Funding Your Dreams




Home Financing

Understanding the Fundamentals

TIDEWATER HOME FUNDING
Funding Your Dreams Since 2000

1108 Eden Way North | Chesapeake, VA 23320 | Office: 757.366.8690 | Fax: 757.366.0566

EQUAL HOUSING LENDER

TidewaterHomeFunding.com

Welcome,

Founded in 2000, Tidewater Home Funding, LLC is proud to have served the Hampton Roads community for the purpose of originating residential mortgages in Virginia, North Carolina and Florida, we are Mortgage Bankers licensed with the Federal Housing Administration (FHA), the Veterans Administration (VA), along with the VA State Corporation Commission and the North Carolina Commissioner of Banks.

Our team is committed to providing financial services that help our clients meet their financial goals and achieve their personal dreams. We operate our company with an atmosphere of respect and true professionalism, personal growth and diversity.

We are committed to deliver a mortgage experience that earns us a lifetime relationship with our clients. We pledge to improve the financial lives of our clients, business partners, and employees to help them exceed their greatest goals.

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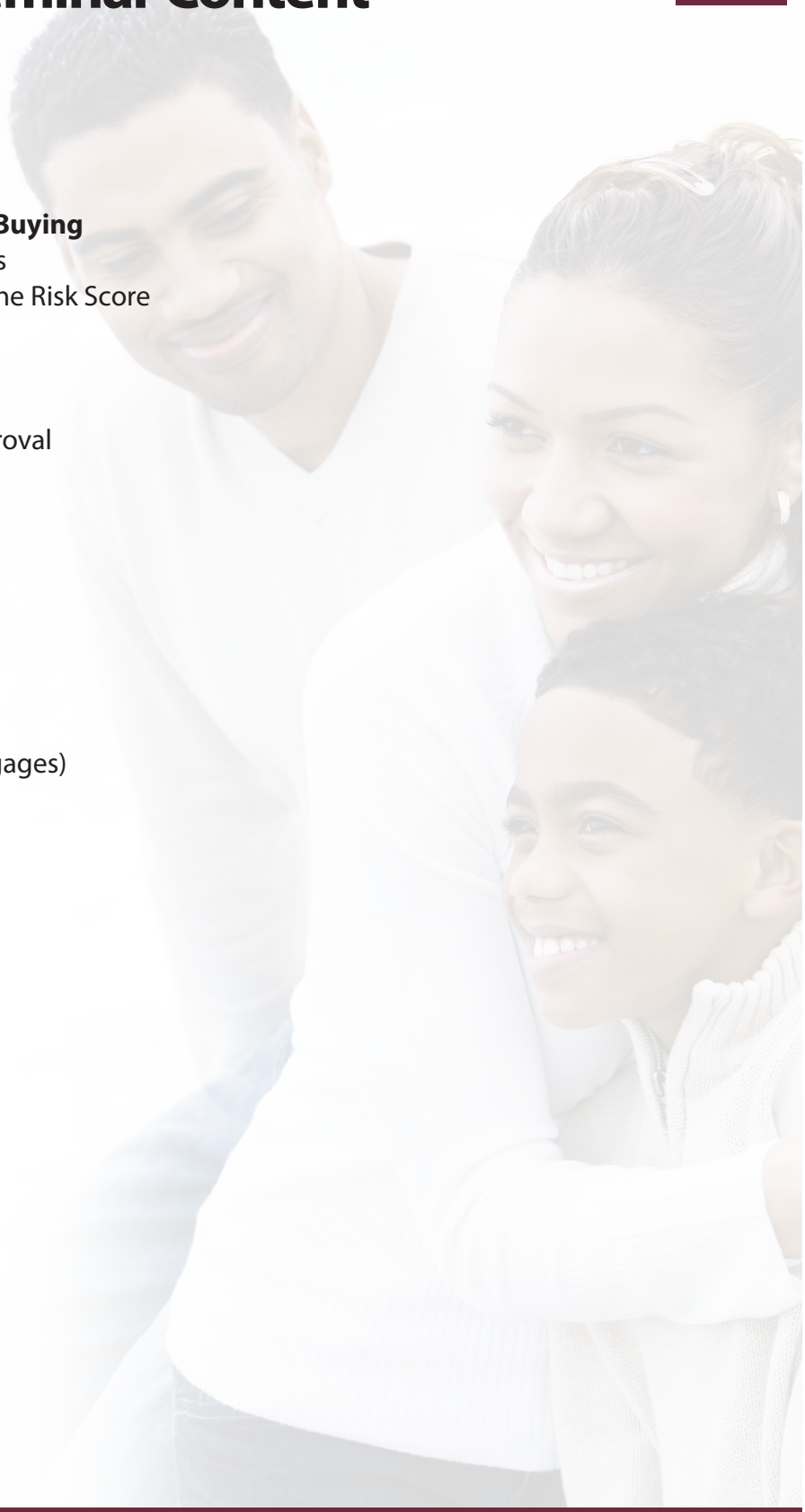
Mortgage 101
Seminar Content



INTRODUCTIONS

Credit and It's Impact on Home Buying

- What a FICO Score Considers
- 8 Items That Greatly Affect the Risk Score
- Tips on Improving Credit

The Mortgage Process

- Pre-Qualification & Pre-Approval
- Application
- Processing
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Credit & Its Impact on Home Buying

The Process and Dynamics of Credit Scoring (FICO Scores)

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How Clients Can Improve Their Credit Position
What a FISCO Score Considers

General Information

- A score takes into consideration all the categories below, not just one or two. No one piece of information or factor alone determines the score.
- The importance of any factor depends on the overall information in the credit report. For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in the credit report changes, so does the importance of any factor determining the score.
- The FICO score only looks at the information in the credit report.
- The score considers both positive and negative information in the credit report. Late payments will lower the score, but establishing or re-establishing a good track record of making payments on time will raise the score.

The Five Main Categories of FICO Scoring

1. Payment History

Approximately 35% of the score is based on this category. The first thing any lender would want to know is whether the client has paid past accounts on time. This is also one of the most important factors in the credit score.

The score takes into account:

- **Payment information on many types of accounts.** These include credit cards, retail accounts (Home Depot, Dillard's, etc.), installment loans (car loans), finance company accounts and mortgages.
- **Public record and collection items – reports of events such as bankruptcies, foreclosures, suits, wage attachments, liens, and judgments.** These are considered quite serious, although older items and items with small amounts will count less than more recent items or those with larger amounts.
- **Details on late or missed payments ("delinquencies") and public record and collection items – specifically, how late they were, how much was owed, how recently they occurred and how many there are.** A 60-day late payment is not as risky as a 90-day late payment, in and of itself. But frequency counts too. A 60-day late payment made just a month ago will count more than a 90-day late payment from 5 years ago. Note that closing an account on which there was a previously missed payment or satisfying a judgment or collection item does not make the late payment or item disappear from the credit report.
- **How many accounts show no late payments.** A good track record on most credit accounts will increase the credit score.
  accounts and mortgages.

2. AMOUNTS OWED (How much is too much?)

Approximately 30% of the score is based on this category. Having credit accounts and owing money on them does not mean the client is a high-risk borrower with a low score. However, owing a great deal of money on many accounts can indicate that a person is overextended, and is more likely to make some payments late or not at all. Part of the science of scoring is determining how much is too much for a given credit profile.

The score takes into account:

- **The amount owed on all accounts.** Note, even though some credit accounts are paid off in full every month, the credit report may show a balance on the accounts. The total balance on the client's last statement is generally the amount that shows on the credit report.
- **The amount owed on all accounts, and on different types of accounts.** In addition to the overall amount the client owes, the score considers the amount the client owes on specific types of accounts, such as credit cards and installment loans.
- **Whether the client is showing a balance on certain types of accounts.** In some cases, having a very small balance without missing a payment shows that the client has managed credit responsibly, and may be slightly better than no balance at all. On the other hand, closing unused credit accounts that show zero balances and that are in good standing will not generally raise the score.
- **How many accounts have a balance.** A large number can indicate higher risk of over-extension.
- **How much of the total credit line is being used on credit cards and other "revolving credit" accounts.** Someone closer to "maxing out" on many credit cards may have trouble making payments in the future. You should stay at owing 30% or less of the high credit limit.
- **How much of installment loan accounts is stilled owed, compared with the original loan amounts.** For example, if the client borrowed $10,000 to buy a car and has paid back $2000, the client owes (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that the client is able and willing to manage and repay debt.

3. LENGTH OF CREDIT HISTORY (How established is the client's)

Approximately 15% of the score is based on this category. In general, a longer credit history will increase the score. However, even clients who have not been using credit long may get high scores, depending on how the rest of the credit report looks.

The score takes into account:

- **How long the credit accounts have been established, in general.** The score considers both the age of the oldest account and an average of all of the accounts.
- **How long specific credit accounts have been established.**
- **How long it has been since the client used certain accounts.**

4. NEW CREDIT (Is the client taking on more debt?)

Approximately 10% of the score is based on this category. FICO scores and research shows that opening several credit accounts in a short period of time does represent greater risk-especially for client who do not have a long-established credit history. This also extends to certain credit "inquiries" to the credit reporting agencies, resulting from requests for new credit. FICO scores do a good job of distinguishing between a search for many new credit accounts and rate shopping, which is generally not associated with higher risk.

The score takes into account:

- **How many new accounts the client has.** The score looks at how many new accounts there are by type of account (i.e. credit card). It also may look at how many of the accounts are new accounts.
- **How long it has been since the client has opened a new account.**
- **How many recent requests for credit have been made, as indicated by inquiries to credit reporting services.** Inquiries remain on the credit report for two (2) years, although FICO scores only consider inquiries from the last 12 months. Note that if the client orders their credit report from the credit reporting agency (Equifax, Experian, TransUnion) – such as to check it for accuracy, the score does not count this, as it is not an indication of seeking new credit. Also, the score does not count requests a lender has made for the report or score in order to make a "Pre-Approved" credit offer, or to review the report with them, even though inquiries may appear on the report.
- **Length of time since credit report inquiries were made by lenders.**
- **Whether the client has a good recent credit history, following past payment problems.** Re-establishing credit and making payments on time after a period of late payment behavior will help to raise the score over time.

5. TYPES OF CREDIT IN USE (Is it a "healthy" mix?)

Approximately 10% of the score is based on this category. The score will consider the mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open credit accounts that there is no intent to use. The credit mix usually won't be a key factor in determining a score – but it will be more important if the credit report does not have a lot of other information on which to base a score.

The score takes into account:

- **What kinds of credit accounts the client has, and how many of each.** The score also looks at the total number of accounts. For different credit profiles, how many is too many will vary.

NOTES:

How Clients Can Improve Their Credit Position

8 Items That Greatly Affect the Risk Score

1. Any account currently past due.
2. Public records not paid.
3. Collections not paid.
4. Bankruptcies not discharged.
5. Recent negative entries.
6. Balances too close to the high limit.
7. Items that do not belong to the borrower, especially those with a balance or a derogatory.
8. Multiple accounts reported by the same repository but are duplicates.

Tips on Improving Credit

1. Pay bills on time.
2. Get current and stay current.
3. Beware that paying off a collection will not remove it from the credit report.
4. Seek professional credit counselor help if overwhelmed.
5. Keep balances low on credit cards and other "revolving credit."
6. Pay off debt rather than moving it around.
7. Don't close unused credit cards as a short-term strategy to raise the score.
8. Don't open a number of new credit cards that are not needed, just to increase available credit.
9. Don't open a lot of new accounts too rapidly.
10. Apply for and open new accounts ONLY as needed.
11. Have credits cards – but manage responsibly.
12. Closing an account doesn't make it go away.

NOTES:

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The Mortgage Process

Understanding the Loan Process

- Pre-Qualification
- Pre-Approved
- Application
- Processing
- Underwriting
- Closing

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Pre-Qualification & Pre-Approval

Pre-Qualification is the initial step in the mortgage process. It is the opportunity for the client and the Realtor, to determine how much house the client can afford. Pre-Qualification consist of reviewing the client's credit, evaluating their income, and determining, based on that limited information, potential mortgage programs and their maximum loan amount. Pre-Approval takes the qualification a step further. Pre-Approval consist of:

- Reviewing Credit
- Completing a Residential Loan Application
- Determining specific loan qualification (Program, Rate, Loan Amount)
- Review and analysis of their complete Application (Loan Prospector)

Pre-Qualification is generally sufficient to begin the home search process and in some cases sufficient to make an offer on potential home. However in today's market, more and more buyers are making offers on a home with a Pre-Approved Loan. Pre-Approval provides a competitive edge to the client's offer and an improved negotiating position.

Why get the client pre-qualified and/or pre-approved for a mortgage before you and the client begin your search for a home? Because there are 3 people who will benefit from the pre-approval: the Realtor, the client, and the seller from whom the client eventually will buy a home!

The Realtor: By knowing the client's financial parameters, the Realtor can spend more time looking for houses that "fit" and less time pursuing dead ends. No matter how much the client might want a 2,000 square foot home for $275,000, if their qualifications say $125,000, their qualifications say $125,000. When it comes to mortgages, "yes, but" doesn't carry much weight!

The Client: The most important beneficiary, of course, is the client. One of the most common questions we get from potential clients is "How much house we can afford." We're stumped! Why? There are simply too many variables--credit history, income, debt, special mortgage programs and variations in qualifying guidelines between different mortgage types--to answer that question. The only sure way of getting the question answered is through pre-qualification/pre-approval. The mortgage pre-qualification/approval step is a relatively simple one and it gives everyone involved--especially the client--a clear sense of the direction they should be headed.

Pre-Qualification & Pre-Approval

The Seller: Want to strengthen the client's bargaining position? Get pre-approved. Want your offer to stand out in a case of multiple offers for the same house? Get pre-approved. Look at it from the seller's perspective. If you had 2 offers on the table for your house, one from a fully pre-approved buyer and the other from an "I'll get around to that soon" buyer--to which offer would you devote the most attention? Even if the pre-approved buyer's offer was $1000 less, would you take the chance on the buyer that perhaps may not be qualified? When it comes to a seller evaluating offers, "a bird in the hand..." definitely applies.

It is important to remember that the amount of mortgage the client will qualify for is the maximum. It is the amount that the lender feels the client can afford, but it is not necessarily the amount that the client wants to pay. It sometimes is advantageous to be conservative here. For example, if the client qualifies for a $100,000 mortgage and they have $15,000 available in cash for down payment and closing costs, they are qualified to buy homes with a maximum selling price of $115,000. So as to not push the client to the limit, they may want to look at homes that sell in the $100,000 to $110,000 range. Too many buyers simply rush off to the $115,000 level and some find themselves strapped when it comes time to purchase necessary items (such as draperies, additional furniture and lawn and garden tools, for example) or when they forget to factor in increases in monthly expenses (for example utilities and maintenance and repair costs).

HOW TO GET PRE-QUALIFIED/APPROVAL
Call me at (757) 490-4726

After I review credit and evaluate income, I will provide the Realtor and Client with a Pre-Qualification or Pre-Approval Letter.

NOTES:

Pre-Qualification Disclosure and Authorization

Tidewater Home Funding
1108 Eden Way North
Chesapeake, VA 23320
757-366-8690

By signing this form, I/we authorize Tidewater Home Funding, LLC to obtain an in-file credit report(s) for the purpose of pre-qualifying for a mortgage loan. This is not an application for credit. A complete mortgage application package must be submitted to Tidewater Home Funding, LLC before a credit decision can be made.

GENERAL INFORMATION

Borrower: _____ SSN: _____ Phone: _____
Co-Borrower: _____ SSN: _____ Phone: _____
Married: _____ Single _____ Divorced: _____ Separated: _____
Number of Dependents: _____ Ages: _____
Current Address: _____ City: _____ Zip _____
Number of Years: _____ Own _____ Rent _____ Monthly Payment: $ _____
Email Address: _____

INCOME INFORMATION

Borrower's Employer: _____ Number of Years: _____
Position: _____
Gross Monthly Income: _____ Overtime Bonus, etc. _____ (2 Year Average)
Co-Borrower's Employer: _____ Number of Years: _____
Position: _____
Gross Monthly Income: _____ Overtime, Bonus, etc. _____ (2 Year Average)
TOTAL GROSS MONTHLY INCOME: _____

DEBT INFORMATION:

Monthly Debts: _____ Monthly Payment (minimum) _____
Auto: _____
Credit Cards: _____
Other: _____
Child Support/Alimony: _____
TOTAL MONTHLY DEBT: _____

Borrower Signature _____ Date _____

Co-Borrower Signature _____ Date _____

Sample
Pre-Qualification Letter

1st Class Real Estate
Attn: Martin Plaisted

RE: Charles & Jennifer Homebuyer

Dear Mr. Martin,

Based on the information provided by Mr. & Mrs. Homebuyers and their in-file credit report, they are qualified to purchase a home with a sales price of $265,000 using Conventional financing.

This pre-qualification is subject to verification of the information they provided and completion of any pre-qualification conditions. Please contact me with any changes as minor variations in sales price thereby possibly affecting their ability to qualify.

Please contact me at the above number if I can answer any questions or be of further assistance. I look forward to working with you on this transaction.

Sincerely,

Shikma Rubin
Mortgage Consultant
NMLS# 1114873 (www.nmlsconsumeraccess.org)
(757) 490-4726 – Direct
1108 Eden Way North, Chesapeake, Virginia 23320

Application

Tidewater Home Funding is committed to providing borrowers a variety of ways to apply for a mortgage. Specifically, borrowers can apply for a mortgage:

- Face-to-face.
- By telephone.
- Via the Internet.

These three methods provide a means that fits just about every borrower's needs. The mortgage application does not need to be complicated. The key to a smooth mortgage loan experience is preparation. The better the borrower is prepared the smoother the experience. Below is a checklist of items and information borrowers will need when they apply for a mortgage.

- Paystubs (LES) covering the most recent 30 days
- IRS Form W-2's for the most recent two (2) tax years
- Bank Statements covering the most recent two (2) months (All Pages)
- Most recent investment account (Retirement, 401K, Mutual Funds, Stock) statement(s)
- Residence information for the past two years
  - Complete Addresses
  - Landlord Name, Address, and Telephone Number (If Renting)
- Employment Information for the past two years
  - Employer(s) Name, Address, and Telephone Number
- Check for $500.00 Payable to Tidewater Home Funding for appraisal & credit (NOT NECESSARY DURING PRE-QUALIFICATION/PRE-APPROVAL STAGE)
- Copy of Driver's License or other form of picture identification
- If Military Veteran, Copy of Statement of Service or DD214
- If self-employed: Full tax returns for the most recent two(2) tax years and a Year-to-Date P&L Statement (MUST BE SIGNED COPIES)
- Divorce Decree and/or Separation Documents, if applicable
- Bankruptcy Documents (Discharge Certificate), if applicable
- Purchase Agreement on current home, if selling
- Copy of lease on any rental properties

Upon completion of the application the loan officer electronically submits the application through an automated underwriting system (AUS) that within seconds accepts or refers the application. Acceptance is considered a pre-approval. In essence, The AUS has approved the loan, as submitted, on the condition that the information provided in the application is verified and underwriting conditions are met.

At this point, we generate a Pre-Approval Letter and provide that letter to the borrower and Realtor. The Pre-Approval Letter states that the loan is approved based on review of the borrower's credit, loan application, and acceptance through AUS. However, it is conditionally approved based on verification and final underwriting.

Processing (5-15 days)

Once the application is complete, processing the loan begins. Processing includes the following:

- Ordering the appraisal
- Reviewing the credit report
- Obtaining Verifications of:
  - Employment. Employers are asked (by mail or telephone) to verify for each borrower the last two years of employment history, gross income, and probability of continued employment.
  - Deposits. Financial institutions are asked to verify the existence of each borrower's funds.
  - Rents. Landlords are asked to verify length of residency and rental payment history.
- Obtaining written explanations and documentation concerning such issues as gift funds, credit inquiries, derogatory credit, etc.
- Reviewing of the appraisal to determine if there are property issues that may require additional comment by the appraiser. Required repairs on the property are reported to the Realtor(s) and buyer/seller.

Underwriting (2-4 days)

The underwriter reviews the loan file to determine whether to approve the loan. The underwriter determination includes:

- Credit and income analysis.
- Determination of additional documentation required to support the approval.
- Verification that governmental and investor loan program guidelines have been met.
- Review and underwriting of the appraisal.
- Mortgage insurance requirements.

Closing (1-2 days)

Once the loan is approved, the loan file goes into Closing. Closing finalizes the process for the buyer. Closing ensures:

- Communicates with the settlement agent to ensure:
  - Title search and property issues are complete and within guidelines.
  - Title Insurance is ordered.
  - Buyer has provided a Homeowner's / Hazard Insurance that provides sufficient coverage for the property.

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Loan Programs

Understanding Various Programs

Conventional Loan

FHA Loan

VA Loan

Adjustable Rate Mortgages (ARM)

VHDA Loan

Closing

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Conventional Loan

A mortgage loan not insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) or U.S. Department of Agriculture (USDA). No governmental agency approval is required of the lender, borrower or property. It is called "conventional" because it conforms to accepted standards, modified within legal bounds by mutual consent of the borrower and the lender.

As a general rule, there are set guidelines for the approval of any particular loan program. The guidelines fall into several categories:

- Credit
- Debt-to-income ratios
- Loan-to-value ratios
- Seller contributions
- Mortgage insurance
- Bankruptcy guidelines

Maximum Loan Amount:

- Conforming: $417,000.

QUALIFICATION HIGHLIGHTS

Credit – 620 to 640

Conventional loans typically require a minimum (middle) credit score of 620 - 640.

Debt-to-Income (DTI) – 31/43, on a case-by-case basis

The Debt to Income ratio is expressed as a fraction, 31/43; commonly called the Front and Back Ratios.

- The Front Ratio is the comparison of total monthly (including escrows) Mortgage Payment to Gross Monthly Income. Example: $1432.00 (Mortgage Payment) divided by $5100 (Gross Monthly Income) equals a Front Ratio of 28%.
- The Back Ratio is the comparison of the total monthly payments (including mortgage) divided by gross monthly income. Example: $1432.00 (Mortgage Payment) plus other monthly debt of $404 divided by $5100 (Gross Monthly Income) equals a Back Ratio of 36%.

These ratios are somewhat flexible. Factors such as, net worth, credit worthiness, unique programs, and reserves can make a difference.

Loan-to-Value (LTV) – 97% and then 95%

Loan- to-value is based on the total loan amount divided by the purchase price (not appraised value) of the home. Conventional loans generally allow for a maximum LTV of 97%; thereby, requiring higher MI with higher LTV.

Conventional Loan cont.

Seller Contributions – LTV 90+ 3% LTV90- 6%
In certain circumstances the seller of the real estate can contribute up to 3% of the purchase price of the property, to help the buyer defray the cost of closing.

Private Mortgage Insurance (PMI)
Private mortgage insurance is required on a loan where the LTV is greater than 80% (where the buyer owns less than 20% of the property). This is to insure the Lender in case of a default on the loan. PMI is paid on a monthly basis as part of the mortgage payment. The customer is able to drop the PMI once the loan has been paid down to 80%. Another option is for the customer to pay the PMI up front so the cost is not reflected in the mortgage payment. The Mortgage Company by law MUST drop PMI when the loan balance is 78% of the original loan amount.

Bankruptcy
Customers are able to qualify for a conventional loan even if they have had a bankruptcy (Chapter 7 or Chapter 13) PROVIDING the bankruptcy has been discharged for no less than four years, all accounts have been kept current, and there have been no delinquencies since the bankruptcy.

NOTES:

FHA Loan

A mortgage loan with federally sponsored mortgage guaranty insurance provided through the Federal Housing Administration. The underwriting guidelines vary somewhat from other loan programs. Appraisals must be done by an FHA approved appraiser, and must meet the FHA minimum property requirements. Termite, well and septic certifications will also be required by the lender for all purchase transactions.

Maximum Loan Amount: $458,850.00 Plus MIP

QUALIFICATION HIGHLIGHTS

Credit 620

Debt-to-Income – 31/43
The maximum debt-to-income ratio for an FHA loan is 31/43. However, compensating factors such as high credit scores and substantial assets can help vary these ratios.

Loan-to-Value – 96.5%
The maximum LTV for an FHA insured loan is 96.5%. Down payment of 3.5%

Contributions – 6%
The maximum seller contribute is 6% of the purchase price credited toward the borrower's closing costs, points, and pre-paids. Gift funds are allowed.

Mortgage Insurance – 1.75% & .85% for the life of the loan
An FHA loan has an upfront mortgage insurance premium, as well as a monthly mortgage insurance premium. The upfront mortgage insurance premium is 1.75% of the base loan amount and generally financed into the loan.

There is also a monthly mortgage insurance premium paid on the loan. To calculate this figure, take .85% of the loan amount divided by 12.

Bankruptcy – 2 Years
A Chapter 7 bankruptcy must be discharged for a minimum of two years.
A Chapter 13 bankruptcy must have:

- The borrower has been in repayment for at least 12 months
- Proof payments have been paid on time for at least 12 months
- The bankruptcy court approves the request for mortgage financing
- AND the borrower can provide documented evidence that the reason for the bankruptcy were circumstances beyond their control.

FHA Loan cont.

Credit Counseling
A borrower that is in a debt management program (credit counseling) may obtain a FHA loan. However, the borrower MUST provide evidence that they have paid on time for at least 12 months.

Collections and Judgments
Typically, collections and judgments should be paid in full at, or prior to, closing. Exceptions can be made provided the borrower provides documentation of an acceptable repayment plan and that timely payments have been made for the past 12 months.

NOTES:

VA Loan

A mortgage loan with federally sponsored mortgage guaranty insurance provided through the Department of Veterans Affairs for military veterans. The underwriting guidelines vary somewhat from other loan programs. Appraisals must be done by approved VA appraiser, and must meet the VA minimum property requirements. Termite, well and septic certifications will also be required by the lender for all purchase transactions.

Maximum Loan Amount: $458,500 but anything over $417,000 is considered a jumbo loan and requires a down payment.

QUALIFICATION HIGHLIGHTS

Credit Score Minimum of 620

Debt-to-Income Ratio – 41%, but can be exceeded on a case by case basis with residual income
The maximum debt-to-income ratios for VA is 41%. There is no front ratio for VA loans. The ratio may be exceeded, but in order to do so, the borrower must have at least 120% in residual income and compensating factors to support exceeding the ratio.

Loan-to Value – 100%
The borrower may borrow up to 100% of the purchase price.

Residual Income
VA requires the borrower to have a certain amount of residual income per month. This residual income requirement is based on family size and the region where the property is located. Family of 1 must have $441, family of 2 $738, family of 3 $889, family of 4 $1,003, family of 5 $1,039 and is what is considered net income after ALL monthly expenses are deducted.

Contributions
The seller can pay normal points and closing costs, plus 4% of sales price. This can be used to pay off debt, break a lease, pay funding fees or pay for a home inspection.

Funding Fee
Instead of mortgage insurance, VA insured loans have a funding fee. The funding fee can be included in the loan amount (financed). The fee is based on the number of times the borrower has used their eligibility. Generally, there is 2.15% Funding Fee for first-time usage and a 3.30% Funding Fee for subsequent use of eligibility. The Funding Fee is not refundable to the veteran if the loan is paid off early.

VA Loan cont.

Bankruptcy – 2 Years
A Chapter 7 bankruptcy must be discharged for a minimum of two years.

A Chapter 13 bankruptcy:

- The borrower has been in repayment for at least 12 months,
- Proof payments have been paid on time for at least 12 months
- The bankruptcy court approves the request for mortgage financing,
- AND the borrower can provide documented evidence that the reason for the bankruptcy were circumstances beyond their control.

Collections and Judgments
Typically, collections and judgments should be paid in full at, or prior to, closing. Exceptions can be made provided the borrower provides documentation of an acceptable repayment plan and that timely payments have been made for the past 12 months.

Closing Costs the Veterans Can Pay

- Appraisal
- Credit Report
- Reasonable discount points
- One point origination fees
- Flood certification fees
- Courier fees-if disclosed to veteran on GFE
- Recording fees
- Survey
- Pre-paid in

Closing Costs the Veteran Cannot Pay

- Underwriting fee
- Tax service fee
- Document Prep fee
- Closing fee
- Any fee considered excessive or additional to standard costs
- Notary Fees
- Processing Fees
- Commitment Fees

NOTES:

Adjustable Rate Mortgages (ARM)

Adjustable-rate mortgages have fluctuating interest rates and the potential for changing payment amounts. ARMs help lenders cover the cost of lending money in a changing economy by transferring a portion of the interest rate risk to borrowers. In exchange for borrowers sharing the risk, lenders offer an initial interest rate that's substantially lower than the rate for fixed-rate loans.

There are several factors that borrowers should be aware of when considering an ARM:

- Adjustment Period – By definition, an adjustable rate mortgage has the potential for rate and payment changes at specific predetermined periods, usually every year, three years, or five years. Other adjustment periods vary from six months to 10 years. Some ARMs combine two adjustment periods. For example, a 3/1 ARM has a fixed rate for the first three years and then adjust annually for the remaining life of the loan.
- Caps – Caps are limits placed on payment, interest rates and/or the balance of the loan. Caps can limit increases by either a dollar amount or a percentage. The most common interest rate caps specify a 1% or 2% maximum rate increase per adjustment and a 5% to 6% maximum rate increase over the life of the loan.
- Index – The index is a measurement used by lenders to determine changes to the interest rate changed on ARMs. Indexes are based on a published, independent measure of current interest rates, such as Treasury Bills, West Coast Cost of Funds (11th Dist.) and LIBOR. The index provides a guideline that should accurately reflect the current cost of lending money. If the index increases, the interest rate increases unless a interest rate cap is reached.
- Margin – The margin, which is added to the index to compute the interest rate, represents the lender's cost of doing business plus profit. This amount is typically two or three percentage points. Once the lender specifies the margin, it remains fixed.
- Convertible ARM – Many ARM programs offer the option to convert from an adjustable rate to a fixed rate at specific times during the term of the loan. This option is attractive to many borrowers, but is not without additional cost. Lenders generally collect a fee of $100 and $250 to cover the administrative costs of the conversion. In addition, the new rate is generally higher than the market rate at the time for a fixed rate loan. Borrowers should be sure to weigh the benefits of choosing a convertible ARM verses the potential costs of a traditional refinance if rates change.

NOTES:

VHDA Loans

The Virginia Housing Development Authority is a $6.6 billion housing finance agency that holds the highest general obligation bond ratings awarded any such organization in the nation. VHDA is completely self-supporting and does not rely on federal or state funds for its operations. All funds that support VHDA's lending programs are provided by the private sector through the purchase of the authority's bonds. The bonds do not constitute a debt or obligation of the commonwealth. VHDA's programs have a fourfold purpose:

- To produce sound housing for as many low- and moderate-income Virginians as possible.
- To distribute capital resources equitably throughout the commonwealth.
- To contribute to the economic growth and physical improvement of Virginia's communities.
- To operate in such a manner that all low- and moderate-income Virginians have equal opportunity to benefit from our products and services.

Conventional/FHA/VA Rural Development/ Fixed Rate/ FHA Plus/ VHDA Fannie Mae
These programs are designed to assist creditworthy first-time homebuyers or those who have not owned and occupied a home in the last three years. In addition to the requirements stated below.

GENERAL REQUIREMENTS

Tradeline requirement:
These programs are designed to assist creditworthy first-time homebuyers or those who have not owned and occupied a home in the last three years. In addition to the requirements stated below.

Tax Returns:
Borrowers must provide copies of the most recent 3 years tax returns.

Maximum Net Worth:
Applicant(s) net worth may not exceed 50 percent of the sales price of the property being financed. (some assets are not included - contact approved lender or VHDA)

Property Use:
The property may not be used in a trade or business and the applicants must intend to occupy the property as their primary residence.

VHDA Loans cont.

Property Use:
The property may not be used in a trade or business and the applicants must intend to occupy the property as their primary residence.

Personal Property:
Personal property such as refrigerators, washers and dryers may not be financed..

Maximum Lot Size:
The lot size is limited to no more than two acres (waivers for up to 5 acres may be requested)

Maximum Income:
Maximum annual household income may not exceed $80,400 for 2 or fewer persons or $93,800 for 3 or more persons.

Maximum Sales Price / Loan Amount: $375,000 (Existing home or new home)
The sales price and total loan amount may not exceed the published limits for the area in which the property to be financed is located.

Minimum Qualifying Requirements/Amount of House You Can Afford:
The total monthly house payment (PITI) plus any additional monthly debt owed (car payments, charge cards, child support payments) should not exceed 45% of your gross monthly income. This will require an AUS approval.

FIXED RATE LOANS

VHDA offers 30 year fixed rate loans at interest rates lower than is typically available through standard conventional loan programs.

Fixed rate loans are available as Conventional uninsured or with private mortgage insurance, FHA, VA or Rural Development loans.

Automated Approvals via Loan Prospector or Desktop Underwriter are accepted for FHA, VA and Conventional loan to values up to 100%.

VHDA Loans cont.

Federal Recapture Tax
Loans funded from one of these programs may be subject to a Recapture Tax. The required payment of this tax is initiated by the sale or transfer of the financed property within nine years of the purchase date. This tax usually affects only owners who have realized unusually rapid increases in income in addition to significant appreciation in the value of the property.

FHA PLUS LOAN PROGRAM

FHA PLUS is a VHDA-financed, FHA-insured home loan program to assist qualified borrowers who need down payment assistance.

Borrower(s) must have cash available equal to a minimum of 1% of the sales price.
Second mortgage is limited to 3.5 percent of the lesser of sales price or appraised value for credit scores from 629 – 679, and 5% second mortgage for 680+ credit score.

The interest rate for the first and second (both VHDA-financed) mortgage is 1/2 percent above VHDA's standard rate. Terms are 30 years.

Both payments are to be included in the FHA shelter ratio (31 percent).
FHA's standard qualifying guidelines will apply.

Closing for first and second mortgages will occur simultaneously.

Payments for the first and second mortgages will be due on the same date and paid to the same servicer.

All applicants must complete a VHDA-approved homeownership educational program.

Federal Recapture Tax
Loans funded from this program may be subject to a Recapture Tax. The required payment of this tax is initiated by the sale or transfer of the financed property within nine years of the purchase date. This tax usually affects only owners who have realized unusually rapid increases in income in addition to significant appreciation in the value of the property.

NOTES: