



# Drexel University Mortgage Seminar

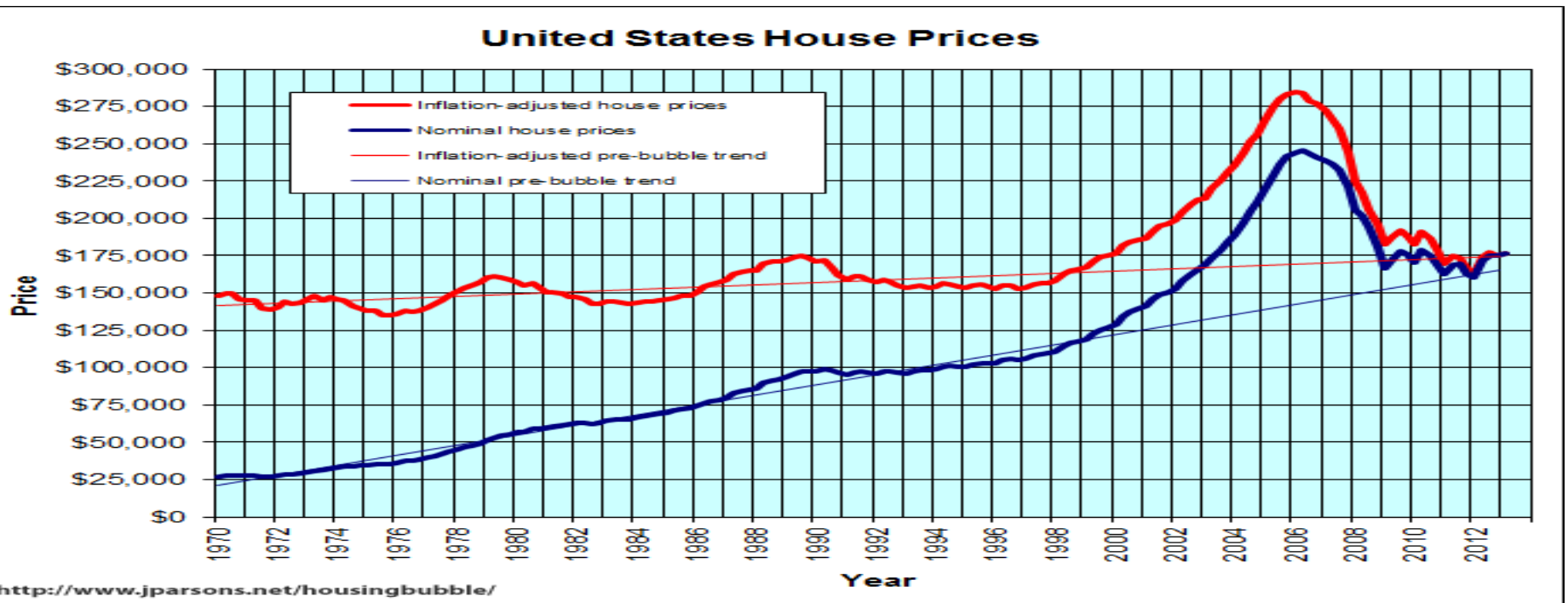
September 18, 2013

# Today's Topics

- Condition of the Economy and its Impact on the Mortgage Market
- Conventional vs. FHA Comparison
- Tax Deductibility of Private Mortgage Insurance (PMI)
- Importance of Credit Scoring
- FREE Pre-Approval Program
- Pricing Changes in the Mortgage Industry
- CU Realty (*earn a commission rebate when buying or selling a home*)
- Documentation Requirements
- Sources of Funds
- Benefits of an FMFCU Mortgage

# Condition of the Economy and its Impact on the Mortgage Market

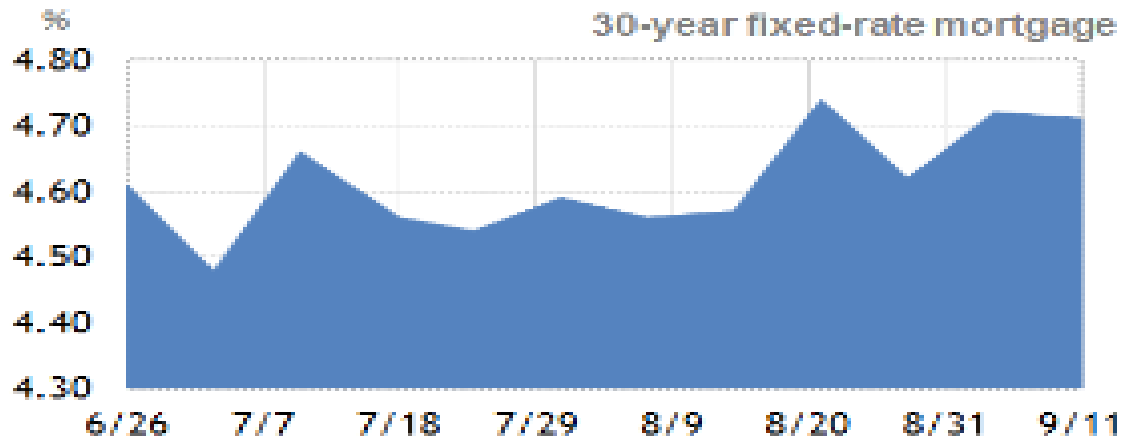
- The 30-year fixed rate being offered at 4.5% or 4.375% for first time buyers
- Existing home prices are starting to level off in 2013 after a significant downturn beginning in 2006:



# Condition of the Economy and its Impact on the Mortgage Market

- The average 30-year fixed rate on 5/09/2013 was 3.6% APR. As of 9/11/2013, they were 4.71%.
- Historical interest rates from the last few years were:

September 2010	4.35% APR
September 2011	4.11% APR
September 2012	3.47% APR



# Condition of the Economy and its Impact on the Mortgage Market

- Unemployment will likely continue to be the biggest obstacle on the road to housing and overall economic recovery:

September 2008	6.10%	September 2011	9.00%
September 2009	9.80%	September 2012	7.80%
September 2010	9.50%	August 2013	7.30%

- Federal Reserve actions aimed at keeping the 10-year treasury yield at historical levels is beginning to taper. They've hinted at stopping the purchasing of MBS and 10-year bonds. This has resulted in a significant increase to the 10-year bond yield. On 5/9/2013 the yield was 1.81% and is now at 2.87%.
- Still an ideal time to buy a home, particularly for first time buyers:
  - Low interest rates
  - Low down payment options
  - Housing affordability has improved with prices being at 2002 levels
  - Earn a rebate when using a realtor from our CU Realty program

# Conventional vs. FHA Comparison

Feature	Conventional Loan	FHA Loan
Minimum Down Payment Requirement	5%	3.5%
Upfront PMI/MIP Cost	No upfront cost	1.75%
Maximum Sellers Assist	3% of purchase price with 5% down or 6% with 10% down	6% of purchase price
Minimum Score Requirement	660	640
Beginning equity in property	5%	1.811%
PMI/MIP monthly premium based on a \$100,000 purchase price with minimum down payment	\$42.75 for scores 740+ \$49.88 for scores 700-739 \$63.33 for scores 660-699	\$110.46
Cancellation of PMI/MIP premiums	Borrower can request PMI removal after two years or automatic termination once loan reaches 78% of original value	Only automatic termination once the loan reaches 78% of original value, borrower can not request MIP removal, for loans closing in March 2013 or later, MIP will be permanent
Alternatives to PMI/MIP	FMFCU can offer two mortgages to avoid PMI, known as an 80/15/5	All FHA loan requests must have MIP regardless of LTV, no exceptions or alternatives

# Tax Deductibility of Private Mortgage Insurance

- After a brief hiatus, the tax deductibility of PMI is back for borrowers who closed a loan in 2012 and in 2013
- Congress permits a personal income tax deduction for mortgage insurance premiums
- Only taxpayers earning less than \$110,000 per year are eligible for the deduction
- Makes a serious case for obtaining one loan instead of two to avoid PMI
- Generally speaking, PMI must be maintained for a minimum period of two years after which you could pay for another appraisal to see if you have enough equity for PMI to be removed



# Importance of Credit Scoring

- A **Credit Score** is used by a lender to estimate the risk a company incurs by lending a person money or providing them with a service.
- The higher the score, the less risk the person represents.
- An acceptable score for lending purposes normally begins at 660 although lesser scores are considered and priced for risk.
- Mortgage Lenders most commonly use your **Middle Score**, or the **Lower Middle Score** on joint applications, as a basis for loan qualification.
- That lower middle score is known as the underwriting score.



# Importance of Credit Scoring

- Monitor your credit and order a **Free Credit Report** from:

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

- You are entitled to receive **One Free Credit File Disclosure** from each of the three nationwide consumer credit reporting companies.
- The three Credit Repositories are:
  - Equifax – [www.equifax.com](http://www.equifax.com)
  - Experian – [www.experian.com](http://www.experian.com)
  - Transunion – [www.transunion.com](http://www.transunion.com)

# Importance of Credit Scoring

## 5 Parts to your credit scores

- |                                    |                          |
|------------------------------------|--------------------------|
| <b>1. Your payment history</b>     | <b>35% of your score</b> |
| <b>2. How much you owe</b>         | <b>30% of your score</b> |
| <b>3. Length of credit history</b> | <b>15% of your score</b> |
| <b>4. New credit</b>               | <b>10% of your score</b> |
| <b>5. Other factors*</b>           | <b>10% of your score</b> |

**\*Having a mix of credit types on your report-credit cards & installment loans are normal for people with longer credit histories and can add a little to their scores.**

# Authorized User Accounts

- When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an “authorized user” of the account. This practice was originally intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.
- We recommend that you remove yourself from all authorized users accounts to avoid the added expense of a manual underwrite unless:
  - Another applicant owns the card
  - The card is owned by a spouse
  - The borrower has been making the payments on the account for the last 12 months and can prove it by providing the last 12 consecutive months bank statements

# FMFCU Pre-Approval Program

- Realtors will expect you to be Pre-Approved for a mortgage before your search for a home begins.
- A fully completed application is required and the decision is based upon your **Stated Income & Assets.** Liabilities are verified from the items appearing on your credit reports.
- We will provide you with a written loan cost disclosure which is a detailed estimate of Closing Costs.
- Your pre-approval letter is good for 120 days and can be renewed for free.

# Pricing Changes in the Industry

- If your score is more than 740 and you have 30% equity, you will get the best rate with the least points.
- Points are an upfront fee required by the lender expressed as a percentage of the loan amount. 1 point is equal to 1% of the loan amount.
- Here is an example of what you might expect to pay for a conventional loan today:

Credit Score	≤ 60%	>60% & ≤ 70%	>70% & ≤ 75%	>75% & ≤ 80%	>80% & ≤ 85%	>85% & ≤ 90%	>90% & ≤ 95%
≥740	0.00%	0.00%	0.00%	0.25%	0.25%	0.25%	0.25%
≥ 720 & <740	0.00%	0.00%	0.25%	0.50%	0.50%	0.50%	0.50%
≥ 700 & < 720	0.00%	0.50%	0.75%	1.00%	1.00%	1.00%	1.00%
≥ 680 & <700	0.00%	0.50%	1.25%	1.75%	1.50%	1.25%	1.25%
≥ 660 & < 680	0.00%	1.00%	2.25%	2.75%	2.75%	2.25%	2.25%
≥ 640 & <660	0.50%	1.25%	2.75%	3.00%	3.25%	2.75%	2.75%
≥ 620 & <640	0.50%	1.50%	3.00%	3.00%	3.25%	3.25%	3.25%
< 620	0.50%	1.50%	3.00%	3.00%	3.25%	3.25%	3.25%

# Pricing Changes in the Industry (con't)

- If you have a lower score, we can increase the rate to offset the points that may be assessed to your loan or pay the points and write them off.
- The mortgage industry is using a risk based pricing schedule just like the consumer loan industry has for auto loans, credit cards, home equity borrowings, etc.

# 3/2 ARM Program

- If you have at least a 720 score and low monthly debt, but are challenged by the amount of funds needed to close, you may qualify for 0% down payment.
- Higher seller assist amounts are acceptable.
- The rate is fixed for the first three years and then has a moderate adjustment every two years thereafter.
- Private Mortgage Insurance is not required.
- You can buy a primary or secondary residence.
- The rate can go up or down by 1.5% at each adjustment and no more than 6% over the life of the loan.
- Most ARM's can adjust every 12 months up to 2% at each adjustment once the fixed rate period has expired.



# CU Realty

- CU Realty is a joint venture between FMFCU and several area credit unions and allows members to receive a commission rebate when buying or selling a home.
- Earn a commission rebate when buying or selling a home.
- Register under the mortgage center at ***www.fmfcu.org***.
- View school information, neighborhood demographics, and active listings.
- You can view homes, get pre-approved for a mortgage and select a realtor all in one place.

# CU Realty - Rebates

Sale Price of Home	Rebate* Amount
\$100,000	\$600
\$200,000	\$1,200
\$300,000	\$1,800
\$400,000	\$2,400
\$500,000	\$3,000
\$600,000	\$3,600
\$700,000	\$4,200
\$800,000	\$4,800
\$900,000	\$5,400
\$1,000,000	\$6,000

\*Based on a 3% real estate commission. This rebate chart is used for estimating purposes only.  
ALL States except Colorado and Kansas.

# Documentation requirements

- Two most recent consecutive pay stubs.
- Two most recent year's W-2 Forms.
- Self-employed borrowers or applicants who earn more than 25% of their overall income from commissions or bonus must provide their 2 most recent years' Form 1040, all pages of the Federal Return.
- A fully executed agreement of sale for the property being purchased (all pages).
- The most recent month's formal Bank statement(s) for all accounts that are to be considered for Down Payment and Closing Costs.
- Evidence of homeowners insurance to be provided prior to closing.

# Sources of Funds

- For most loan requests, expect to have at least 5% of your own money into the deal
- Acceptable sources of funds are:
  - Savings, checking, money markets, CD's, mutual funds stocks, retirement funds, etc.
  - Gift funds from an acceptable donor
  - Sellers assist from the seller to the buyer at closing
- Unacceptable sources of funds are:
  - Cash on hand
  - Unsecured borrowings (credit card advances)

# Do's and Don'ts When Applying for a Mortgage

- When applying for a mortgage, do use credit as you normally would and don't:
- Apply for new credit of any kind, payoff collections or charge-offs, max out or over charge existing credit cards, consolidate debt to one or two cards, close credit card accounts or co-sign on any loans
- Do not make large unexplainable deposits into your bank account
- Let us know if you are changing employers or even changing positions with the same employer

# Benefits of an FMFCU Mortgage

- The **Servicing** of your loan is performed by our wholly owned subsidiary, State Financial Network, Inc., allowing you to deal with us throughout the life of your loan.
- We have been closing mortgages since 1984. You can have confidence in our knowledge of the mortgage process from beginning to end.
- We attend your purchase closing to ensure a smooth settlement.
- Low down payment programs are still available.
- We have **Low Lender Costs** compared to other mortgage providers.

# \$175 Coupon

- This coupon Entitles the below member to a refund of FMFCU's underwriting fee after loan closing. The loan must be closed on or before 3/31/2014.

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Member Name

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Member Number and Account ID