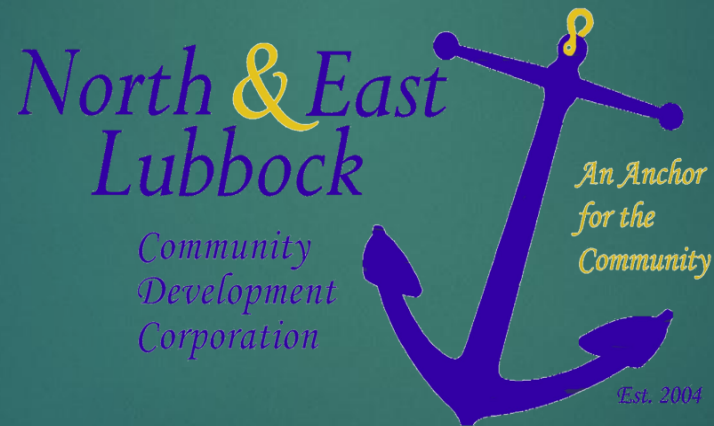


North & East Lubbock CDC

Financial Literacy Training – UNIT 4

Obtaining A Mortgage



Instructor: Reggie Dial, NELCDC Program Manager
& HUD-Certified Housing Counselor

Agenda



- Mortgage Loan Basics
- Who Can Get A Mortgage Loan?
- Affordability And You
- How Much Will A Lender Lend You?
- Shopping For The Right Lender And Product
- Strategies For Finding The Right Lender And Loan Product
- Working With A Lender
- Steps The Lender Takes To Approve Your Loan
- Your Rights As A Loan Customer

What Is A Mortgage?

➤ Promissory Note

- Is the borrower's promise to repay the lender according to the agreed term

➤ Mortgage or Deed of Trust

- Is the document used to secure the promissory note

➤ Collateral

- Something pledged as security for repayment of a loan

➤ Secured Loan

- A loan in which the borrower pledges some asset (e.g.) a car or property as collateral for the loan

What Does a House Payment Include?

- **P**rincipal
- **I**nterest
- **T**axes
- **I**nsurance



Steps in Obtaining a Loan

- Research
- Pre-approval
- Loan Application
- Loan Processing
- Underwriting
- Approval
- Loan Closing



The 4 Cs of Credit

- Capital
- Capacity
- Credit History
- Collateral



Capital

- Down Payment
- Loan Fees
- Closing Costs
- Escrow Impounds
- Reserves
- Moving Expenses



Capacity



- Current Income
- Income History And Future Earning Potential
- Amount Owed
- Installment Accounts
- Revolving Charge Accounts
- Other Monthly Payments

Credit History

- Are Bills Paid On Time
- Current Liability
- Past History
- No Credit History



Collateral

Collateral is security pledged for the payment of a loan.

*Is the house worth
what you are paying for it?*



Ratios



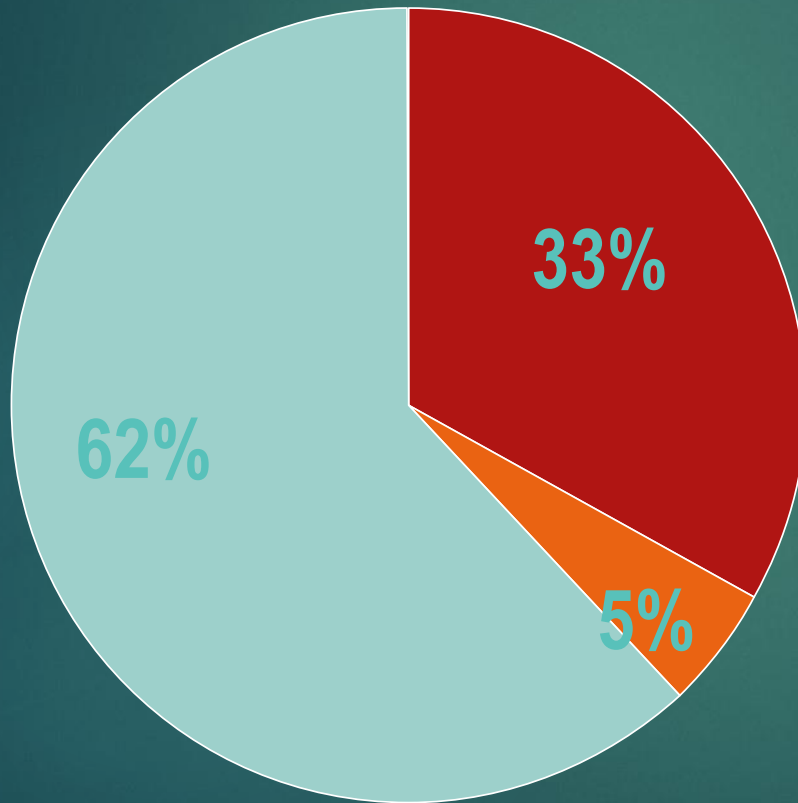
- **Housing Ratio** = Maximum % Of Gross Monthly Income That Can Be Used For A Monthly Mortgage Payment.
- **Debt-to-income Ratio** = Maximum % Of Gross Monthly Income That Can Be Used For The House Payment Plus All Other Debts

Affordability and You

Housing

Debts

Other Expenses



38% For Housing Plus
All Other Debt

Interest Rate Factor

- Shows Monthly Payment On A \$1,000 Loan At A Given Interest Rate And For A Given Term.
- Allows You To Calculate Monthly Principal And Interest Payments From Loan Amounts, Or Loan Amounts From Monthly Payments.

$$\$100,000 / \$1,000 = 100 \times 7.34 \text{ (factor)} = \$734$$

$$\$1,000 / 7.34 \text{ (factor)} = 136.240 \times 1,000 = \$136,240$$

Getting Prequalified

Calculations Using Affordability Ratios Show:

- How Much Money The Lender Will Lend
- What Price Home You Can Afford
- How Much Down Payment You Need
- How Much Your Monthly Payments Will Be

This Is Not A Guarantee

Obtaining Pre-approval

- Obtain Pre-approval Before Searching For House
- Guarantees That The Lender Will Lend A Fixed Amount Within A Set Time Period
- May Have To Pay A Fee



Who Makes Mortgage Loans?

- Banks, Savings Associations, Credit Unions
- Nonprofit Organizations
- State Or Local Housing Financing Agencies
- USDA Rural Development (RHS)
- Sellers
- Mortgage Brokers

Loan Categories



- Conforming Conventional
- Subprime
- Government Insured Or Guaranteed
- Special Programs For Low-income Or First-time Homebuyers

Conforming Conventional Loans



- Conform To Fannie Mae/Freddie Mac Guidelines
- Available In Many Types Of Loans

Subprime Loans

- For Those With Credit Problems
- Higher Interest Rates
- Risk-based Financing



Loan Price Cost Comparison

Rate	Monthly Principal and Interest Payment	Total Interest Paid
6.20%	\$612	\$120,488
12.30%	\$1,052	\$278,643

Predatory Lending



- High-pressure Sales Tactics And Steering
- High Interest Rates And Fees
- Balloon Payments And Negative Amortization
- Prepayment Penalties
- “Flipping”
- Deceptive Practices And Fraud

Government Loans

- FHA Insured Loans
- VA Guaranteed Loans
- Rural Housing Services Guaranteed Loans
- State Or Local Financing Insured Loans



Special Loan Programs



- Fannie Mae And Freddie Mac Affordable Lending Products
- Local Bank Programs
- State And Local Housing Finance Agency Bond Programs
- Nonprofit Programs

Types of Loans

- Fixed-rate Mortgages
- Adjustable-rate Mortgages
- Interest-only Or Balloon Mortgages
- Graduated Payment Mortgages
- Bi-weekly Mortgages
- Incentive Rate Reduction Mortgages
- Shared-equity Mortgages

Key Mortgage Terminology



- Loan-to-Value (LTV)
- Down Payment
- Loan Term
- Interest Rate
- Annual Percentage Rate (APR)
- Points

Mortgage Terminology (Cont'd)

- Mortgage Insurance
- Escrow Account
- Loan Fees
- Prepayment
- Rate Lock-in
- Amortization

Loan Fees

- Loan Application Fee
- Credit Report Fee
- Appraisal Fee
- Loan Origination Fee
- Document Preparation Fee
- Broker Fee



Shopping for a Loan



- Get Referral From Homeownership Counselor Or Realtor®
- Check With Current Financial Institution
- Get Referrals From Friends And Family
- Shop Online
- Check Local Or State Financing Programs

Comparing Loan Programs

- Mortgage Loan Amount And Type Of Loan
- Down Payment
- Term Of Mortgage
- Interest Rate And **APR**
- Monthly Payments
- Other Costs And Fees
- Any Prepayment Penalty

Applying for the Loan

- Discuss Details Of Loan Terms
- Complete And Sign Written Application Form
- Provide Copies Of Required Documents
- Sign Permission Letters For Verifications
- Sign Authorization For Credit Report And Pay Fee
- Pay For Application Fee And Appraisal

Loan Application Documents



- Application (Form 1003)
- Truth In Lending Statement
- Good Faith Estimate

Steps to Approval

Processing

- ▶ Order and review credit report
- ▶ Mail verifications of employment and deposit
- ▶ Calculate housing and debt ratios
- ▶ Order property appraisal

Underwriting

- ▶ Review case file
- ▶ Recommend accept, deny or give conditions for approval



Legal Reasons for Rejection

- High Debt
- Insufficient Funds
- Low Appraisal
- Poor Credit Rating



Standard Loan Conditions

- Mortgage Insurance
- Hazard And Possibly Flood Insurance
- Clear Title Report And Lender's Title Insurance
- Clean Termite Inspection And Certification
- Survey
- Other Inspections Common In Area

Other Conditions



- Property Condition Contingencies
- Documentation Contingencies
- Other Requirements
 - Sale Of Another Property You Own
 - Pay Off Debt
 - Resolve Legal Problems

Closing Costs



- Loan Fees
- Interim Interest
- Insurance Premiums
- Escrow Account Deposits

Your Rights as a Loan Customer

- Equal Credit Opportunity Act
- Fair Housing Act
- Enforcement Agencies



Summary



- What Is A Mortgage?
- How You Qualify For A Mortgage?
- What Are Different Types Of Loans Available?
- How To Find The Right Lender?
- How To Compare Loans?
- Know The Lending Process For Approval Or Rejection.

Questions?

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