

Tips, Tricks, and Ethical Obligations in Lending

ZENO ZENNARO

NMLS# 324409

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Agenda

- ▶ Overview of the Mortgage Process
- ▶ Technology in Lending
- ▶ Alternative Loan Programs
- ▶ Popular Loan Programs
- ▶ How to compare lenders
- ▶ Ethical obligations in today's lending practices

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The Mortgage Process

- ▶ Initial Application (Credit, Income, Assets, REO, Declarations, Gov't Monitoring)
- ▶ Processing
- ▶ Appraisal
- ▶ Underwriting
- ▶ Closing

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Preparing for Underwriting

Income:

- 2 years federal tax documents (1040s). Please include ALL pages and schedules, including all W-2 forms for each year
- 1 month most recent 30 days' pay stubs

If self-employed, we will need:

- Year-to-date Profit & Loss statement
- 1 month most recent 30 days' pay stubs

If you receive Social Security, Disability, or Pension Income:

- Current-year benefits letter from US Social Security Administration and/or Disability benefits provider
- If you receive pension income, we will need a letter from your pension provider evidencing continuance

Assets:

- 2 months bank statements for all accounts. Please provide all pages, including blanks
- 2 months most recent statement for all investment accounts, including IRAs, mutual funds, stock portfolios, retirement fund, 401K, etc.

If you own multiple properties, we will need:

- Current lease agreement(s), if applicable
- Current mortgage statement on each property
- Insurance declarations page(s)

Liabilities for Refinances and/or Retained properties:

- The name and phone number of your homeowners (hazard) insurance provider, along with a copy of your declarations page
- Copy of your most recent mortgage statement
- Copy of your most recent HOA statement. (Please make sure this includes the HOA name and phone number)

Purchases:

- Fully executed purchase contract
- Copy of your cancelled check used for the earnest deposit, as well as the corresponding bank statement showing it has cleared your account
- Gift letter if the down payment is a gift

Misc:

- Legible photocopy of your drivers' license (front and back) or passport
- Copy of the complete divorce decree, including child support/almoney if applicable
- If you receive trust income or have assets in a trust, we will need a COMPLETE copy of the trust

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Do's and Don'ts

- ▶ The Don'ts
 - ▶ Don't apply for new credit of any kind
 - ▶ Don't MAX OUT or overcharge existing credit cards
 - ▶ Don't Make any large purchases
 - ▶ Don't consolidate debt to one or two credit cards
 - ▶ Don't make any large deposits into any accounts
- ▶ The Do's
 - ▶ Keep all exiting credit card accounts open
 - ▶ Keep your employment at your current job
 - ▶ Stay current on existing accounts
 - ▶ Call me before doing ANYTHING

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Technology In Lending

- ▶ Automated Income Verification (The Work Number)
- ▶ Automated Appraisal Valuations (AVM) *Conventional and HELOCs
- ▶ Digital Asset Verification (Account Check)
- ▶ E-Sign for Initial Disclosures and now closing
- ▶ Credit Booster programs (adding rental history and other monthly obligations to the credit report, such as utilities)

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Alternative Lending Products

- ▶ Known as Non-QM Loans or Alt Doc Loans
- ▶ DSCR
- ▶ Bank Statement
- ▶ Programs for Recent Derogatory Credit such as Bankruptcy, Foreclosure etc.

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DSCR

- ▶ Investment Property Only
- ▶ None of the standard income documentation required
- ▶ Minimum 10% Down
- ▶ Ratio is calculated based off the Rental Income divided by Mortgage Payment
- ▶ >1 is optimal, rate and terms based off that ratio and credit score
- ▶ Some lenders offer No Ratio, but require greater down payment

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Bank Statement Loan

- ▶ Great for Self-Employed borrowers with a lot of tax write offs
- ▶ Income Calculated off average deposits over 12 to 24 months
- ▶ Personal or Business Accounts allowed
- ▶ Rate and Loan to Value is based off Credit Scores, Down Payment and the amount of bank statements in the file, the more bank statements the less risk.

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Popular Loan Programs

- ▶ One Time Close (Construction) FHA, VA, and USDA
- ▶ Down Payment Assistance
- ▶ Temporary Rate Buy Downs (Seller Funded)
- ▶ Streamline Refinance (FHA/VA) No Appraisal and No Credit Qualifying
- ▶ HELOC/HELOAN

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One Time Close Construction

- ▶ One loan to purchase land and cover the cost of Construction
- ▶ Minimum 10% Down Payment for Conforming Loans
- ▶ Minimum 15% Down Payment for up to \$1,000,000 loan amount
- ▶ Increased down payment requirements every \$500,000
- ▶ You can include the cost of land in loan too.
- ▶ VA allows 100% Financing for Land and Construction no maximum

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Renovation Programs

- ▶ Fannie Mae & Freddie Mac
 - ▶ As low as 3% Down Payment for First Time Homebuyers, 5% Min otherwise
 - ▶ Total renovation funds can be up to 75% of the "as completed" appraised value or the acquisition cost, whichever is less.
 - ▶ Renovations allowed: Kitchen/Bath Remodeling, Structural Repairs, Room Additions, Flooring, Energy efficiency updates, even Pools are allowed - much broader range than 203K
- ▶ FHA 203K Full or Limited
 - ▶ As low as 3.5% Down Payment
 - ▶ Allows for most of the same renovations, just no pools are allowed.

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Down Payment Assistance

- ▶ Available on Conventional, FHA, VA and USDA
- ▶ There are a lot of DPA programs
- ▶ Some of these programs include a silent 2nd lien
- ▶ Some require repayment of the 2nd lien, either monthly or when the first mortgage is refinanced or there is a transfer of title
- ▶ Some programs are fully forgivable immediately after closing.

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Temporary Rate Buy Downs

- ▶ Must be seller funded
- ▶ Options include 1/0, 1/1, 2/1, and 3/2/1
- ▶ This will reduce the initial mortgage payments
- ▶ Sellers are competing with New Home Builders Incentive Programs

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Streamline Refinance

- ▶ VA IRRRL
 - ▶ No Appraisal
 - ▶ No Income Qualifying
 - ▶ Soft Pull Credit Report
 - ▶ Reduced Funding Fee (.5%)
 - ▶ 36 Month Recoup Test and 5% Reduction in P&I
- ▶ FHA Streamline Refi
 - ▶ No Appraisal
 - ▶ No Income Qualifying
 - ▶ Soft Pull Credit Report
 - ▶ No more than 1x Late Payments in the last 12 months, 0 in the last 6 months
 - ▶ Refunded partial Up Front Mortgage Insurance, must roll in new Up Front Mortgage Insurance (1.75%)
 - ▶ 5% Reduction in Principal and Interest Required

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HELOC & HELOAN

- ▶ Home Equity Line of Credit
 - ▶ Requires at least 660 FICO
 - ▶ Interest Rate is floating with Prime (8.5%)
 - ▶ Acts like a credit card backed by your home's equity
 - ▶ Interest Only first 3/5/10 years
 - ▶ Up to \$500,000
 - ▶ Up to 90% CLTV with Approved Credit
 - ▶ AVM can be used, case by case
- ▶ HELOAN
 - ▶ Min FICO 620
 - ▶ Fully Amortized Payment 10/15/20/30 yrs
 - ▶ Up to 90% CLTV with Approved Credit
 - ▶ AVM may be used, case by case

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Intra-Day Market Chart



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Ethical Considerations

- ▶ Protected Classes
- ▶ Prohibited Acts
- ▶ Prohibited Discriminatory Advertising
- ▶ Fair Housing Act Enforcement
- ▶ Fair Credit Reporting
- ▶ Information Privacy

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Equal Credit Opportunity Act

- ▶ The federal Fair Housing Act prohibits discrimination in the sale or lease of residential property including against individuals seeking a mortgage or housing assistance. Specifically prohibits discrimination based on:
 - ▶ Race
 - ▶ Color
 - ▶ Religion
 - ▶ Sex
 - ▶ Handicap or Disability
 - ▶ Familial Status
 - ▶ National Origin

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Fair Housing Act

- ▶ The Fair Housing Act makes it illegal to discriminate against someone of a protected class at any stage of the mortgage process including:
 - ▶ Advertising
 - ▶ Mortgage broker services
 - ▶ Terms e.g., interest rates, points, fees, and other costs
 - ▶ Property appraisals
 - ▶ Homeowners Insurance
 - ▶ Approvals and denials
 - ▶ Servicing
 - ▶ Home loan modification assistance

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Examples of Prohibited Acts

- ▶ Denying a mortgage or charging a higher interest rate because the property is located in a minority neighborhood
- ▶ Providing a different customer service experience to mortgage applicants depending on their race, color, religion, sex, familial status, national origin, or disability.
- ▶ Refusing to consider a mortgage applicants disability related income, such as SSI or SSDI
- ▶ Steering borrowers to a loan with less favorable terms because of their race, color, religion, sex, familial status, national origin, or disability.

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Prohibited Acts

- ▶ Steering – making presumptions, based on physical appearance or the area of the home to be financed, about the types of loan products or terms that their clients should have, without asking questions and exploring different options.
- ▶ Blockbusting – attempting to induce, for profit, any person to sell or rent property based on representations made regarding entry made regarding entry to the neighborhood of persons of a particular race, color, religion, sex, or national origin. Also known as Panic Selling or Panic Peddling
- ▶ Redlining – the systematic denial of various services to residents of specific neighborhoods or communities, often due to it's racial or cultural makeup.

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Client Advising

- ▶ Imperative to provide clear guidance on the legal implications of different options. Such as ARMs versus Fixed, and long-term implications of each choice.
- ▶ Negative Amortization (Neg-Am) loans helped cause the 2008 housing crash, many borrowers didn't feel they understood the programs.
- ▶ There are still lender operating that do NOT take the time and go through each option.

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Thank you!

Zeno Zennaro

480-338-7343

Zeno@C2financial.com

NMLS#324409

C2 Financial

NMLS#135622

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