countertops on. OR I hate the carpeting, it's disgusting. I'm not going to have the money now. This is just another huge advantage to all parties to negotiate seller contributions instead of a lower price. Let's all focus on how to make the deal work for everybody concerned!

Gift funds, ok, I'll say used to be pretty willy nilly about who could give a gift, and that has tightened up. "Fiancé" is used a lot. If they don't already live together or in some way we can document the relationship, then it must be a family member. Remember, the gift donor is going to have to sign a formal gift letter we will provide. They must sign that it's a gift. It does not have to be repaid, and they're going to also have to show us proof of funds. We must document they have the money to be a legitimate donor. I can document those funds a couple of ways. Most of the time I'll get a bank statement. Sometimes I'll get a bank letter. Let's say it's from a—and by the way, I'll have that parent send it directly to me, so they don't feel they have to include their children in their personal finances. I'll work directly with the parents or sister or whoever on this.

Ben: So, you will or won't do fiancé? You can't do fiancé?

Toby: Here's the thing about fiancé. We must be able to establish a relationship. If they're living together, driver's license has the same address, or let's say they have a joint bank account statement. There's got to be a tie-in in order for us to believe that it's really a fiancé. You could argue these points of but they're not living together until they get married, or they don't have joint assets because they are not married yet. I get it, I agree with the argument. In order to be able to accept them as a gift donor, we've got to have a tie of some kind that will allow us to document and add to our file.

Ben: So, you don't need a ring.

Toby: You don't just need a ring. (*Laughter*)

Ben: Good enough.

Toby: We used to use fiancé for everybody, never really had to do much to document that.

Terrie: Shouldn't have said that about abut the ring...

Terrie: Is there a ring planned any time soon?

Terrie: You just missed it. (Laughter)

Terrie: Oh! On we're on Facebook Live!

Toby: FHA and VA credit scores, again, I can go down to 580. It's trickier for sure but do-able. I have succeeded with quite a few of these approvals closing successfully. I should have some compensating factors in there. **Compensating factors** to weigh against their credit profile could be they have created a great savings account, so we can prove they will not go through "**payment shock**". This is something that's looked at again from a manual underwriting situation.

Back before what I just referred to as mortgage reform, we got away from considering this. But frankly, it should be considered in my opinion. Let's say I've got a borrower, your buyer, my borrower, and they are living with their parents rent free, or where ever for rent free. Or let's say they're paying some money, but it's cash, and there's no way we can document it. And they have $275 in the bank. My next question would be, well, how do you plan to make your mortgage payment? Really; they are incurring no living expenses and have accumulated no money in the bank. I might help them create a budget and suggest that they do a separate bank account, savings account maybe, and start depositing some money as if they're making a mortgage payment or rent into that account. Let's please agree it is not a good risk for a lender to lend to somebody who has been living rent free for two years and has $275 in the bank. I'm pulling the $275 out from a conversation that I had last week, and, yeah, we understand that you're just out spending it because we can see your debit card on your account, but a lender needs a little bit more comfort than that these days.

I want to get every worthy home buyer I can into a home, but with that said I do not believe in the no homebuyer left behind theory. Franky, I've seen it all and some people need to become more responsible for a lender to take a risk on them.

Here are the current time frames for derogatory credit or credit events or adverse, however you want to call it. If you want to e-mail me, I will send you a cheat sheet page on what those rules are.

FHA and VA **bankruptcies** are two years for a waiting period. One thing you might hear is about exceptions for "**extenuating circumstances**". Well, let me tell you my experience; extenuating circumstances are almost impossible to get approved. It is not going to ever be because of a divorce. It is not going to be because of a job loss. It pretty much has to be because of the death of a primary wage-earning spouse, and it can't be that happened five years ago. I have thought I had a couple goods ones before for who I personally thought were

good buyers but could not get approved. I'd say forget about extenuating circumstances in general because they're hardly ever approved.

FHA on Bankruptcy using a **Chapter 13**; a lot of people don't realize this rule, which is way better. I took a loan application yesterday that the borrower who is 15 months into a Chapter 13. We can do that! Do you understand the difference between a 7 and 13? Chapt 13 is where you go into a reorganization. The consumer doesn't get to just choose what they want, there are rules in regards for what they are eligible for.

If the consumer can qualify for the loan in other areas and has a 12-month history on payments and the trustee approves, which I have never been turned down by a trustee for an FHA purchase before, they can probably get the loan. Of course, I say that as in simple fact, but they must qualify for all additional guidelines as well.

Occasionally I take a loan application from someone who I actually suggest they do file a BK. Sometimes that's going to be the best way out for them to get their life back. Many times it can be due to medical bills, or that death of a spouse. I have an attorney in FL (*Mark Martella @ 941-206-3700*) and in GA (*Jenifer Jacob Barnes @ 404-255-3837*) are who I refer for bankruptcies. I know they will honestly access and assist someone with this difficult time and decision in their life.

A Conventional mortgage requires four years from the date of discharge. Some of you may remember there used to be a menu, depending on the down payment. It had to be four years if you were putting five percent down, three years if you were putting 10% down, and I forget exactly, it might have been nothing if you were putting down 20%. I forget what that formula was, but it's just straight across the board now, four years for a bankruptcy.

Short sale and foreclosure is really interesting and sometimes challenging with the qualifying differences. FHA and conventional have opposite rules. On a foreclosure, FHA is going to go by the date the deed transferred. You can't believe how many people I have spoken to who tell me they had a foreclosure and thought it was over. And then we find out the deed didn't transfer for a few years!!! This is important, if they had the foreclosure, with FHA it's not the foreclosure date that qualifies them. It's the transfer of deed date that must be three years old. Not on a short sale, On a short sale, it has to do with the settlement statement date, done, it's over then if they sold the home on short sale. And by the way, a "short sale" is when the mortgage lender accepts less than was owed for the mortgage. This could be on a first mortgage, or a second mortgage, or a combo. In your mind you're probably thinking, well, how much longer could that be? That could be a month to change the deed over in GA. But FL can be quite a different time frame. My longest time so far that I have run into is over five years!!! It took over five years for that deed to transfer after the home owners thought of the home as being foreclosed. It depends on the state, what their foreclosure rules are. It could be that home sat vacant with nobody in it for two and a half years, but it could be that's how long it took to transfer the deed, and that's the clock. That's when the clock starts ticking for a foreclosure on an FHA.

Current Credit Seasoning Requirements

CONVENTIONAL

SHORT SALE: 4 years from date of short sale to closing (Note) date.

BANKRUPTCY / Ch. 7: 4 years or 2 years if documented extenuating circumstances and with reestablished credit. Property surrendered in BK, can use BK seasoning if properly documented (Fannie only)

BANKRUPTCY / Ch. 13: 2 years from discharge or 4 years from dismissed.

MULTIPLE BKs within 7 years: 5 years from last discharge or 3 years if documented extenuating circumstances (Most recent BK most must be result of extenuating circumstance).

FORECLOSURE: 7 years however, if property was surrendered in a bankruptcy, then 4 years from final discharge with AUS approval. -DU only. Freddie is 7 years regardless.

DEED IN LIEU: 4 years (Fannie) or 7 years (Freddie).

((Measured from final date of action to Note date.))

FHA

SHORT SALE: 3 years if delinquent at the time of short sale or 1 year with extenuating circumstance or No Seasoning if current on all debt at time of Short Sale. (From title transfer to case # assignment date).

BANKRUPTCY / Ch. 7: 2 years with established credit. From BK discharge or dismissal date to case # assignment.

BANKRUPTCY / Ch. 13: 12 months history of current payments and letter from bankruptcy judge authorizing a home purchase. If discharged, no seasoning. (If within 2 years, it will be a manual underwrite)

FORECLOSURE: 3 years from transfer of title (COT) date to case # assignment date.

FLIP: You cannot pull a case #, order an appraisal or have a sales contract dated prior to the seasoning period being met.
Seasoning period: 91st day.

***You cannot order a case # or appraisal dated prior to seasoning of BK/Foreclosure/Short Sale seasoning being met. Your contract CAN be dated prior.

VA

SHORT SALE: No seasoning period, requires AUS approval.

((Measured from final date of action to Note date.))

BANKRUPTCY / Ch. 7: 2 years with established credit.

BANKRUPTCY / Ch. 13: No Seasoning.

FORECLOSURE / DEED IN LIEU: 2 years from foreclosure sale date. Property transfer must be complete. (Sale date not COT date)

RURAL HOUSING

SHORT SALE: 3 years with 12 months history of established credit.

BANKRUPTCY/ Ch. 7 or 11: 3 years with 12 months history of established credit.

BANKRUPTCY / CH. 13: In progress, 12 months history of satisfactory payments and letter from bankruptcy judge authorizing a home purchase, include payment in DTI with AUS approval. If discharged, no seasoning with AUS approval. If discharged and a Refer, provide 12 months history of satisfactory payments.

FORECLOSURE / DEED IN LIEU: 3 years with 12 months established credit. If property surrendered in BK, follow BK discharge

IF YOU WANT A COPY OF THIS >>> EMAIL ME, I'LL SEND IT TO YOU.

Geez, I had a borrower a couple of years ago who stopped making their payments on the mortgage. Totally believed they were foreclosed on but nobody kicked them out of the home and they stayed there, payment free for three years. I swear, I couldn't believe it. The sad part was they thought they finally reached the three-year mark, and in fact it had maybe been only a month for that deed transfer by the time they showed me their documents.

There's one other guideline about short sales, which says there doesn't have to be any **seasoning** if the borrower was on time with their payments at the time of the short sale. Very unfortunately, I've never seen one of those yet. It's really a shame because most people who were inquiring or applying for a short sale approval, had someone at their lender tell them they must be really behind in their payments before they're going to approve the short sale. Maybe they could've made the payment, just needed to sell the home. Let's say they were moving from Texas to Florida for a job, and they were so underwater they couldn't sell the home. I've never run into anyone yet, who doesn't say their lender told them they had to be behind in the payments first.

VA is more lenient with this scenario. There's potentially no seasoning on a short sale. Again, I must put the file together. I must show why. There need to be some compensating factors, but I have gotten approvals on those.

On Conventional mortgage, the short sale guideline is four years, and on foreclosure the conventional is seven years from that day of foreclosure. However, on the good side for conventional, if that borrower also had a bankruptcy, and the house was included in the bankruptcy, then we're allowed to go to the bankruptcy rule, which is four years for conventional. So, if they have a foreclosure, and they want to go conventional, they don't have to wait seven years. They only have to wait four years if that home was included in the bankruptcy. OMG see how confusing it can get?!

“Toby and her team were right on top of it and kept everything moving. Tough process but with their help we made it.”

“Toby and her team were not only knowledgeable and helpful, but they were personable and seemed to care for us as a family too. Loved working with The Mortgage Firm!”

“Toby kept us up to date through every step of the process. When we had questions, she couldn't have been more prompt in answering them. From Day 1 to closing, she was there for us.”

See how important it is to speak with a mortgage loan officer who is fluent in the guidelines? Don’t let your buyers tell you what their requirements are until you have sent them for a real preapproval, with a licensed mortgage loan officer (**ME!**).

Again, I’m not trying to turn you into loan officer. What I am trying to make you aware of is that there are lots of circumstances. Have your buyer call me, and let’s see where they are within what program will best suit their needs. Sometimes people call me thinking they’re never going to qualify, and we end up with a loan preapproval. I’ve had this happen many times. And, of course, sometimes it works the other way around, which would be another reason for prequalifying. How many of you enjoy spending three weeks driving somebody around, only to find out that they’re not in a position to close? Not to mention how sadly disappointed they are themselves.

Let's talk about **Debt- to-Income** ratio. Are you all familiar with the automated underwriting system? We refer to it as AUS (**Automated Underwriting** System). Every lender in the country uses it. They might call it different names, but it's pretty much all the same. We all take our loans, and we run them directly through Fannie Mae or Freddie Mac, including, even for FHA and VA loans. We can really expand on approvals through this automated underwriting system. Prior to his technology, the debt ratio requirements were much lower. Now, when we run a loan through the automated loan system it is so impressive. It takes a nano-second for that system to take zillion factors into consideration. How much money do they have in the bank? How long have they been at their jobs? How much this? What about that? What's their payment shock information? To come up with a recommendation. Of course, how much of a credit risk will they be, how seriously have they taken their obligations in the past couple years of history. Do they have sufficient credit to determine they have created a sufficient history?

FHA and VA both could go up to or even over 50% for a back-end ratio. This is an **overlay** topic though. A lot of lenders will not close a loan, even if they get an automated underwriting approval if that debt ratio is over 45%. We'll do it if the AUS system approves, especially if I can document a compensating factor. A compensating factor could be a spouse that lives with them, who I can prove is a wage earner, but for some reason I can't put them on the loan. That happens frequently. They might have had student loan charge offs or something like that, so I can't put them on the loan. It's the exact same thing with VA. A lot of lenders will not allow anything to close over 50%. If we get an automated approval with it, and I can prove the reasons why we should, we can do it. I've also used as a compensating factor a spouse who does not want to go on title due to the nature of their business and potential future liability; a medical professional, business owner, etc.

Important now let's talk about **scripts** for a minute. I'm sure we would all agree that the goal is you're working with a buyer

or a seller, and it's not just you that wants the paycheck. The buyer wants the home. The seller wants to sell the home. So, everybody really wants a deal to work. I assume we can all agree on that.

Down here in Florida, we have a lot of people coming in with their preapproval letter from the Bank of Minneapolis or the Bank of Hoboken or something like that. This market is different. If I'm preapproving somebody in Georgia, I can tell you right now, my **insurance estimates** for them are a whole lot closer than they are here, property taxes too. In FL, especially when I know it's an older home, is the elevation going to be low, does the home have a pool, are there hurricane shutters installed, how is the roof attached, etc. It's a different market. The loan officer must have knowledge of the area because otherwise that preapproval letter could be worth nothing. I've even had agents come to me in a panic about closing because it turns out the loan officer in Ohio never even realized the buyer was buying in FL and they are not licensed in FL.

I have heard agents say to their buyers, "you might want to check around with several lenders". To be honest with you, my least favorite way to be referred is for somebody to say, well, call Toby because she might have a better rate. Everybody's rates are competitive, I think. I don't think that's the most important issue. The main thing is, what you really want to do is have them working with somebody that you know you're going to count on a closing for if you get that approval. Certainly, "stuff" pops up, like Gary we were talking about the well septic deal that you got for your seller. That isn't anything that a loan officer can foresee. Two years ago, I had a borrower lose their 20-year, management job two days before closing!

Here's a **script** I learned from Karen, one of my good Realtor friends in Atlanta; "great that your approval is with the Bank of WhoKnowsWhere, you can certainly use whoever you'd like for your closing. I'd like for us to work with a preapproval from a local lender. Please call Toby. I have a relationship with her. I

know we can count on the information she will provide us in relation to your preapproval. Then you can choose who you'd want to close with, but I need my preapproval to submit with your offer to be from someone I know we can all count on".

Thomas and I have gotten into this conversation a few times because he'll hear me talking on the phone, and it is about relationships. Whether it's the lender that you use all the time, or me, or whoever. If it's somebody you have a relationship with it's just a different level than let's say an **internet lender**. I can assure you, the loan officer you have a relationship with is going to take your closing way more seriously and personally than one you don't know from a can of beans and will never speak with again. There's also; "Let's have you talk to Toby for a second opinion".

Here's a big situation we run into in Florida, or "Paradise as we like to call it 😉. Somebody's going to retire and move down here. Except instead of talking to somebody beforehand, they go ahead, and they give their **resignation**. And they know they're going to move down here, and their **Social Security or pension** will start in another six'ish months. And they know they've got enough money to cover that time frame. Well, guess what. They don't have a loan. Have you ever talked to anybody that was going to do that? Sometimes .... Planning is an important part of the equation.

Here's another big one that we get a lot of down here. "I'm going to pay cash for the home". But then it turns out that in order to pay cash, they're really liquidating their retirement account. And when it comes down to it, they really don't want to. Who would? But it sounds good, huh? Or their penalty is going to be greater than what they thought it was going to be, so they decide not to. I end up closing a fair amount of loans for Buyers who started off saying they're going to pay cash, and when we look at their cash, they realize that's not going to be the best choice for them to make. Preplanning can be an extremely important exercise. Sometimes a strategy needs to be created. I think it's especially so in our FL market than it is in a lot of other markets

because we have buyers in so many different circumstances who want to come down here and live in Paradise. Yes, Paradise, for you Facebook Live watchers.

Male: I've seen all these things where they say local lenders are preferred, so it kind of helps me understand that. If they were to come down with a preapproval letter, because I've tried to direct them to local people, and the question I get a lot that I don't know the answer to is will they pull their credit again?

Toby: Absolutely.
Male: Okay. But they don't want to

Toby: It's the only way we can do a preapproval. And again, they can close with whoever they want, but wouldn't you rather have them close with somebody that you do have a relationship with and you know that you can count on, and it's not going to sound like; oh my God, you have flood insurance down there? Oh boy, their ratios are too tight for that one. So, does that make sense?

Depending on the Buyer, an **additional credit pull** does not affect them very much typically. They may get a higher or lower score, but typically this is due to something changing in their information. Also, important to note is if a mortgage pull happens within a 30-day period from another mortgage lender, this is not supposed to affect their score. Same principle applies to auto related credit pulls and student loans. These categories are (supposed to be) grouped together.

Here's another **script** you can use for that scenario. Because you've got to remember, you're the (**commissioned only**) agent. It's your time you are investing in this buyer. You're going out for however long spending the time. You don't get a paycheck until it closes. The seller, who you're going to tie up with a contract doesn't get their paycheck until the house closes. A seller doesn't get out of their home until the house closes. So, there's really nothing wrong with you saying, "I appreciate that you have your preapproval from the Bank of **WhoCaresButNotHere**. We prefer local lenders down here.

Our market's a little different. I want you to please get a preapproval letter from the local lender that I use, and then if you still want to close with the Bank of WhoCaresButNotHere, awesome". Most any lender that you have a relationship with should be more than happy to do that. They should be more than happy to do that for you to give you the peace of mind, and chances are the buyer is going to use the local lender because it just makes sense on many levels.

Miscellaneous creative financing (for all loans), compensating factors, minimum reserves that may be required. Lots of guidelines change. There is One thing that remains consistent in this business, and that is change!!

There have been changes as the last couple of years. There are always changes. Have I said "they who have the gold rules" yet? If somebody owns other real estate, the status of that real estate versus how much $$$ **reserves** they need in the bank for the property has changed a couple times over the years, most especially after the "**meltdown**". Non-occupant co-signers, Gifts, again, it can't be willy nilly. Let's talk about the **sale of an asset to raise $$$**. I've had lots of people over the years sell music equipment, sell a car, sell miscellaneous things to get the money. If it's documented properly, this is perfectly acceptable. A borrower can't get an **unsecured loan;** credit card advances, bank signature loans for example**.** They darn can sure borrow against their **401k**. In my opinion this is an outstanding option for somebody to get a down payment together for their home purchase. The terms are great because they are paying themselves back. This needs to be planned out upfront too. If this down payment source is a consideration, I always tell the borrower to call their plan administrator first thing to find out how much $ I available, how long will it take, etc.

Sometimes I might have somebody pay off debt to qualify. We'll always do this at the closing. Next week I have a closing that we'll be paying off almost $20,000 of credit cards because we needed to improve the debt ratio to qualify. This turned out way

better for the borrower in this case than putting that money towards the down payment. Win – Win for all.

Assumptions;

I get asked about this occasionally. FHA is no longer non-qualifying assumable. Oh, Vicky, we had that conversation about VA assumability. So, let me say this, since we're talking about VA. VA loans are assumable. I typically say they aren't assumable, but the fact of the matter is they are. However, if the veteran allows a loan qualified non-vet to assume their loan, they will not be restored entitlement back to their VA benefits Also, assumptions have a potential **equity** issue too. The whole assumability thing, years and years ago buyers and sellers did it like crazy because they used to be non-qualifying, non-escalating ("NQNE"). The non-qualifying was the most dangerous way to go. Investors would swoop in and assume the VA and the FHA loans, and possibly create many credit and liability issues for the original borrower. In general, they're not often assumed anymore.

I had someone sitting at my desk many moons ago and we were working through the loan application. I got to the pull credit part and said "Yikes ... you didn't mention to me you had a **foreclosure** two years ago." He had absolutely no idea. He had sold the home several years earlier to a buyer who assumed his mortgage. It's a very good thing that is no longer allowed!

Mortgage Insurance:

How does **MI** compare on the different loans? "**MIP**" is the term for FHA loans, we already talked about that. "**PMI**" is used for conventional. VA has the **UFFF** (up front funding fee) that gets rolled into the loan. There is a menu for the VA UFFF. If the veteran has a VA related disability, they are exempt. If the veteran has already used their benefit in the past and going with 100%, they will have a subsequent use higher fee, if they rec'd eligibility through active duty vs. reserves, it's another fee. If they put down 5% or 10%, it's a different fee. If you want to see the fee schedule for VA loans, reach out to me and I'll be happy

to send over to you. And by the way, I am certified with "Boots Across America" as a VA loan officer. I love VA loans.

VA is frequently a lower monthly payment, because the veteran does not have a monthly mortgage insurance due. The way VA works is there's a **funding fee menu** for the veteran. If a veteran has a VA related disability, they can be exempt from the funding fee altogether.

If the veteran does not have a VA related disability, or if they've never bought a home with VA, the Up-Front Funding Fee is currently 2.15%. If the purchase price, just to keep it simple is $100,000, then that's rolled into the loan, so it's $102,150. If the veteran has used their eligibility previously, then it's 3.3%. AND if they are putting down a down payment, depending on 5% or 10% the funding fee is reduced by approx. half. Again, the fee is not paid cash out of pocket. It is rolled back into the loan amount.

> *"Toby never stopped trying to get us into a house"*

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

Cash-Out Refinancing Loans

Type of Veteran	Percentage for First Time Use	Percentage for Subsequent Use
Regular Military	2.15%	3.3% *
Reserves/National Guard	2.4%	3.3% *

*The higher subsequent use fee does not apply to these types of loans if the veteran's only prior use of entitlement was for a manufactured home loan.

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
Interest Rate Reduction Refinancing Loans	.50%
Manufactured Home Loans (NOT permanently affixed)	1.00%
Loan Assumptions	.50%

Our time for this class is coming to a close so I'm going to talk faster. BUT about something very important. What about the **FHA or VA appraisal**? This is the big thing that everybody's concerned about. Truth is they're not that different. All appraisers, no matter what kind of an appraisal you do, are concerned with safety, security, and structure. You could have the exact same issues on an FHA or VA appraisal that you would on a conventional. A lot of listing agents don't want to know about an FHA or VA contract because they're afraid of the appraisal. Years ago—I've been doing this over 30 years, and up to 20-something years ago, the appraiser did go in and do kind of mini inspections, and there were a lot of things that could

potentially come up that were (in my opinion) piddly and nit picking. They just aren't that difficult anymore.

Minor repairs and normal wear and tear, sure there are issues that would need to be repaired—let's say there's holes in the wall. Somebody put their fist through the wall (yes, that has happened multiple times). Those sheetrock holes are probably going to have to be fixed for any loan. A lender's going to look at the loan as if the buyer defaults the first month. The property has to be resalable, re-marketable. If tile is chipped up, I wouldn't want to say this on my Facebook or anything, but depending on the photos and the circumstances, that may or may not be an issue. I got an appraisal last week, two weeks ago. It was a VA loan, and the appraiser said that the appraisal was subject to the cactus being trimmed. And we're going, cactus being trimmed? I'm going, oh my God. And I look at the pictures and the cactus is growing up through the gutters. So, yes, the cactus had to be trimmed, and the gutters kind of got hammered back down. So, they really are reasonable now. It isn't anything to be afraid of.

I have had buyers in both FL and GA who have had to go through multiple VA purchase offers before a seller would accept their contract, just because it was VA. Seriously, I had a buyer in GA, south of Atlanta have to make five offers before a seller wanted to take a VA buyer. The seller and the agent are saying it's **100%?** Why aren't they putting money down? Well, you know what, they're a veteran. They served our country, and that's one of their piddly rewards. That's a benefit that they get for serving us, for putting their life on the line for us. If they qualify for the loan, what difference does it make? And they're afraid of taking that buyer —yes? I thought it was disgraceful, but I hear this all the time.

Appraisals;
VA appraisals are a little different in how they are ordered. The lender does not order through our regular "panel" of appraisers. This instead is ordered through the VA portal and gets assigned to a VA appraiser. Depending on what part of the country you

are in, depends on how long delivery of the report will take. I usually assume it will take up to two weeks to receive the report.

Cindy: Toby, how likely is it if you have a VA contract and the appraisal comes in under the amount that is the agreed purchase price. What happens? Can the Realtor submit additional comps, if there are comps to support the selling price?

Toby: Cindy, I'm glad you asked that because here's the way it works. The **VA appraiser** will give us notice prior to submitting the report that they're not able to come up with the value to cover the contract price. The agent typically has 48 hours (I think it's 48) to submit comps to the appraiser they would like to be considered. The appraiser won't tell us the comps they're already using. They won't tell us the value they're getting, but they'll give us notice so as the lender, we would hurriedly call you up and let you know we have an issue. Maybe, did something just sell, just close, that hadn't made it into MLS yet? The VA appraisers are like any of the other ones. Nobody wants to be a deal breaker, and I will tell you, on almost every low appraisal that I've received, whether it's FHA, VA, or conventional, the agents have come back to me and said, they were worried about it appraising out. But that is the way VA handles it.

IF the appraisal is a VA and the appraiser will not adjust the value, we can escalate it for a "field review". This can take several weeks, and I have done this several times with truthfully not much success.

On an FHA appraisal (conventional too) you can also submit reasons why you think the value will be higher and ask for a review. I recently got an FHA report increased enough to make the deal work. BUT, this can't just be a complainer whiner thing, you must specifically layout your case to defend the value you are looking for. Here's another thing, if it comes in low ... are you really doing a favor for the buyer to fight to have it increased. Are they willing to fight for a higher value, or are they

thinking why fight to get more than a professional thinks it's worth? Different situations call for different answers to this question. I've seen buyers go both ways.

Cindy: Thank you.

Toby: If the appraiser has to go back out and do an additional inspection because something was in the appraisal making their report "**subject to**", there will be an **additional charge**. But this doesn't matter what type of loan we are doing, they are all subject to the same. I've got a property right now that the roof is being replaced, so there's going to be an additional inspection. The appraiser will go back out to verify whatever work was needed has been completed and take photos. They charge between $100-150 to go back out. All **utilities** must be on, so that's another $100-150 charge if the appraiser has to go back out because the utilities were not on. A stove is required. The others are not. VA is the only loan that requires a **termite report**, and very recently the guidelines for this has changed. It used to be that the veteran was never allowed to pay for the termite report. They can pay now. Until recently, the seller or the agent paid for it, but anybody can pay for the termite report now. A roof must have two years remaining life left on it. BUT it's possible the insurance company will require more. Pool equipment must be operational, and the pool water must be clear, so if the appraiser goes out there and the pool is a gross, disgusting, icky green, it's going to need to be fixed, and that'll be another $100-150 for the appraiser to go back out.

Repairs are not necessarily needed unless they relate to safety, condition, or structure. Again, this is contrary to days of old, when the FHA and VA appraisals were dreaded. Not the case anymore. If the appraiser marks that the appraisal as "**subject to vs. "as is"** this means they are giving the lender an all good for the property, with (or not, as in as-is) the value and condition of property is good only after these repairs have been made. Typically, a lender won't close a loan with outstanding and unresolved appraisal issues.

For instance, let's say the home is a foreclosure or whatever, and the sellers removed hanging light fixtures from the ceiling, and you've got the exposed wires hanging down. That doesn't work, it's a safety issue. The appraiser is supposed to go up into the attic (**head and shoulders**, not fully crawling around) and take an interior photo of the roofline to be able to show that there are no **water leaks** coming through. Oh, this is a big one, no peeling paint, inside or out. So, let's say you get a listing and on the outside the fascia is peeling away, just go ahead and have your seller get it fixed. This also shows a lack of **basic maintenance** and any buyer, no matter what their form of payment will be would be skeptical of everything else if you have deferred maintenance in plain sight. So, if the fascia board is peeling paint, just go ahead, and have the seller fix it. Floors must be covered. Missing tiles are considered a hazard. Electrical receptacles are supposed to all be working.

If there's **well and septic**, the survey must show where they are. This would show if anything may be encroaching onto other property. If you have a seller that has a survey you think is usable, but the well and septic are not drawn in, we're going to have to have that added, and it has to meet required guidelines. If the property is vacant and it is on well, there's going to have to be a water test. If the sellers just moved out three weeks ago, if that appraiser went in and took pictures of a vacant home, and we can see, obviously, that's how we know if it's vacant is from the appraisal pictures. If that appraiser goes in and takes pictures of a vacant home, and this is a government loan (FHA, VA, or USDA) there's going to need to be a water test.

One more thing about **surveys**; if you are reading this in GA (I close loans in all of FL and GA), surveys are not necessary in most scenarios, but not all. In FL, if you are going to have financing, you'll always need a survey for any type of loan, and it will be satisfactory to the title company.

John: Who's allowed to administer that test?

Toby: I've had people call the county, and I just got one about two weeks ago for a closing in North Port where they used a private company, and they turn them around pretty fast.

John: Do you have restrictions on who retrieves the samples?

Toby: No. I was surprised about that. I checked to make sure before I got that one a couple of weeks ago in North Port. Some of our rules make sense and some don't, eh?

John: Ha, yes, I asked the same question.

Toby: I will add, this could be a lender overlay, so I don't want to give that answer across the board. For us here at The Mortgage Firm, it doesn't matter. We don't have a record of who retrieved the sample. (Unless that rule changes next month 😊)

There are **addendums** to be aware of in your contracts for both FHA and VA.

What's so great about FHA and VA you ask again? To me, it's just a wonderful opportunity for people to get back into the home buying process or to get into the home buying process first time. Frequently these loans are closing for people that were afraid they were still going to be years away from the opportunity to buy.

And to take a second for a mind break - I want you to know I am very actively **looking for a great loan officer** to add to my office. If you know anybody, tell them to call me. I just recently had somebody start with who I got from a realtor referral. If you know somebody **actively working**, and not in the training mode, maybe they could be looking for a better company to work with. The Mortgage Firm was recently voted among the Top 10 Lenders in the Southeast USA to work with.

OK, end of mind break...

Sarah: I have a question. **Long term debt**, does that count anymore?

Toby: Heck yeah, what do you mean? I think I'm missing your question.

Sarah: In doing a loan, it used to be way back, up in Ohio, the local lenders, if the loan, like a car loan was two years, they didn't consider it long term debt and they didn't consider the payment against you.

Toby: I think it's opposite of what you're saying. If you have—if a borrower has an **installment loan** that has less than 10 months—

Sarah: Oh, it's 10 months?

Toby: Yes, BUT that is also up to the **underwriter's discretion**. If it's a big payment, $600 a month payment, and the buyer is not saving money and doesn't have much money in the bank, the underwriter could choose to count it. Otherwise, wisdom would have to prevail, how are they going to make those payments? That is the general guideline, less than 10 months, 10 months or less for installment debt as opposed to credit card debt. We'll always count the credit card debt unless we pay it off at closing.

Yes, Steve?

Steve: Why is it FHA is no longer assumable?

Toby: Probably — I'm just making a guess. This is my own personal opinion ... They were non-qualifying, non-escalating, and it really wreaked havoc. Years ago, I could sit down with a borrower who sold a home to somebody, let them assume the loan, went on with their lives. I pull up credit because they are ready to buy another home, let's say three years after the assumption, they're going to buy a new home, and I'm going, oh geez, do you know you've had a home foreclosed on? Or do you

know that you've been late for the last six months on your mortgage payment? I'm going to assume that that would be part of the reason. It was really a **gross disservice** to the home seller to have that happen to them. They could've changed it to where the new buyer had to qualify.

And, hold on, I'm going to correct something else to clarify. An FHA loan is assumable, NOW the borrower, the new borrower does have to qualify. It is no longer non-qualifying, and it depends on who's doing it. So, let's say a mother cosigns for their daughter to buy a home, and they think that the lender's going to automatically let the mother off and let the daughter assume it. That's not necessarily going to happen. It could be if the borrower qualifies, and the owner of the home has got to make sure that they're being released of liability. It's the same as a **cosign**. When you cosign for somebody to buy a car, it's yours. It's yours just as much as it theirs, and I suggest to parents, grandparents, sisters, etc. IF they are going to cosign, you make the payment, so you make sure it's being paid on time, and let the kid pay you for the money because if whoever you cosigned for is late on their payment, it's on your credit report, and you can't make the excuse of, but I'm just the co-signer. BUT NOW I'll contradict myself on this to be perfectly clear ... if the cosigner (let's just say it's a parent) will need to later qualify for a loan themselves eventually for a new home, and that payment kills their debt-to-income ratio, THEN I would say this; if we could prove through 12 months of cancelled checks showing the kid made all the payments out of their account (not joint with the parent), then we would not count that payment against the parent. So again, this requires some preplanning and best to work with an experienced mortgage originator, ME 😊.

Steve: Well, it used to be such an advantage for somebody buying a home to assume. Sure, they had to pay the mortgage insurance premium, but on the other side of the coin, it could be so much easier for someone else to assume the loan at what could be a much lower interest rate.

Toby: Not qualify?

Steve: To buy that home and assume the interest rate. Even if they had to qualify, if they can assume the loan and qualify for it, but keep the same interest rate, for example, if the interest rates start to go up, and somebody buys a home now they have the new rate.

Toby: Yes, but then what are you going to do with the equity? Let's say the seller has $40,000 of equity. How is the seller going to be paid their equity or more if the buyer just assumes the loan? We have people who have a lot more equity than that in their homes. It's usually better for the buyer to just get a new loan. Plus, you have to remember when we were closing "non-escalating" loans, the rates were higher than they are now anyway. Any other questions?

Kathy: **How long** should a govt loan take to close now-a-days?

Toby: Good question. Pretty much same as any other. We prefer to get a 30-day contract. But the process is so much easier now and with a VA loan, we can typically get the certificate of eligibility and other VA related required documents online, instead of having to write and take six weeks to get what we need. I'm glad you asked that too because that is another reason sellers, buyers and agents who have not been actively in the government loan category could also have an unnecessarily negative opinion of the VA loans.

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On the next page some additional info to help a young couple, or a single mom or dad. The **statistics for a child growing up in a home that is owned vs. rented are impressive**. I just pulled this info off the internet for a class I was teaching recently for single women.

Home Ownership Effects on Children		
Outcomes	**Renters**	**Homeowners**
Gave birth as unwed teen (women only)	14%	10%
Idle at age 20	25%	14%
Years of education at age 20	11.3	12
Graduated from high school by age 20	57%	70%
Obtained some post-secondary education by age 20	12%	23%
Average. hourly wage (ages 24-28 years)	$9.16	$10.35
Received any welfare (ages 24-28 years)	34%	18%
Neighborhood Conditions	**Renters**	**Homeowners**
Mean neighborhood poverty rate	23.90%	17.90%
Mean nighborhood homeownership rate	56%	72.20%
Mean neighborhood percentage (did not move in 5+ years)	56.70%	58.00%
Individual & Family Background Features	**Renters**	**Homeowners**
Female	52%	52%
Black	44%	21%
Mother's age when born	25.2	26.8
Whether income is greater than earnings plus transfers	55%	81%
Years in two-parent family	2.25	3.65
Mean number of children in family	3.64	3.45
Ever received food stamps or other cash welfare	62%	22%
Household head graduated from high school	36%	49%
Household head had some post-secondary education	18%	30%

CALL ME, EMAIL ME and I'll be most happy to supply you with the links for condominium look ups, and FHA loan limits per county.

This concludes our class for this morning. I want to leave you with this very important message;

- CALL ME
- TEXT ME
- EMAIL ME

I want to be your lender of choice!

My team and I take our responsibility to you and your buyers very seriously. Your success is most important to me as well.

Let me bring you and your buyers to a

Happy, Smooth and On-Time Closing!

Toby Lynn

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