

Criteria for Qualifying to Purchase a Home

Presented by Luke Conrad and Danielle Beaumont from Stillwater Financial

When getting a mortgage there are some basic concepts that you must grasp when understanding the mortgage process. Danielle and Luke broke it down into easy to understand terms.

Before you can have a mortgage funded your paperwork must be approved by "underwriting". This is a process that either verifies your loan worthiness and gets you approved, or sends you to do more paperwork to clarify some questions and jump through a few more hoops before approving you, or can deny you a mortgage at this time because you do not meet the criteria that they require.

The class focused on the "4 C's of Underwriting"

Underwriting is the process that the lender goes through to determine the risk of lending you money to purchase a home.

The 4 C's of underwriting are:

- Credit
- Capacity
- Collateral
- Character

Let's start with Credit:

- **Credit history** –
 - Late Payments-
 - Late payments on your trade lines in the last 12 months or 24 months. The most recent hurt your credit the most
 - Collections- do you have any, how old are they, do they need to be paid off
 - Profit and loss
 - Public Records
 - Bankruptcy- when it was discharged, currently underwriters are requiring 3 years post BK.

- Foreclosure- when was it closed. You are certainly still eligible for a mortgage after you have had a foreclosure , you just need to reestablish your credit and typically with 2 years you can get financed for a home again.
 - Tax Lien most need to be paid in full before a mortgage will be approved. This is because the mortgage lender wants to be first in the chain of title.
 - Judgment this is against you personally. Often underwriters will need judgments satisfied before they will approve a loan.
- Credit Profile
 - 5 factors
 - Payment history- makes up 35% of your credit profile
 - Amounts owed- makes up 30% of your credit profile
 - Length of credit history- makes up 15% of your credit profile
 - Types of credit used- makes up 10% of your credit profile
- Credit Score
 - 3 digit number between 350-850
 - Defined as an indicator of a borrowers likelihood to repay a debt
 - Credit Score ranges in terms of getting a mortgage :
 - 350-580 Needs work
 - 580-620 can qualify with extenuating circumstances
 - 620-660 Can qualify
 - 660-850 Credit acts as a strength rather than a neutral factor
- **Capacity**

Capacity is how a lender views your activity to repay a loan

 - 3 factors make up your capacity
 - Your Income- this is the total income you have coming in that you can document
 - Assets and Liabilities
 - Debt Ratios
 - Income- Your ability to repay from month to month
 - Salary, hourly, base pay- 1 paycheck and 2 years solid employment history in the same profession

-Self Employment, commissioned, or work for a family member-
need 2 years tax returns

- o Assets and Liabilities- What do you have paid in partial or in full and what do you owe

-Checking, Savings- 2 months bank statements and saving statements

*Explanation of large deposits

* No bounced checks, NSF's , or overdraft charges

- o Liabilities

-Mortgage payments, auto loans, credit cards, secured lines of credit, student loans

-Anything that you pay on a routine basis that is reported to the credit bureaus

- o Debt Ratios

2 important ratios are considered:

*Housing Ratio

*Debt Ratio

- Housing Ratio- your total monthly housing expense as a percent of your gross monthly income

*Goal is 31%

- Debt Ratio- your housing expense plus any monthly liabilities as a percent of your gross monthly income

*Goal is 43%

- Collateral

Collateral is the property that the lenders loan is going to be secured on
5 factors of Collateral:

- o Type- A single family residence vs. manufactured/mobile home
- o LTV- LTV stands for Loan to Value and it is the percent that you are borrowing compared to what the value or the purchase price of the house is, the higher the LTV, the higher the lender will view the risk of the loan
- o Value- the lender will look at the trend of values of similar properties in the same area to determine if values of similar properties in the same area to determine if values are going up, staying constant or declining.
- o Condition- 3 S's

- ✓ Safety- that the home is safe for the borrowers
- ✓ Soundness- the foundation, electrical , etc is sound
- ✓ Security- Home is a good security for the loan
- Marketability- The worst case scenario for a lender is having to take a house back, therefore they will look at –length of time houses are on the market in that area, supply of houses in that area, and trend in value of similar houses.

- **Character**

- Character is the most simple yet complex of the 4 C's. In a nutshell it is your sincerity to repay your home loan.
- Character plays a key role on the mortgage specialists end when submitting a loan to the lender
- *As your mortgage specialist we will only submit your loan to the lender if you are sincere about paying back the loan.
- *There is obviously no absolute way to ensure someone's character but we need to be 100% confident that you are going to repay the mortgage and only then will your paperwork be submitted.

The Basic Formula to Buying Your Home and Getting a Mortgage:

Presented by :
Luke Conrad and Danielle
Stillwater Financial.
Offered by:
Lori Jake, Swiftcurrent
EZQualDreamHomes.com

Credit
Capacity+
Collateral+
Character=
Mortgage for your Home

Beaumont
Stillwaterhomeloans.com
Investment Group, LLC