Course Objectives

• Increase your knowledge about financial planning
• Improve your ability to make informed decisions
Financing a Home?
Presenters

Lorna Chan
Vice President, Home Loan Manager
Island Pacific Homeloans, LLC

Jaymes Song
Realtor Associate
Better Homes & Gardens Real Estate Advantage Realty
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.
• Discuss type of property you are looking for
  • Properties such as condos may have additional HOA fees that the lender will need to 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

- 1st/2nd mortgages
  - 1st mortgage fixed plus
  - 2nd mortgage
    - HELOC (Home Equity Line of Credit, variable rate)
    - Home Equity Loan (fixed rate)
Federal Housing Administration (FHA)

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

- 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
• 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
Take Charge of Your Money

• Visit Us

www.ctahr.hawaii.edu/tcym

• TV channels
  • 354
  • 355
We would like to thank the following groups for their support:

- University of Hawai‘i at Mānoa
  - College of Tropical Agriculture & Human Resources, Cooperative Extension Service
  - Department of Family & Consumer Sciences
- Information Technology Services-Academic Technologies
- Island Pacific Homeloans, LLC
- Better Homes & Gardens Real Estate Advantage Realty