



## Lender Basics

### Frequently Asked Questions

#### 1. What's the difference between *pre-qualification* and *pre-approval*?

Pre-qualification is a simple process. The buyer is asked specific questions about their income, assets and liabilities. Based on this information, they are provided with an amount for which they *may* qualify. This process can be done strictly on a verbal level or electronically over the Internet.

On the other hand, a pre-approved buyer is one who is actually approved for a loan of a certain amount. The pre-approval process is much more involved. The borrower will provide proof of income, assets and liabilities and this information will be verified by the lender. Because of this verification, pre-approved buyers are much more attractive to sellers than pre-qualified buyers.

#### 2. When dealing with borrowers, what concerns lenders the most?

When dealing with borrowers, lenders' main concern is risk.

Lenders proactively manage these risks by requiring four things from a borrower:

- a. Down Payment – statistics have proven that borrowers who put down 10% or more unlikely to default on a loan.
- b. Excellent Debt to Income Ratios – borrowers with high debt and low income are a high risk because they are using too much of their income to pay their current debt; e.g. credit card debt, car loans, and so on. We describe a person with high debt and low income as having a high *DTI* (debt to income ratio).
- c. Job History – long term employment is a good predictor that a borrower will have a steady stream of income, which will not be interrupted by a career change or termination.
- d. Excellent Credit – a credit score tells an underwriter a great deal about a borrower. Lenders take a close look at FICO scores. FICO stands for *Fair Isaac Credit Organization*, the organization that developed the formulas used by credit bureaus to calculate credit scores. (Go to [www.myfico.com](http://www.myfico.com) to learn more.)






## Lender Basics Frequently Asked Questions (continued)

### 3. Why do credit scores vary? And what do lenders like?

The three major credit bureaus are: *Experian, Equifax* and *TransUnion*. Credit scores will vary from bureau to bureau because each bureau puts different emphasis on different factors; these factors are delinquencies, too many credit cards, balances that are too high, too many recent credit inquiries, tax liens, judgments, bankruptcies, length of credit history, and so on.

Credit scores are calculated using a scorecard that allocates points for each of the above factors; however, lenders do not get to see the entire scorecard, all they see are the final scores. FICO scores can range from 300-850. Here's how lenders typically react to FICO scores:

FICO Scores	How Lenders Typically React	
560	Lenders will not consider extending a conventional loan, but they thoroughly evaluate the borrower and may have other types of loans that meet his/her needs.	
580		
600		
620	Lenders will thoroughly evaluate the borrower. Loans to borrowers with credit scores in this range will take longer to process.	
640		
660		
680		
700	Lenders will do a basic evaluation – these loans process faster and don't have as much paperwork.	
720		
≥ 740		



## Lender Basics Frequently Asked Questions (continued)

4. **What are the main types of loans?**

All of the numbers are subject to change, particularly *Maximum Loan Amount*. Use these numbers simply for the purpose of comparing the different types of loans:

<b>Conventional</b>	<b>FHA (Federal Housing Administration)</b>	<b>VA (Veterans' Administration)</b>
<u>Loan Term</u> : 15, 20, 30 years	<u>Loan Term</u> : 15, 20, 30 years	<u>Loan Term</u> : 15 and 30 years
<u>Occupancy Requirements</u> : None	<u>Occupancy Requirements</u> : Owner occupied	<u>Occupancy Requirements</u> : Owner Occupied
<b>Maximum Loan Amount: \$333,700</b>	<b>Maximum Loan Amount: \$177,800</b>	<b>Maximum Loan Amount: \$240,000</b>
<u>Minimum Down Payment</u> : 0-5%	<u>Minimum Down Payment</u> : 3%	<u>Minimum Down Payment</u> : 0%
<u>Loan to Value (LTV)</u> : Up to 100%	<u>Loan to Value (LTV)</u> : 97%	<u>Loan to Value (LTV)</u> : 100%
<u>Assumable</u> : No	<u>Assumable</u> : No	<u>Assumable</u> : Yes, under certain conditions
<u>Eligible Properties</u> : 1-4 family residential	<u>Eligible Properties</u> : 1-4 family residential	<u>Eligible Properties</u> : 1-4 family residential
<u>Eligible Borrowers</u> : People with good credit	<u>Eligible Borrowers</u> : US citizens	<u>Eligible Borrowers</u> : Veterans
<u>Acceptable Debt Ratios</u> : 28/36%	<u>Acceptable Debt Ratios</u> : 33/41%	<u>Acceptable Debt Ratios</u> : 29/41%
<u>Advantages</u> : Lower interest rates	<u>Advantages</u> : Not credit score driven	<u>Advantages</u> : No down payment
<u>Disadvantages</u> : Credit score driven	<u>Disadvantages</u> : Lower loan amounts	<u>Disadvantages</u> : Only for veterans

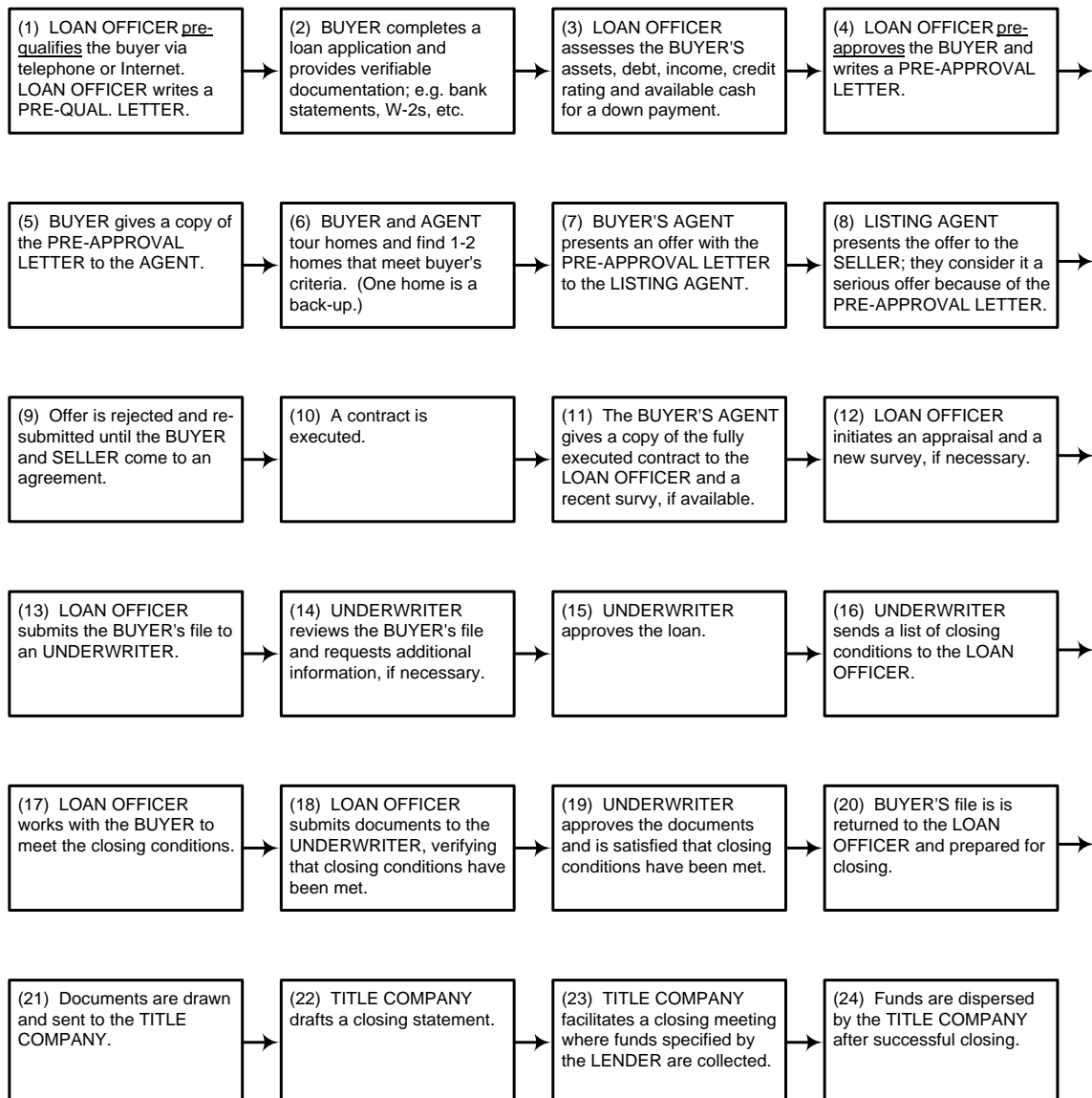


## Lender Basics Frequently Asked Questions (continued)

### 5. When a lender looks at a residential contract, what does he/she look at?

Lenders zero in on: (1) the sales price; (2) down payment amount; (3) closing date; (4) seller contributions, looking for anything that might indicate an inducement to sell, which is illegal; (5) special provisions, such as other buildings on the property; and (6) whether it's investment property or not.

### What goes on behind the scenes from *Pre-Qualification to Funding*?





## **Lender Basics**

### **Frequently Asked Questions (continued)**

- 6. What do real estate agents do or say to mess things up for lenders?**
  - a. Saying things such as: “Sure you can get 6% with your 400 credit score!”
  - b. Making promises to buyers without consulting their preferred lender, such as: “My lender can have a loan for you in two weeks.”
  - c. Putting themselves in the role of qualifying a buyer for a loan by asking too many questions about their financial situation.
  
- 7. What should I look for with a preferred lender?**
  - a. You should be able to call your preferred lender at any time, even on weekends. Of course, you don’t want to make a habit of this, but your lender should be available for urgent decisions and questions.
  - b. Your lender should attend closing/escrow meetings.
  - c. Your lender should be someone you can share your business goals with and will share his business goals with you; that way, you can strategize on how to help each other out.
  - d. You need a lender who will convey important information to you about your clients, but will not violate the law.