

Building a Financial Foundation: Understanding Credit Scores & Mortgages

Presented by:

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Agenda

- Understanding the Mortgage Process
- Your Credit Score
- The Closing
- Helping Family Members
- Regulations
- Refinancing
- Local Mortgage Environment

Mortgages

- Secondary Market Loans
 - Fannie Mae/Freddie Mac
 - Fixed, Long-Term Rates
- In-House Loans
 - Kept at bank



Mortgages

- **Second Homes**
 - Must be a recreational area
- **Construction Loans**
 - Buy lot, build a home
 - End loan financing is separate
- **Bridge Loans**



Mortgage Comparison

- **Environment in the past**
 - Predatory lending in the industry
- **Environment today**
 - Stricter underwriting guidelines



Down Payment

- **Minimum down payment requirements**
 - 3% for home buyers with credit score > 720
 - 5% for home buyers with credit score between 680 and 720



Interest Rates

- **Pricing**

- Based upon credit scores, loan amount, loan-to-value

- **Points/Origination Fee**

- Usually 1% fee for buying down the rate $\frac{1}{4}\%$

Credit Scores

- **Credit Scores (CS)**
 - Must have CS of at least 680 if you have less than 20% down payment
 - Must have CS of at least 620 to do a loan

www.AnnualCreditReport.com

Factors Affecting Your Credit Score

- **Bills Paid on Time**
- **Debt to Credit Limit Ratio**
(30% is considered a good ratio)
- **Length of Credit History**
- **Credit Applications**
- **Variety of Loans**



Credit Score – Cost Impact

- **Credit score ranges (580-850)**
- **A good credit score can mean savings!**
 - Loan Rates
 - Insurance Premiums
 - Credit Card Interest Rates
 - Obtaining Jobs

Polish Your Credit Profile

- Review your credit report for errors
- Always pay your bills on time
- Live well within your limits
- Open and close accounts with care

Closing Costs

- Range from \$1,300- \$1,400 and includes all fees for attorney, abstract, appraisal etc.
- Doesn't include pest inspection or house inspection

Prepaid Costs

- **Prepaid items include:**
 - Setting up the escrow account
 - Homeowner's insurance and property taxes
 - First year's insurance (on purchases)
 - Odd days interest
- **Varies for each loan**

Income Verification

- **Income Verification**
 - Copies of paystub and verification of employment
 - 4506T verifying what you filed with IRS
- **Debt-to-Income**
 - General guidelines between 40%-45%

Asset Verification

- **Asset Verification**
 - Copies of bank/investment statements showing assets
 - Enough to cover down payment, closing costs and prepaid items



Helping Family Members

- **Co-Signing**

- Not an option for secondary market
- Possible option for in-house products

- **Gifting Money**

Giftng

- Borrower must have 5% of own money unless full 20% is being gifted
- Relationship to borrower
- Giftee must sign gift letter
- Copy of check and deposit slip

Asset Verification for a Purchase

\$150,000 Purchase Price

• 5% Down Payment	\$7,500
• Closing Costs	\$1,400
• Prepays	<u>\$ 500</u>
• Total Amount Due	\$9,400

Disclosure Changes

- **Effective January 1, 2010 new Good Faith Estimates and Settlement Statements**
 - More customer friendly
 - Allows consumers to “shop” for the best mortgage

The New Good Faith Estimate

Summary of your loan

Your initial loan amount is	\$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$ per month
Can your interest rate rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of %. The first change will be in .
Even if you make payments on time, can your loan balance rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of \$
Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, the first increase can be in and the monthly amount owed can rise to \$. The maximum it can ever rise to is \$.
Does your loan have a prepayment penalty?	<input type="checkbox"/> No <input type="checkbox"/> Yes, your maximum prepayment penalty is \$.
Does your loan have a balloon payment?	<input type="checkbox"/> No <input type="checkbox"/> Yes, you have a balloon payment of \$ due in years.

The New Good Faith Estimate

	This loan	Loan 2	Loan 3	Loan 4
Loan originator name				
Initial loan amount				
Loan term				
Initial interest rate				
Initial monthly amount owed				
Rate lock period				
Can interest rate rise?				
Can loan balance rise?				
Can monthly amount owed rise?				
Prepayment penalty?				
Balloon payment?				
Total Estimated Settlement Charges				

The New Settlement Statement

Comparison of Good Faith Estimate (GFE) and HUD-1 Charges		Good Faith Estimate	HUD-1
Charges That Cannot Increase	HUD-1 Line Number		
Our origination charge	# 801		
Your credit or charge (points) for the specific interest rate chosen	# 802		
Your adjusted origination charges	# 803		
Transfer taxes	#1203		

Charges That in Total Cannot Increase More Than 10%		Good Faith Estimate	HUD-1
Government recording charges	# 1201		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		
Total			
Increase between GFE and HUD-1 Charges		\$	or %

Charges That Can Change		Good Faith Estimate	HUD-1
Initial deposit for your escrow account	#1001		
Daily interest charges	# 901 \$ /day		
Homeowner's insurance	# 903		
<input type="text"/>	#		
<input type="text"/>	#		
<input type="text"/>	#		

Private Mortgage Insurance

- **Private Mortgage Insurance (PMI)**
 - Required when you don't make at least a 20% down payment
 - Insurance paid to the mortgage company in case you default
 - Based upon down payment, credit score, location of property and loan amount

The Loan Process

- Application
- Gather information/complete appraisal
- Send to the underwriters for final approval
- Close loan



Refinancing

- Usually looking for 1% difference in interest rate
- Same application and credit check as purchases

Refinance Example

6.125% Interest

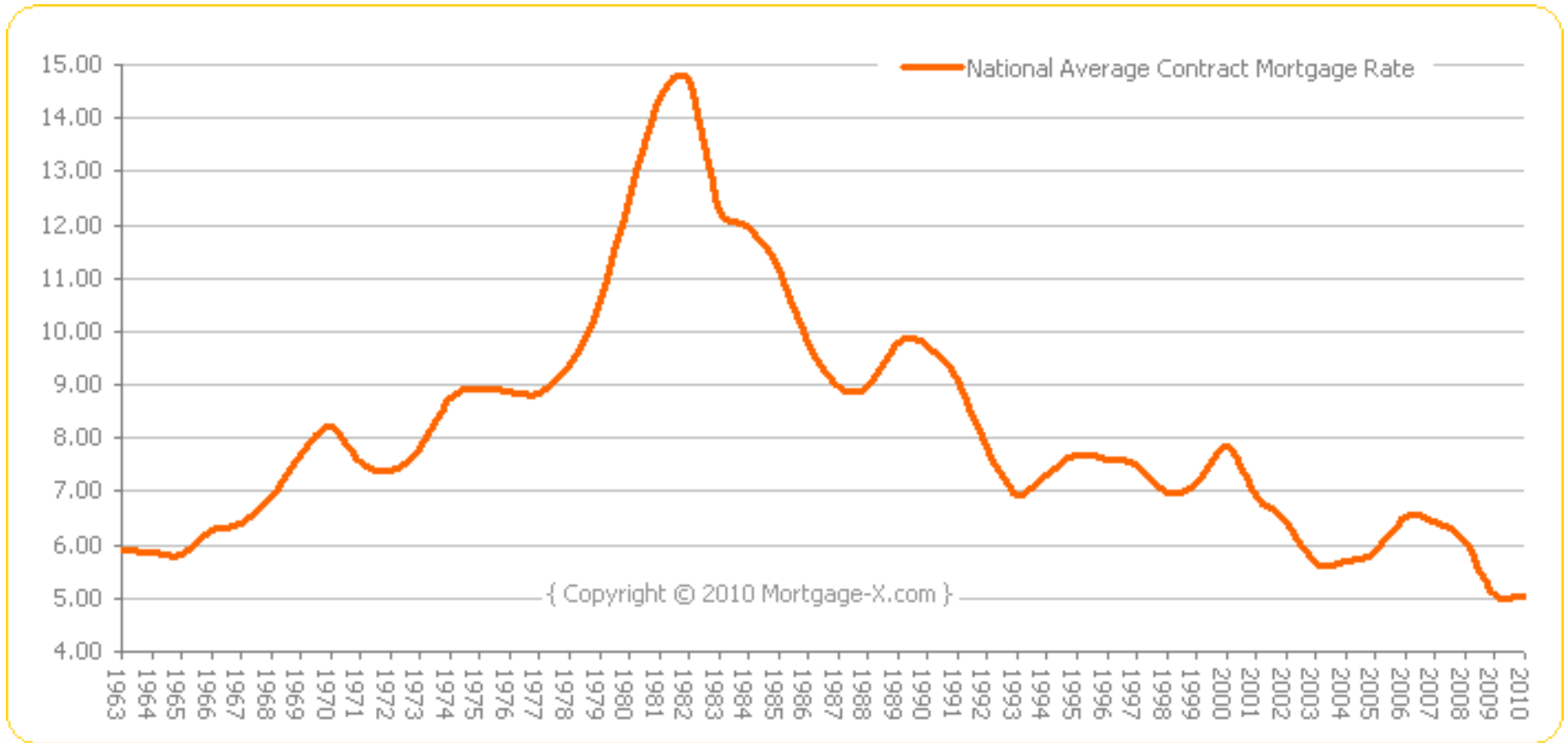
- \$200,000 Loan
- 30 Year Term
- Monthly P&I Payment
=\$1,215.22

5.125% Interest

- \$200,000 Loan
- 30 Year Term
- Monthly P&I Payment
=\$1,088.97

Save over \$120 a month

Interest Rates Historically



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Ames Market Statistics

	Ames 2010	Ames 2009	Story County 2010	Story County 2009
Active listings as of 1/3	218	184	142	n/a
Homes SOLD YTD	468	554	235	285
Average Sale Price	\$180,418	\$186,510	\$137,213	\$134,320
Average Days on the Market	85	97	134	107
Sale Price to List price Ratio	95.2%	95.1%	92.1%	92.4%

Source: Hunziker & Associates, Inc.

Based on sales information as reported to the Ames Multiple Listing Service.

Ames – Ames Residential and Rural Subdivisions

Story County – Residential, excluding Ames and Ames Rural Subdivisions



Our Philosophy

Our philosophy is to help our customers understand every step of the mortgage process. We want you confident in knowing you are getting the best rates and terms possible.

- Responsive Service
- Trusted Advisors
- Simple Process
- Straightforward Solutions

QUESTIONS?

Contact Us



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