

23 Financing Ideas for 2023

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"Business Opportunities are like buses. There's always another one coming"

Richard Branson

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MATT HEMPHILL

• VP PRODUCT SPECIALIST CMG FINANCIAL SERVICES

• 35 YEARS MORTGAGE LENDING

• 8 YEARS TEACHING REALTOR CE CLASSES

IMPORTANT NOTE ABOUT THIS CLASS

I WILL BE HAPPY TO DISCUSS ACTUAL EXAMPLES OF ITEMS DISCUSSED TODAY
HOWEVER PLEASE NO NAMES, PLACES, OR ANYTHING THAT WOULD
DISCLOSE PERSONAL INFORMATION ON INDIVIDUAL CLIENTS

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Agenda

Primary goals:

Provide you with 23 under-utilized financing ideas and tips that will assist your clients in purchasing a home
Discuss how mortgage lending changed since 2008

Timeline:

This is a 2 hour CE class for the State of NY (NJ and PA are pending)

Summary:

We will cover underserved markets, Agency Lending, Non QM Lending, and Specialty Product Lending


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LET'S FIND OUT
IF THE TALKING
HEADS ARE
CORRECT?

The Coming Credit Crunch



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KNOW
TODAY'S
CUSTOMER

- TOP 5 REASONS HOMEBUYERS
SELECT A PROPERTY
 - CONVENIENCE TO FRIENDS
AND FAMILY
 - COMMUTING DISTANCE
 - AFFORDABILITY
 - ENERGY EFFICIENCY
 - QUALITY SCHOOLS


<https://www.nar.realtor/research-and-statistics/research-reports/highlights-from-the-profile-of-home-buyers-and-sellers>

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Agency Lending

FNMA/FHLMC
 FHA
 VA
 USRDA



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DID YOU KNOW?

FNMA WILL ALLOW FOR CREDIT SCORE AVERAGING IF TWO OR MORE BORROWERS ON A LOAN!

FHLMC IN SOME INSTANCES WILL ACCEPT A CREDIT SCORE AS LOW AS 600!

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What is a Temporary Buydown?

- Most common temporary buydowns are 2-1 or 1-0 but can go up to 3% below start rate and can down odd increments such as 2.5-1.5-.5
- Funds are provided to reduce the Borrower's monthly payments during the first few years of the mortgage.
- Buydown Deposit can be paid by the Borrower, or Builder, or Seller to encourage the Borrowers to purchase the property
- Interest rate temporary buydowns are designed to reduce the Borrower's monthly payment during the first few years of the mortgage
- At settlement, an escrow account is established.
- Each month, the servicing lender draws an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.
- <https://www.mtsprofessor.com/calculators/Calculator74.html>

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ASSET DEPLETION

Very Common method of qualifying for Retired but available for anyone with liquid or retirement assets available

Available for FNMA/FHLMC or Non QM (including Jumbo) mortgages

Simply put an income stream is calculated from assets remaining after downpayment and closing costs without the borrower having to liquidate those assets

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ASSET DEPLETION (example)

FNMA/FHLMC

Client must be 62 or older and assets must be work related savings or assets from sale of a business

Client has \$1,000,000 in a retirement fund we take those funds and divide by term of the loan (FNMA) or 240 months (FHLMC)

$\$1,000,000 / 240 \text{ months (FHLMC rule)} = \$4,166 \text{ monthly income used for qualifying}$

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FNMA Kiddie Condos in Reverse


Parents wanting to provide housing for their physically handicapped or developmentally disabled adult child when the child is unable to work or does not have sufficient income to qualify for a mortgage on their own.

Children wanting to provide housing for parents when the parent(s) is unable to work or does not have sufficient income to qualify for a mortgage on their own

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What is FHA Solar and Wind?



- The solar and wind technologies policy allows the Mortgagee to increase the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the Property at the time of a purchase or refinance.
- Allows for up to 120% maximum mortgage amount for solar and wind improvements

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FNMA ENERGY PLUS

Flexible

Wide variety of energy-related improvements across all property types

Affordable

Benefit of lower interest rate mortgage financing for cost-effective improvements

Simple

Energy reports easy to obtain, and some projects do not require one

<https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/homestyle-energy-mortgage>

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VETERANS ADMINISTRATION

VA REMOVED THE CAP ON MAXIMUM ELIGIBILITY

YOU CAN FIND LENDERS GOING UP TO \$5M OR MORE WITH NO DOWNPAYMENT REQUIREMENT FOR VETERANS

CREDIT SCORES AS LOW AS 580

NO MORTGAGE INSURANCE REQUIREMENTS

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UNDERSERVED MARKETS

- SHARED EQUITY HOMES
 - HOMES TYPICALLY SOLD THROUGH A STATE/CITY HOUSING FINANCE AUTHORITY OR THROUGH A NON-PROFIT
 - SOMETIMES HOMES SOLD THROUGH A DEVELOPER REQUIRED TO SET ASIDE A CERTAIN NUMBER OF UNITS AT BELOW MARKET RATE
 - HOMES ARE DEED RESTRICTED
 - OFTEN HOMES ARE ON LEASED LAND
 - TYPICALLY BEEN DIFFICULT TO FIND FINANCING
 - FINANCING DEALS NOW AVAILABLE THROUGH FNMA AND FHLMC THAT ALLOWS LOWER INCOME QUALIFIED INDIVIDUALS TO PURCHASE

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- HUD 184 TRIBAL LENDING
- DESIGNED FOR NATIVE AMERICAN AND ALASKAN NATIVES, TRIBES, AND DESIGNATED TRIBAL ENTITIES
 - Can be used on and off native lands for new construction, existing home purchase or refinance
 - 2.25% down with a 1.5% upfront insurance premium
 - No monthly mortgage insurance
 - New loan amounts \$472,030 up to \$1,089,300 for a single family home depending on county
 - Presently 39 states with full or partial approval

<https://ento.hud.gov/ldapp/html/hicostlook.cfm>


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Halal Financing


- no interest based financing
- Ijara Financing establishes an Inter Vivos Revocable Trust which becomes the owner of the subject property, the trust then leases the property to the borrower
- Musharakah a joint partnership is formed where parties share in profit or loss of the home
- Murabaha a financing structure where the seller and buyer agree to the cost and markup to an asset often referred to as cost plus financing



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- Law enforcement officers, teachers (pre-Kindergarten through 12th grade) firefighters and emergency medical technicians can contribute to community revitalization while becoming homeowners through HUD's Good Neighbor Next Door Sales Program. HUD offers a substantial incentive in the form of a discount of 50% from the list price of the HUD owned home. In return, an eligible buyer must commit to live in the property for 36 months as his/her principal residence.

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State Bond/HFA programs




Every State and many cities/towns has a Housing Finance Agency designed to assist people get into homes



Grants (DPA's) are available for closing costs down payment assistance



Lenders allow for crowd funding gifts for downpayment and closing costs



Bottom line there are many resources available to assist your homeowners purchase a house

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NON QUALIFIED MORTGAGES (Risk vs Reward)

- 12/24 MONTH BANK STATEMENT
 - Qualify using deposits into business or personal bank statements
- No Tax Returns or W-2 income documentation
- Can mix Self Employed with W-2 or asset depletion income
- Typically 10% downpayment or higher
- 1099 income often allowed
- Lower credit scores available but downpayment requirements stricter

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DEBT SERVICE COVERAGE LOANS (DSCR OR Investor Cash Flow)

- FOR INVESTMENT PROPERTIES ONLY 1-8 UNITS
 - Qualify based solely on income or proposed income from investment property
 - No borrower income documentation required
 - Borrower must qualify on asset, credit and typically must have previous homeownership experience
 - Take rent /divided by PITI(a) = Debt Service Coverage
 - Lender usually looking for a DSCR of .75 or higher and many Lenders will only allow a percentage of rent to be used in calculation
 - Short Term Rent allowed with 12 month history

$\$2,000/\text{mo Rent divided by PITI } \$2300/\text{mo} = \text{DSCR .87}$

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ITIN
BORROWERS

Available for clients who have an ITIN tax number

Not to be confused with a work visa

Clients must qualify with income and assets

Most often ITIN Borrowers have a credit score but sometimes no score is available

Available with 10% downpayment but many lenders require more

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Foreign
National
Borrowers

Designed for Clients who have no residency status in the US

Homes are bought as Investment properties or second homes

No US credit history or work history required

Large downpayments required and assets must be in the US

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Non Warrantable
Condos

- Available for those condo communities not meeting Agency approval requirements
- Short Term Rental (Transient) facilities allowed
- Usually purchased as a second home or investment and typically require 20% or more downpayment
- Typically Investors will allow up to 2 reasons complex cannot be approved by FNMA/FHLMC

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Medical Professional Loans

- Typically meant for Residents not yet Medical Doctors, however many programs allow for Veterinarians, PA's, and Registered Nurses
- Often 100% Financing with No Mortgage Insurance
- Relief available on student loan debt when qualifying
- There is often leniency on timing when starting new jobs when exiting residency

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Construction Lending

- Difference between a 1X Close and a 2X Close Construction Loan
- If clients own land that becomes part of the equity in the new home
- 12-24 month interest only terms based on amount drawn
- Usually always Full Documentation loans and qualifying is more difficult than existing properties
- Available for conforming and jumbo loan amounts

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Renovation Lending

- Allows for a Champagne Home on a Beer Budget
- Probably one of the most important types of loan products for homebuyers that is not used nearly enough
- Available with downpayments as little as 3% and credit scores as low as 600
- Conventional and 203K most popular options

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Reverse Mortgage Lending for Purchase

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graph TD; A[Borrowers age 62 or older are able to purchase a new home and cover make a monthly payment] --> B[Designed to allow Seniors to age in Place]; B --> C[Loan does not become due until the Reverse Mortgage matures]; C --> D[Must move in within 60 days and must be a primary residence]; D --> E[Usually significant downpayment requirements but equity from a home be sold is allowed to be used];
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HOME EQUITY LINES AS A FIRST LIEN

- Allows a HELOC to be used for purchase of a home
- Very good for Investors looking to create cash flow
- Some are available where principle is paid first and interest paid second increasing equity in home sooner
- Early payoff accelerates removal of mortgage debt sooner but allows the line to stay in place for future use

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