

INCOME QUALIFYING - FHA-INSURED LOANS

EXERCISE A

1. a. The FHA **insures / guarantees** (circle one) loans.
 b. The VA **insures / guarantees** (circle one) loans.
 c. The difference, from the lender's standpoint, is:
 The FHA _____ .
 The VA _____ .
2. a. The minimum down payment requirement for an FHA loan is _____ of the purchase price, and allowable closing costs. (Video = ____%)(Today= ____%)
 b. The minimum down payment requirement for a VA loan is _____ of the purchase price.
3. a. In high-cost areas, the maximum single family residence FHA loan amount cannot exceed _____ .
 b. The maximum loan amount **includes / excludes** (circle one) allowable closing costs..
4. Maria wants to use an FHA loan to finance the purchase of the new home. The sales price of the home is \$47,500 and the closing costs will be \$1200.
 a. Sales price + closing costs = \$ _____ --Total consideration.
 b. Maximum loan amount = \$ _____ .
 c. Down payment = \$ _____ .
5. Stephan wants to use a 30 year FHA loan to finance the purchase of his new home. The sales price is \$112,000 and the closing costs will be \$1,800.
 a. Total consideration = \$ _____ .
 b. Maximum loan amount = \$ _____ .
 c. Down payment (do not consider insurance) = \$ _____ .
 d. How much is the MIP if he wants to pay it in cash? _____ .
 e. How much for down payment plus cash MIP? _____ .
6. a. The loan origination fee is based on the **loan amount / loan amount plus the MIP** (circle one).
 b. Discount points are calculated based on the **loan amount / loan amount plus the MIP** (circle one).

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

INCOME QUALIFYING - FHA-INSURED LOANS

EXERCISE B

1. a. The FHA does / does not (circle one) allow the borrower to finance the closing costs.
- b. The FHA does / does not (circle one) allow the borrower to finance the down payment.
2. Frank and June are interested in making an offer on a house you showed them. They agree to pay \$130,000. Before they do, they need to know how much their monthly payments will be, whether or not they would be able to qualify for the loan, and how much down payment they will need.

You ask them about their finances and you learn the following information:

Frank earns \$2,400 per month, and June earns \$10.38 per hour. They have a car payment of \$200 per month, and a personal loan payment of \$50 per month. They have a good credit rating and both have stable employment histories.

Assume that the house is located in a high-cost area where the highest FHA maximum loan amount is available, and that they would be able to get a 30 year loan at 9 ¾% interest rate.

Assume further that in addition to their down payment, they have enough cash to cover closing costs and the MIP.

3. a. How much down payment will they need \$ _____
- b. How much is the loan amount? _____
- c. How much is the monthly loan payment of principal and interest? \$ _____
- d. How much is the monthly loan payment including taxes and insurance? \$ _____
- e. What is June’s stable monthly income? (round up to nearest whole dollar) \$ _____
- f. What is the household stable monthly income? \$ _____
- g. What is their housing expense to income ratio? \$ _____
- h. What is their total expense to income ratio? _____
- i. They qualify for a monthly payment of? \$ _____
- j. The difference between their actual payment and the maximum amount they qualify for would be \$ _____

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

INCOME QUALIFYING - FHA-INSURED LOANS

EXERCISE C

1. a. The maximum amount that a borrower can get for a VA loan is effectively
 \$ _____ .
- b. Why? Because lenders require that the VA guaranty cover at least: _____
 _____ .
- c. The maximum VA guaranty is _____ .

2. A VA loan can be assumed by: **only another veteran / any borrower** (circle one).

3. Recall Frank and June from Exercise B, problem 2. Since you were so helpful calculating their FHA payments, they have come to you with another question. June has a VA entitlement, and they are considering getting a VA loan. They have asked you to tell them whether or not they would qualify.

Assume the same facts as before: They're still hoping to buy a \$130,000 house, putting the same down payment as in Exercise B. In addition, assume that they pay \$1,386 a month in taxes and that they live in the VA's Midwestern Region. They have no children. You will qualify them for a VA loan.

- a. Apply the VA cash flow analysis: Frank and June earn how much per month? _____
 _____ .
- b. What is the amount of their monthly outgo? _____
 _____ .
- c. What is the amount of their monthly outgo, including loan payment? _____
 _____ .
- d. What is their residual income? _____ .
- e. Will they qualify for a VA loan? **yes / no** (circle one).
- f. Apply the income ratio analysis: What is their expense to income ratio? _____
 _____ .
- g. What is the loan amount? _____ .
- h. What is the amount of their funding fee? _____ .
- i. How much will the VA guaranty be? _____ .

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

INCOME QUALIFYING - FHA-INSURED LOANS

CASE STUDY

Recall the case study from the conventional financing section of the workbook. Assume that all of Derek and Sylvia's financial information is still the same. In addition, assume the following:

Derek is a California Vietnam vet and he still has his full VA entitlement. They live in an area where the maximum FHA loan amount is for high area costs. The conventional loan is a fixed rate. Derek and Sylvia ask you which type loan they should apply for: a government sponsored loan or conventional financing.

- A. Complete the chart on the next page (write "0" if applicable).
- B. Which loan would you recommend they apply for? _____
List at least three or more reasons why.

	FHA	VA
1.	_____	_____
2.	_____	_____
3.	_____	_____

- C. Next, you must help them determine whether they can qualify for the program that you recommend.
 - 1. What is their stable monthly income? \$ _____
 - 2. The monthly loan payment is (PITI) is: \$ _____
 - a. LA \$ _____, ___yr, ___% interest rate = LA x factor = \$ _____ ÷ 90% = \$ _____
Taxes & Insurance = 10%
 - b. Stable monthly income \$ _____
 - PITI - _____
 - Less debt = _____
 - Cash flow (residual income) \$ _____ \$VA requires \$ _____
 - 3. Their expenses are (PITI + other exp): \$ _____
 - 4. Their residual income cash flow is: \$ _____
 - 5. Their income ratio is _____% (#3 ÷ #1 = _____%)

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)
(NOTE: You MUST show the formula to show your work on how you got to the answer.)

INCOME QUALIFYING - FHA-INSURED LOANS

CASE STUDY

Write "0" if applicable. Closing Costs	90% Conventional	80% Conventional	VA	FHA	Cal-Vet
1. Origination fee	(%) \$	(1-3%) \$	(1%) \$	(%) \$	
2. Funding fee			(1.875%)		
3. MIP - one time	(%)	(.65%)		(%)	
4. Down payment	(%)	(%)	(%)	(%)	(%)
5. Total cash for COE					
Monthly expenses					
6. Interest monthly					
7. Principal monthly					
8. Taxes/Ins. (10%) monthly					
9. Mortgage ins. monthly		(.0034)			
10. Total monthly payment					
11. Loan amount					
12. Interest rate	10%	9.75%	9.5%	10%	9.5%
13. Loan term					
Program Qualifying ratios (%):	%	%	%	%	%
14. Loan qualifying housing exp to inc. (Their % ratio)					
15. Derek & Sylvia housing exp. to inc.					

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

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Date: ____/____/____

Name: _____

INCOME QUALIFYING - FHA-INSURED LOANS

Write "0" if applicable. Closing Costs	90% Conventional	80% Conventional	VA	FHA	Cal-Vet
(Their % ratio)					
16. Total exp. to inc.					
17. Derek & Sylvia loan total exp. to inc.					
17. Total loan debt service					
18. Derek & Sylvia debt service					
Price / Loan					
19. Max. sales price they qualify for					
20. Max. program loan amount					

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

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Date: ____/____/____

Name: _____

INCOME QUALIFYING - FHA-INSURED LOANS

Income Ratio Method

Monthly Gross Income:

Base salary _____

Overtime _____

Bonuses _____

Commissions _____

Other _____

Total _____

Long-Term Monthly Debt:

Car payment _____

Child support _____

Credit cards _____

Other loans _____

Other debts _____

Total _____

(consider 5% payments on all revolving charges)

Housing Expense-to-Ratio: 29%

x .29

Stable Monthly Income

Income Ratio

Maximum Mortgage Payment (PITI)

Total Debt Service Ratio: 41%

x.41

Stable Monthly Income

Income Ratio

Maximum Monthly Obligations

MORTGAGE PAYMENT (PITI) _____

Maximum PTIT (less 10% if mortgage payment)
(Insurance, taxes, PMI)

Maximum Principal & Interest Payment

MAXIMUM LOAN AMOUNT (not to exceed regional mortgage amount limitations)

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

INCOME QUALIFYING - FHA-INSURED LOANS

Residual Income Method

Monthly Gross Income:

Base salary _____

Overtime _____

Bonuses _____

Commissions _____

Other _____

Total _____

Long-Term Monthly Debt:

Car payment _____

Child support _____

Credit cards _____

Other loans _____

Other debts _____

Total _____

(consider 5% payments on all revolving charges)

Less All Taxes:

Federal income tax _____

Social security (7.65%) _____

State income tax _____

Other tax _____

Total _____

Net Income: _____

less

long-term debts _____

required services _____

Total _____

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

[Type text]

Residual Income by Region for Loan Amount of \$69,999 and Below

Family size	North -East	Mid-West	South	West
1	\$401	\$393	\$393	\$437
2	\$673	\$658	\$658	\$733
3	\$810	\$792	\$792	\$882
4	\$913	\$893	\$893	\$995
5	\$946	\$925	\$925	\$1031

* For families with more than 5 members, add \$75 for each additional member up to a family of 7.

Residual Income by Region for Loan Amount of \$70,000 and Above

Family size	North -East	Mid-West	South	West
1	\$348	\$340	\$340	\$379
2	\$583	\$570	\$570	\$635
3	\$702	\$687	\$687	\$765
4	\$791	\$773	\$773	\$861
5	\$821	\$803	\$803	\$894

* For families with more than 5 members, add \$70 for each additional member up to a family of 7.

Maximum Housing Expense

Total Housing Expense _____

Less 20% taxes, insurance, maintenance and utilities _____

Maximum Principal and Interest Payment _____

Income Ratio Method

Total Debt Service Ratio: 41%

_____ Stable Monthly Income

_____ X .41 Income Ratio

_____ Maximum Monthly Obligations

MORTGAGE PAYMENT (PITI) _____

_____ Maximum PITI (less 10% if mortgage payment)

_____ (Insurance, taxes, PMI)

_____ Maximum Principal & Interest Payment

_____ **MAXIMUM LOAN AMOUNT** (not to exceed regional mortgage amount limitations)

(NOTE: Round loan amount to nearest whole dollar. Round monthly payment to nearest whole dollar)

(NOTE: You MUST show the formula to show your work on how you got to the answer.)

Ex A-B-C-D-Case Study Date: ____/____/____

Name: _____