



A University of Hawai'i Cooperative Extension Service Project

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# Course Objectives



- Increase your knowledge about financial planning
- Improve your ability to make informed decisions



Financing a Home?

## Presenters



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## Learning Objectives



- Learn about the basics of the home buying process
- Learn about the basics of financing the purchase of a home

## Financing Preparation



- Meet with a home loan consultant/lender to determine what you are qualified for
- Meet prior to home search so that Realtor will be able to find properties within your budget

## Pre-qualification



- Provided by the lender to the buyer with an estimate of how much you can borrow
- Used to guide your property search
- Prepares you for the loan process
- Helps to put you in stronger position for the offer if lender can confirm your qualifications for the seller

# Information Needed



- Federal Tax Returns
  - 2 years, all pages, schedules
- W-2 forms or 1099 forms
  - 2 years
- Current 30 day pay stubs
  - Profit & Loss statement if self employed
- Current copies of loan statements
  - Must show the balance & monthly payments
- Current banks' statements/retirement accounts
  - 2 month's, all numbered pages



# 4 C's of Lending



## 1. Cash

- Down Payment, Closing Costs & Reserves

## 2. Capacity

- Debt to Income Ratio

## 3. Collateral

- Subject Property Value & other Assets

## 4. Credit

- FICO/credit score

## \* Compensating Factors

- Other factors considered - Job History, Paying Bills on Time, etc.

# Financing Basics



- Discuss type of property you are looking for
  - Properties such as condos may have additional HOA fees that the lender will need include in your expenses
- Discuss the amount of down payment funds you have available
- Discuss your reserves or funds you have after closing for emergency purposes

## How Much is the Down Payment?



- For an owner occupied property, the best interest rates are with minimally 20 – 25% down payment

Less Than  
20%



- What if I don't have 20% down?
  - Loan programs for buyers
  - Other options for down payment funds
- Acceptable sources for down payment funds:
  - Gift funds from family
  - Borrow against retirement account

# Loan Programs



- Private Mortgage Insurance (PMI)
  - Minimum 3-5% down payment
- 1<sup>st</sup>/2<sup>nd</sup> mortgages
  - 1<sup>st</sup> mortgage fixed **plus**
  - 2<sup>nd</sup> mortgage
    - HELOC (Home Equity Line of Credit, variable rate)
    - Home Equity Loan (fixed rate)

# FHA Loans



## Federal Housing Administration (FHA)

- Minimum 3.5% down payment
- Funding fee added to loan amount
- Mortgage insurance added to monthly payment

## VA Loans



## Veteran's Affairs (VA) Loans

- Must be a Veteran and meet VA loan eligibility
- Maximum limits for 100% financing
  - If purchasing a property greater than the limit, borrowers will have to come in with some down payment funds

## USDA Rural Housing Loan



### USDA: Rural Housing Loan

- Loans available with 100% financing
- Must meet geographic and income eligibility to qualify
- Funding Fee added to loan
- Mortgage insurance added to monthly payment



## Protect & Preserve Your Credit Score



- Your credit score or FICO score indicates past payment history and ability to repay
- Gives the lender a score that determines your credit risk
- Your FICO has a direct impact as to the interest you will be able to get

Higher the score, lower the risk,  
lower the interest rate

## Other Expenses



- Property Taxes
  - Paid twice/year in Hawai'i
- Property Insurance
  - Paid annually
- Home Owner's Association (HOA) or Maintenance Fees if the property is a condo or town home
  - Paid monthly

## First Time Home Buyer Programs



- Mortgage Credit Certificate (MCC) Program
  - Subject to funding & availability
- Some lenders offer discounts on closing costs or loan programs with lower Private Mortgage Insurance (PMI) premiums
- First Time Home Buyer Education

## Closing Costs



- Approximately 2-3% of loan amount
- Points for the interest rate selected are part of closing costs
- Other closing costs items
  - Escrow and Title Fees, Appraisal, repaid interest and taxes, lender fees

# Reserves



- Amount of money left in borrower's accounts after closing costs
- Safety net or emergency funds in your bank or retirement accounts
- Reserve requirement is usually 3-6 months of all expenses
  - Loans, housing, etc.

## Tips for a Smooth Transaction



- Stay connected with your lender and keep him/her informed of changes in your financial situation
- Minimize your debts
  - Loans and credit card balances
- Don't take on new debt when trying to buy a home
- Protect your credit score

Website &  
TV Channels



## Take Charge of Your Money<sub>4</sub>

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## Credits



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