Home Builders Association of South Carolina

Housing Attainability: Financing Opportunities and Limits - Front line perspective from a mortgage officer

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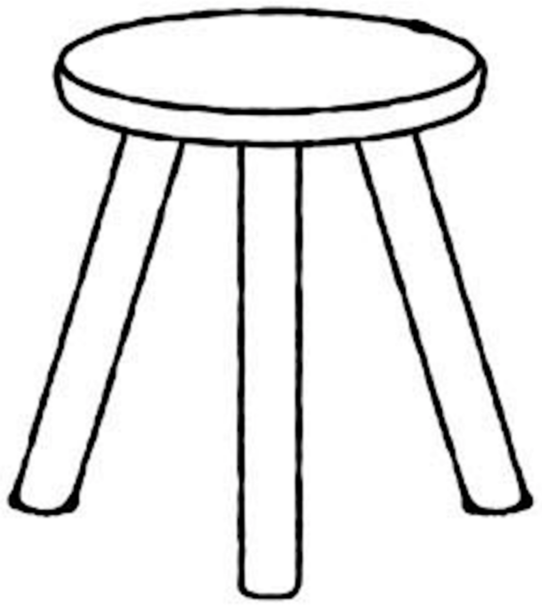
Mortgage qualification is a little like a three-legged stool, the 3 legs are:

1. *Qualifying Income*
2. *Verified assets*
3. *Credit profile (It's not just the score…)*



- **Qualifying income**: Generally based on standard industry mortgage rules
    - W2 employees:
        - Base income: gross before taxes (salary or hourly based on minimum hours)
        - OT/Bonus/Commission (anything other than base): Normally average earnings for 2 years, same company/position
    - Self-employed: based on actual income after business expenses <u>reported on tax return</u>, usually average of <u>past</u> 2 years.
        - Taxable income = qualifying income (plus depreciation or depletion)
- **Assets**: verified funds needed for:
    - downpayment
    - closing costs (technically lender and legal/title/recording fees)
    - prepaids/escrow expenses: first year insurance, interest to end of month, set up escrow accounts (follows federal regs)
    - reserves - sometimes critical for approval
- **Credit**: it's not <u>just</u> the score! (Credit report has lots of information that can make a difference in approval and qualification)
    - Debts and obligations (used to arrive at DTI)
    - Length of credit history for accounts/Payment history
    - Types of accounts: credit cards, loans, collections/charge-offs, public records, etc.
    - Proportion of balances on accounts to limits or original

If one leg of the stool is missing…

Loan approval process …

Most loans approved by a computer program designed by Fannie Mae or Freddie Mac

- Reads" loan details including all of credit report, DTI, assets, reserves, etc. Complex and sophisticated.
- Lender is responsible for making sure documentation supports details of approval
- Generally, allow more flexibility for qualifying customers (higher DTI, less required reserves, etc.)
- Lender overlays (additional requirements)

"Broken" loans

- Documentation or loan details do not meet what was approved by the computer as required by regulations
- Cost to lender (even if the loan is paid in time every month, has to be held on books at a marked down value = LOSS)

Attainability "Tools" in the toolbox

After location and home features, often the decision to buy is based on:

1. *payment*
2. *cash needed to buy*

Lender "Portfolio" loans; created to meet needs; how lenders "help" with attainability (there are limits)

a. Still bound by regulators to make "prudent" loans
b. Variations in what different lenders offer, and where (geographically)
c. low downpayment (fewer assets needed); reduced fees from some
d. "No PMI" – helps with DTI and affordability/payment comfort
    - TD (example): 97% loan with no monthly PMI payment, and $950 less fees on loans typically used by lower income buyers. 80% of median, no limit in target census tracts
e. Lender credit: higher rate = help with closing costs/prepaids (but higher payment)

Government and nonprofit help programs

a. SC housing programs (downpayment/closing cost assistance)
b. Federal Home Loan Bank: participating lenders have access to limited downpayment funds
c. Local downpayment and similar programs (Limited: Charleston, Columbia, Florence, Greenville? Richland County, etc.)
d. Nonprofit programs, generally subject to funding availability
e. Habitat, NACA, etc.

Other attainability points for consideration

a. Payment: Less expensive to pay a little more than higher rate. (Compare as we recommend buyers do)
b. Preferred lender often means contributing toward closing costs; but sometimes offset by a higher rate.
    - 1% toward closing costs = about 0.25% higher in rate. (see next point)
c. Rate for same scenario between different lenders, in some cases can be 0.5% higher. 0.25 rate difference on $250,000 home using FHA financing is about $50/mo difference in payment to buyer. (Roughly $10,000 difference in sale price)
d. Suggestion: build closing costs contribution to purchase price
    - $5000 higher price = about $20 higher payment vs. $50 higher for higher rate.
e. Total Fees make a difference, lender Realtor, builder, neighborhood, etc.
f. Consumer education important!
    - Comparison shopping
    - Credit maintenance and improvement
    - "Free scores" are usually not "lender" scores

Advance questions:

1. Student loan debt requirements – deferment or forbearance are issues
   - Conventional loans: Actual required ongoing payment <u>or</u> 1% of balance
   - FHA **<u>NEW</u>**: actual required payment OR 0.5% of balance (big improvement!)
   - USDA 1% or fully amortized payment
   - VA: only loan where if payment deferred for 12 months after closing do not have to count a payment.
2. House price limits (set by SC Housing; some limits for USDA direct loans)
3. Heirs property (limits properties from financing)
4. Higher priced home built next to a lower value one

Minor miracles monthly in mortgage biz…