MORTGAGE SOLUTIONS NETWORK

A Reference Guide for Buyers entering the Real Estate market

Introduction

Hello, my name is Kevin Gilmore and I am a mortgage broker and loan originator. I started in the mortgage industry in 1998 and over the past 18 years I have witnessed, adapted and endured through all of the radical changes the industry has gone through. In 1998 no documentation loans were common. Buyers did not even need to verify employment. In 2015, if you had a million dollars in your checking account and are unemployed you cannot get a loan. My philosophy has always been "Would I do this loan if it were me?" After the past 18 years of working in the lending industry I believe it is fair to say that I have seen just about every kind of loan scenario come across my desk. In years past we gave home financing away like it was going out of style and today we make it almost impossible to obtain a home loan because of the rigid regulations set forth in the financial reform act of 2009. That being said, the most common question I get from consumers looking to enter the market for the first time or seasoned home owners looking to purchase again is, "Where do I start today and where do I even begin the process?" Those simple questions can be very complex which is why I am passing some of my knowledge on to you. I want to let you know where you stand in today's real estate market and what you are up against. From obtaining financing from a bank vs. a wholesale broker, working with real estate agents and closing attorneys, to new construction versus dealing with home builders. My goal is to break down what you need to know to get the process started and what you'll have to have to obtain financing under the new rules and regulations. Even for a seasoned veteran like me it can get a bit over bearing at times so I want to keep this as simple as possible, broken down into the nuts and bolts of what you should know.

One of the first things I remember from economics class was my professor quoting Milton Freidman, "There is no such thing as a free lunch" years later I figured out what that meant, especially as it pertains to the housing market. I have witnessed so many buyers get steered and taken advantage of because they were ignorant of the process and it cost them in the long run. They could have qualified for better rates and terms had they known better and had their paperwork and finances been in order before applying for a home loan. Before you think of becoming a potential home buyer, take a look at your credit.

The state of Georgia allows consumers a free copy of the credit report for all three bureaus, Experian, Equifax and Trans Union. You can order one per year and that can be obtained through www.annualcreditreport.com.

Since the housing market crash, banks and lenders have adopted a different philosophy from the pressures of financial reform. That philosophy is that in the event of a default did I cover myself and document the file enough in order to avoid having to repurchase the loan?

There are three basic things we look at when determining whether or not you can purchase a home: credit, income, and savings/source of down payment. Ideally, in today's market you want to have at least a minimum score of 640 Fico. This is not a score set in stone and some lenders will go lower however the criteria and documentation gets a little more complicated which affects the chances of the loan being approved. This is why I emphasize pulling your credit report upfront to see what should and should not be on the credit report. If the report is messy, then step back and evaluate whether or not it's a good time to even be buying a home. Find a good loan officer to determine what needs to be addressed on the credit and what should be left alone. Word of mouth is the best way to find a good loan officer, do your homework and research the person who is about to give you advice on one of the biggest decisions of your life. For those of you who have family in the housing industry, please know that just because someone is a friend or related does not always mean that they have your best interests at heart. What financial reform was intended to do was to level the playing field and standardize how we lend, so what I'm telling you is that the playing field has been leveled and the days of "we can make it happen regardless…" are long gone. It's all about securitization and documenting the borrower ability to repay the note.

A couple agencies that have spawned from the financial reform act of 2009 are the creation of the Nationwide Multistate Licensing System & Registry (**NMLS**) and the Consumer Financial Protection Bureau (CFPB). These agencies are available to consumers to research who they are working with and to air their grievances if they feel they are not being treated fairly in the market place.

Section 1 - Credit

All three credit reports are pulled simultaneously when applying for a home loan, this is called a "Tri-merged" credit report. Banks and Lenders take the middle score of the three bureaus which is why it is so important to review all three upfront before making a loan application. It is not uncommon for discrepancies to appear on credit reports regardless of your credit history or how strong you feel your score may be. What we are looking at is not only the score itself but actual make-up of the credit; have you paid on the accounts listed on the credit report in a timely manner each month? Have you been late on any accounts reporting over the past 12 months and/or are any past due currently? Do you have any collections or charge offs or repossessions? Have any of those accounts turned into judgements or liens? The past may be the past to you, but from our perspective the past could come back to haunt you through judgements, garnishments and potential liens on title. Remember, it's all about securitization these days. If an underwriter feels that your past can jeopardize the future repayment of the loan they will most likely not approve you. A collection can turn into a judgment, which could potentially become a garnishment on your wages or salary. That garnishment would cause you to bring home less money until the debt is repaid, this could jeopardize your ability to repay the note monthly; same thing for voluntary and involuntary repositions. Medical collections are some of the most common types of collections, in fact more people file bankruptcy on medical collections than any other debt. One thing to come out of the 2008 mortgage crisis was bad credit. As a result, “credit repair” companies came out of the woodwork, selling consumers on making bad credit go away. Don’t throw good money away after bad, use it to clean up your own credit. This is not rocket science although credit companies would say otherwise. If you are disputing any accounts on any of the three credit reports, have the dispute removed or settle the debt. We will require in most cases that the verbiage “Account in dispute” be removed. If you do not remove the dispute verbiage, when a dispute is placed on credit, it hides the derogatory information about the account in dispute. This in turn keeps the credit score from reflecting the bad reporting history in question. I call this “Ripping the Band-Aid off” which is all that placing a dispute on the account in question does. It places a Band-Aid on the account to reflect a higher credit score and hide the poor credit history until removed. If you currently have disputes, I strongly recommend for you to get with a mortgage professional to discuss a strategy on getting your credit in order if necessary. Look for someone who specializes in challenging credit if you are one of those types. For those who have done their due diligence, know their credit scores and credit history, you are ready to shop and compare mortgage rates. When it comes to shopping for mortgage rates bigger name companies are not always better. I encourage consumers to shop rates with local mortgage companies. Working with someone local gives you the ability to meet one on one and see if that originator or company is the right fit for your credit profile.

Remember:

- **Pull a credit report from each of the 3 credit repositories, Equifax, Experian and Trans Union.**
- **Review the reports for any discrepancies, collections, past due accounts, etc.**
- **Remove any “Account under dispute” verbiage**
- **If you need guidance on your report contact a “professional”**
- **Pay down or pay off credit card balances, but do not close the account**
- **If you have student loans that are in deferment but expect to begin paying on them within the next 12 months, make sure you know what the expected payment is and can provide the necessary documentation to support it.**

Section 2 - Income

Documenting that a borrower has the ability to repay the loan is the most important aspect of the underwriting process. In the eyes of the lender you are either employed by a company or you are self-employed. If you are employed by a company, a lender will want to document the last two years of employment through your W-2’s and pay stubs. If you are a W-2 wage earner and earn commissions as well, you will be required to provide the last 2 years of personal federal returns in order to average the commissions over a 2 year period if needed for qualification purposes. Providing 2 year returns is always a good idea when getting qualified to purchase a home. Have the loan originator or underwriter review the returns to make sure there are no surprises.

For example, if you are a W-2 wage earner and your salary is 100K, the w-2 provided shows the 100K. However, while preparing your taxes you discovered some unreimbursed expenses you need to claim and those total 25K.

The Fannie Mae guideline states that we must deduct that amount from the gross income of 100K leaving your adjusted gross income of 75K. An underwriter or loan originator would have no idea about the unreimbursed expenses unless the returns were provided upfront during the initial qualification process.

Self-employed (S/E) borrowers face some of the biggest hurdles when qualifying for a home loan under current guidelines. Not only did financial reform change how we make loans but also tightened its grip on the self-employed/1099 consumer. Remember what I made note of earlier, it's about documenting the borrower's ability to repay the note on a monthly basis. Self-employed borrowers must be self-employed a minimum of 2 years, must show a consistent income pattern with no step declines in income. A self-employed borrower's income is determined by the personal federal returns filed with the IRS, averaged over a 2 year period. When averaging the income, underwriters take the adjusted gross after all write off and deductions have been taken.

For example, a self-employed borrower receives a 1099 at the end of the year for 100K and then will take deductions and write-offs of expenses incurred throughout the year. What is left over is what taxes will be paid on. Bottom line is, income is based on the adjusted gross income so if you grossed 100K but deducted 50K in write-offs and deductions, from our perspective you made 50K that year.

Self-employed buyers have your last two years returns ready to provide for qualification purposes. Make sure to include all schedules for both personal and federal returns.

For salary and wage earners:

- **Last 2 years W-2's**
- **30 days most recent pay stubs**
- **Last two years tax returns available if requested by the lender**

For self-employed buyers and those who receive a 1099 in lieu of a W-2:

- **Last two years personal**
- **business tax returns**
    - **Make sure to include all schedules and K-1's**

Assets/Down Payment

Most Lenders follow Fannie Mae's guidelines for documenting down payments and assets. Regardless of the type of financing you choose, lenders will require all buyers to source down payments and earnest money. Buyers need to have or know upfront where the money to purchase their home is coming from. The days of using "cash" no longer exist when purchasing a home. Fannie Mae does not acknowledge cash as an acceptable form of a "liquid" asset. A good word of advice, if you have cash on hand and are planning on using towards the down payment you will need to deposit it into your bank account and let it sit and season for at least 60 days. If you are expecting the down payment in the form of a gift, please make sure that you let the lender know upfront so they can instruct you on how to source and present the funds. Since financial reform, documenting assets and down payment have caused the most headaches for both buyers and Lenders that is why it is so important to have your funds ready. Make sure that you keep in mind the following:

- **Cash is not an allowable form of down payment**
- **For depository assets (checking and savings accounts, money market funds, and certificates of deposit), lenders will require two consecutive monthly bank statements,**
  Make sure to include all pages of the statements.
  Be aware that any large deposits that appear on the statements will have to sources and verified.
- **Funds from a retirement account are acceptable. Provide the lender with the most recent quarterly statement form the account along with the terms and conditions of withdrawal.**
- **Gift are allowable providing that they are coming from an immediate family member**

I cannot stress enough the importance of using an experienced professional when getting qualified to purchase a home. Not everyone fits cleanly within the guidelines that are in place today and that can frustrate buyers and cause them to shy away from the real estate market. Sit down with a loan officer and go over the credit, income and assets and see which programs fit your budget. There is much more that goes into the processing of a loan from start to finish but if you have these 3 items in order upfront it will only strengthen your position as a buyer. Remember, it's about documenting properly on paper that you the buyer has the ability to repay the mortgage on a monthly basis. If you can do that then you should have no worries.

The Importance of using a Buyer's Agent in today's housing market

Now that you have a sound idea of what is needed to qualify to purchase a home, I want mention briefly the importance of using a buyer's agent and why. The housing market is technology driven today. It's as simple as getting in the car and driving around looking at listings. A buyer's agent's job is to drive listings to you through technology and guide you through the process. A good buyer's agent is able to pull listing from multiple sources to ensure you are truly viewing every listing associated within your price range. They negotiate and advise on your behalf. Buyers agents will walk you through your due diligence period and resolve issues that may arise during the process.

One type of sale I urge buyers to stay away from is a "short-sale", rarely do they work out because the sale is no longer between you and the owner of the property. It's actually between the owner of the property and the bank. If the bank decides it's not in "their" best interest they will not approve the short sale. There are too many moving parts to a short-sale that you the buyer or the buyer's agent have zero control over. I find it nothing more than a waste of time, mainly because while you are waiting for a bank to make a decision on taking a loss, you the buyers are missing out on potential homes that are available.

One last thing in case you didn't know, but working with a buyer's agent is FREE. It does not cost you anything, their commission comes from the seller's side; now that's a no brainer.

Eligibility After Derogatory Credit Event Full Policy

See Fannie Mae *Selling Guide* B3-5.3-07: Significant Derogatory Credit Events Waiting Periods and Re-establishing Credit (07/29/2014)

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	• 2 years from discharge date • 4 years from dismissal date	• 2 years from discharge date • 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure[1]	7 years	3 years Additional requirements after 3 years up to 7 years: • 90% maximum LTV ratios • Purchase, principal residence • Limited cash-out refinance, all occupancy types
Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

1 When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

2 References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the Eligibility Matrix

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