



Chicagoland2to4Flats.info

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Mortgage 101 (Buying Your First 2- to 4-Flat)

We all know about predatory lending and subprime loans. How bad did it get? Picture an adjustable-rate loan with a 6-month 'teaser' rate and then rates that change monthly with virtually no cap on how high they could go. Buyers were being approved based on the low 'teaser' rate – and had no hope of making the payment when it fully adjusted. The good news: most types of predatory loans have now been outlawed. The bad news: fewer options exist right now, particularly for people who have credit problems.

1. Your Pre-Approval

You and I both need to know what you can afford BEFORE we begin to shop, and a preapproval letter will be needed for any offer you make.

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| Credit Score. Most lenders regard a credit score (called a FICO) above 750 as good – and anything below 700 as a problem. Talk with your lender about what your score is—and potentially how to improve it. | Documented vs. Stated Income. Many people (like realtors) are in jobs that don't have a regular paycheck. In the past such borrowers just went 'Stated Income' and had no problem. Right now Stated Income is not so readily available.. | Debt / Income Ratios. A PITI/PITA max of 28% of income without considering other debt or 36% when all other debt payments are added used to be the standard limit, but now you'll find more flexibility often exists. |
| Conforming. Unless theirs is a jumbo purchase, people with at least 5% down and good credit typically apply for what is called a 'conforming' loan (it conforms to Fannie May / Freddie Mac standards). | FHA. 'Modernized FHA' is the replacement for subprime loans—and, by all counts, a big improvement. Anyone who doesn't qualify for a 'conforming' loan will want to investigate this. | Jumbo. For loans too large to meet 'conforming' guidelines, lenders have 'jumbo' loans. The interest rate may be higher, but typically the down payment requirements stay the same. |

2. Down Payment

If you can put 20-25% down, you will find very favorable rates available to you (but not many people can handle that kind of down payment). Here is a summary of options:

| Choices | NOTES |
|---|-------|
| 20-25% down. With 20-25% down, there's no PMI, but this is NOT an option many first-time buyers have the resources for! | |
| 80 / 10 / 10. Here your cash down payment is 10%, and you avoid PMI by taking out a 2 nd mortgage for 10%. | |
| 3% down FHA.. We believe FHA will replace all subprime lending—but there are severe restrictions on this, at least when it comes to 3-4 flats. | |

3. Closing Costs / Earnest money

- **Earnest Money.** \$1,000 typically goes with the opening offer. An increase to 2% is typically the minimum sellers will accept, 3% is normal, and it may be as high as 5%. Whatever it is, it will count toward your down payment and closing costs.
- **Seller Assistance on Down Payment.** Here you roll closing costs, which are about 2%, into your mortgage. It really isn't a gift from the seller—as it will cost you more because your mortgage is higher and can only happen when all the factors (including the appraisal) line up.



Guaranteed Rate, the Midwest's largest independent residential mortgage lender, is the lending partner of Chicagoland2to4Flats.info—with expertise in the 2- to 4-flat market, a wide range of products, the ability to help you pick the right loan, and both an In-house Underwriting staff for quick turnaround times and onsite Closing and Funding Departments for easier closing.

BRIAN WEIS is our contact at Guaranteed Rate. His direct phone is 773-290-0591.

Guaranteed Rate is an Illinois licensed Mortgage lender located at 3940 N Ravenswood, Chicago, IL 60613.