Getting Mortgage Ready

WHAT YOU NEED TO KNOW WHEN YOU WANT TO BUY A NEW HOME, "but you just aren't quite ready yet"

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So you want to buy a new home. How exciting! But maybe you're just not quite ready yet. Let this short guide help you out and answer some of the main questions that I always get asked by people wanting to "Get Mortgage Ready". This is **broad based guide** and every loan program is different, so please speak to me regarding your own unique situation and I will be able to tell you exactly what you will need to "Get Mortgage Ready". The information below is for the **purchase of a residential owner occupied property**. The qualifications are different for 2nd homes, investment properties and units. More information can also be found on my website www.DerekMcClintock.com. This information is correct as of April 2015.

1. Loan Programs & Down Payments

- 0% down VA loans - (for Veterans and active military - loan amounts up to $562,350 in San Diego County with $0 down with full entitlement remaining)
- 3% Down Conventional - (up to $417,000 loan amount in San Diego County, one borrower MUST BE a first time home buyer meaning not owned in last 3 years)
- 3.5% down FHA loans – (up to $562,350 loan amount in San Diego County)
- 5% down Conventional - (up to $417,000 loan amount in San Diego County)
- 10% down Conventional - (loan amounts from $417,001 - $562,350 in San Diego County)
- 10% down Jumbo to $1,500,000 with 760 score
- 20% down Conventional - (loan amounts up to $562,350 in San Diego County) – NO PMI
- Jumbo loans – loans over $562,350 in San Diego County – ask for details
- STATED INCOME loans – up to 70% Loan-to-Value to $625,000 with a 720 score, up to 60% LTV to $1,000,000 with a 720 score (if between 700-719 score LTV decreases by 5%)
- Different Portfolio loans – non Fannie / Freddie loans – ask for details (recent BK, short sale or foreclosure, Foreign National loans, too high of debt to income ratios, etc.)

2. Qualifications

There are many factors that go in to qualifying for a mortgage. It is best to speak to me regarding your particular situation, but here are some general rules for you to see.

A. Credit Scores – Every loan program and down payment percentage require different credit scores to qualify for that particular loan program. There are 3 credit bureaus and the lowest middle score of all borrowers is used to score your file.

FHA loans allow for the lowest credit scores, down to 580, but very few lenders will go that low. We WILL though. VA loans also allow for low credit scores (typically down to 620, but could go lower with compensating factors). Conventional loans allow down to a 620 credit score, but to get better pricing on conventional loans, you would ideally want over a 700 middle score.

For more information on credit scoring click here http://derekmcclintock.com/credit-scoring

B. Employment – Typically a two year employment history with no gaps must be verified. Two years at the same job is ideal. However, if you change jobs, but are in the same line of work, that will work. But, if you were self employed and now an employee, we need to talk. If you were an employee and are now self-employed, we need to talk. It starts to get a little tricky. FHA does allow for some easier rules on this subject.

   If you are self employed, we will need to go through your last 2 years tax returns to see your gross income, net income and all write offs to come up with your "qualifying" income, which is an average of the last two years of filed tax returns. However, if it makes sense to do so, we do have a way to qualify you with only one year of tax returns if you are self employed.

C. Debt-to-income ratios (DTI) – Typical conventional Fannie Mae rules these days are a 43% DTI or less for all debt including PITI (Principle, Interest, Property taxes, Insurance). VA loan guidelines are 41% DTI, however higher DTI's can be manually underwritten. The maximum DTI for an FHA loan is 46.999/56.999%, that is 46.999 for the housing expenses which only includes your PITI (principle, interest, taxes and insurance, HOA) and 56.999% for your overall expenses which includes your PITI plus any other consumer debt payment that reports to your credit. For Jumbo loans and Portfolio loans, ask Derek. Also, because C2 Financial is a mortgage broker, we have access to investors that have higher allowable DTI's on certain programs, so that is great for our clients.

D. Gift Funds – The percentage of allowable gift funds differs from loan program to loan program. Also, how you can receive gift funds and from who differs from loan program to loan program.

   For example, on a 5% down conventional loan on Fannie Mae, all 5% can be a gift but if it is a Freddie Mac loan, all 5% must come from the borrowers own funds (having been seasoned in their account for a minimum of 60 days). On a conventional loan with more than 5% down, only 5% needs to come from the borrowers account and the rest can be a gift. I can go over all this with you. If you are receiving a gift of 20% down, then the whole 20% can be a gift.

With an FHA loan, all of the 3.5% down payment can be a gift. So talk to me about your unique situation and I can guide you the right way when using gift funds.

When you accept a down payment gift, remember that there's a right way and a wrong way to do it. For example, you cannot randomly deposit your cash gift into a bank account. That will get your loan denied. A gift letter will be needed (I will provide) and also we must paper trail the gift money.

A paper trail is a set of documents that follow the money. The paper trail would include:

1. A bank statement showing the gift money came out of the donor's account,
2. A withdrawal receipt from the donor
3. A deposit receipt from the receiver (borrower)
4. A statement from the receiver's bank showing the money is now credited to his or her account

Then the receiver will have to show proof of the gift money coming out and a receipt from escrow showing the funds were received for the part of the down payment it was used for.

Some steps can be cut out if the donor wires the gift money directly to the escrow company handling the transaction. In that case, all that would be needed is the donor's bank statement, and a receipt from escrow.

E. Reserves – Reserves are monies that you need to prove to the underwriter that you have left over **after** your down payment and closing costs. This shows the underwriter that you can actually make your first couple of payments. This amount is based on the Fannie Mae / Freddie Mac underwriting findings. Typically, on a standard conventional loan, the underwriter likes to see at least 2-3 months of reserves (PITI payment) or more, after closing costs and down payment. Also, a percentage of retirement account balances can be used for the reserve requirement.

   For an FHA loan and a VA loan, there is no reserve requirement, but having reserves makes your file stronger and can help when other compensating factors are involved. Jumbo loans and portfolio loans have their own reserve requirements which are usually much higher.

F. PMI – What is it? - Private Mortgage Insurance (PMI) is typically required when you put down less than 20% on a purchase on a conventional loan. Also, mortgage insurance (MI) is required on all FHA loans. One of the best features of a VA loan is the fact that **MI is NOT** required, even with no money down. PMI rates are easy to figure out by your lender. It is just a chart that has credit scores and down payment percentages and it tells us what your PMI percentage will be. For FHA loans, there is upfront mortgage insurance when the loan is funded and also monthly mortgage insurance. Talk to Derek about how mortgage insurance works, how much it costs, and how long you have to have it for.

G. BPMI – What is it? Borrower Paid Mortgage Insurance is when you put down less than 20% and you pay the PMI out of pocket every month until you are able to get your loan to value low enough to get rid of it.

H. LPMI – What is it? Lender Paid Mortgage Insurance is when you put down less than 20%, but instead of you paying monthly BPMI, the lender pays for it upfront in the form of a slightly higher interest rate for you. Derek will show you both options and the pros and cons of LPMI and BPMI and let you figure out for yourself which one you are most comfortable with, assuming you are putting down less than 20%.

I. Condos – Buying a condo is different than buying a single family home. If you are using an FHA loan or a VA loan to buy a condo, the complex you are buying in to needs to be FHA and / or VA approved. Your Realtor will check this out for you. Also, if there is litigation against the complex, most banks and investors will not lend on it. However, I have access to investors that will lend with litigation on certain portfolio loans. These do require a larger down payment and sometimes higher credit score. With certain loan programs there is also a percentage that needs to be owner occupied. For example, when using an FHA loan to buy a condo, at least 51% of the units must be owner occupied to qualify.

3. Closing Costs

It costs money to close your loan. Examples of charges you will have to pay are underwriting, processing, credit report, appraisal, escrow, title, county recording fees and notary fees. Sometimes we can get the seller to pay for some of your closing costs. And typically, Derek will be able to give you a lender credit to cover some of your closing costs.

With a VA loan, there are certain closing costs that you are not allowed to pay for. In this case, those costs are paid for by a seller credit or lender credit, which is great for the client.

4. When Can I Buy Again?

If you have had an unfortunate credit issue in the last couple years, see below for when you can qualify again for different mortgage programs. The chart below does not take into account Jumbo loans or Portfolio loans, so please speak to Derek directly about these. What's different about Derek is that he has access to investors that will allow you to buy the day after a BK or foreclosure, given certain guidelines. So be sure to ask him about these portfolio programs to see if they might work for you.

Waiting Period Matrix

Bankruptcy / Short Sale / Foreclosure

Loan Type	Foreclosure	SS / Deed in Lieu	Chapter 7 Bankruptcy	Chapter 13 Bankruptcy
Conventional	7 yrs maximum LTV or 3 yrs and a max 90% ltv due to extenuating circumstances*	4 yrs from completion date - max allowable ltv or 2 yrs from completion date w/ extenuation circumstances – max allowable ltv	4 yrs from discharge date OR 2 yrs from discharge date due to extenuating circumstances*	2 yrs from date bankruptcy was complete 4 yrs from date of dismissal by a judge
FHA	3 yrs from completion date OR Less than 3 yrs but not less than 12 due to extenuating circumstances*	3 yrs from completion date Wait period not required if borrower was current on mortgage/debt & not taking advantage of declining market conditions	2 yrs from discharge date OR Less than 2 yrs, but no less than 12 mos from completion date due to extenuating circumstances*	2 years from discharge date OR 1 yr payout has elapsed Payment performance is satisfactory Written permission from Trustee
VA	2 yrs from completion date OR Less than 2 yrs, but no less than 12 mos from completion date due to extenuating circumstances*	2 yrs from completion date OR Less than 2 yrs, but no less than 12 mos from completion date due to extenuating circumstances*	2 yrs from dishcarge date OR Less than 2 yrs, but no less than 12 mos from completion date due to extenuating circumstances*	Discharged OR 1 yr payout has elapsed Payment performance is satisfactory Written permission from Trustee
USDA	3 yrs from completion date OR Less than 3 yrs from completion date w/ an automated underwriting approval or due to extenuating circumstances (additional guidelines will apply)*	3 yrs from completion date OR Less than 3 yrs from completion date w/ an automated underwriting approval or due to extenuating circumstances (additional guidelines will apply)*	3 yrs from discharge date OR Less than 3 yrs from completion date w/ an automated underwriting approval or due to extenuating circumstances (additional guidelines will apply)*	1 yr payout has elapsed Payment performance is satisfactory Written permission from Trustee OR Automated underwriting approval (additional guidelines will apply)

What events might qualify as extenuating circumstances?

Extenuating Circumstances are temporary events that are beyond a borrower's control, medical bills or the death of a wage earner. Divorce and the inability to sell the house after a job relocation do not qualify.

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Steps to take to "Get Mortgage Ready"

1. Meet with Derek either in person or over the phone

2. Have Derek run your credit report (depending on situation)

3. Go over loan options with loan programs, down payments and closing costs

4. Figure out approx. purchase prices you potentially qualify for given current debts and income

5. Develop your "Get Mortgage Ready" plan with Derek

6. Stick to your plan!

7. When the time is right, get mortgage approval from Derek with property TBD. This way you know you are approved and for what amount you are approved for

8. Start looking for your new home with your Real Estate Agent ☺

Items Needed for Loan Pre-Approval

There is a lot of paperwork required to get a mortgage loan. The hardest part typically is just getting it all together. Below is a sample list of paperwork that I will need from you for your loan approval.

____ Copy of last two years' **COMPLETE** IRS 1040's (Federal) tax returns ALL SCHEDULES (2013, 2014**)**

____ Copy of last two years' W-2's (2013, 2014)

____ One full month's (30 days) pay stubs showing year-to-date earnings (computer generated)

____ If you own more than 25% of a business, please provide corporate or partnership tax returns ALL SCHEDULES

____ Copy of last **2 months COMPLETE bank statements** on all open accounts – **ALL PAGES** (**Example -** if it says page 1 of 7… I need all 7. Even if page 7 is blank).

____ Copy of last **2 months / most recent quarterly COMPLETE brokerage / retirement statements** on all open accounts – **ALL PAGES** (**Example -** if it says page 1 of 15… I need all 15. Even if page 15 is blank).

____ If you are self-employed, employed in a family business, a tradesman, or your income is based on commissions: **tax returns** for last two years complete with all schedules including K-1's

____ Year – to – Date business profit-and-loss statement for current year if more than three months have passed since the end of the tax year prepared by your accountant

____ If you are NOT a US citizen, please provide a copy of the front & back of your green card

____ If you own any rental property, please submit copies of lease agreements and last 2 years' tax returns

____ Copies of Driver's License and Social Security Cards

____ **VA Loans** – please provide copy of DD214 and Certificate of Eligibility

About C2 Financial

As **California's largest wholesale mortgage broker (lender)**, we are able to take your unique loan situation and price it out for you at **over 85 different lenders / investors** giving you access to far more programs than any normal bank could offer you.

What does this mean to you? It means you won't have to do the work yourself of calling around numerous different lenders and trying to compare rates and not getting the truth from most of the people you speak to (because they know you are not going to lock in your interest rate today).

There are **three types of mortgage lenders** in the market and pricing will vary from each type. FDIC banks who offer retail rates, Mortgage Bankers / Direct Lenders who offer their own retail / correspondent rates and Wholesale Lenders who offer you wholesale mortgage rates. **Which one do you think is going to have the lowest rates?**

We know that despite our best efforts and the government's best efforts to regulate the mortgage industry, our borrowers are too busy to review every last line of every single document. Our borrowers trust us as their mortgage advisor and that what they are signing is in their best interest. **We do not take that responsibility lightly.** We do what is in the best interest for you, our client, not what is best for our pocketbook as some other brokers before us have done. We know by doing this, we not only are doing what is morally and ethically right, but we know this belief system **will result in our borrowers referring us additional clients**, the underpinnings of a long term relationship.

C2 Financial is a **privately held mortgage broker**, so that means we have access to virtually every single loan program available in today's mortgage market. Being a wholesale lender means that my clients get the best rate/loan options available every single time. My clients do not have to go to the bank and deal with all of the nonsense that the banks are putting people through these days. I have the ability to shop and broker your loan out to the wholesale division of pretty much every big bank in the United States as well as many of the smaller banks / investors and others that offer certain portfolio loan programs that do not fit into the Fannie Mae / Freddie Mac guidelines, eliminating the need for you to shop endlessly. Being a broker also allows us to find those hard to get loans for clients in certain situations.

Meet Derek

Going on his 13th year in the mortgage industry and with nearly $350,000,000 in funded mortgage loans, Derek McClintock, a Certified Mortgage Planner and Senior Loan Officer with C2 Financial Corporation in San Diego, CA, specializes in helping people who need home financing. His objective is to help his clients sort through the multitude of financing options and learn the best way to manage, most likely, the largest debt of their life. As a licensed loan originator, Derek has proven to be a skillful and knowledgeable Certified Mortgage Planner (CMP). His motto is “under promise over deliver,” meaning you won’t be disappointed, but pleasantly surprised. It is VERY important to always keep clients and referral partners updated on the progress of their loan each step of the way. Steady communication is the key to a successful transaction.

Derek is born and raised in San Diego, CA. He attended Christian High School in El Cajon where he excelled in soccer and volleyball and then went on to Westmont College in Santa Barbara to play volleyball for two years before transferring back home and finishing college at San Diego State University with a Marketing degree. He has always been interested in the mortgage industry, as he clearly remembers meeting a mortgage broker while he was in high school, working at Souplantation on Fletcher Pkwy in El Cajon, and saying to himself, “That’s what I want to be when I grow up”. On top of that, his father was an underwriter and credit manager for over 20 years… so it was a natural progression for him.

Derek offers a unique approach to home financing: he believes in listening to you and educating you, so that you decide on the loan that best fits your own situation. He provides you with clear, honest, and understandable information so you can be assured you’re making the best decision. Ultimately, you choose the loan that you feel most comfortable with.

Derek is truly passionate about his profession and the result is that nearly 100% of his business is by referral from satisfied clients, trusted financial advisors, CPA’s and the most experienced local realtors.

In what little spare time he has, Derek loves to be the beach, stay active, read, travel, spend time with his friends and family and is actively involved in his church.