



Welcome to our FHA & VA Fundamentals CE Class!





## FHA & VA Fundamentals CE Course, brought to you by:

Mike Porter, President  
Red Diamond Home Loans  
[mporter@rdhloans.com](mailto:mporter@rdhloans.com)  
817-832-8452



Rachel Porter  
Mortgage Originator  
Red Diamond Home Loans  
[rachel@rdhloans.com](mailto:rachel@rdhloans.com)  
817-733-5495





# FHA Fundamentals

## FHA Loans at a high level

- Eligible Terms and Loan Purpose
- Loan Amounts & Loan to values
- Borrower Eligibility & Occupancy
- Manufacturing an FHA Loan
- 4 C's by Loan Type
- Credit Reports/Scores/Problems
- MIP on an FHA Loan
- Required Documents on an FHA Loan
- Underwriting process for an FHA Loan
- Seller/Lender contributions for an FHA Loan





### FHA Eligible Terms and Loan Purpose:

- 15 Year and 30 Year Fixed Rates
  - 30 year fixed is the most common FHA loan today
- 5/1 ARM
  - 5 year fixed with a 1 year arm after the 5 year fixed period
  - Index is the 1 year treasury index
  - Margin is 2.0
  - Caps are 1/1/5
  - Life cap up or down is 5%
- ARMS don't make sense with today's low fixed rates.

### Eligible Transactions/Loan Purpose:

- Purchase
- Rate/Term Refinance
- Cash Out (Except in Texas)
- Streamline Refi

### FHA/VA Statistics in 2016:

- FHA & VA loans were 23% of the mortgage market in 2016
- \$470 billion in originations in 2016
- 2,300 loans nationally were FHA/VA in '16



## FHA Maximum and Minimum Loan Amounts and Loan to Values:

- In 2018 the Max Loan Amount for an FHA is \$386,400
- There is no minimum loan amount
- **What is the Maximum Sales Price for an FHA Loan?**

## Max Loan to Values:

- The max loan to value is **96.5%** for a purchase.
- Minimum of a **3.5% down payment** from the borrowers funds or from an approved gift





### FHA Borrower Eligibility:

- Borrower must be a US Citizen or be a lawful permanent or non-permanent resident of the US.
- Past FHA debts outstanding would prohibit the borrower from purchasing a home with an FHA loan.
- First or second, third or more time homebuyers allowed.

### FHA Occupancy:

- Primary Residences for 1-4 unit properties
- Non occupant co borrowers are permitted for purchase transactions
- No Investment properties allowed





## Manufacturing an FHA Mortgage:

Data and documents are transformed into a closed loan.

- Documentation Validation – 4 C’s:

- Credit: Minimum credit score for program requirements (Mid Fico of both borrowers) LLPA’s?
- Capacity: Income documentation for debt to income calculation (W-2’s, Tax Returns, K-1’s)
- Capital: Asset documentation (Bank Statements) for down payment and reserve requirements
- Collateral: The appraisal must meets underwriting requirements

**FHA LOANS DO NOT HAVE THE SAME LOAN LEVEL PRICE ADJUSTMENTS AS CONVENTIONAL LOANS**

Table 1: All Eligible Mortgages – LLPA by Credit Score/LTV Ratio

Representative Credit Score	LTV Range								SFC
	Applicable for all mortgages with terms greater than 15 years								
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%	
≥ 740	0.000%	0.250%	0.250%	0.500%	0.250%	0.250%	0.250%	0.750%	N/A
720 – 739	0.000%	0.250%	0.500%	0.750%	0.500%	0.500%	0.500%	1.000%	N/A
700 – 719	0.000%	0.500%	1.000%	1.250%	1.000%	1.000%	1.000%	1.500%	N/A
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	1.500%	N/A
660 – 679	0.000%	1.000%	2.250%	2.750%	2.750%	2.250%	2.250%	2.250%	N/A
640 – 659	0.500%	1.250%	2.750%	3.000%	3.250%	2.750%	2.750%	2.750%	N/A
620 – 639	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.500%	N/A
< 620 <sup>(1)</sup>	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.750%	N/A

(1) A minimum required credit score of 620 generally applies to all mortgage loans delivered to Fannie Mae; refer to the Selling Guide and the Eligibility Matrix for additional detail.

# The 4-C's by Loan Type

## Breaking it down:

### 4 C's and Conventional Loans:

- Minimum credit score is 620 (no exceptions)
- Max debt to income roughly 45
- Down payment can be a minimum of 3% but most common minimum is 5%
- Appraisal standards are set by Fannie Mae. They purchase owner occupied and non owner occupied properties.

### 4-C's and FHA Loans:

- Minimum score is 580
- Maximum debt to income is 55%
- Down payment is 3.5%
- Appraisals are completed by FHA approved appraisers.

### 4 C's and VA Loans:

- Typical minimum of a 620 score or lower depending upon the investor.
- Maximum debt to income can be as high as 55%.
- There typically is not a down payment requirement except on higher balance VA loans over \$424,100.
- Appraisals are completed by VA approved appraisers.





## Credit Reports/Scores/Problems on FHA Loans

- Credit is a critical component: What is the impact of the following on an FHA Loan?
  - Collections & charge-offs (Collections over \$2,000 must be paid off or must use 5% of the outstanding balance in the DTI.)
  - Foreclosures (3 years seasoning from completion date)
  - Bankruptcy's (2 years from discharge date)
  - Disputed Accounts (Typically we remove disputed accounts so they are reflected in the Fico score)
  - How to clean up your credit? - Internal credit repair solutions and external credit repair solutions.
    - The removal of any derogatory item is the key.



## Required Documents for an FHA loan:

- Minimum credit score (varies by Investor on an FHA Loan)
- Maximum Debt to Income (Varies by Investor but many will go to 55%)
- Maximum Loan to Value – 96.5 is the set max loan to value on an FHA Loan
- Two year history required for income
- 60 days of bank statements required
- Most recent 30 days of paystubs
- Tax Returns for Self Employed borrowers

*“All of these factors and more go into the loan approval. All situations are different and specific issues will raise other conditions”*



# Make sense out of Mortgage Insurance

## FHA Loans have MIP



### PMI, MIP, VA Funding Fee?

- What's up with all of this?
- Guarantee's the investor on the loan against loss...does not repair the property.
- Private Mortgage Insurance insures conventional loans and jumbo loans
- Mortgage Insurance Premiums (MIP) insure FHA loans
  - Up front MIP on an FHA Loan is 1.75%
  - Annual MIP on an FHA Loan is .85 on LTV's > 95%.
  - MIP lasts for the life of the loan.
- VA utilizes a VA Funding Fee to guaranty their loans
- What's the best deal for the borrower????
- Who collects the MIP???

High credit scores have a low cost of PMI, The higher the LTV the higher the PMI cost.

MIP does not factor in the credit score.

VA does not factor in the credit score



# VA Fundamentals

## VA Loans at a high level

- VA Eligible Terms and Loan Purpose
- VA Loan Amounts & Loan to values
- VA Borrower Eligibility & Occupancy
- Manufacturing an VA Loan
- VA Credit Reports/Scores/Problems
- Guaranty Fees on a VA Loan
- Required Documents on an VA Loan
- Underwriting process for an VA Loan
- Seller/Lender contributions for an VA Loan





### VA Loan Terms and Loan Purpose

- VA Loans are typically 30 year fixed
- VA loans are typically purchase or rate/term refinance transactions.

### VA Loan Amounts and Loan to Values:

- VA will allow a 100% loan to value to \$424,100
- For Jumbo VA's there is a down payment component that must be used.
- VA Loans are allowed up to \$1 million and in some cases even higher than that with a down payment.





### VA Borrower Eligibility:

- Borrower must have sufficient VA Eligibility to purchase a home with a VA Loan
- Borrowers need to provide their DD214 and the lender will pull the Certificate of Eligibility from the VA portal.
- First or second, third or more time homebuyers allowed.

### VA Occupancy:

- Primary Residences for 1-4 unit properties
- Non occupant co borrowers are permitted for purchase transactions
- No investment properties allowed





# Manufacturing a VA Mortgage:

Data and documents are transformed into a closed loan.

- Documentation Validation – 4 C’s:
  - Credit: Minimum credit score for program requirements (Mid Fico of both borrowers) 620 and below is some cases.
  - Capacity: Income documentation for debt to income calculation (W-2’s, Tax Returns, K-1’s) 50% and above in some cases
  - Capital: Asset documentation (Bank Statements) for down payment and reserve requirements
  - Collateral: The appraisal is ordered from a VA Appraiser and typically takes two weeks to complete.
  - VA LOANS HAVE NO LEVEL PRICE ADJUSTMENTS UNLIKE A CONVENTIONAL LOAN (THERE ARE FEES FOR LOWER CREDIT SCORE VA LOANS THAT ARE INVESTOR BASED)

**Table 1: All Eligible Mortgages – LLPA by Credit Score/LTV Ratio**

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## Credit Reports/Scores/Problems on VA Loans

- Credit is a critical component: What is the impact of the following on a VA Loan?
  - Collections & charge-offs (Collections may or may not need to be paid off. Will be underwriter discretion.)
  - Foreclosures (2 years seasoning from completion date)
  - Bankruptcy's (1-2 years from discharge date depending upon the BK type)
  - Short Sale: 2 years from completion
  - Disputed Accounts (Typically we remove disputed accounts so they are reflected in the Fico score)
  - How to clean up your credit? - We have internal solutions and external companies to refer a client to.
    - The removal of any derogatory item is the key.
    - Small outstanding balances on cards helps the Fico score.





### Required Documents for a VA loan:

- DD214 from the borrower
- Certificate of Eligibility from VA
- Minimum credit score (varies by Investor on an VA Loan)
- Maximum Debt to Income (Varies by Investor but many will go to 55%)
- Maximum Loan to Value – 100% is the set max loan to value on a VA Loan
- Two year history required for income -
- 60 days of bank statements required –
- Most recent 30 days of paystubs
- Tax Returns for Self Employed borrowers

*“All of these factors and more go into the loan approval. All situations are different and specific issues will raise other conditions”*

# Make sense out of Mortgage Insurance

## VA Loans have a Funding Fee



### VA Funding Fee?

- Guarantee's the investor on the loan against loss...does not repair the property.
- **What's the best deal for the borrower????**
- Who collects the Funding Fee???
- Who runs VA?
- Who sets guidelines on a VA Loan?
- Who sets the pricing on the VA Funding Fee?

### Funding Fee Tables

#### Purchase And Construction Loans

Note: In 2011, funding fees were lower from October 1 through October 5, and November 18 through November 21. The enactment of Public Law 112-56, signed November 21, 2011, establishes rates at the levels below.

Type of Veteran	Down payment	Percentage for First time Use	Percentage for Subsequent Use
Regular Military	None	2.15%	3.3% *
	5% or more	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/National Guard	None	2.4%	3.3% *
	5% or more	1.75%	1.75%
	10% or more	1.5%	1.5%



*Choose your business partners carefully...*



*Not all lenders are the same*

# APPLICATION

## Personal Information

Name (Last) PUBLIC

Address (Mailing Address)  
12345 MAIN STREET

(Middle Initial)

Home Telephone  
1111-1111

Zip  
999999

Other Telephone  
22 22 2222

**APPROVED**

UNDER REVIEW

SUBJECT

REVIEW

### Underwriting Process Overview for an FHA & VA Loan:

- Typical turn times are 48 hours for an initial review and 24 hours for the resubmission of conditions.
- Underwriters want a full, complete package to review.
- The underwriters job is to validate the accuracy of the documentation provided.
- Mortgage Companies work toward a Final Approval status or a Clear to Close status with underwriting
- Underwriters evaluate loans according to a set of guidelines from FHA and VA.
- Each entity/agency has their own set of very specific guidelines that must be followed.

- Seller/Lender Contribution limits on an FHA and VA loan is 6%. (How much cash is required from the borrower to purchase a home with an FHA or VA loan?)

*"We talk to the underwriter to make sure they fully understand the file and the situation"*



# How fast can we close?



## How fast can we close an FHA or VA Loan?:

Day 1: Application & Conditional Approval & Receive the Receipted Contract to start the clock, We need to issue preliminary disclosures before we can order the appraisal.

Day 2: Order the appraisal and Open Title with Title Company

Day 3: Receive all borrower documents

Day 4: Submit to underwriting (two days in underwriting)

Day 6: Receive Approval from underwriting

Day 7: Ask for other conditions

Day 8: Appraisal Complete

Day 9: Submit the appraisal back to the underwriter.

Day 10: Clear to Close

Day 11: Prepare Closing Disclosure

Day 14: Loan Closing

Red Diamond Closed a Conventional Purchase 12 days after the contract was receipted. August 8 – August 24. We had all borrower documents, just needed the appraisal.

**“This timeline depends upon the client and their ability to move quickly and provide the documents that we need”**



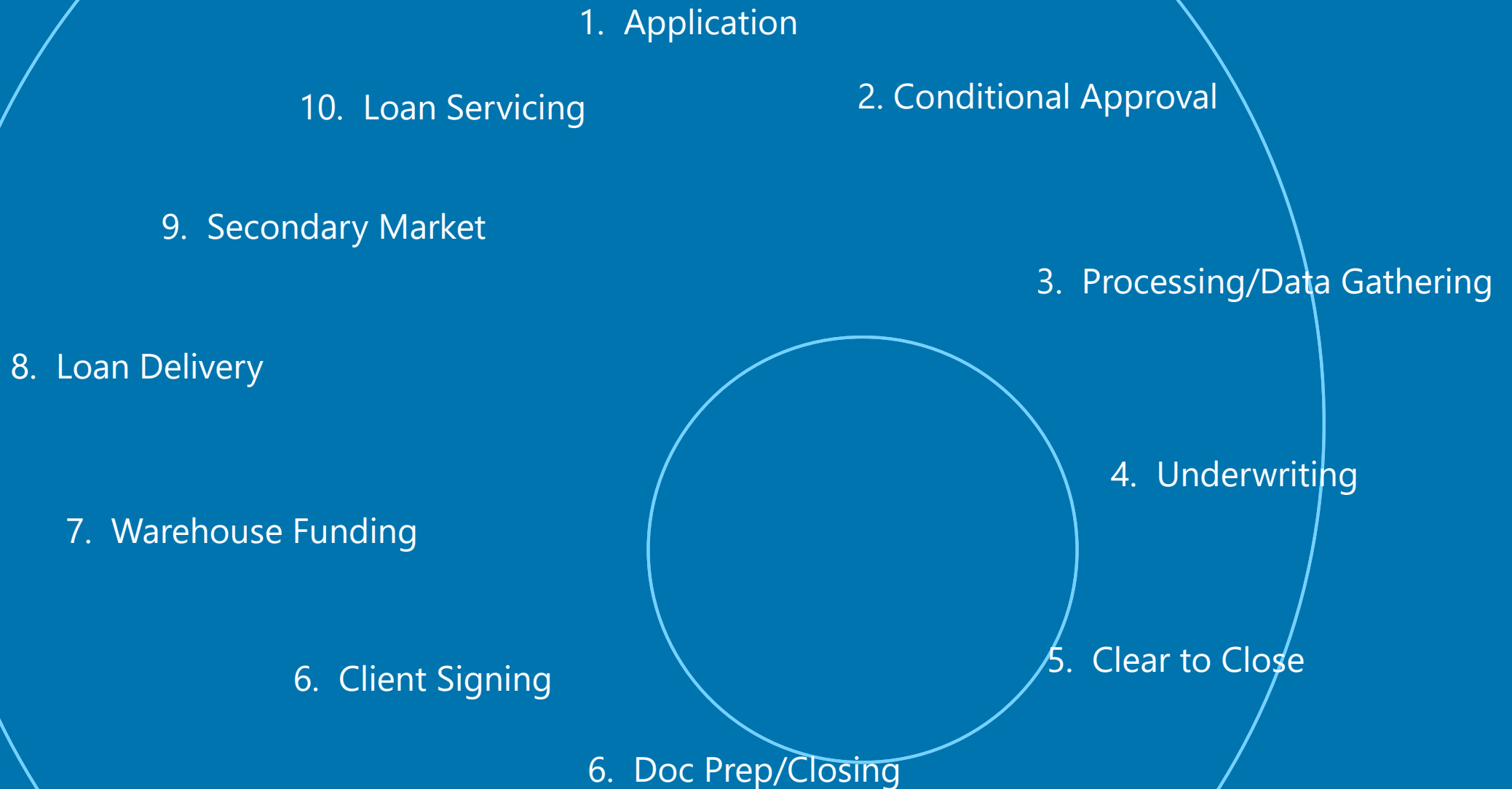
### The Secondary Market for FHA and VA Mortgages:

- What is the secondary market?
- Who funds the mortgage market?
- Who buys FHA and VA loans?
- How are they sold?
- Who does Wall Street sell the mortgage banked securities to?

“The mortgage market is loaded with participants from Main Street to Wall Street”



# Manufacturing an FHA and VA Mortgage





In Summary:

Thanks for your time and attention today.

Hopefully you benefitted from this presentation.

Justin is available anytime for a pre-approval,  
question or any type of client consultation.

Justin and I are happy to advise and consult  
with your clients on the best course of action,  
even if there is a better lender for their needs.





## Other CE Classes Available:

- Appraisal Fundamentals
- Expat Lending
- Mortgage Fundamentals
- QM vs Non QM
- Interim Financing

**These are all classes that are available to your brokerage office.**

**Please let us know if we can provide a lunch and learn for your office on any of these topics.**



Thanks for you time!

Mike Porter, President  
Red Diamond Home Loans  
[mporter@rdhloans.com](mailto:mporter@rdhloans.com)  
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Justin Rogers  
Mortgage Originator  
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214-674-9021



Whitney Vallenari  
Chicago Title  
[wvallenari@cttdfw.com](mailto:wvallenari@cttdfw.com)  
940-597-5182



Ray Scott  
State Farm Insurance  
[Ray.scott.efmv@statefarm.com](mailto:Ray.scott.efmv@statefarm.com)  
469-372-5925

