

Home Buyer Pre-qualification

This program was developed for real estate and mortgage professionals; however, I believe it's useful for even a lay person. Pre-qualification is a difficult endeavor for a loan officer because he or she has to make educated guesses regarding the real estate taxes, homeowners insurance, and pmi/mip costs based on a hypothetical house. And after arriving at the ideal purchase price, the loan officer has to determine whether the buyer has sufficient cash assets to purchase the home. In other words, the home buyer may meet the "debt to income" ratios; however, the buyer may not have the resources to purchase that home, in which case, the ideal sales price needs to be reduced to meet the cash assets. This program was developed to make the pre-qualification more accurate. Here's how it works:

Enter the monthly income, monthly debt and available cash in the boxes provided. If you need a "hint", pass your cursor over the ? for a pop up comment. If the comment is hidden, scroll down and try it again. This program requires at a *minimum*, Microsoft Windows 2000® and Microsoft Excel 2000®. This program will load as an Excel spreadsheet. Nothing will install on your computer.

1. Enter the monthly income
2. Enter the monthly debt
3. Enter the available cash assets

PA Pre-Qualification Estimate

?		
?	MONTHLY INCOME	\$5,000.00
?	MONTHLY DEBT	\$1,000.00
?	AVAILABLE CASH	\$5,000.00
INSUFFICIENT CASH		

4. Click on the maroon box and choose the mortgage program. You can choose FHA, VA or conventional financing. The FIXED and ARM choices are conventional mortgages with Fannie Mae/Freddie Mac underwriting guidelines. In short, if the loan is NOT Fha or Va – choose fixed or conventional. You have two choices for VA mortgages, Active Duty or Reservist. If the Veteran earned his or her eligibility as an Active Duty vet, choose active duty. Conversely, if the Veteran is a reservist choose Reservist. Unfortunately, reservists pay a higher VA funding fee.
5. If the mortgage is VA, click in the 1st Time Use box and select whether the Vet is using his or her eligibility for the 1st time or re-using the eligibility.
6. Click in the Pennsylvania County box and choose the PA County. This sets up the maximum mortgage amounts for FHA & VA loans.
7. Choose the Number of Units. One unit is a one family dwelling, two units is a duplex, etc. This ties in with the previous selection to establish the maximum mortgage amounts for FHA & VA loans.
8. FICO® or credit score. This selection is not necessary for FHA & VA mortgages. This program does not consider credit score in the calculations. That's not to say, lenders will disregard it. Credit score is necessary for private mortgage calculation (PMI). The minimum credit score of 680 is required for mi calculation. This program uses the PMI Groups monthly mi factors as of 10/12/09. If you enter a credit score of less than 680, you will receive an alert and pmi will not be included in the monthly mortgage payment.

?	Mortgage Program	FHA
?	Veteran Use	1st Time Use
?	Pennsylvania County	Allegheny
?	Number of Units	1 Unit(s)
?	FICO (Credit Score)	

9. As you can see, the Estimated Sales Price will appear. If the taxes and insurance seem a little too high or low, click in the maroon boxes to adjust the taxes and homeowners insurance. The program will recalculate. You may have to tweak these boxes a few times before you get it just right. Enter the condo or homeowners monthly fee. This is necessary for debt to income calculations.

?	ESTIMATED SALES PRICE		\$132,901
?	Annual Real Estate Taxes	2.000 %	\$2,658.02
?	Annual Homeowners Insurance	0.375 %	\$498.38
?	Condo Hm Assn Monthly Fee		

10. Click in the maroon box for the down payment percentage. Choose MINIMUM DOWN for the minimum down payment. The down payments have been pre-set. For example, FHA = “3.5%”, VA – “0” down, and 5% for FIXED & ARM (conventional) loans. You’ll notice that the down payment percentage will appear.

?	Down Payment Percentage 3.5%	MINIMUM DOWN
---	------------------------------	--------------

11. Choose the interest rate. Initially, the box will have a yellow background; this is to remind you to enter the interest rate. Once the interest rate is chosen, the box will turn to maroon. Choose the term.

?	Interest Rate	5.500 %
?	Term	30 Years

12. Point are pre-paid interest. You can lower the interest rate by paying “points”. Generally speaking, the more points, the lower the interest rate. Any amount up to 1% will calculate as Origination, any percent above 1% will calculate as discount. If the loan has a 1% origination fee, just type “1” in this box. If the rate includes, 1 ½ points, type 1.5 in this box.

?	Point(s)	
---	----------	--

13. You can calculate (or work in) the Seller Assist. If you’re not familiar with the Seller Assist limits, choose 9%, this program will automatically calculate the maximum seller assist for the mortgage program. Loan officers, 6% or actual costs for FHA loans, all allowable closing costs and 4% limits for prepaids on VA mortgages and standard limits on conventional loans. Three percent for down payments less than 10%. Six percent for 10% - 25%, and 9% greater than 25%. If the seller assist is greater than the allowable costs, the program will default to the allowable costs. For example, if you choose 6% on an FHA loan and only 5.5% is available, the program will only allow 5.5%. If the seller is paying a flat dollar amount, enter that amount in the Flat Dollar box. The flat dollar amount will over ride the percentage calculation, and the allowable limits will apply with this choice.

?	Seller Assist Percentage	0 %
?	Seller Pays a Flat Dollar Amount	

14. In Pennsylvania, a deed transfer tax is paid to the local and state governments and to the school district. One percent is paid to the State of Pennsylvania and generally, 1% is split between the local government and school district. By custom, buyers and seller split the cost. Here’s an example, 1% to the state, and

1% to the municipality and school district for a total of 2%. On a split, the buyer will pay 1% of the sales price and the seller will pay 1% from the proceeds of the sale. There are exceptions. Please read on.

?	Deed Transfer Tax To Buyer	1.00 %
-------------------	-----------------------------------	---------------

15. You can click on the Deed Transfer Tax Exceptions for a list of known deed transfer exceptions. Needless to say, it's prudent to verify the correct deed transfer percentage with the municipality and school district.

?	Deed Transfer Tax Exceptions	
	(Includes PA state transfer tax of 1%)	1.000 % - Total

16. Some real estate agencies charge the buyer a fee. This fee could be called coordination, administration, record retention, etc. If so, enter that fee in this box. This fee will not appear in the closing costs for FHA & VA mortgages. Enter the earnest money deposit if desired.

?	Real Estate Agency Fee	<input type="text"/>
?	Earnest Money Deposit Hand Money	<input type="text"/>

17. As you can see, the mip or pmi factor will be displayed; however, you can over ride the mip/pmi calculation with the white box. You can click on the hyperlinks for mi calculators.

MORTGAGE INSURANCE COMPANIES		
?	MIP PMI Over Ride	Current 0.550 <input type="text" value="0 %"/>
	MGIC	
	GENWORTH	
	PMI	
	RADIAN	
	UNITED GUARANTY	

18. Here's the break down of the mortgage payment.

MONTHLY MORTGAGE PAYMENT	
Principal & Interest	\$740.93
1/12 Homeowners Insurance	\$41.53
1/12 Real Estate Taxes	\$221.50
1/12 MIP/PMI	\$58.78
Condo Hm Assn Monthly Fee	\$0.00
MONTHLY PAYMENT	\$1,062.74

19. If you're a mortgage loan officer, you know what all this means. If you're a lay person, focus on the cash to close.

AnytimeEstimate.com

DETAILS OF THE TRANSACTION		
MORTGAGE AMOUNT	\$130,494	?
FANNIE/FREDDIE Limit	\$417,000	?
FHA Limit	\$327,500	?
LOAN TO VALUE	96.50%	?
DOWN PAYMENT AMOUNT	\$4,651.53	?
CLOSING COSTS	\$3,183.76	?
ESCROW	\$3,946.93	?
Earnest Money Deposit	\$0.00	?
Less Seller Assist	\$0.00	?
TOTAL CASH TO PURCHASE	\$11,782.22	?
MONTHLY PAYMENT	\$1,062.74	?
FRONT END RATIO	21.25%	?
BACK END RATIO	41.25%	?

20. You can edit any cost in the white boxes. The amounts in the grey boxes cannot be changed. As you can see, the deed transfer tax, origination, discount, and title insurance will automatically calculate. Some fees are generally not permitted by FHA & the VA. These fees will not populate with these loan - Processing, Real Estate Agency, Tax Service, and Underwriting.

CLOSING COSTS		
Application Fee		?
Appraisal Fee	\$300.00	
Courier Fee	\$25.00	
Credit Report	\$18.00	
Deed Transfer Tax	\$1,329.01	?
Discount Point (s)	\$0.00	
Document Preparation		
Flood Certification	\$18.00	
Mortgage Broker Fee		
Notary Fee	\$25.00	
Origination Points (s)	\$0.00	
Pest Inspection	\$50.00	
Processing Fee	\$0.00	
Real Estate Agency Fee	\$0.00	
Recording Fees	\$120.00	
Septic Inspection		
Settlement Fee	\$125.00	
Survey		
Tax Service	\$0.00	
Title Endorsement	\$150.00	
Title Insurance (Basic)	\$1,023.75	?
Underwriting Fee	\$0.00	
Well Inspection		
CLOSING COST TOTAL	\$3,183.76	

21. You can change the per diem interest. Per diem interest is the interest on the loan from date of closing until the end of the month. Thirty days means the closing will occur on the 1st day of the month. If you believe the closing will occur on the last day of the month, chose 1 day. The homeowner’s insurance and pmi/mip escrow is set at 2 months. The real estate tax escrow and proration for prepaid taxes is set at 12 months – conservative.

ESCROW & PRORATIONS	
1st Mtg Per Diem 30 Day(s)	\$589.90
Hm Insurance Policy	\$498.38
Hm Insurance Escrow	\$83.06
MIP PMI ESCROW	\$117.56
RE Tax & Proration	\$2,658.02
FHA/VA Funding Fee (Financed)	\$2,244.36
TOTAL PREPAIDS	\$6,191.29

22. Earlier, you saw that the cash to close was insufficient, see below when you enter the MAXIMUM seller assist – choose 9% . . .

AnytimeEstimate.com

DETAILS OF THE TRANSACTION	
MORTGAGE AMOUNT	\$130,494
FANNIE/FREDDIE Limit	\$417,000
FHA Limit	\$327,500
LOAN TO VALUE	96.50%
DOWN PAYMENT AMOUNT	\$4,651.53
CLOSING COSTS	\$3,183.76
ESCROW	\$3,946.93
Earnest Money Deposit	\$0.00
Less Seller Assist	\$0.00
TOTAL CASH TO PURCHASE	\$11,782.22
MONTHLY PAYMENT	\$1,062.74
FRONT END RATIO	21.25%
BACK END RATIO	41.25%

?	Seller Assist Percentage	9 %
?	Seller Pays a Flat Dollar Amount	

23. As you can see, the customer has sufficient cash assets to purchase this home with a seller assist.

AnytimeEstimate.com

DETAILS OF THE TRANSACTION	
MORTGAGE AMOUNT	\$130,494
FANNIE/FREDDIE Limit	\$417,000
FHA Limit	\$327,500
LOAN TO VALUE	96.50%
DOWN PAYMENT AMOUNT	\$4,651.53
CLOSING COSTS	\$3,183.76
ESCROW	\$3,946.93
Earnest Money Deposit	\$0.00
Less Seller Assist	\$7,130.68
TOTAL CASH TO PURCHASE	\$4,651.53
MONTHLY PAYMENT	\$1,062.74
FRONT END RATIO	21.25%
BACK END RATIO	41.25%

Some final notes. At times, the buyer may not have sufficient assets to support the sales price – even with a seller assist. In this case, increase the monthly debt; this will reduce the sales price and consequently, the cash requirement. This will be corrected in future releases.

This calculator is made available to you as a self-help tool for illustrative use only. Examples are hypothetical. We can not and do not guarantee the applicability or accuracy in regards to your individual circumstances. I encourage you to seek personalized advice from qualified professionals concerning mortgage financing.

Copyright © 2009, William A. MacDonald All rights reserved