THE MORTGAGE POINTS:

A Guide to Homeownership and Beyond

Blackwell
MORTGAGE AND
COMMERCIAL LOANS

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CHAPTER

01

HOW DO I GET STARTED

You know it’s time, don’t you? You’re getting tired of paying somebody else’s mortgage through your rent and want to know how you can get a home that you own. You want to know about more than monthly payments and are interested in learning about the benets and rewards of homeownership.

You’ve heard that owning a home can give you daily, annual, and lifetime rewards, and you can see that owning a home will give you a pretty great reward program. A program that you want since you are already making monthly payments anyway.

You know it’s time, don’t you? But you don’t know how. You tried to Google the mortgage process but keep getting ads about mortgages that just confuse you more. You are wondering if you would qualify. You think about if you are too young or old. You wonder if you can aord to be a homeowner and if it is right for you.

Below you will nd 10 steps and suggestions that will help you as you decide whether home ownership is right for you.

1. **Know yourself (Financially)**

The step you are considering is important, and you need to know your nancial status. Find out what your credit score is. Your credit score is easily accessible as it is used in many areas of our lives. Whether it’s good, bad, or ugly, nd out your nancial temperature.

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In order to navigate the mortgage world, you need to learn the language of "mortgage speak". The starting point for this is knowing how much money you make because a lender wants to know what your gross "qualifying income" is which means you need to know your "base pay". ("Base pay" is what you make with hourly wage or salary. If you are paid hourly, this amount is the average amount you make monthly.)

If you make any income in addition to your Base Pay, then you have access your W-2s for at least the last 2 years. If you don't get a W-2 then use your tax returns. If you receive Social Security, retirement pay, child support, or alimony, write it down and nd the documentation that proves how much you get.

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Write down your monthly expenses by making a comprehensive list. As you look at this information, envision. Envision a healthy mortgage payment for your lifestyle. What would be a mortgage payment that you feel you could comfortably pay every month? What would be a payment that stretches you but would give you the perfect house in the perfect location? Write these numbers down.

2. **Meet a lender**

If you skip the rst step, you will survive. However, having the information in Step 1 will enable you to get ahead in your process faster. When you meet your lender, he or she will ask you the questions we reviewed in Step 1. If you do not have the answers, he or she will ask you to do the homework to get the information. You will have to make another appointment with the lender after you have found the information.

It is ideal for you to meet your lender face to face and get to know him or her. Doing this enables your lender to really understand who you are, where you are coming from, and where you are going. This knowledge can help them help you fulfill your dreams. Bring your pay stubs, W-2s, and tax returns when you meet. This will ensure that any questions your lender has is answered correctly.

3. **Decide and take action**

Depending on the outcome of your meeting with your lender, you need to decide whether you are ready to become a homeowner or not. If you are not ready, ask the lender to help you make you a plan of action so that you are ready as soon as possible. If the lender says you are not ready and doesn’t offer a plan of action, ask for a referral for another lender that can help you get what you want. You can also and another lender by asking your network for referrals. It is important that you work your plan of action so that you can buy your home as soon as possible. If you are deemed “ready” now, then apply for Pre-Approval.

You can also find another lender by asking your network for referrals

4. **Apply for your pre-approval**

After you get approved, review the loan conditions with your lender. Make sure you understand what else may be needed by the underwriter to get full approval after you find a home and get a cost estimate worksheet to understand the cash you will need to close, your interest rate, and your monthly payment.

5 **SHOP!**

Choose a Realtor you trust based on either the recommendation of your lender or the recommendation of someone in your network. Introduce the Realtor to the lender so that they can communicate about your loan program and what you may need in a negotiation in order to win a bid.

6.**Congratulations! You are now under contract**

It is now go-time! Your lender will make your application “live”, order an appraisal, and order title insurance from your selected attorney. If there are any additional required documents needed (e.g., a gift letter, updated paystub, or bank statement), your loan officer will tell you. These items are called loan conditions, and you can find a list of the items needed in your Pre-Approval letter issued earlier in the process.

The lender will issue you a loan package that contains a Loan Estimate. Review it carefully, and make sure you understand it. Ask for explanations of anything that is confusing. These are the terms of your loan and should include your payment details, the interest rate, and the cash to close needed.

7.**The Application Process**

While the lender is waiting for the appraisal and title, you should have home inspections ordered through your agent and get homeowners insurance. If you need an insurance agent recommendation, ask your lender.

During this time, your employment will be veried and tax transcripts pulled. Other verications will also happen during this time.

8. **The Final Stretch**

This is when it all comes together. You work with your agent to resolve any repairs that are needed on the house. The appraisal, title, and homeowners insurance all come in. At this point, your loan will be resubmitted for underwriting and approval.

9. **The Closing Process**

No less than 3 business days prior to closing on your new house, you must receive a Closing Disclosure (CD). This document looks like the Loan Estimate you received earlier and should state the cash needed to close, correct loan terms, interest rate, and payment as well as all of the fees you reviewed on your Loan Estimate. In some cases, there will be last minute changes that include third party fees as well as adjustments to the final cash needed to close within your 3-day window. Be sure to ask your lender **1)** Is this CD fully reconciled and approved? and **2)** Do you expect there will be any changes?

10. **Getting money safely to the attorney**

You will probably need to wire money to the attorney working with you. As wire fraud is a signicant problem, I tell my clients to contact the attorney who will receive the money by calling the phone number on the CD. While on the phone, clients should ask that the wiring instructions be sent via email.

When you receive the email, review the instructions. Make sure that all the information is correct and, in fact, came from them. Do this through another phone call. You cannot be too careful in this area.

Now you are done. Just show up to the attorney’s office on the scheduled date and time with ID, sign the papers, and get your keys. Enjoy your life and your new home!

You can do this! Take the rst step and keep going!

CHAPTER

02

SHOULD I PAY OFF DEBT OR SAVE?

"Is it better to pay of debt or to save money to buy a home?"

This is one of the most common questions that future buyers ask me. The answer is it depends.

In order to answer this question, we will use a couple of examples. The debt ratio used in the following examples is a traditional max ratio of 45%. Scenarios are simplified for the sake of brevity.

Example 1-Client X

- Client X has a salary of $50,000 and a student loan of $25,000 of which she pays $160/month. She has
- 4 credit cards that total $29,000 which equals a combined minimum payment of $622/month.
- Additionally, Client X has a new car that costs $420/per month and has savings of $5,000.

Let's see what this person qualifies for with the above situation.

$50,000/12 = $4167/month

- We multiply this by the 45% max debt to income ratio which equals $1875 in allowable monthly debt.
- If we subtract each of the above-mentioned monthly payments from ($160, $622, $420), the Client is left with $673 that can be used for a mortgage payment.

We now multiply $673 by .75 to account for estimated taxes and insurance which means that this client has $504/month for a mortgage loan payment.

We now use the factorial $504/$5/$1,000 factorial which means that this Client is eligible for a $100,950 loan amount $100,950 loan amount plus $5,000 savings give this Client the possibility of no more no more than $105,950.

This Buyer has no money for closing costs and nothing in reserves. This means that this buyer cannot buy a home in a market where the average sales price is over $300K. Lower priced inventory in this market may be in the low $200,000. Thus, there is nothing is available in her price range in this particular market.

This borrower needs to get rid of her car loan and credit cards if she ever going to be able to buy a home in the market she wants. The car should be sold and traded in for something she can pay for with $5,000 or less in cash. Without the car payment, she can add $420 to the $622 payment on a debt consolidation loan. Assuming a rate of 9.0% the loan will be paid of in 2 years and 8 months. If the client obtains an additional source of income during the process, those funds could go toward accelerating debt repayment and savings.

For this example, the debt must go away to give the buyer capacity for a mortgage payment. She will need to rebuild her savings. Another option for this Buyer to move to a region where housing was more affordable.

Example 2-Client Y

Client Y has income of $75,000/year and a car payment of $500/month. This client has two credit cards that total $2500, and he pays $75 a month for them. He has savings $7500.

Let's see what they qualify for as is.

$2812 - $500 - $75 = $2,237

- We multiply this by the 45% max debt to income ratio which equals $2812 in allowable monthly debt.
- If we subtract each of the above-mentioned monthly payments from ($500, $75), the Client is left with $2,237 that can be used for a mortgage payment.
- This Client does not want to make a payment over $2,000. Great! $2,000 is less than $2237

What is the mortgage that this client can afford?

- $2000 multiplied by .75 = $1500/5 = $300,000 loan amount
- With a minimum 5% down payment recommended on a conventional loan, the sales price should be $315,789. (Down Payment on this would be $7500)

Here, we have a case of savings shortage. The borrower is not over capacity, and the sales price limit is perfect for the area. However, the $7500 needs to be beefed up.

We discuss total possible other resources, other savings, investments, 401K loans, gifts, sale of assets, etc. If nothing is available, this borrower must engage in a serious savings campaign to purchase his next property.

This Buyer needs at least another $9,000 plus closing costs and reserves. Ideally, this person should have no less than $23,800 saved (down payment of $15,000 plus $6,000 for closing costs plus 1 month living expenses). This is based on a strict saving regiment where the borrower commits to saving $2500/month and will be ready in 6.5 months to buy his home.

CHAPTER

03

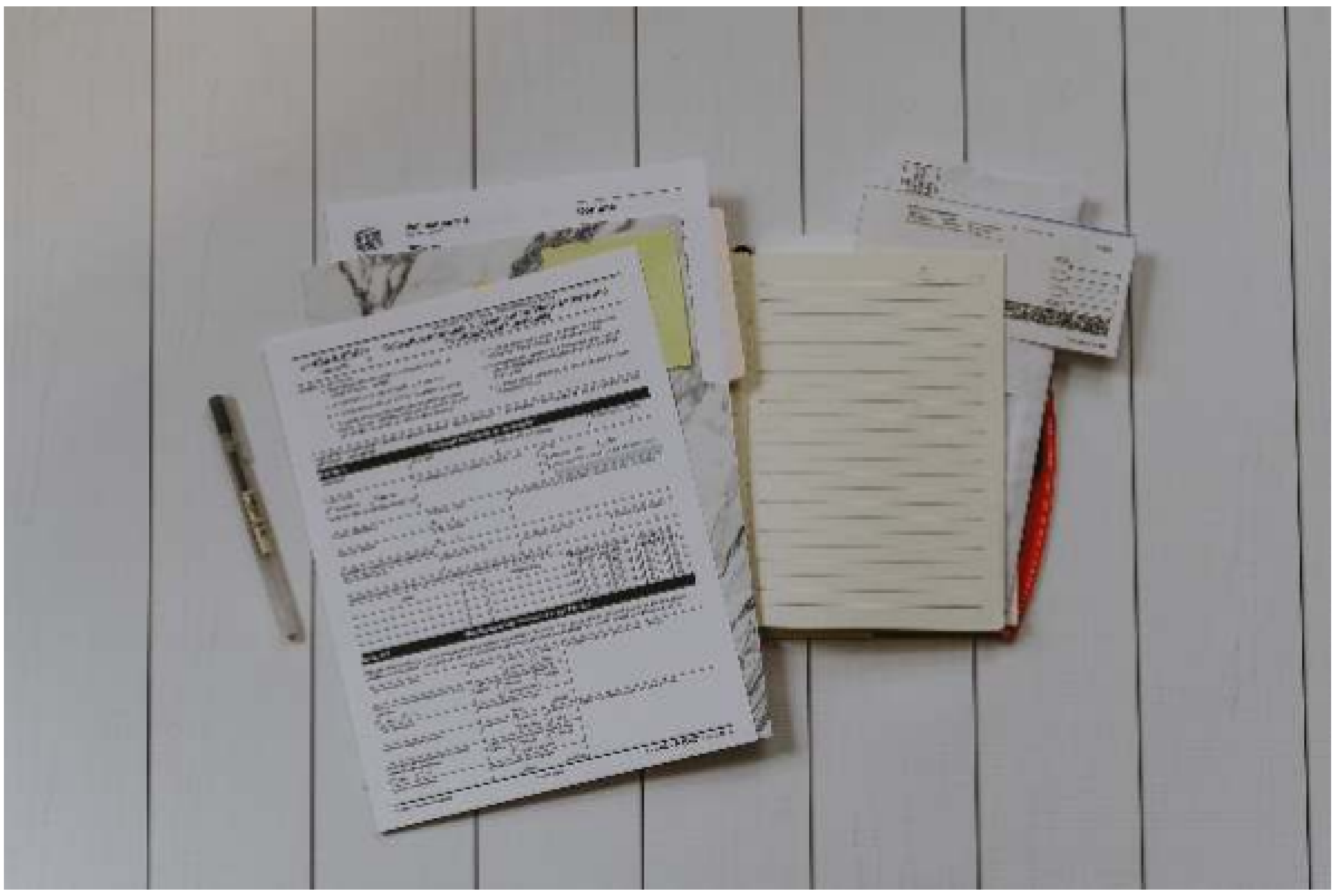
WHAT WILL I NEED TO APPLY?/HOW TO ORGANIZE

Get Organized

Before you meet with your lender, it's a great idea to get organized. Start by locating the documents listed to below.

Income Verification Documents

- W-2s for 2 years
- Pay stubs for 30 days
- Most recent Award Letter for Social Security, Retirement or Disability
- Tax Returns for last two years for rental, self-employment, and other income
- Trust agreement
- Alimony agreement
- Child Support agreement



Asset Verification Documents

- Most recent two months bank statements for checking and savings
- Documentation of transfers from other accounts
- Most recent 401K statements if using for loan for down payment or for reserves
- Most recent two months brokerage statements

Other Documentation

- College Transcripts if you have worked less than 2 years and are a recent college graduate
- Supporting documents for large deposits
- Explanations for job gaps Job offer letters for new jobs
- Other items may apply depending on your situation (Consult lender)

How to Organize for Your Home Loan Application

Preparing ahead of time can help you have a nice and easy loan process.

Here is list of what you should have prepared to provide your lender:

1. Your residential history for the last 2 years including the dates you were at each address. Additionally, provide information on how much you currently pay for rent.

2. **Your employment history.** Where have you worked for the last 2 years? Include the addresses, phone numbers, dates, job titles, and salary information.

3.**Your salary details** . Are you paid W-2, 1099, hourly, salary, salary plus, daily, shift differential.? Be able to explain to your lender the specics and document everything. If you can't explain everything, that’s ok. At least provide documentation so that your lender can gure things out.

4.**Locate your W-2s for the last 2 years** . Save them as PDFs to upload to your lender's s Locate your W-2s for the last 2 years ecure portal.

5. **Locate your tax returns for the last 2 years** and save them as a PDF to upload to your lender's secure portal. Include K-1s and Business returns if necessary.

6. **Bank statements for the last two months** for all of the accounts you plan to use when you close.

7. A list of **real estate owned** as well as addresses, values, type of properties, mortgage balances and mortgage companies, mortgage statements for each property, and HOA dues for each property.

8. **Divorce Decree, Child Support Agreement,**
Alimony Agreement as applicable.

9. If a US Military Veteran using VA benets, provide DD-214, Certificate of Loan Eligibility of Loan Guaranty Benets

10. If you have **a newly rented property** that you own, **the lease** for said property.

Additional Documents may be required depending on your situation.

If you work for a large employer, and you bank with a large financial institution, it is possible your lender will be able to automatically verify your employment, income, and bank statements. However, this is not always the case. Therefore, it's important to know where these documents are and have them ready to refer to if there are questions about your income and your savings. If you are self-employed, you will always need your tax returns.

Please review your documents like an underwriter would. It will help you see if you need additional documentation for things like discrepancy in income, large deposits, and/or large withdrawals.

Example of Income Discrepancy

If your W-2 was $100,000 in 2019, but your June 30th year to date pay stub shows you made $35,000 through the end of June, be prepared to explain why. One would expect that through June 30th you would have made half your income ($50,000).

Example of large deposit, large withdrawal on your bank statements.

What is considered a large deposit varies from loan program to loan program. For a USDA loan (or any loan with an income limitation) you can be questioned about $1.00.

On a conventional loan, it would be anything that is greater than 50% of your income. On a FHA loan, it can be anything greater than 1% of your sales price. Review your bank statements for the last 2 months. If you have anything that is not payroll, be prepared to explain and document it. An underwriter is looking to see if the source of funds for closing are your own funds, gifted, borrowed, etc. It is a NO NO to get a cash advance or unsecured loan for your funds to close.

An underwriter is also looking for evidence of undisclosed debts such as child support, alimony payments, new truck payments, or other new credit that is not yet disclosed on your credit report. If the underwriter sees a recurring payment that doesn't match up to a creditor on your credit report, be prepared to explain it. It may be something as simple as your rent payment. There is no reason to be afraid of this. Just explain the recurring payment. If you do have a new debt or debt that doesn't report to the credit agencies (for example like child support or alimony), you need to disclose it.

If all borrowers thought like an underwriter before they applied and prepared themselves to answer the questions their loan officer will have for them after reviewing their documents, they would have a more predictable and enjoyable experience.

What your personal experience will be depends on the professional experience and training of your Loan Officer ***AND*** your preparedness.

CHAPTER

04

GENERAL QUALIFYING CRITERIA TO GET A MORTGAGE

I had a call with a future buyer today who wanted to know what many buyers want to know: What is it the lender is looking for?

What kind of credit score do I need to have? What kind of income do I need to make? How much money should I have?

The answer to these questions will depend on your lender. Traditional banks will offer loan products that are available to them by Fannie Mae, Freddie Mac, and Ginnie Mae as well as select private investors for Jumbo loans. A Broker will have these plus non-traditional products that are offered through private investors available.

If you don't fit the mold of your local bank's mortgage offering, you have other options. If your lender cannot help you, ask for a recommendation for someone who can.

All lenders review your level of "risk" from a three-legged stool: Credit, Income, and Assets. With a traditional lender, all three legs must be stable and steady. Income and Assets can be fully documented with IRS tax forms, pay stubs, bank statements, etc. After all information is received, loan products are designed to fit the lender's situation.

Credit

It is ideal to have a credit score of 740 or higher and employment history that has been stable for the previous 2 years. Income can be easily verified with a W-2 and a couple pay stubs. It is important that the person wanting to buy has suficient funds to meet the down payment requirement and that these funds be easily verifiable.

A self-employed borrower can be "ideal" as long as the income reported to the IRS is suficient to repay the amount of the loan requested.

I help buyers every day who don't have a 740 credit score, whose employment history needs explaining, and whose income is being stretched to make everything work.

Loans available that will accommodate a borrower with a credit score as low as 620 if the borrower has a large down payment.

People with this credit score can find loans where they can put down just 3.5 %. This score can come with 0% down for a USDA loan. For veterans, a score of 600 is allowed. (Technically there is no minimum credit score for a Veteran's loan.

I've personally never seen one approved under a 600 score; hence, my personal observation is a credit score of 600 is what is accepted.) Home loans are extended regularly to people whose credit scores do not reflect how amazing they really are.

Having an excellent credit score is advantageous. With a conventional loan, you need a minimum of 740 to get the best rates and at score of at least 760 to get the lowest mortgage insurance rates. Thus, the higher your credit score, the better, but there ***are*** options to serve people whose scores are not deemed excellent.

Income

“How much income do I need to make?” is a question I hear often. The answer depends on the cost of the house you want to buy and how much you are able to spend monthly.

I recently closed on a home that was $72,000 for a person making about $22,000/year. The home was in Fayetteville, NC where there is still some affordable housing apparently.

I live in Raleigh, NC. A starter home here averages about $225,000. I have found that the minimum income to support this price is about $45,000/year. But that too depends on the borrower and other debts held by that borrower.

Assets

Assets refer to your capital. How much money you have the ability and willingness to contribute toward the purchase of your home? Depending on your Veteran status or willingness to live outside the city limits, you could be eligible for a loan for as little as 0% down.

If you don't want restrictions on geography, income, or veteran status, you can put down as little as 3% on a sales price as a first-time homebuyer on a conventional mortgage. This could be as little as 3.5% on FHA.

More is allowed for all programs. USDA does not allow you to put down 20%. If you have the ability to put down 20%, you are not eligible for a USDA loan.

You don’t have to figure this out for yourself. Meet with a lender. They will be able to match YOU to the program that is best suited for you.

CHAPTER

05

HOW TO IMPROVE CREDIT

There are many ways to improve your credit with some ways being easier than others. To get a specific plan on how to improve your financial situation, seek professional guidance.

A Mortgage Loan Officer may be able to give you tips based on his or her experience. However, keep in mind that depending on the content of your credit report, you may need a Professional Credit Counselor.

I have seen many clients that have been taken advantage of by "credit repair" agencies. These agencies make promises and charge your account monthly. A year later, $800-900 per person has been spent with no result. If the potential homebuyers are a couple, that means that $1600-1800 used.

If you work with a credit counselor, they need to be ***HUD accredited.***

You can find a HUD Certified Counselor here :

In order to keep your credit in good standing, there are several things that need to be considered.

First, don't get in credit trouble in the first place.

Second, *do not* help friends, family, boyfriends, girlfriends, etc.. This means do not co-sign on a loan. Do not co-sign an apartment. Do not get a phone or car insurance for anyone else. If the person does not fulfill their obligations, it could affect negatively your credit score.

Years ago, I was working with a young couple. After looking over their information, I proposed that the loan be in the boyfriend's name because the girlfriend had a poor Mortgage Credit Score because she had co-signed a student loan for her ex-boyfriend, and he wasn't paying. Her score was one of the lowest I've ever seen. I am sure it was an embarrassing moment for her. It was certainly awkward for me.

A great way to ruin your credit is not pay a mortgage or student loan. Pay your loans and see if you can get help if you cannot.

In order to improve your credit score, you have to understand where you are starting.

No credit does not mean bad credit. If you’ve never taken out a credit card, car loan, or personal loan before, you may have a 0 for a credit score, and a 0 is much better than a 580. We can help you if you have no credit by verifying that you have paid your rent and utility payments on time for the last 12 months.

But if you have taken out credit cards, student loans, car loans, and have never paid them back, you will have a long track ahead of you to improve your credit score. It will start with cleaning up the past.

Pay of your charged of accounts with payment plans or settlements that establish positive credit. If you have had a history of mismanaging your credit, you will need to get a secured credit card from your bank. A secured credit card is a credit card that has a low limit (usually $300).

When you open this card, you deposit $300 with the bank, and the bank holds it as protection. It's a second chance credit card.

A secured credit card is also an excellent way to start building your credit if you don't have a strong history.

Once you have this card, treat it with the utmost respect and discipline. Use it and pay it of. You may need to put an alert on your calendar to remind yourself of when to make payments. Never miss it. (Anytime I open a new account, I put an alarm in my calendar. I am terrified of missing a payment and
hurting my credit).

I gave you two extreme examples: A zero credit profile and someone who never took care of their credit.

There are, however, people in the middle. These people have credit cards, student loans, and other types of personal credit. They have paid their bills on time for years and years. Then something happens in their lives, they get behind on their bills or their credit balances go up. The fact is that bad things happen to good people. When that happens, we can usually see that on the credit report.

So, what can you do if you are in a situation like this?

If something happens and you forget to make a payment (for example, if you were traveling, sick, or any number of things). Call the lender and ask for a 1-time forgiveness for the late payment. Ask them to take back the late payment reported on your credit report.

I've done this. It works.

Credit card balances that are at 50% of their limit sound an alarm for a lender. To the lender, this person is at risk of maxing out their card and defaulting. Whether that is true or not, credit scoring models treat rising credit card balances as a point of concern. If this is what is dragging down your score, reduce your balances.

If you can't reduce them now, make a plan to do so over time. Don't use them, while you are paying them down.

Don't be surprised when you make late payments other creditors notice. Some creditors have clauses in their agreements that state if you are late on another credit card, they can cancel your card or reduce your limit on your credit card.

The credit industry is a heavily farmed place of information that informs your creditors about your behavior. The information is used to protect them against a possible default by you.

Credit is a responsibility and a privilege. It needs to be treated as such.

If you have great credit, you want to do everything possible to preserve it. Apply for new credit selectively. Too many inquiries in a short period of time, show your "appetite for credit" and reveals you as a risk which can hurt your credit score.

The exception to this is applying for a car loan and mortgage loan shopping. In these cases, you are allowed to "shop lenders." As long as your inquiries are similar in nature, then all inquiries can be done within a 45-day period.

If you have a credit scenario you would like to run by me, I'd be happy to help.

You can email me at *april@Themortgagepoints.com.*

CHAPTER

06

BUYING A HOUSE WITH STUDENT LOAN DEBT

Here's a great link to an article about student loan debt in America today.

This article states that the average student loan debt is just over $35K. Much of this debt is held Gen X'ers, not Millienials.

In another article, we see that 6% of student debt holders make up 33% of all student loan debt. From what I have seen through my work, those carrying the disproportionate load of debt are those who have entered a field of work that is not known for high wages.

It always breaks my heart to see a professional earning $50K/year, owing $80K and even higher in student loan debt. If you think that you can never buy a home because of your student debt load, this article is for you.

Depending on the loan program used, your student loans will be counted differently when you are considering buying a house. The programs with the harshest requirements are the government insured programs FHA and USDA. Regardless of whether or not you are in deferment, a percentage of the balance of what you owe will be counted against you. In many cases, the calculation is just too high, and you will not be allowed to get a loan. On a VA loan, deferred payments for 12 months or longer do not impact your calculations which is good news.

However, if that loan comes due within 12 months of your closing date, the VA takes 5% of the total balance and divides it by 12.

Let's look at how your student loan will be counted against with a FHA, USDA, and VA loan with less than 12 months deferred on a balance of $50,000.

Example 1:

FHA Mortgage loan

Student loan calculation is 1% of $50,000 or $500/month

Example 2:

USDA loan

Student loan calculation is 0.5% of $50,000 or $250/month.

Example 3:

VA Loan

Student loan calculation is 5% of $50,0000/12 or $208.33/month

These payments will be used to calculate your total debt to income ratio in either the absence of payments not being reported on your credit report or not yet being established.

These numbers assume that you are not already in repayment at a higher payment. If you are in repayment at a higher payment than the calculations in the examples would be higher than what is seen above.

If you are applying for a home loan and your debt ratios are impacting the quality of the home you are able to purchase, you may want to make sure you can qualify for a conventional mortgage.

A ***Conventional home loan*** is one backed by Fannie Mae or Freddie Mac. These types of mortgage often require better than average credit scores to get market rates. While it is possible to be approved with a 620-credit score, be prepared to pay a premium rate for your note rateand cost of your monthly PMI (Private Mortgage Insurance).

The key advantage to a conventional loan is that these guidelines allow you to use the actual payment based on an Income Based Repayment Plan (IBR).

I recently pre-approved a client with over $75,000 in student loan debt.

It would not have been possible to qualify her for any loan program other than the conventional loan. This is because her actual IBR repayment was only $10/month.

The ability to use the actual payment over the FHA 1% changed my preapproval from nothing at all to something she can live with. In fact, if a client has an IBR payment of $0, the lender will use $0. This is the only way to get approved for a mortgage when student loans balances are high, and government insurance loan programs turn you down or greatly limit your purchasing power.

Can you buy a home with student loan debt? Quite possibly. Your full financial situation does need to be evaluated by a Mortgage Professional. Consult a Certified Mortgage Planning Specialist to find out what's best for you.

CHAPTER

07

GIFT-GIVING/ RECEIVING WHEN BUYING

'Tis the season! My husband and I put up our Christmas lights and decorations yesterday. As we did, it dawned on me that I haven't written about the very important topic of gift-giving. This is an important topic as gift funds are a way many buyers realize their dreams of homeownership.

Disclaimer
I am not a CPA. I am not an agent of the IRS. This article is intended to for informational purposes only. Do your own research and consult your tax professional. This article applies to the Federal treatment of gifts. Your State may have different rules.

If you google annual gift tax exclusion amounts, you will find that a limit of $15,000 is listed as the maximum gift per person. We often see creative structures like Dad giving $15,000 to his son and $15,000 to the son's significant other. Mom then gives $15,000 to their son and $15,000 to the son's significant other. The gift total is $60,000. However, the money is structured this way to be a tax-free gift.

While this is certainly a way to handle a large gift for a couple buying a home, it may not need to be done so creatively to avoid the gift tax because extra funds can be given without creating a tax burden.

When I first heard about this during my advanced training to become a CMPS, I was skeptical. The annual limit had been ingrained in my head.

What happens on dollar amounts over the $15,000 per person limit is that the difference comes out of the lifetime estate exclusion. That amount is $11,400,000 for Dad and $11,400,000 for mom.

If Mom and Dad gave their son $100,000, then the $70,000 difference would be applied toward reducing the $4,505,800 credit that is used to offset estates greater than $11,400,000 per individual's estate. Dad would deduct $35,000 from his $4,501,800 credit, as would mom. With the lifetime exclusion limit and the lifetime allowable credit, I've never come across a family that was terribly concerned about any amount that was greater than $15,000.

For more information about the Estate Exclusion and Credit amounts review the IRS Publication 709. For more information about the annual exclusion and gift tax, review the IRS publication 559, starting on page 25.

The key that defines a gift is that ***it does not need to be repaid.*** If the funds are to be repaid, it’s not a gift. It’s a loan.

If what you are receiving is a loan, that's fine. Your lender will need to document the terms of the loan and ensure you can afford the new payment in addition to your proposed housing payment and other obligations.

A gift letter affidavit is required when a gift of money is received. It needs to state the amount of the gift, who is giving it, the purpose for giving it, and who is receiving the gift. Check to see if your lender has their own form to use.

Rather than do this on your own, ask your lender in advance if they have something they would like you to complete and get signed.

The easiest way for all parties to document "transfer of the gift" is to wire funds to the attorney prior to closing. After the transfer is completed, provide your lender with a copy of the wire transfer receipt. If you are applying for an FHA mortgage, your donor will need to provide bank statements showing that the funds came from their account and were transferred to you in advance of your final approval. This is a bit more cumbersome, but it is required.

Be sure to thank your generous donor! Not everyone fortunate to have someone give them a gift to buy a property

Wishes for Happiest Holidays!

If you would like a particular subject explained or have additional questions on any other post, please
email me.

CHAPTER

08

WHAT YOU NEED TO KNOW BEFORE BUYING A HOME

This morning I watched a Facebook Video by Dave Ramsey. In the first 5 minutes, he made several profound and true statements.

1. Broke people should not buy homes. A home makes a broke person more broke.
2. Renting is necessary while getting your financial house in order.
3. Owning a home is generally more expensive than renting, and you need to be in the financial position to properly maintain your home.
4. Your housing expenses are more than just the mortgage payment.
5. While you are renting, pay of your debt. Save 3-6 months of your expenses for reserves. Save for your down payment.

This is a list of just a few of the repairs I have had to make as a homeowner: repair an AC, replace an AC, replace a dishwasher, repair a stove top, repair an oven, replace a wooden door with a steel frame due to termite damage, pay for termite abatement, replace toilets, and replace faucets.

House maintenance items are like trips to the hospital because you rarely see them coming. When something happens, it's expensive. Over the years, I have financed hundreds of buyers and have heard stories a week after closing about a hot water heater breaking, water flooding the area, floors being ruined, septic overflow, AC not working, etc.

The three biggest ticket items that come with house ownership are replacing a heating and air conditioning unit, replacing a hot water heater, and replacing a roof.

For a family that has no savings, the only way to take care of these big repairs is to go into debt. If the family is already not saving and debt is added, the result could be disastrous for financial future of the family.

So, how can you avoid a money pit when you buy a home? Get a home inspection. This is crucial. A home inspector will check everything out and let you know whether something will need to be replaced shortly after you buy the house.

During the due diligence phase of your sales contract, address these issues and have the sellers make needed repairs or replace items as necessary

There are two main ways to handle needed repairs.

1. Have the seller remedy prior to closing.
2. As for cash in lieu of repairs.

Option 1 is self-explanatory. With **Option 2**, you have to be careful. The cash in lieu of repairs should not exceed your loan costs. The sellers can't actually give you cash when a loan is involved. However, they can pay your closing costs. The idea is, the less money you bring to close, the more money you haveto make your own repairs or replacements. This way you can be in control of the quality of the repairs.

If the issue is a new roof, you may need to wait for the new roof to be completed prior to closing as it is likely that the cost to replace the roof will exceed your closing costs. Consult your Realtor for guidance. Once a homeowner, make friends with a trusty handyman. You never know when you will need one!

https://modernize.com/hvac/cost-calculator
https://www.homedepot.com/c/cost_install_water_heater
https://www.angieslist.com/articles/how-much-does-roof-replacement-cost.htm

CHAPTER

09

WHY GET PRE-APPROVED?

People who haven't gone through the mortgage process either before or after the mortgage crisis of 2008 which transformed the mortgage industry may make assumptions about what they think is required to get a mortgage.

Most loan programs require full documentation to prove the borrower's ability to repay. The documentation requirements can be a cause of confusion and frustration.

For example, a client who has recently left his good-paying W-2 job of 10 years to take a contract job that pays him more to do the same thing often thinks, "I am making more money and have a long history of working in this field. Of course I am able to pay back the loan I am requesting."

This seemingly "common sense" way of thinking does not translate in the mortgage world. This doesn't mean that there isn't a solution out there for a person in this situation. In this case, the person should be aware that for most lenders underwriting to industry guidelines, this scenario is not so clear-cut. This is because a 1099 contract employee is considered self-employed, and most programs require a 2-year history of self-employment before an application is considered. There are exceptions to the rule which allows an applicant to apply with a minimum of 12 months as a 1099 earner if certain requirements are met.

Another common mistake that people make is suddenly pouring money into their checking account because they know they need to show the bank that they have the cash to close. At first glance, it makes sense.

Here's the problem. An underwriter will review the most recent two months of bank statements, and any deposit that is large and unusual will result in a request to "source" each deposit which could be quite diffcult depending on where the funds came from.

For example, you legitimately sold a car but didn't write a bill of sale, get a check from the seller, or retain a copy of the title. In this case, these funds won't be credited as available cash if you need to close. This means that when you need it most, you are unexpectedly "short" of the needed cash.

There are tools that underwriters use that loan offcers don't have access to. As a result of these tools being used, a borrower may show up as being an owner of other property. Let's say your parents put their home in a life estate or trust and your name is connected to it. As the borrower, you have address ownership in the property/properties. This is not a deal killer in your quest to get a mortgage, but it's important that this is addressed and documented.

To avoid surprises when you go to an underwriter, get pre-approved and get the hard part over with. This will allow you to enjoy the home shopping experience with a clear mind.

CHAPTER

10

WHO AM I WORKING WITH?

The job title, experience level, skill level, and professionalism of lenders in the mortgage industry varies. In the same way, the degree of involvement of these professionals can also vary depending on where your loan ends up after closing.

It is important that you have confidence in who you're working with. Do your research and ask your network what they have heard about the person you might be working with. Reputations matter. If you have a special situation, ask the lender about their experience with your similar situations.

Here are some questions you should ask your professional:

- What is the person's position?
- How accessible will they be if you have questions?
- Will they attend your closing?

4 Primary Originating Sources of Home Loans

- Banks
- Credit Unions
- Mortgage Brokers
- Mortgage Companies

Each source listed above has its own unique advantages and disadvantages.

It is important that you ask your lender what solutions their institution offers someone in your situation. After discussing your need, these sources should have a better idea of how to guide you. If needed, they should recommend someone who can help you.

When looking at these sources, know where your loan will end up. Consider if need to change where the payments go and whether you need to change your payments in the future. Know if you should “service your loan” or not. In most cases, banks retain servicing and loan payments will stay with them.

Find out if the lender “releases servicing” or not. If your lender does, ask who the Lender of the loan is. The lender needs to tell you where the servicing center is located. Make sure to ask if your call will be
dispatched overseas when you have questions, and how likely it will be that servicing will change multiple times.

CHAPTER

11

SIX THINGS NOT DO DO WHEN BUYING A HOUSE

I've been in mortgage lending for 15 years and have witnessed loans going sideways at the end. I've sat at closing tables where nightmare stories are told about closings that ended abruptly.

I see posts every day in Mortgage chatrooms from lenders all over the country who discuss the reasons their loans did not close at the very end. Many of the reasons are pretty serious, so I thought I would share what **NOT** to do with you. Here are some common mortgage pitfalls.

Please **DO NOT** :

1. **Quit your job prior to closing**

   Unless you are independently wealthy, can pay cash for the home, or use other income to qualify, having a "take this job and shove it" moment will shove your dream of moving into your beautiful home right out the door. If you are building a home and your loan is in process for 6-12 months and you change jobs, that's different. Be sure to communicate any and all changes about your financial position with your lender.

2**. Finance anything**

You are two weeks from closing, and you just can't help it. The furniture store has a sale and you have to finance $10,000 of new furniture. Don't. PLEASE don't. At Closing, you will sign an affidavit that says you have not incurred any new debt prior to closing.

Some people make major life changes while in the closing process. They change jobs, buy a home, get married, sell a home, etc. Some of these people think “why not nance a new car or stuff for the home”on top of everything else?” This may or may not kill the deal. It derail your closing for a couple days until you come up with documentation to prove what your new expected payments are. Deferred payments for 18 months doesn't mean "no payment." If there is no payment stated on your documentation, 5% of the balance you financed will be used against you.And depending on how strong you are financially, that could be a deal breaker.

3. **Lend your money to a friend**

If you have a loan closing coming up—one where you will need to bring cash to close— don't lend it out and expect it will come back in time. **Leave your money where is it**. If the lender needs to re-verify your bank statements near closing and you have moved large amounts of money, it will create the need for additional documentation to explain and source your funds.

It is especially important that you do not deposit funds from an overseas account where you cannot get bank statements in English. Please spare yourself and your lender this frustration.

4. **Deposit large sums of cash into your account**

If you recently got a 3:00am whim to buy a house, and somehow got under contract without speaking to a lender and are now applying for a home loan,don't deposit mattress money or get cash advances on your credit cards.

Your lender cannot source cash which could squash your closing process.

This means that it doesn't matter if your bank account shows $25,000 if you just deposited $15,000 into it and can't source it with another bank statement. You will only get credit for $10,000. If you need$25,000 to close, you need to source an additional $15K from an allowable and legitimate source.

Unsecured loans and cash advances are never allowed. Ever.

5**. Lie to your lender**

Telling your lender you are buying the home as a primary residence or second home but getting a rental insurance policy on the home is a sure way to get your loan flagged for fraud. Not disclosing to the lender that you have other debt on other owned properties, child support, or alimony will only hurt you as it will be found through the lender’s sophisticated anti-fraud tools. Doing this can change your loan approval status from approved to dead.

6.**Show up at closing with Expired ID**

Look at your ID. Take note of the expiration date and make sure it is valid until after your close date.

The most important move you can make before you are under contract to purchase a home is to have a consultation with your lender about the loan process, expectations, and required documents. Have your lender review your documents to ensure that they will be su cient for the underwriter. Be prepared before you buy and closing will be smooth and easy!

CHAPTER

12

2022 CONFORMING LIMIT

Two months ago, I thought that my company had the inside scoop on the "New 2022 Conforming Loan Limits."

So excited, I put out a blog that the agencies who purchase mortgages from banks and other financial institutions were going up from $548,250 to $625,000.

It wasn't a lie. It was the information that was made available by the agencies to the associated press at the time. However, with continued increases in property values, the agencies officially increased their limit for most areas up to $647,200! This means, nearly everywhere in the USA, one can borrower up to $647,200 before needing to take out a "JUMBO" loan. The notorious high-cost areas are much higher! I am in NC. I'm writing this for NC and for anyone else not in NY, DC, LA, or HI.

By: April Young Blackwell, Blogger, Owner, Broker at BlackwellMortgageNC.com

This is truly phenomenal. Loan Officers that have been doing this a long time, recall a time when the maximum conforming loan limit stayed the same for years. In the last 3 years, however, there is a new loan limit every year that tries to catch up with the cost of housing.

What does this mean? And, why is it important?

For starters, let me break the math down for you. This will focus on down payment and sales price.

If you are a first-time homebuyer and have only 3% to put down, then you can buy a home valued at $667,217

If you are a move-up buyer and have 5% to put down, you can purchase a home valued at $681,264

If you have 10% to put down, the home value can be $719,112

If you have 15% to put down, the home value can be as low as $761,412

And, if you have 20% to put down, the home value can be as low as $809,000

Refinance benefits:

Looking at this last number, consider a homeowner that has a property valued at $809,000.

Maybe they have a mortgage of $550,000, some debt of $50,000, and would like cashback for home improvement of about $40,000. They could do it all. Take out one loan for $647,200. Then, pay off the $550,000 at their current JUMBO rate, pay off high-interest personal debt, and take out cheap money to redo their kitchen, or build a fancy fire pit and the living area outside for their friends and family.

The VA and USDA also take their queues for their maximum loan limits from the Conforming Agencies. While you can borrow more than the $647,200 with the VA, a Veteran will need to put in additional funds for a down payment.

USDA does not have a need for larger loan amounts, as they do have income limits that would prevent a homebuyer from qualifying for more than what their debt-to-income ratio will allow.

Now, at the risk of sounding like an infomercial, I must add, “Wait! There is more!!”

Not only conventional buyers and owners getting a boost, buyers in need of low-rate mortgages with less than perfect credit or lower down payments are getting help, too!

Yes, that's right! The FHA loan limit which often limits homebuyers in a hot market from participating is getting a serious boost up.

For most areas, the FHA loan limit is increasing to $420,680 for a single-family home.

This includes popular counties, like **Wake, Johnston, Vance, Franklin, Harnett, Mecklenburg.**

If you are in Durham, Orange, Granville, Chatham counties, then you are in for a real surprise! Homebuyers or current homeowners can borrow up to $506,000!

So, to keep it simple, FHA requires 3.5% down or 3.5% equity.

A $420,680 loan amount is 96.5% of a $435,939 home value. And

A $506,000 loan amount is 96.5% of a $524,353 home value.

To cash out, FHA requires more equity. The maximum "loan to value" is 85%

In the lower cost counties:

$420,680 is 85% of a value of $494,918

This means, if one owns a home valued at $494,918 or more, one could take out a home loan up to $420,680 to consolidate debt and or to improve their homes.

In the high-cost counties:

$506,000 is 85% of $595,295

This means, if one owns a home valued at $595,295 or more, one could take out a home loan up to $506,000 to streamline their household finances, invest, or improve their home.

Here is the link to find your county. Be sure to update the CY to 2022 to get the future limit.

I've been a Mortgage Loan Officer since 2005. Never have I seen such a wonderful opportunity for homebuyers and homeowners. It's a gift.

With Love, April Blackwell, MLO, Owner, Broker, Blackwell Mortgage, NMLS 415648

CHAPTER

13

DISCOUNT POINTS PAGE

Every lender has a variety of rates to o-er. The lower the rate, the higher the cost. The higher the rate, the higher the lender credit to you.

The trick is finding the balance between the payment you have budgeted for and the cash needed to close. The rule of thumb as you calculate this is that the difference in cost (points) between each rate is .5%.

Example

Pretend that the following are your loan offers:

1. $250,000 with a 30-year term. Your Rate will be 3.5% and your points.5% for a cost of $1250 (.005*250,000=$1250). Your P&I payment for this loan will thus be $1,121.61.
2. $250,000 with 30-year term. Your Rate will be 3.625% and your points will be 0% for a cost of $0. Your P&I payment will thus be $1,140.13.
3. $250,000 with a 30-year term. Your will be Rate 3.75% and your points will be -.5%. This will give you a lender credit of $1250. Your P&I payment will thus be $1,157.79.

You can see that the cost between the rates is $1250. At 3.5% the borrower is bringing an additional $2500 to close compared to the borrower getting 3.75%.

This means the monthly difference in payment is $36.18. In other words, the additional cash to close at $2500 buys the rate down to 3.5% and yields a monthly benefit of $36.18

Which is better? That depends. For a borrower tight on cash to close, paying $36.18 more per month to save $2500 is a fair exchange. For the borrower that may not have the mortgage for long after the breakeven point, paying the higher rate is a great choice.

This is because it will take 69 months to recoup the costs of paying the extra cash to close vs saving money at closing. For the borrower that has plenty of cash and plans to have the mortgage for years beyond the breakeven point, buying down the rate could work for them.

The question is what is more important to you. Would you rather save $2500 in cash to close and have a payment $36.18 more per month or pay $36.18 per month for 10 or more years?

CHAPTER

14

EARNEST MONEY DEPOSITS

When you make an offer to purchase residential real estate, there are two types of deposits you are expected to put down to show you are serious that take the home of the market.

Due Diligence goes to the seller and is non-refundable

The is additional funds to show you have skin in the game. It goes to an "escrow agent” and can be in either a Realtor's or closing attorney’s escrow account. If you cancel the sales contract before your due diligence date, the Earnest Money is refundable. If you cancel after the due diligence date, the Earnest Money is not refundable.

How is this money applied toward your purchase? Here’s an example:

You are buying a home for $200,000. Your down payment is 5%. 5% of $200,000 is $10,000.00. Your closing costs are $5,000. Your cash to close is the down payment plus closing costs or $15,000.

Your deposit was $3,000. So, you take of that deposit from the cash to close ($15,000 - $3,000), and you now have $12,000 due at closing.

Down payment $10,000
Closing Costs +$5,000
Cash to close = $15,000
Your deposit - $3,000
Rev. Cash to close = $12,000

Many clients are relieved to understand this as many think that they will put down $3,000 and THEN bring an additional $15,000 to close which would be an investment of $18,000. When they see that the deposit is applied toward the cash to close, they are happy because they understand what is actually needed.

If you are looking for preapproval to purchase a home and would like to be given a transparent expectation of your funds needed to close, I'd be happy to schedule a consultation with you. You are welcome to .

CHAPTER

15

WHAT IS THE DIFFERENCE BETWEEN THE "NOTE RATE" AND THE APR?

When obtaining a mortgage, potential buyers are often confused about the difference between the "Note Rate" (Interest Rate) and the "APR" (Annual Percentage Rate)

The note rate is the interest rate. It is the only rate upon which the payment for the principle and interest is calculated. The APR takes into account some of your closing costs and prepaid interest. It treats those costs as additional interest and combines them with the Note Rate to come up with a rate that summarizes your cost of financing.

The APR is a government number that is designed to help consumers compare loan offers. Since some lenders offer the lowest rate at the highest cost and some higher rates at lower costs, the APR is supposed to be the leveling number.

There are, however, a few problems with choosing an offer based on APR alone:

1. APR can be manipulated to look better than it is.
2. APR doesn't consider cash to close which is a material factor.
3. APR doesn't provide a cost/benefit analysis between options

Many people do not realize that the APR can be easily manipulated. This is because prepaid interest is a part of determining the APR and is based on the day of the month you close.

During a preliminary estimate, one lender may select to use the last day of the month as the estimated closing date while another may be more conservative and use 15 days of prepaid interest. Yet another will use another estimate after talking to you and seeing that your actual planned close date is the 5th of the month. With all factors being equal, the lender that used the last day of the month will have a better APR than the other two lenders. Their offer isn't better. It is just based on the selected day of the month you close.

The APR doesn't consider your cash to close as a material factor.

Let's say you have an offer for 3.25% and an offer for 3.5%. The APR on the 3.25% is 3.45% and the APR for the 3.50% is 3.55%. It could be assumed, based on the purpose for which the APR was designed that the government's guidance would be that the 3.45% APR was the better offer

This may or may not be accurate. Let’s say the closing costs for 3.25% is $3500 more than the closing costs for 3.5%, and the payment will be $35 benefit/month. The question is does the borrower have the extra $3500 to begin with. If the borrower doesn’t, then it doesn't matter how great the APR because the person cannot afford to close.

Please let me know if this makes sense. Happy to jump on a call to explain it PDF

https://themortgagepoints.com/f/what-the-new-2022-maximum-loan-limits-mean-for-you-your-friend