

REAL ESTATE FINANCE
STUDENT STUDY GUIDE
LESSON NINE

WHAT ROLE DOES QUALIFYING THE BORROWERS PLAY
IN LOAN UNDERWRITING?

IX. Accounting for income.

A. *Gross income:*

1. There are many components that make up the borrower's income. Occupation, employment tenure, opportunities for future advancement, educational background, and occupational training.
2. Both primary and secondary markets have requirements that measure and employment stability, the types of income considered acceptable.
3. Borrowers must establish long-term, stable income from employment or other source.
4. The lender must verify the borrower's total income picture for two full years that preceded the mortgage loan application.

E. *How are self-employment evaluated?*

1. A balance sheet showing the assets, liabilities, and net worth of the business.
2. A profit and loss statement for at least two years, and two years of Federal tax forms (1040s).

G. *How is overtime, Bonus, and Part-time Work Treated?*

1. Overtime. Overtime is consistent and dependable and is currently being earned. Lenders also consider how long it has been earned.
2. Bonus income. Three years of bonus. One-time signing bonuses, however, are not considered.
3. Part-time. Applicant must prove that the work will continue in the future, that the borrower will be able to work both jobs without too much difficulty.

H. *How is income from alimony and child support treated?* Inclusion is dependable on the duration of such income. Lenders will require at least three years or more likely continuance.

X. Additional security.

A. *How do lenders view co-mortgagors?*

1. Relationships. A co-mortgagor is simply a co-borrowers, other than husband and wife who are treated as one for lending purpose. Lenders look closely at the type and soundness of the relationship of the co-mortgagors.
2. Credit-worthiness. The co-mortgagors must have earnings, assets and credit acceptable to the lender.
3. Risks. A marginal co-mortgagor may do more harm than good where the LTV is very high, such as 90%, since the lender will ordinarily required the so-mortgagor to occupy the property.

B. *What about Co-signers?*

1. Definition. A co-signers is a good party who is to sign the promissory note.
2. Supplement. When borrowers are close to qualifying on their own, co-signors may add just the amount of strength needed to qualify.
3. Government -backed loans. The VA will not accept co-signors. FHA will consider co-signors only after applying specific guidelines.

XII. Assets of borrowers

- A. Sufficiency. If borrowers cannot show enough capital, the assumption is that will would have to borrow funds for the down payment plus closing costs.
- B. Back-up Support. If the borrower has substantial liquid assets, the lender can feel more secure, since the borrower is able to continue making loan payment.
- C. Start-up Funds. Most lenders frown on the practice of borrowing money for the down payment. FHA is especially strict about borrowing such “front money” except under certain prescribed circumstance, including:
 - 1. Borrowing against one’s life insurance policies.
 - 2. Using one’s stock and certain other collateral as security.
 - 3. Loan applicant over age 60.

XIII. What is meant by the concept, desire to pay?

- A. How do lenders determine and measure desire to pay?
 - 1. Past payment record. If applicants have developed good paying habits, they will likely continue to do so.
 - 2. Exceptional circumstances. A poor credit history due to extenuating circumstances, such as death, disability, serious illness, unemployment, etc.
 - 3. Motivation.
 - a. Down payment. The lender assumes that the larger the down payment, the more likely the borrower will meet the payment obligation.
 - b. Reason for buying. If the buyer is acquiring the house for family use, the motive is a strong and positive one from a lender’s standpoint.
- B. Role of Licensees.
 - 1. Absurdity. Do not submit a loan application that cannot be approved.
 - Ex: One who has just filed bankruptcy a month ago.
 - 2. Honesty. If the prospective borrower has a credit problem, tell the lender
 - 3. Cooperate with the lender. Arguing with a lender will NOT help the loan
 - Ex: Comply or loan approval can legitimately be denied.
 - 4. Further inquiry. If the lender says the borrower is NOT qualified, ask the lender what would make the applicant qualify.