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Mortgage Handbook for Real Estate Professionals

"What you need, when you need it"

January 4, 2011

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INTRODUCTION

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Welcome to my "Mortgage Handbook For Real Estate Professionals", a web-based reference tool which puts mortgage options and rules at your fingertips. No matter what mortgage information you are looking for, you are likely to find what you are looking for here. If not, [please let me know](#). Knowledge is power: If you want to be better informed about financing in general, you may just want to study the whole thing!

Feel free to print print it. You can also [download it here](#). I will announce major revisions in [my newsletter](#) so you can come back for an updated versions. The purpose of this Handbook is not to make you a financing expert but to help you recognize financing options and underwriting criteria. The devil is always in the details - and what you don't know will hurt you - so don't base your plans on this information only. [Run your scenarios by me!](#) - **Paul**

NOTES

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- This information is for residential property (1-4 units) only. For commercial financing [go here](#).
- Except where stipulated this information applies to mainstream loan options: FHA, conventional, and government (FHA, USDA, VA).
- The information presented here represent a synopsis of common criteria applicable to all lenders, not just Prospect Mortgage.
- Loan programs and underwriting criteria change all the time.
- In the interest of clarity detail information was omitted.
- This summary contains commonly applicable underwriting rules. Some underwriting criteria are universal, others are not.
- Exceptions can be requested for certain underwriting criteria, but not for others.
- For simplicity purposes "real estate professionals" are referred to a "realtors".
- Basic financing knowledge is assumed, but the lay person will find much useful information here also.
- Assume that this information is incomplete, not entirely accurate, and that there is more to it - good, bad, or indifferent. Please [send me your scenarios](#) for guidance.

APPRAISALS

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Due to recent regulatory changes, appraisal are no longer ordered at time of application, but at time of origination (when the loan goes to underwriting) - typically 1-2 weeks following application. With few exceptions the appraisal protocol is in accordance with the [Home Valuation Code of Conduct](#). Appraisal are ordered and quality reviewed through a 3rd party system before being delivered back to me . Ordering with your favorite appraiser is no longer an option, sometimes appraisers are not familiar with the area, and it now takes longer to get the appraisal back. It is now more important than ever for realtors to connect with the appraiser at time of inspection and provide comparables!

Appraisal reviews

Appraisal reviews can be stipulated by an underwriter for any loan application. Volatile market conditions and the distorting effect of short sales and foreclosures will do that for you. There are three types of reviews:

- *Desk reviews* (with or without validating the data in the appraisal report)
- *Field reviews* (field review, whereby the review appraiser examines the property)
- *Full review* (whereby the appraiser independently collects data)

Appraisal appeals

Appraisals can be appealed with (very) good comparables, which I will invariably ask the realtor to provide. Typically for similar property sales, not used in the original appraisal:

- Have occurred no more than 6 months from date of inspection;
- Be closed as of the date of inspection;
- As close to the subject as the original sales; and
- Similar in size, age, design and site

Second appraisals - FHA flips

- If the property transfer was between 91-180 days prior to the purchase contract AND the sales price is 100% or more than the previous purchase price, a 2nd appraisal is required.
- If the property transfer was 90 days or less prior to the purchase contract AND the sales price is 20% or more higher than the seller's acquisition price a second appraisal is required.
 - The appraisal must document the repairs and rehabilitation made, or if no work was done must specifically address reasons for the increase in value.
 - Second Appraisals required due to FHA flipping rules must be seller paid and may not be charged to the borrower.

Second appraisals - Other flips

Requirements vary

PROPERTY TYPES / FEATURES

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Co-Ops

Co-op financing available, subject to local market underwriting criteria

Investment Properties

Conforming loans - Max LTV is 80% for purchases, 75% Limited Cash Out, 70% Cash Out.

- Borrowers who own 1-4 financed properties must meet the following reserve requirements:
 - 2 months of reserves on the subject property if it is a second home
 - 6 months of reserves on the subject property if it is an investment property, and
 - 2 months of reserves on each other financed second home or investment property
- See [FNMA Announcement 09-02](#) for FNMA reserve, Fico, and other requirements)
- Minimum FICO 680 for [conforming loan amounts](#). High balance loans may require higher Fico.
- All transaction must be arm's length transactions. No relationships between the seller, buyer, and lender of record.
- Interest Only loans usually not permitted.
- 2 years rental property management history required. If not, additional reserves and/or compensating factors may be acceptable
- Borrowers renting or living rent free at principal residence require high level approval.
- No 30 day mortgage/rent lates within the past 12 months
- Investment property must be located in the same state as the borrower's primary residence
- Rent loss insurance may be required on any owner occupied 2-4 unit or 1-4 non-owner occupied property

Investment Properties - Refinance transactions with title change, or acquired in past 12 months

- Field review is required if title has changed or property acquired in the past 12 months.
- Any increase in value from the previous transfer price to the current price or value must be documented and reasonable.
- Loans being paid off must be from an institutional lender.
- The value used for calculating LTV/CLTV is based on the lesser of the original purchase price or current appraised value.
- Copy acquisition transaction documents is required to document the original purchase price and the borrower's cash investment (25% own funds).

- No relationships permitted between all parties (original buyer, seller, lender, realtors) to the original purchase transaction. Must be arm's length transaction.

More than 4 financed properties owned (1-4 unit Residential Properties)

- Maximum 10 properties financed allowed.
- See [FNMA Announcement 09-02](#) for reserve, Fico, and other requirements)
- Total financed properties count is cumulative for all borrowers and must include properties held in partnerships, LLCs and S-corps.
- For corporations, borrower cannot be personally obligated on existing loan per credit report.
- More than 4 financed properties owned not permitted for any borrower regardless of occupancy type on subject loan for FHA/VA loans

Manufactured Homes

- Manufactured home (single, double or triple-wide) affixed to permanent foundation (as defined by HUD)
- Loans are be available subject to unique program criteria
- No second homes

Modular/Prefab - Off-Frame

- Modular/Prefab built classified as "Off-Frame", and built to loan criteria for factory-built housing.
- Loans are be available subject to unique program criteria

Modular/Prefab - On-Frame

- On Frame modular homes are properties defined as modular homes that are built to modular standards (based on local building codes) and are titled as real property (may be delivered via chassis) and the chasses remain with the property (on-frame).
- Loans are be available subject to unique program criteria

Condos

Condo loans have been hit with loan defaults more than other types of housing. As a result property standards have been raised significantly. Personal qualifications have been raised also. The good news is that [project certifications](#) have been delegated by Fannie Mae and HUD to approved lenders, including Prospect Mortgage. Spot approval are still available for conventional loans for mature projects only.

Condo financing can be a real minefield. I recommend realtors - whether a selling or buying agent - find out at the earliest opportunity what the financing options and limitations are. The brevity of this section does not reflect the complicated nature of the subject of condo financing. There is just too much to report in a meaningful way, and criteria change all the time. I'm supposedly the financing expert and all too often I realize that I am lucky if I can just

ask the right questions. Fortunately I am supported by two designated condo teams who do nothing but deal with the intricacies. I hope that if nothing else, this section will help you to ask the questions also.

Whether you are a listing or buying agent, I recommend you get [this condo questionnaire filled out](#), and submit to me at the earliest opportunity. I will tell you what the financing options and limitations are, how to create more options, how eliminate limitations (if any), and how to prequalify prospective purchasers. Don't assume anything: Verify! - no matter how reliable you think the information you already have is.

Rural Properties

- Maximum loan amount is [conforming loan amount](#)
- Land value cannot exceed 60% of the property value
- Acreage cannot exceed 10 acres
- No business/commercial activity (ranching, farming, horse training, etc.), confirmed by appraisal

Legal non-conforming property

"The use of land for purposes contrary to the applicable municipal zoning specifications, which often occurs when zoning changes while a property is in use".

If the property is destroyed, it often cannot be rebuilt and revert to it's former use. Difficult to finance, unless written confirmation can be obtained that it will be allowed. I recommend a "rebuild letter" be obtained from the applicable jurisdiction [when the property goes on the market](#). The argument that the new zoning actually makes the property more valuable works for a commercial loan, but not for a residential loan. This is an old issue, but the rules are now enforced.

CONDO DEVELOPMENTS AND CONVERSIONS

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Any new condominium project needs to become "[Warrantable](#)" at the earliest opportunity. A condominium or condo-conversion development is warrantable if "*it has features that serve as protection against hazards that threaten the value of the unit*". I invite you to make me a consultant at the earliest opportunity - even before blueprints if possible! There are unique condo financing rules that apply to projects under development and the migration to becoming seasoned projects. There are **many things developers and realtors can do make units eligible for financing at the earliest opportunity** and accelerate sales as a result. Conversely, there are **many potential pitfalls that can severely limit marketability, even make units ineligible for financing!** Do not assume you are sufficiently informed. Small details can have disastrous consequences! Even I seek the support of my condo teams on all but basic situations. For further information about Warrantability [go here](#).

CONDO CERTIFICATIONS

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Condo approvals have been delegated to certified lenders by HUD and Fannie Mae. Prospect Mortgage is certified and we handle these at no cost to our clients. There are various certification and approval processes that facilitate conventional, FHA, and other loans. Certification/approvals are obtained within 2 weeks of receipt of the required documentation. We process loan applications and the project certification/approval simultaneously. [More information](#). loans) are valid for

HUD certifications

HUD certifications (for FHA loans) significantly enhance the marketability (value) of properties. Property owners (HOAs) need to be aware of this. Certifications are valid for 2 years and renewals are simple. The first time certification can be rather onerous. Here is a [list of the documentation required](#). I recommend you make sure the process is supported by the seller, HOA, and property manager. It is all fairly new at the moment. Over time HUD certifications will become the standard, and not having it will be to the detriment of the property.

UNDERWRITING

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Affordability

A qualifying Debt-to-Income (DTI) and 620 Fico used to be pretty much all that was required. No longer. Underwriters will review the borrower's willingness, ability, and payment sustainability. Factors such as savings ability, cash reserves after closing, and stability and income history are analyzed, especially for loans with lower credit scores, higher housing or total DTI ratios, and/or increased housing expenses. A formal affordability analysis is often conducted for <640 Fico, first time home buyers (buyers who have not owned real estate for >3 years), >43% DTI, undocumented current housing expense/history, and borrowers living rent-free or paying rent to a relative or other interested party.

Compensating factors!

Skillfully presented compensation factors can result in the approval of a loan that would have otherwise have been declined. In most cases I will work on compensating factors, just to "stack the cards" in favor of the applicant. Some compensating factors are existing, others can be created. Here are some examples:

- Little or no increase in housing expense
- Demonstrated ability to make housing payments
- Sizable down payment
- Accumulated savings/significant liquid assets
- Substantial cash reserves
- Excellent credit history
- Long-term employment
- Income not included in qualifying income
- Potential for increased earning ability
- High residual income

- Home buyer course (can also reduce FHA upfront mortgage insurance premium)
- Other

Current housing expenses and payment shock

Loans with affordability concerns are subject to verification and review of rental/housing history. In order to document affordability and calculate "payment shock", current rent/housing expense must be documented, including 12 months cancelled checks, money orders, or a landlord rating from a professional management company. Compensating factors can be used to overcome these issues.

Credit score/profile!

- Credit score is a function of past and current credit habits. A good credit score is not enough. You need a good credit profile also.
- The credit profile are the rated elements that constructively make up the credit report and determine the score.
- Derogatory items, such as (mortgage) lates, charge-offs, bankruptcies, collections, etc., in a credit profile - even if remedied - can still result in decline of a loan application.
- 620 minimum Fico is the current industry minimum standard for mainstream type loans.
- Other loans are available with scores 500-619, with rates ranging from (very) high to mainstream rates.
- Loan pricing is dynamic. At 780 (vs. 620) your rate can be as much as 0.50% better.
- Most credit scores can be improved with short-term (5-30 days), custom-formulated remedies. Self-help can be disastrous. Don't do anything and [contact me](#). The cost is low and easily pays for itself.
- All credit scores and profiles can be improved with longer-term remedies (30+days). Here too, self-help can be disastrous. Don't do anything and [contact me](#).

Thin credit

This thin credit policy applies to FHA loans. Similar policies apply to other loans. "[Thin credit](#)" exists when the primary occupying borrower (the individual with highest percentage of income in the transaction) has a satisfactory credit score, but does not meet the following criterion: *At least 3 open tradelines with a 12-month satisfactory history, including at least one open tradeline with a 24-month satisfactory history.* "Authorized user" tradelines do not count towards the tradeline requirement. An application with thin credit can be approved under the following circumstances:

- If the borrower can document a 12-month satisfactory housing history (mortgage or rent), no further documentation is required. The 12 month housing history must be documented with canceled checks, bank statements, or money order receipts. A verification of rent form or landlord reference letter cannot be used to satisfy this condition.
- If the borrower cannot document a 12-month satisfactory housing history, then the documentation specified in [FHA Mortgagee Letter 2008-11](#) must be obtained. Specifically, at least three references must be provided from "Group II" (the Group II

list is provided at the end of this announcement).

Debt-to-Income (DTI)

The maximum DTI is typically 50%, depending on the scenario and possible compensating factors. Here are some DTI limits:

- FHA to \$417,000: 50%
- FHA over \$417,000: 45%
- VA to \$417,000: 50%
- VA over \$417,000: 45%
- Conventional: 50%
- Jumbo loans: Variable
- Hard money: N/A
- Stated, or No Income loans: N/A

Debts sometimes excluded from DTI

Depending on the loan program, some debts may be excluded from DTI (Debt To Income ratio). This can be a good reason to go for a different loan type! For example:

- Deferred student loan payments.
- Installment debts with less than 6-10 months payments remaining.
- Co-signed accounts with 12 months cancelled checks from the primary obligator of the loan, evidencing s/he made the payment.

Documentation: Assets

- Two months bank statements and the last statement of all financial investments (stocks/bonds, retirement accounts, etc.)
- Large deposits need to be sourced and documented

Documentation: Qualifying income

What qualifying income is, and how it needs to be documented, depends on the loan program. The over-arching requirement is typically verified gross monthly income from all verifiable sources, which can reasonably be expected to continue through at least the first three years of the loan. Here are some fairly universal requirements and common issues:

- Salaries: W2s for last 2 years.
- Signed and dated tax returns for the last 2 years.
- Paystubs for the last 4 weeks.
- Evidence of YTD income if self-employed.
- Verification of self-employment by way of third party verification like business license or CPA letter.
- Rental income: Leases and tax returns for the last 2 years.
Child support and alimony: Documentation evidencing entitlement for another 24 months and current receipt of same.
- Lenders will obtain copies of tax returns from the IRS for most loans. Salaried persons

who claim unreimbursed (employment) expenses may see a reduction in qualifying income.

- Bonus, commission, second, seasonal, and part-time job income and similar income needs to be skillfully presented to evidence past consistency and likelihood and same future income.

Income types

Each loan program has different rules (eligibility, documentation) with respect to the income types, listed below. Non-taxable income can typically be grossed up by a factor of 125% (Multiply by 1.25).

- Wage earners
- Self employed income
- Rental income
- Child support income
- Disability income
- Foster care income
- Government assistance programs
- Military income
- Retirement pension, annuity and IRA distributions
- Social Security income
- VA benefits
- Alimony/separate maintenance
- Auto allowance & expense accounts
- Capital gains/losses
- Inherited and guaranteed income
- Interest/dividend income
- Mortgage credit certificates
- Royalties
- Seasonal
- Trailing/relocating allowances
- Co-borrower income
- Trust income
- Farm income

Documentation: Assets

What assets are considered, and how it needs to be documented, depends on the loan program. Here are some fairly universal requirements and common issues:

- Down payment (minimum 3.5%), closing costs and reserves (if applicable) need to be documented.
- Bank statements for the last two full months. ALL accounts, ALL pages (even if blank). Otherwise signed and stamped printouts from the bank. Large deposits made within the last 3 months need to be explained.
- Last full statements of all financial investments. ALL accounts, ALL pages (even if blank).
- Copy (front and back) of earnest money deposit check.
- Gift documentation as stipulated. Conventional loans require at least 5% to come from

the borrowers own resources.

- Sweat Equity. Not allowed on conventional loans. FHA loans to \$417,000 limit only. Must be in connection with city, county, or state programs.
- There are different rules with respect to down payment sources for all loan types. For FHA down payment options [go here](#).

Documentation: Credit

- Judgments (even medical) must be paid in full, and evidence of same provided.
- Collections paid in full if required by pre-underwriting, and evidence of same provided.
- Credit inquiry letter, explaining recent credit inquiries on credit report.
- Letter of explanation for all derogatory items on credit report

Age of Documentation

Time is the enemy of all mortgage applications. Rules change, documentation expires, and an erratic origination process does not help either. Delays easily compound. Here are some common rules with respect to the expiry of documentation:

- 15 days - Most recent income and asset documents. Must be received prior to funding.
- 90 Days - All credit documentation for conventional, FHA, and VA loans.
- 90 Days - Conventional loan appraisals.
- 120 Days - Construction loans or Construction-to-Perm loans appraisals
- 120 Days - FHA & USDA loan appraisals.
- 180 Days - VA loan appraisals.

Reserves

- Cash, bank deposits
- Stocks, bonds and mutual funds: 70% may be used as reserves.
- Retirement accounts: 60% of the vested value may be used as reserves.
- Cash out proceeds may not be used to meet reserve requirements.

Seller concessions

- [Seller concessions](#) are allowed by virtually every mainstream mortgage program. 6% of the sales prices is usually the maximum allowed.
- HUD has announced that the use of seller concessions will be restricted at some point to 3%. It was expected to have been implemented Summer 2010, but was not.
- Closing costs" paid for by the seller concession can include discount points, buydown fees, buyer closing costs, prepaids (escrow), Upfront MIP, 12 months HOA fees or property taxes.
- For further information [go here](#).

Restructured/Modified Loans

- **Conventional Loans**
Refinances of mortgage loans that have previously been restructured are not eligible.

A restructured loan is a mortgage loan in which the terms of the original transaction have been changed resulting in either absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.

- **FHA & VA Loans**

If any borrower has had a reduction in the principal balance (curtailment), or any portion of the original mortgage converted to a "soft" subordinate mortgage, the loan may only be refinanced as a rate/term or streamline refinance. No cash out allowed. Mortgage rating/history showing no lates in past 12 months

Foreclosure, deed-in-lieu, short sale, bankruptcy

Conventional loans

- Chapter 7 bankruptcy: 4 years from discharge/dismissal date
- Chapter 13 bankruptcy: 2 years from discharge, 4 years from dismissal date
- Foreclosure: 7 years (3-7 years with extenuating circumstances. Limitations apply.
- Deed in lieu of foreclosure, pre foreclosure, sale/short sale:
 - 2 years: 80%LTV (90% with extenuating circumstances)
 - 4 years: 90%LTV

FHA loans

- Chapter 7 bankruptcy: 2 years from discharge date
- Chapter 13 bankruptcy: 12 months of satisfactory payment record and court approval. If discharged already 24 months. Up to 0 months with compensating factors.
- Foreclosure: 3 years waiting period.
- Deed in lieu of foreclosure: 3 year waiting period

FLIPS

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Conventional loans

"Loans on properties where the owner acquired the property within the past 12 months (based from the date of the last transaction to the date of the contract date/purchase contract) other than transfers of foreclosed properties where the seller is the institutional foreclosing lender".

- Maximum value to be considered is Prior Purchase Price + 30% + documented cost of improvements/repairs made.
- No double/concurrent escrows allowed - owner of record must be consistent with Purchase Agreement, Title report/commitment, Appraisal, other .
- Desk review required if last sale date or transfer date is >90 days and < 1 year and value has increased.
- Field review required if last sale date or transfer date is 90 days or less and previous and value has increased including transfers via foreclosure.

- Field review required for Investment property refinances where the borrower has owned the property less than 12 months.

FHA Flips - All

- Must follow FHA Flipping definitions and Flip Rule Waiver itemized on the [HUD website](#).
- 203k loans are not subject to flip rule waiver provisions, and must follow all provisions of [HUD ML 06-14](#).

FHA Flips, 0-90 days

All Properties transferring (flipping) within 0-90 days must meet the following requirements:

- Arm's length transactions, with no identity of interest between buyer and seller or any other party to the transaction.
- No evidence of previous flipping (2nd flips) within 12 months.
- Evidence that property was marketed openly via MLS, auction, FSBO.
- If the new sales price is 20% higher than the acquisition price the following additional requirements apply:
 - 2nd appraisal is required (seller paid only) and must document significant work done or other reasons for increase in value.
 - Property inspection is required per HUD requirements. All health & safety items found on the home inspection must be repaired and FHA Compliance Inspection Report required.

FHA Flips, 90-180 Days

A second appraisal is required if the resale price is 100% or more over the price paid by the seller when the property was acquired. (Seller paid only).

FHA Flipping Exemptions

- Sales by HUD, or other United States Government agencies.
- Properties acquired by employer relocation.
- Sales by nonprofits approved to purchase HUD properties at a discount resale restriction.
- Properties acquired by inheritance.
- Sales of properties by state and federally chartered financial institutions or GSE's.
- Presidentially declared Disaster Areas

PROGRAM TYPES

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- We offer all mainstream FHA, conventional, and government (FHA, USDA, VA) loans. The choice of type of loan is typically driven by the objectives of the borrower, the property, and income/asset/credit criteria. Except where stipulated this Handbook

applies to purchases, sales, and refinances for these types of loans.

- Prospect Mortgage also offers various refinance programs for underwater or distressed borrowers. [Contact me](#) if you have a scenario.
- Portfolio, stated income, hard money, and Homepath loans represent significant opportunities and are represented below

CONVENTIONAL LOANS

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Purpose

- Purchase
- Refinance
 - Limited Cash Out Refinance (LCOR):
 - Incidental cash back not to exceed the lesser of 2% of the balance of the new loan or \$2,000.00
 - Transactions with proceeds used to pay off subordinate liens that were not used to purchase the property are not eligible.
 - Properties listed for sale in the last 6 months are eligible, but must be off the market before application dat
 - Cash Out Refinance: (COR):
 - If the property was purchased by the borrower within the 6 months preceding the application for new financing, the borrower is not eligible for a COR.
 - Properties listed for sale in the 6 months preceding the application for new financing are limited to 70% LTV.

Loan programs and terms

- 10, 15, 20, 25, 30 and 40 year Fixed Rate Mortgages (FRM)
- 3/1, 5/1, 7/1 and 10/1 Adjustable Rate Mortgages (ARM) with a 30 year term.

Occupancy

- **Primary residence**
 - Single borrower
 - Multiple borrowers (Only one borrower needs to occupy and take title to the property, except as otherwise required for mortgages that have guarantors or cosigners).
 - Parents wanting to provide housing for their physically handicapped or developmentally disabled adult child. (If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent is considered the owner/occupant.)

- Children wanting to provide housing for elderly parents. (If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant).

- **Second homes**

- Must be located a reasonable distance away from the borrower's principal residence.
- Must be occupied by the borrower for some portion of the year
- Restricted to one unit dwellings.
- Must be suitable for yearround occupancy.
- The borrower must have exclusive control over the property.
- Must not be under rental property or a timeshare arrangement.
- Cannot be subject to any agreements that gives a management firm control over the occupancy of the property.
- Cashout limitation apply

- **Investment property**

See "Property Types/Features" [\[Back to the top\]](#)

Conversion of principal residence to second home or investment property

- Current principal residence is pending sale but the transaction will not be closed prior to the new transaction.
 - Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction.
- Conversion to a Second Home
 - Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and
 - 6 months of PITI for both properties is required to be in reserves.
 - Lender may consider reduced reserves of no less than 2 months for both properties if there is documented equity of at least 30% in the existing property.
- Conversion of an Investment Property
 - 75% of the rental income can be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property. The rental income must be documented with a copy of the fully executed lease agreement, and the receipt of a security deposit from the tenant and deposit into the borrower's account.
 - If the 30% equity in the property cannot be documented rental income may not be used to offset the mortgage payment. Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and 6 months of PITI for both properties is required to be in reserves.

FHA

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Maximum LTV (Loan-To-Value)

- Purchase - maximum 96.50% LTV. Restrictions may apply with non-occupant borrowers
- Rate and Term Refinance - max 97.75% LTV (115% if second mortgage refinanced).
- Cash-out Refinance - max 85% LTV (115% if second mortgage refinanced)

Loan Program and Terms

- 30 or 25 Year Fixed (with or without a 2-1 or 1-1 buydown)
- 10, 15, 20 Year Fixed (not allowed on High Balance Loans)
- High Balance Loans - 30 year term only
- 1/1, 3/1, 5/1 ARM - 30 year term only
- Temporary Buydown - 30 year fixed only

Borrower Eligibility

- US Citizens, Inter-vivos revocable trusts
- Permanent and Non-Permanent Resident Aliens
- Non-Occupant Co-Borrowers must be on title and meet all FHA guidelines. The co-borrower must be a close family member or demonstrate a long-standing family relationship with the primary borrower.
- All borrowers must have valid social security number.
- A completed and signed 4506-T is required for all borrowers on all loans.

Maximum Loan Amount

Maximum loan amounts are determined on a per county basis. [Lookup here.](#)

Occupancy

- Owner Occupied Only.
- Non-Occupant Co-Borrowers allowed as per FHA guidelines.

USDA

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Summary

- Property must be located in a RD eligible area. Lookup: <http://eligibility.sc.egov.usda.gov/>. Most areas are not rural at all. You'll be surprised.
- Maximum LTV is 100% of the appraised value (Including seller concession, but not including the guarantee fee).
- One-time Guarantee Fee of 3.5%, added to the loan amount. No monthly MI.
- Up to 6% seller concession allowed.
- Loan Term: 30 year fixed rate loans only
- Refinances are not allowed

Borrower eligibility

- Borrower must not own adequate housing at time of loan closing.
- Must meet RD moderate income limits <http://eligibility.sc.egov.usda.gov/> (under the Guarantee Program, not the Direct Program).
- Income for program eligibility is based off of total household, YTD income. (even if income is from someone not going on the loan). Exemptions can be made for children, full time students, applicants or co-applicants age 62 or older and any disabled person living in the household.

Credit

- Minimum 620 Fico. One co-borrower with no score is acceptable.
- Max DTI 41% - up to 50% on an exception basis.
- Collections may not need to be paid off.
- Bankruptcies must be discharged 2 years. (CA 3 years).
- Foreclosures have a 3 year waiting period.
- 100% gift acceptable from disinterested third party.
- No reserve requirements.
- If reserves are such that a conventional loan (20% down payment) can be obtained USDA loan is not allowed

Property

- Owner occupied /primary residence only. Non-occupant borrowers not allowed
Property types allowed: SFR, PUD, condos, modular homes. Not allowed:
Manufactured homes, working farms, ranches, orchards.
- Cannot be an income producing property.
- Maximum 5 acres. Land value cannot exceed 30% of total value.
- 100% of any repairs may be financed based on as-improved value, up to 100% LTV.
- Max escrow holdback for repairs \$10,000. Repairs must be completed within 30 days of loan closing.
- If property has an in-ground pool, the contributory amount of the pool must be deducted from the value.

PORTFOLIO LOANS

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Portfolio loans represent powerful financing options. Because they are held in house by the

lender many common limitations do not apply. They are provided through various Prospect wholesale partners. Here are some of the unique opportunities:

- Fixed rate, interest only, ARMs, HELOCs, Jumbos
- Up to 90% LTV without mortgage insurance
- Up to \$900K loan amount. (No conforming limits)
- No minimum reserves required up to \$900K
- Up to 50% DTI
- Stated income, limited, and no verification loans
- Loans to non-resident foreigners
- Primary wage earner credit score used to qualify
- Loans to trusts, partnerships and LLC's
- [HVCC](#) does not apply. I order the appraisal (Most cases)
- Non-warrantable condos: No questionnaires (Limitations still apply)
- 40% investor concentration allowed on condos
- HELOCs to 85% with credit card and checkbook
- First position HELOCs
- No rate adjustments on cashout
- Foreclosures and short sales allowed
- Rural properties and acreage
- Manufactured home loans to \$200,000 (80% LTV max)
- Refinancing of construction loans to permanent
- 1st and 2nds on vacation, second homes to 80%LTV

HARD MONEY LOANS

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Hard money loans are loans underwritten with the condition and value of the property as the primary criterion. The lender will focus on current value and the potential for added, or increasing value. Any development initiatives associated with the property should therefore be well-articulated. This can include:

- Pre-construction and land development
- Mezzanine and bridge financing
- Acquisition and improvements
- Financial crisis, including foreclosure avoidance

Typical hard money loan terms:

- Loan size: \$50,000 minimum
- Location: Urban, suburban, rural
- Collateral: All types properties
- Rates: 10-18%
- Term: 6 months - 3 years, interest only
- Max LTV: 50-75%

FIX-FLIP PARTNERSHIPS

Most joint venture investments are on the basis of a profit share up to 50/50 (at 100% financing level). My investors usually prefer not to own the property and instead secure their investment with a mortgage. They add a share of the projected profit to the mortgage upfront. The investment is then repaid with the profit share (plus interest if any) when the property is sold or refinanced. This will allow the developer to manage the project independently and maximize profits. Please note that this is an equity investment and not a mortgage loan. There are no lender fees of any kind. The financing is provided through my personally developed circle of investors and does not involve Prospect Mortgage. Request a [quote for your scenario here](#). If you are interested in investing this way, [go here for further information](#).

FANNIE MAE HOMEPATH

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- Prospect Mortgage is a HomePath lender.
- For FNMA-owned foreclosure properties only - Verify property eligibility on <http://www.homepath.com/>
- Low down payment and flexible mortgage terms (fixed-rate, adjustable-rate, or interest-only).
- Less than perfect may be acceptable.
- Available to both owner occupiers and investors.
- Down payment (at least 3%) can be funded by your own savings; a gift; a grant; or a loan from a nonprofit organization, state or local government, or employer.
- No mortgage insurance option.
- No appraisal fees

CONSTRUCTION/REHAB LOANS

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- There are currently no mainstream construction loans available!
- [FHA 203K renovation loans](#) can be used for construction as long as there is an existing foundation (which can still be enlarged) that will be used.
- Portfolio construction loans are available. The rates are higher and refinance to a permanent mainstream loan is typically required (and desired), when completed.

ESCROW HOLDBACKS

An escrow holdback is a portion of a loan that is withheld from the loan proceeds until some additional requirement, such as completion (completion escrow) or an improvement project (repair or rehabilitation escrow), is satisfied.

Escrow holdbacks are borrower accommodations that allow the loan to close and the borrower to occupy the property while incidental work is in progress. The escrow holdback funds are held by the escrow agent, closing attorney, or the title company.

Typically, the appraisal and appraised value indicate "subject to completion" pertaining to the

work. Upon completion of the work, a final Inspection is required before the funds are released.

- Escrow holdbacks are allowed for most loan types, subject to applicable policies. (VA loans are not eligible)
- Single family dwellings on owner-occupied or second homes only. Not allowed on co-ops, condos, or attached PUDs.
- Maximum holdback for FHA loans is \$5,000. Higher amounts need a 203k loan.
- The amount of funds held is a minimum of 1½ times the amount needed for work completion, and cannot exceed 10% of the loan amount.
- Maximum escrow holdback period of 30 days.
- Work to be completed in connection with an escrow holdback cannot affect health and safety in occupying the property.
- All work must be completed in a workmanlike manner, usually by a licensed, bonded contractor.
- Homeowners may be able to do the work themselves and can be reimbursed for materials, but not for labor costs.
- Excess funds after all work is completed is returned to the borrower, seller, or applied to the loan balance, as required by the underwriting guidelines of the loan program.

RATES

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Mortgage rates are a function of loan program, type of property, Fico, location, LTV/CLTV, rate lock period, refinance/purchase, if refinance cashout or not, investment or owner occupied, and other factors. The more detail you give me when you can ask me "what the rate is", the more meaningful the answer. If you want to look up real average rates and get a quick commentary, [go here](#).

SERVICE PROTOCOL

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If you read this Handbook you will probably have been reminded of the fact that there is much more to mortgage financing than processing applications. (For that you can go to any bank). I am a seasoned mortgage banker with "wide and deep", 15+ years experience. My focus is results and the approach needed to get there.

Prospect Mortgage is a national direct lender offering every conceivable mortgage program, and is organized like a professional firm with elaborate support systems. I am proud of what I deliver to my clients and real estate professionals, and the repeat and referral business I receive on a daily business. Below is a "birds eye view" of what my service elements, which I believe will give you an appreciation of how I work.

General

- Publish timely and meaningful mortgage financing information via website, [newsletters](#) and [blog](#).
- Respond to industry professionals inquiries/needs
- Respond to consumer inquiries/needs

Mortgage Ready

- Introductions
- Explain the overall process
- Discuss life, financial goals, and near term objectives
- **Get "Mortgage Ready"**
 - Credit review (Determine improvements if needed/desired)
 - Income review
 - Assets review
 - Determine income/asset/credit documentation required
 - Discuss mortgage options and determine financing plan
- Determine who's involved, and recommend if needed. (Realtor, attorney/title company, insurance agent, accountant, other.)
- Prequalification (Issue letter if needed)
- Review key documentation to ensure loan viability
- Pre-approval (Issue letter with approval number, if needed)

Transaction support

- Review prospective properties
- Property specific pre-approvals (Issue letters as needed)
- Support negotiations, re-preapprove, and re-issue pre-approval letters as needed
- Review purchase contract
- Establish contact with attorney/title company and order title

Loan origination

- Perfect documentation required
- Submit loan to Underwriting
- Order appraisal
- Support and advocate the application
- Submit additional documentation requested
- Review and submit appraisal to Underwriting
- Secure loan approval and issue commitment letter
- Perfect loan documentation
- Facilitate smooth and timely close

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