



Moving Toward the Finish Line

Before Assignment #4 — A Small Request

If you've enjoyed your Money 101 Education experience, I would appreciate it if you could take a moment to write a recommendation for the program.

It can be done via LinkedIn or YouTube

LinkedIn - Steps to Leave a Recommendation on my LinkedIn Profile:

1. **Create a LinkedIn Account** (if you don't already — it's free):
<https://www.linkedin.com/>
2. **Find My Profile and Send a Connection Request:**
<https://www.linkedin.com/in/diane-drey/>
3. **When I accept your request** through LinkedIn, I will send you a message asking for a recommendation. So please watch for my message.
4. **Respond to the Message:**
Write whatever feedback you'd like to share.

YouTube - Steps to Leave a Recommendation on YouTube:

1. Watch the YouTube video where I discuss the program:
https://www.youtube.com/watch?v=_QlxTCxkwug
2. Leave a comment

ALSO.... If you know someone who would benefit from the program, please ask for their permission and, if they agree, send me their email address. I will add them to the mailing list so that they receive periodic (approximately five times annually) announcements of new classes and money tips.

Thanks a lot... and PLEASE SPREAD YOUR KNOWLEDGE.

NEXT PAGE starts the assignment

APPROVE OR DENY MORTGAGE APPLICATIONS. You are the mortgage broker representing Apple Bank and Banana Bank. (Mortgage brokers usually work with multiple banks, so this is not unusual.)

Both banks offer 30-year fixed-interest-rate mortgages. However, the loans have different interest rates and lending criteria (debt-to-income ratio).

Apple Bank offers a 30-year fixed-rate loan at 7.0% interest.

Thus, for every \$100,000 borrowed, the monthly payment is \$ 665.30.

Apple Bank allows a debt service-to-income ratio of up to 50%,

BANANA BANK – offers a 30-year fixed-rate loan at a 6.5% interest.

Thus, for every \$100,000 borrowed, the monthly payment is \$ 632.07.

Banana Bank allows a debt service-to-income ratio of 43%.

So, while Banana Bank’s interest rate is lower, getting approved is harder.

BOTH BANKS

- Estimate closing costs to be 4% of the property value.
- Require applicants who do not make a down payment of 20% or more to buy Private Mortgage Insurance. In the real world, PMI payments are typically set based on
 - downpayment percent - the more the applicant puts down, the lower the PMI rate
 - credit score - the higher the applicant’s credit score, the lower the PMI rate

However, this assignment assumes an annual PMI rate of 1% of the mortgage amount.
i.e., on a \$420,000 mortgage, the PMI is \$4,200 annually or \$350 monthly.

- They consider all the required minimum payments, such as credit card, student loan, or car installment payments, as part of “debt service.” They also consider the proposed mortgage payment, PMI payment, real estate taxes, homeowners’ fees, and insurance when calculating debt service.

Your office received four applications.

#1-Delores Wolf

#2-Joanna Smith

#3-Olivia and Henry Chang

#4-Jamie Petroff and Sally Ogilbee (commercial property) – **EXTRA CREDIT if you try –**

#4 is a COMMERCIAL property with different criteria.

Your underwriting colleague reviewed the first application, completed a worksheet, and decided on Delores Wolf’s application. Then, she went on vacation to Buenos Aires to take tango lessons for three weeks. Thus, the other three files landed on your desk.

MONEY 101 EDUCATION

11.94a ASSIGNMENT #4 Real Estate Segment

The applicants are pressuring your company to receive an answer, as they want to close within 30 days, **so you need to complete Worksheet 11.94a (a separate Excel or PDF file) for the three applicants** and determine.

1. Is this a Conventional Mortgage Application? (yes or no)
2. Will PMI be required? (yes or no)
3. What is the monthly mortgage (principal and interest) cost?
4. If they need PMI, what is the monthly cost?
5. What is the debt-to-income ratio?
6. Will Apple Bank approve the Mortgage? Will Banana Bank approve the Mortgage?
7. IF both banks approve the applicant, which loan will you advise the applicant to take?
8. If either bank said no, how could the applicant change the denial to an approval?

ENTER YOUR ANSWERS ON THE 11.94A WORKSHEET after reading each applicant's information.

While a Zillow listing is provided to lend some reality to these examples, the Zillow price may differ from the prices listed in the charts below, as they are subject to constant change.

Therefore, ignore what you see on Zillow and use the Purchase price, real estate taxes, common charges, and insurance provided in the charts below.

APPLICANT #1 - Delores Wolf – *worksheet done by your colleague before she took off for vacation.*

- Delores has lived her whole life in New York City, renting an apartment for \$2800.
- As she is now retired, she receives from Social Security \$ 27,600 annually
- She also has a pension from her school system of \$ 16,000 annually
- She has never been a big spender, but has two outstanding debts: She owes \$4,000 to Macy's with a required monthly payment of \$38. She owes \$3,500 to Chase Visa with a required monthly payment of \$35.
- Before he passed, her husband had bought and financed a car. The obligation is now down to \$675 and will be paid off after three more months, as the required monthly payment is \$ 225
- Her husband recently passed, and she is lonely, so she is ready for a change. Delores has family in the South, so she is considering relocating and having a more laid-back lifestyle; she dreams of buying a house with a garden. She has \$65,000 saved but only wants to spend \$40,000 on her new property (downpayment and closing costs) to have some rainy-day savings.
- She searched online and found this dream property in York, South Carolina. It appears to be in move-in condition and one level, allowing her to "age in place." She is getting excited.

https://www.zillow.com/homedetails/108-York-Park-St-York-SC-29745/11840970_zpid/

Purchase Price of Property		\$200,000
Property Real Estate Taxes	\$2,340 annual	\$195 monthly
Property Homeowner Fees		Not applicable
Property Insurance	\$ 576 annual	\$48 monthly

APPLICANT # 2 - Joanna Smith

- Joanna is a single woman who has worked as an Executive Assistant for a large bank for twelve years. Her base salary is \$84,000 annually, and Last year, she received a bonus of \$5,000, so her W-2 was \$89,000.
- She has two credit cards. On Mastercard, she owes \$5,000 and has a minimum monthly payment of \$50; on Visa, she owes \$9,000 and has a minimum monthly payment of \$180.
- She finished paying off her student debt two years ago.
- She does not have a car or a car loan.
- She only has \$25,000 in savings, but she also has \$125,000 in her 401 (k). She heard that she could borrow from her 401 (k) for a home purchase and would not pay a penalty or taxes on the withdrawal. She plans to borrow \$60,000 from her 401(k) and use that for the down payment and closing costs; she will not touch her savings, as that is her emergency fund.
- She wants to buy a two-bedroom cooperative in Queens, which will allow her to take on a roommate if she needs to make extra money. She found something appropriate:

https://www.zillow.com/homedetails/20920-18th-Ave-APT-2G-Bayside-NY-11360/245402303_zpid/

Purchase Price of Property		\$269,000
Property Real Estate Taxes	Included in Maintenance	Included in Maintenance
Property Homeowner Fees Maintenance	\$20,832 annual	\$1736 monthly
Property Insurance	\$ 1,128 annual	\$94 monthly

APPLICANTS # 3 - Olivia and Henry Chang –

- Olivia and Henry married two years ago and live in a rental apartment in New Jersey.
- Olivia is a sales rep with a base salary of \$36,000. She earns consistent monthly commissions that average \$2,000; thus, her W-2 was $(\$36,000 + \$24,000) = \$60,000$.
- Henry works in construction and has W-2 earnings of \$72,000 per year.
- Henry has a side carpentry business doing odd jobs on weekends. He estimates he made \$15,000 last year but did not report it on his income tax return.
- The couple each has credit cards.
 - Olivia owes \$10,300 with a minimum payment of \$275 per month.
 - Henry owes \$ 1,600 with a required minimum payment of \$ 45 per month
- The couple bought a Honda and financed it for 36 months. Their monthly car payment is \$475, and they happily have only three more payments to go.
- Olivia has a student loan with a minimum monthly payment of \$210.
- Their parents gave them generous wedding gifts as they forgo a fancy wedding party. The couple continued to save over the past two years and now has \$ 85,000 to cover the down payment and closing costs.
- They wanted to buy a single-family house and found this dream home.

https://www.zillow.com/homedetails/73-Riverside-Dr-Denville-NJ-07834/39409072_zpid/

Purchase Price of Property		\$ 450,000
Property Real Estate Taxes	\$ 6,732 annual	\$ 561 monthly
Property Homeowner Fees	Not applicable	Not applicable
Property Insurance	\$ 1,800 annual	\$150 monthly

NEXT PAGE IS AN EXTRA CREDIT

APPLICANTS #4 - Jamie Petroff and Sally Ogilbee are friends who wish to purchase a multi-unit property together. They found a building with two apartments in Tennessee, and think it's a good investment.

Investment property mortgages differ significantly from residential mortgages.

- **Downpayment**—The required down payment is 30%, so they will put down \$190,000 to cover the down payment and closing costs.
- **Term** - The term is 20 years. This will result in higher payments, as the loan must be repaid more quickly than a typical 30-year residential mortgage.
- **The interest rates** are generally 2% or more higher than residential rates in this case.
 - APPLE Bank will offer a 20-year term mortgage at 8.5 %, so the monthly payment to borrow \$100,000 is \$ 867.92
 - Banana Bank will offer a 20-year term loan at 9%, so the monthly payment to borrow \$100,000 is \$ 899.73
- **Income:** In determining if the client will be approved, the bank uses the owner's projected rental income but deducts 30% to account for vacancies—this is called “discounted rent.”
 - Unit #1 is vacant, but they believe the market rental value is \$2,500 per month
 - Unit #2 is leased and rents for \$2,750 per month
 - Thus, the total anticipated rental income is \$5,250, of which the bank will consider 70% as “income,” so they will credit them with \$44,100 annually or \$3,675 per month.
- **Expenses, Debt Services:** The bank will not deduct the borrowers' obligations when determining whether the client will be approved; it will consider the mortgage payment and all property operating expenses (see chart).

https://www.zillow.com/homedetails/1700-Cass-St-Nashville-TN-37208/41096854_zpid/

Purchase Price of Property		\$ 545,000
Property HOA Fees	Not applicable	Not applicable
Advertising – expense to market property	\$ 300 annual	\$ 40 monthly
Insurance	\$ 2,400 annual	\$200 monthly
Management Fees As they are out of state they will hire a local manager.	\$3,900 annual	\$325 monthly
Repairs and Maintenance including lawn care	\$2,400 annual	\$200 monthly
Utilities heating and water only as tenant pays the electric	\$1,800 annual	\$300 monthly
Taxes - Real Estate Taxes	\$ 4,334 annual	\$ 361 monthly

- **Personal Liability** - Both owners must sign as personally liable, even if the property is held in an LLC.
- **Approval** - Both banks' criteria for approving the loan are that the cash flow (discounted rent minus expenses) must be positive.

