

**FINANCE AND REGULATION:  
THEY'RE GOING TO CHANGE YOUR WORLD™**



# STATE OF THE MARKET ADDRESS

The Apollo moon mission was off track most of its journey, but landed on the moon within 15 feet of its target because it continuously adjusted its course; so must you!

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## RELEVANT ITEMS

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### REMEMBER . . .

PEOPLE WANT VALUABLE AND RELEVANT INFORMATION FROM A REAL ESTATE PROFESSIONAL. WE ARE IN THE INFORMATION BUSINESS!

## TAX RELATED UPDATES

Numbers: \_\_\_\_\_  
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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5 Year Look-Back and Home Conversion

1) \_\_\_\_\_  
2) \_\_\_\_\_

## WHY IS KNOWLEDGE OF FINANCE IMPORTANT?

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\_\_\_\_\_

LISTING

PRESENTATION? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

BUYERS?

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\_\_\_\_\_  
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## **A SHORT HISTORY LESSON ON REAL ESTATE FINANCE**

- **1920'S: MORTGAGE LOANS REQUIRED DOWN PAYMENTS OF 40-50%, HAD TERMS OF 5-10 YEARS**
- **1930'S: UNPRECEDENTED NUMBER OF FORECLOSURES AS HOMEOWNERS FOUND THEY WERE UNABLE TO REFINANCE THESE SHORT-TERM LOANS.**
- **FEDERAL HOUSING ACT OF 1934:  
ESTABLISHED FEDERAL HOUSING ADMINISTRATION (FHA); INSURED PRIVATE LENDERS AGAINST LOSS IN THE EVENT OF DEFAULT AND FORECLOSURE**

### **SERVICEMAN'S READJUSTMENT ACT OF 1944:**

- **ENABLED ELIGIBLE VETERANS TO OBTAIN GUARANTEED OR PARTIALLY GUARANTEED LOANS WITH 0% DOWN.**

**1957: PRIVATE MORTGAGE INSURANCE INTRODUCED ENABLING CONVENTIONAL LENDERS TO COMPETE WITH FHA AND VA**

## **INTRODUCTION TO INSTITUTIONAL FINANCING**

- 1. LOAN ORIGINATORS – THEIR JOB IS TO?**
- 2. LOAN PROCESSORS – THEIR JOB IS TO?**
- 3. LOAN UNDERWRITERS – THEIR JOB IS TO?**

## **LOAN ORIGATION**

- **THE MAIN DOCUMENT IN THE LOAN ORIGATION PROCESS IS THE LOAN APPLICATION.**
- **PRE QUALIFIED**
- **PRE APPROVED**

# CREDIT SCORE IS KEY

An individual's credit score can affect where they work, what car they drive, what they pay for insurance and where they live! It is imperative to know how credit scoring works and how to achieve the highest score possible.

What is a credit score?

A credit score is derived from information provided by the credit grantor: credit card companies, home loans, auto loans, department and retail stores etc. Information is also obtained from court records which can include bankruptcy filings, tax liens and judgments. A credit score is a numerical representation of your statistical likelihood to repay credit that has been extended to you.

## THREE MAIN CREDIT BUREAUS

- 1)
- 2)
- 3)

## TWO TYPES OF CREDIT SCORES

### 1) VantageScore

- Generic consumer credit risk score
  - Rank orders risk
  - Likelihood of 90+ days past due
- Created by the 3 major CRCs:
  - Equifax, Experian, TransUnion
- Reflects consumer data contained in credit files present at the three CRCs
  - Traditional and alternative
- Introduced in March 2006

– Developed in direct response to market demand for a score that would be more predictive, score more people and reduce confusion

- Score range from 501-990
- Score groupings that approximate the familiar academic scale:

900+A

800-899B

700-799C

600-699D

<600F

2) FICO Score \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



**REMEMBER . . .**

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**WHAT MAKES UP THE FICO SCORE?**

- 1) \_\_\_\_\_
  - 2) \_\_\_\_\_
  - 3) \_\_\_\_\_
  - 4) \_\_\_\_\_
  - 5) \_\_\_\_\_
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Credit scores are now, more than ever, a critical piece of a buyer's ability to buy. We can help educate buyers on how to improve their score and what to do and not do to maximize their fiscal ability.

It is the process of assigning the statistical probability of repayment of debt. There is a model for the scores that was created by Fair Isaac & Company and are called FICO scores. The scores range from 300 to 850. The higher score reflects better credit ratings.

**Fair Credit Reporting Act: FCRA-** a federal law which regulates the activities of credit reporting bureaus. Designed to protect the public from unfair treatment as a result of inaccurate information in their file with the reporting agencies.

**Your rights under the Act:** free copy of your report, revise your report, examine your report, delete old information, inform others of a dispute, trace who pulled or issued report.

## **AVOID IDENTITY THEFT**

- Monitor your credit report annually!
- Secure your mail. Have it delivered to and mailed from the post office or a secured mail box.

### **Additional Resources**

[www.ftc.gov](http://www.ftc.gov)

Registry 888-382-1222

Opt Out 888-567-8688

[www.optoutprescreen.com](http://www.optoutprescreen.com)

[www.annualcreditreport.com](http://www.annualcreditreport.com)

[www.myfico.com/crediteducation](http://www.myfico.com/crediteducation)

## **Front End Ratio:**

**Monthly housing expense to income:**

**P.I.T.I.(M.I.)H.O.A./GMI**

## **Back End Ratio:**

**Total payment obligations to income:**

**P.I.T.I.(M.I.)H.O.A.**

**+ Installment Debt**

**+ Revolving Credit/GMI**

Compensating Factors

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Loan Origination

Fee

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Discount

Points

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## **FHA FINANCING**

- **GEARED FOR FIRST TIME BUYERS, BORROWERS WITH LITTLE MONEY AND LESS THAN PERFECT CREDIT, BUT NOT ALWAYS!!!**

The FHA program is a government insurance program; doesn't lend money, under the administration of HUD, limited to owner occupants and applications are made through an FHA approved lender.

**Down Payments**

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**MIP:**

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**Approval:**

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***Assumability:***

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**FHA PROGRAMS**

**203b:**

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**203K:** HUD provides the following summary for using a 203K loan: “The extent of the rehabilitation covered by Section 203(k) insurance may range from relatively minor (though exceeding \$5000 in cost) to virtual reconstruction: a home that has been demolished or will be razed as part of rehabilitation is eligible, for example, provided that the existing foundation system remains in place. Section 203(k) insured loans can finance the rehabilitation of the residential portion of a property that also has non-residential uses; they can also cover the conversion of a property of any size to a one- to four- unit structure. The types of improvements that borrowers may make using Section 203(k) financing include:

- structural alterations and reconstruction
- modernization and improvements to the home's function
- elimination of health and safety hazards
- changes that improve appearance and eliminate obsolescence
- reconditioning or replacing plumbing; installing a well and/or septic system
- adding or replacing roofing, gutters, and downspouts
- adding or replacing floors and/or floor treatments
- enhancing accessibility for a disabled person
- making energy conservation improvements

## **THE SECONDARY MARKET**

The secondary mortgage market is the financial market where existing closed mortgage loans are bought and sold. Today it represents the greatest source of loanable funds for real estate backed loans.

## **VA FINANCING**

In 1944, as a part of the Servicemen's Readjustment Act, Congress created the VA loan guaranty program to assist returning WWII soldiers in their efforts to readjust to civilian life.

Congress created the Veteran's Bureau in 1921; changed it to the Veteran's Administration in 1930, and in 1989 became the Department of Veteran's Affairs (DVA).

Advantages:

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Eligibility:

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Funding Fee:

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Qualification:

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Assumption guidelines:

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## CONVENTIONAL FINANCING

PMI

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ARM

Loans

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### *Websites and Resources*

- [www.realtor.org](http://www.realtor.org)
- [www.fhfa.gov](http://www.fhfa.gov)
- [www.hud.gov](http://www.hud.gov)
- [www.rismedia.com](http://www.rismedia.com)
- [www.va.gov](http://www.va.gov)
- [www.bankrate.com](http://www.bankrate.com)
- [www.inman.com](http://www.inman.com)
- [www.kiplinger.com](http://www.kiplinger.com)
- [www.fanniemae.com](http://www.fanniemae.com)



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