

# Trinity University's Young Alumni & Student Programs

Presents:

"So...You Want To Buy a House"

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# Outline

- I. What's My FIRST Step in Buying a Home?
  - Should I look for a House BEFORE I Pre-Qualify for a Mortgage?
- II. Preparing to be Pre-Qualified?
  - Items Needed for Pre-Qualification/Loan Application
- III. When Should I Have a Credit Report Pulled?
  - What Are Credit Scores...and...How Will They Affect Me?
- IV. What Type of Loan Should I Be Looking For?
  - VA - FHA - CONVENTIONAL
  - Fixed Rate Mortgage...vs...Adjustable Rate Mortgage (ARM)
  - 30yr...vs...15yr
- V. I Don't Qualify for the House I Want...What Can I Do?
- VI. The House I Like is Listed...Should I Get MY OWN Realtor?
- VII. How Much Will Buying a Home Cost Me Out-Of-Pocket?
  - Down Payment + Closing Costs + Pre-Paid
- VIII. What Happens at Closing?
- IX. Is Now a Good Time to Buy a Home?

# I. What's My FIRST Step in Buying a Home?

The **FIRST STEP** in Buying a Home should **ALWAYS** be to determine **HOW MUCH** of a loan that you Qualify for and, based on your Credit, whether you can Qualify for one at all...**BEFORE** you go looking. It's a waste of **YOUR** time, your **REALTOR's** time, and the **SELLER's** time if you are looking in a Market that is out of your price range, or cannot Qualify at all.

Pre-Qualifying for a Mortgage will allow you to:

1. Determine How Much of a Mortgage you Qualify for based on your income, obligations and Standardized Ratios?
2. Determine What Price Range you should be looking for based on what you Qualify for, and your available assets for Down Payment?
3. Determine What type of Mortgage (FHA/VA/Conventional) you should be applying for based on your available assets, and/or that would suit your needs best?
4. Determine What your Credit looks like...and if it is going to prevent you from buying the Home, that you may Qualify for, now?
5. Determine What you can do to Improve your Ratios, and/or your Credit, and how long you can anticipate it will take?
6. Secure a Pre-Qualification Letter from a Lender to provide to your Realtor, and the Seller's Realtor.

## II. Preparing to be Pre-Qualified

Preparing to be Pre-Qualified, or for a Mortgage Application, can be very frustrating. The information being requested is getting more and more burdensome and intrusive. You should begin by gathering the following:

- Copies of Drivers Licenses;
- Copies of Social Security Cards;
- COMPLETE Copies of previous two (2) years Personal Tax Returns;
- COMPLETE Copies of previous two (2) years Business Tax Returns...if you own 25%, or more, of the company;
- Copies of your most recent two (2) months paystubs. If you are paid more than once a month...you will need consecutive paystubs totaling two (2) FULL months;
- Copy of your College Transcript(s) if you have been out of school less than 2 years;
- COMPLETE Copies of your most recent two (2) months bank statements on ALL checking, savings, investment and/or retirement accounts;
- Prepare to write explanation letters regarding non-recurring, and/or unordinary deposits, expenses and/or inquiries into your Credit; and
- Additional items required for VA Loans, of applicable.

### III. When Should I Have a Credit Report Pulled?

**!!!NOW!!!** Your Credit, and its accompanying Credit Score, are one of the MOST IMPORTANT Assets you have...and is increasingly becoming MORE IMPORTANT every day. Not only will it have an effect on your Mortgage's Interest Rate, but it will also have an effect on your HomeOwners Insurance Premium, your Auto Insurance Premium, your Businesses Insurance (liability and/or contents) Premium...and may effect you being able to secure a Job!!!

A "Lender" generated Credit Report is different than the FREE Consumer Credit Report you can pull on-line and WILL NOT effect your Credit Scores as much as you are led to believe...unless you pull 10 per month!

There are three (3) main repositories that gather and assimilate balance and payment history information from Creditors, and Court Records: Equifax; Transunion; and Experian. Lenders will throw out the Hi and the Low and use the Mid-Score to base their underwriting decision on. In addition, they will use the Mid-Score in a "Pricing Matrix", using Credit Scores and Loan-To-Value (LTV) Ratios on the X and Y Axis to Increase, or Decrease, your Interest Rate. The HIGHER your Mid-Score at a given LTV...the LOWER your Interest Rate.

Factor's that have an effect on your Credit Scores are: your payment history; the # of open balances; your balance to credit limit ratio; collections; excessive credit inquiries; tax liens; short sales and foreclosures.

## IV. What Type of Loan Should I Be Looking For

### VA (Veterans Administration) Loans

#### Who's Eligible for a VA Loan?

- In general, you are eligible for a VA Loan if you are Active Military and have served more than 180 days (90 days if in the Gulf War), and were Honorably Discharged;
- You are eligible if you have completed a total of 6 years in the Selective Service or National Guard...or were called up to Active Service and spent more than 90 days in the Gulf War; and
- You are eligible if you are an un-remarried spouse of a veteran who died while on Active Service, or from a service connected disability.

#### Benefits of a VA Loan

- 100% Loan...NO Down Payment Required up to \$417,000;
- May Qualify with LOWER Credit Scores...as LOW as 630; and
- Reduced Closing Costs and Seller can pay UP TO 6% of Buyers Closing Costs\*

#### What Types of Properties are Eligible...&...Can I use my VA Eligibility MORE THAN Once?

- 1-4\* Unit Residential Properties...Yes, under certain circumstances.

#### Can I Buy a Rental/Investment Property with a VA Loan?

- No...ONLY Owner Occupied Loans, or where the Veteran will occupy 1 unit.

## IV. What Type of Loan Should I Be Looking For...cont.

### FHA (Federal Housing Administration) Loans

#### Who's Eligible for an FHA Loan?

- In general...Anyone who does not currently have an FHA Loan.

#### Benefits of an FHA Loan

- Only requires a 3.5% Down Payment UP TO \$332,500 in Bexar and contiguous Counties...but not less than \$271,050 in Texas;
- May Qualify with LOWER Credit Scores...as LOW as 630;
- 100% of the Down Payment & Closing Costs can be a Gift from a Family Member; and
- Seller can pay UP TO 6% of Buyers Closing Costs.

#### Detriments to an FHA Loan

An FHA Loan is a Federally Insured Loan...and You, the Borrower, must pay for that insurance. Due to the economic environment, in recent years FHA has INCREASED the amount of their Mortgage Insurance Premium three (3) times to the point where they are trying to dissuade the use of FHA Loans\* If you have the additional 1.5% Down Payment, it is now cheaper to go with a Conventional Loan.

#### What Types of Properties are Eligible...and...Can I have MORE THAN One (1) FHA Loan at a time?

- 1-4\* Unit Residential Properties...No, only One (1) at a time.

#### Can I Buy a Rental/Investment Property with an FHA Loan?

- No...ONLY Owner Occupied Loans, or where the Buyer will occupy 1 unit.

## IV. What Type of Loan Should I Be Looking For...cont.

### CONVENTIONAL Loans

#### Who's Eligible for a CONVENTIONAL Loan

- In general...Anyone.

#### Benefits of a CONVENTIONAL Loan

- Only requires a 3.0% Down Payment up to \$417,000 (Conforming\*), and 10% up to \$750,000 or 80% up to \$1,000,000 (Jumbo/Non-Conforming\*);
- May receive a Gift from a Family Member AFTER Borrower has invested at least 5% of their Own Funds; and
- Seller can pay UP TO 3% of Buyer's Closing Costs on a 95% Loan, or 6% of Buyers Closing Costs on a 90%, or better, Loan.

#### Detriment to a CONVENTIONAL Loan

- Harder UnderWriting...MAY NOT Qualify with Credit Scores below 660; and
- Loans with LESS THAN 20% Equity will require Private Mortgage Insurance\* and must be UnderWritten by the Mortgage Insurance company as well.

#### What Types of Properties are Eligible...and...Can I have MORE THAN one (1) CONVENTIONAL Loan at a time?

- 1-4\* Unit Residential Properties...Yes, but depends on how many total units and outstanding mortgages you have.

#### Can I Buy a Rental/Investment Property with a CONVENTIONAL Loan?

- Yes.



## IV. What Type of Loan Should I Be Looking For...cont.

### Fixed Rate Mortgage...vs...Adjustable Rate Mortgage (ARM)

Economic and Market conditions will ALWAYS dictate what Lenders will offer, and what Consumers will accept, in terms of financing options. With the current Economic/Market environment, the "Sub-Prime" market has gone into hibernation. However, the "Sub-Prime" market wasn't invented during the last housing boom. There have been "Sub-Prime" mortgage products for 30 years...they just hadn't coined the phrase "Sub-Prime" until the early 2000's. When all the stars line up once again (ie. the economy is rebounding, the current glut of houses created by foreclosures are absorbed back into the market, housing prices are rising, and Politicians want to BUY votes again..."Sub-Prime" mortgages will re-appear...possibly under a different label.

Although there are times when an ARM can be a GREAT Financing Tool...With 30yr Rates around 3.75%, and 15yr Rates around 3.00%...there is very little reason to consider an ARM with rates around the 2.5% range. The Theory behind using an ARM is that...It allows you to Buy More House than you can afford at the time...but, as your Interest Rate and Payments go up, so will your Income(s). However, we see now that this doesn't always hold true.

So for now, unless you know that you won't be in a house/mortgage for more than 3-5 years, and that your Employer will buy-out your house if they relocate you, or that your Income(s) will IN FACT go up...Stick with a Fixed Rate Mortgage.

## IV. What Type of Loan Should I Be Looking For...cont.

### 30yr...vs...15yr

For every \$100,000 you borrow at 3.75% for 30yrs your P&I\* payment is going to be \$463...for every \$100,000 you borrow at 3.00% for 15yrs your P&I payment will be \$691...that's a \$228/mo difference.

It's true that over the life of that \$100,000 loan you would SAVE \$42,300 in interest...but that's assuming that you own that house for 30yrs. The fact is that the average American lives in a house for 7-10yrs before moving on.

So ask yourself...Is there something **BETTER** that I could be doing with that \$228/mo? How about paying off your credit cards, that car loan, or maybe student loans! Or, consider putting it into a ROTH IRA, which over that same 30yr period, would be worth approximately \$280,004 assuming a 7% ROR!!!

A 15yr loan is a **FORCED** Savings Plan, and can be a **GREAT** tool...if you plan on staying in that house for 15yrs, don't have other debt that you should pay off, and are well vested in your Retirement Plan. Remember that you can always go with a 30yr loan, pay off your debt, establish your savings, and then begin Pre-Paying your mortgage **WITHOUT** any Penalty!!!

## V. I Don't Qualify for the House I Want...What can I Do?

This is WHY you should get Pre-Qualified **BEFORE** you go shopping for a Home, get your hopes up, and possibly submit a Contract on a House that you can't Qualify for.

### 4 Things that can Prevent You from Qualifying for the House You Want

1. Insufficient Income: There isn't much you can do about having insufficient income besides get a Part-Time Job\*, or wait until your income goes up. Also, having a Parent "Co-Borrow" typically doesn't work as you need to Qualify for at least 80%.
2. Too Much Debt: You can reduce/restructure your debt to LOWER your Qualifying Ratios. This may take time, but before you start paying off debt you should have someone help you determine WHICH obligations to Pay Off, WHICH to Pay Down, and WHICH to Restructure to get the MOST BANG for your bucks.
3. Insufficient Credit to Determine Credit Worthiness: You MUST have AT LEAST three (3) open lines of Credit being reported to the Repositories before they can issue a Score. NO CREDIT is almost as bad as BAD CREDIT....and...Depending on whether you have some Derogatory Credit in your recent history, you MAY need MORE THAN 3\*.
4. Credit Scores are Too LOW: Other than 2 and 3 above...You may just have to wait.  
\*\*Changes to your Balances and Credit Scores take time. Plan on 30-45 days to reflect changes in your Balances...and...60-90 days to reflect in your Credit Scores.\*\*

### My Spouses Credit Scores are HIGHER than mine...Can't we just use theirs...or my Fathers?

- No...Lenders base their UnderWriting decisions on the LOWEST Credit Score.

## VI. The House I Like is Listed...Should I get MY OWN Realtor?

In Theory...**YOU WORK FOR WHO PAY'S YOU!** With that said, for years BOTH the Listing (Seller's Agent) and the Selling (Buyer's Agent) were both considered working for the Seller because that's who PAID their Commissions. So, in THEORY...the Buyer was not being represented...although this was not ALWAYS the case.

However, in the past several years that has changed with the creation of Accredited Buyer Representatives. Now, even the Promulgated Texas Real Estate Commission (TREC) Contracts that are commonly used have boxes [ ] on the signature page that the Listing (Seller's Agent) and Selling (Buyer's Agent) must check DECLARING who they are Representing.

So, to answer the question...YES, you should always have **YOUR OWN** Realtor submit your Contract to insure that you are being represented properly.

## VII. How Much Will Buying a Home Cost Me Out-Of-Pocket?

Notwithstanding your Down Payment, which will be determined by the Type of Loan you either Qualify for, or Choose (VA = 0.0%; FHA = 3.5%; and CONVENTIONAL = 3.0-5.0% or More)...You have your Closing Costs & Pre-Paid expenses to consider.

**Closing Costs**: Expenses PAID TO OTHERS to provide Documents and/or Services which the Lender/Broker, and Title Company, will need to issue you APPROVAL and CLOSE your Mortgage (ie. Appraisal, Credit Report, Attorney's Fees, Survey, Title Company Fees, etc.). Your AVERAGE Closing Costs will be as follows:

VA Loan: \$1500 + Origination Fee (typically 1% of the Loan Amount)\*

FHA Loan: \$2800 + Origination Fee (typically 1% of the Loan Amount)\*

CONVENTIONAL Loan: \$2800 + Origination Fee (typically 1% of the Loan Amount)\*

**Pre-Paids**: Expenses which you will PAY at Closing to set up an Escrow Account\* which will include 1yr + 3mos of HomeOwners Insurance...and...3mos of Property Taxes...and...Pre-Paid Interest\*. You are REQUIRED to set up an Escrow Account on all VA and FHA loans, but may opt out on a CONVENTIONAL Loan if your Down Payment is AT LEAST 20%.

\*\*Remember that the Seller, to varying degrees depending on the Type of Loan you either Qualify for or Choose, MAY PAY ALL, or Part of your Closing Costs and Pre-Paid Expenses. However, they will NOT be doing it out of the kindness of their Heart...They will FACTOR them into the Sales Price they ACCEPT (ie. if they agree to pay \$3000 of your Closing Costs and Pre-Paids...you can BET that the Sales Price they ACCEPTED is \$3000 HIGHER than it would have been.\*\*

## VIII. What Happens at Closing?

**Closing** typically occurs at a Title Company with your Realtor and an Escrow Officer. The Escrow Officer works for the Title Company and is charged with the responsibility of making sure that all the Loan Documents that the Lender needs signed are intact, correct and get signed; that they collect the correct amount of money from the Buyer; that all services rendered during the loan process are paid (ie. the appraiser, the lawyer's, the surveyor, the lender, the balance of the Seller's mortgage, the title company and the Realtors, etc.), and that the correct amount of money that the Seller is due is disbursed. They then are responsible for making sure that the documents are recorded properly in the courthouse and that they are returned to the Lender in their entirety.

You will be amazed at the amount of documents sitting before you. The process of reviewing/signing all the documents with the Escrow Officer will take about 45mins. The proceeds that you, the Buyer, come to the Title Company with **MUST ALWAYS** be in "Good Funds"...meaning a Cashier's Check or Wire Transfer made payable to the Title Company.

Transfer of Title/Ownership will not actually take place until later that day, or the next, because the Escrow Officer must go thru everything that you signed, as well as those the Seller signed, and make sure that everything has been done correctly before she **FUNDS** the loan. **CONGRATULATIONS!!!** You, and your Lender, now own your Home!

## **IX. Is Now a Good Time to Buy a Home?**

**YES...YES...YES!!!** The current US economic environment has forced the Federal Reserve to drive interest rates down to historic levels. At the same time, the rest of the Worlds economies are in WORSE condition than the US's, making our debt (including mortgage backed securities) still the most attractive debt in the market.

At the same time, housing prices are STILL below their 2008 HIGHS, but there are signs that Values are on the INCREASE...and inventories are SHRINKING.

So, what ADVANTAGES do these conditions provide the consumer? Consider that a couple with a combined gross monthly income of \$7,000 should (depending on debt/credit) be able to Qualify for a:

- \$367,000 Loan at 3.75%
- \$325,000 Loan at 4.75%
- \$291,300 Loan at 5.75%
- **\$115,900 Loan at 17.50%\***

When the US and World economies begins to strengthen...Interest Rates **MUST** go up to avoid Inflation. How HIGH is anyone's guess, but in 1982 when I entered into the Mortgage Industry the Inflation rate was almost 12% and 30yr Fixed Interest Rates were **17.50%\*!!!** Inflation is currently **1.66%**...you do the math...**YES...NOW IS A GOOD TIME TO BUY A HOME!!!**







# Information Needed to Order a Credit Report

Borrower's Complete Name:

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Borrower's DOB:

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 / /

Borrower's Social Security #:

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2yrs Residence History (#mos/yrs):

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Co-Borrower's Complete Name:

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Co-Borrower's DOB:

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Co-Borrower's Social Security #:

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2yrs Residence History (#mos/yrs):

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Borrower's Authorization

Date

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Co-Borrower's Authorization

Date

## Peter S. Velasco - RML0 #352395

- Born & Raised in San Antonio
- Married with 1 x Son and 4 x Daughters
- Graduated from Trinity University in 1982 with BS in Finance
- Residential Mortgage Loan Officer with the Richard Gill Companies from June 1982 thru August 1983
- Residential Mortgage Loan Officer with International Mortgage Company from August 1983 thru March 1984
- Current Owner and Co-Founder of Independent Mortgage Services in April of 1984...Credited with being the 1<sup>st</sup> Full Service Mortgage Broker in Texas
- Ranked the Largest San Antonio Mortgage Lender in 1995
- Previous Finance Chairman for the San Antonio Board of Realtors
- Previous Board Member for the Texas Association of Mortgage Brokers
- Two (2) Term Previous Board Member for Consumer Credit Counseling Services of San Antonio and Chairman of their Education & Marketing Committee

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# Thomas Fentress - C.R.S., G.R.I., A.L.H.S., A.B.R., e-PRO

- Born & Raised in San Antonio
- Married with 1 x Son and 1 x Daughter
- Attended Texas Military Institute (TMI)
- Family Developed & Built the Royal Ridge Subdivision in the Windcrest Area
- Spent three semesters in Trinity University's Homebuilding Program
- Licensed Realtor® since 1984
- RE/MAX agent since 1989
- Member of RE/MAX's Hall of Fame
- Certified Residential Specialist
- Accredited Luxury Home Specialist
- Accredited Buyer Representative
- San Antonio Business Journal Top Ranch Seller in 2007
- Texas Monthly Magazine FIVE STAR Real Estate Agent in 2011
- San Antonio Business Journal Top 50 Residential Agents from 2008 through Today

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