

## Loans Exercise: Lender's Perspective

### Loans Exercise Objectives

- See the home loans process from a lender's point of view.
- Understand what the different home loan criteria are.
- Prepare yourself for the near future-when you will be trying to get a home loan.

### Loan Assessment Review

- **Down payment amount**
  - Lenders usually require a down payment equal to approximately 20% of the loan amount.
- **Source of down payment**
  - Buyers may have saved for their down payment or received it as a gift or a grant from an assistance-program.
- **Amount available for mortgage payments**
  - A buyer's mortgage payment should not exceed more than 28% of his/her gross monthly income.
- **FICO score**
  - A buyer's FICO score plus other factors determine their APR.
- **Debt-income ratio**
  - A buyer's total monthly debt obligation (mortgage payment, car loan, student loans etc.) should not exceed more than 36% of his/her gross monthly income

### Lender's Perspective

Analyze your group's buyer and determine the following:

1. Does your buyer have a sufficient down payment?
2. What is the buyer's source of down payment? Does this effect your willingness to provide a loan?
3. Does your buyer's mortgage payment exceed 28% of their gross monthly income? Does the buyer's source of future payments concern you?
4. Does your buyer's total monthly debt obligation exceed 36% of their gross monthly income?

#### CONCLUSION

Should you provide your buyer with a loan?

Why or why not?

**Buyer # 1****Dick & Jane Harper**

- \$300,000 home loan
- Down payment of \$75,000 from sale of condo
- Combined gross monthly income of \$12,500
  - Dick works for an energy company & Jane is an accountant, both have been working at their companies for over 10 years
- Available mortgage payment of \$3,000
- Monthly debt obligations:
  - Car payments: \$800
  - Credit card bills: \$400
  - Student loan: \$300

**Buyer # 2****Brooke Stoodent**

- \$175,000 home loan
- Down payment of \$35,000 from grant
- Gross monthly income of \$4,000
  - Brooke just graduated from college and works as an office assistant at a prominent law firm and has been with the firm for 6 months.
- Available mortgage payment of \$1,000
- Monthly debt obligations:
  - Car payment: \$350
  - Student loan: \$250

**Buyer # 3****Mark Mcdreamy**

- \$600,000 home loan
- Down payment of \$150,000 from savings
- Gross monthly income of \$25,000
  - Mark has worked as a surgeon for over 5 years.
- Available mortgage payment of \$5,500
- Monthly debt obligations:
  - Med Student loan: \$2,000
- ❖ Has never owned a credit card or taken out a car loan.

**Buyer # 4****Bethany Spears & Kyle Federline**

- \$250,000 home loan
- Down payment of \$70,000 from gift
- Gross monthly income of \$10,000
  - Bethany works as a book writer and Kyle works as a music producer.
- Available mortgage payment of \$2,000
- Monthly debt obligations:
  - Child Support: \$500
  - Car payments: \$400

# ANSWERS

## Buyer # 1

### Dick & Jane Harper

- Does your buyer have a sufficient down payment?  
Yes –  $(\$300,000 \times 20\% = \$60,000) < \$75,000$  down payment
- What is the buyer's source of down payment? Does this effect your willingness to provide a loan?  
Down payment from sale of condo, no concern
- Does your buyer's mortgage payment exceed 28% of their gross monthly income? Does the buyer's source of future payments concern you?  
No –  $(\$12,500 \times 28\% = \$3,500) = \$3,000$   
Both have stable careers for over 10 years, no concern
- Does your buyer's total monthly debt obligation exceed 36% of their gross monthly income?  
No –  $(\$12,500 \times 36\% = \$4,500) = (\$3000 + \$800 + \$400 + \$300 = \$4,500)$

#### Provide Loan?

**YES**

## Buyer # 2

### Brooke Stoodent

- Does your buyer have a sufficient down payment?  
Yes –  $(\$175,000 \times 20\% = \$35,000) = \$35,000$  down payment
- What is the buyer's source of down payment? Does this effect your willingness to provide a loan?  
Down payment from grant, concern
- Does your buyer's mortgage payment exceed 28% of their gross monthly income? Does the buyer's source of future payments concern you?  
No –  $(\$4,000 \times 28\% = \$1,120) > \$1000$   
Has only had job for 6 months, some concern
- Does your buyer's total monthly debt obligation exceed 36% of their gross monthly income?  
Yes –  $(\$4,000 \times 36\% = \$1,440) < (\$1000 + \$350 + \$250 = \$1,600)$

#### Provide Loan?

**NO**

## Buyer # 3

### Mark Mcdreamy

- Does your buyer have a sufficient down payment?  
Yes –  $(\$600,000 \times 20\% = \$120,000) < \$150,000$  down payment
- What is the buyer's source of down payment? Does this effect your willingness to provide a loan?  
Down payment from savings, no concern
- Does your buyer's mortgage payment exceed 28% of their gross monthly income? Does the buyer's source of future payments concern you?  
No –  $(\$25,000 \times 28\% = \$7,000) > \$5,500$   
Works as a surgeon for over 5 years, no concern
- Does your buyer's total monthly debt obligation exceed 36% of their gross monthly income?  
No –  $(\$25,000 \times 36\% = \$9,000) > (\$5,500 + \$2,000 = \$7,500)$

#### Provide Loan?

**Maybe**

## Buyer # 4

### Bethany Spears & Kyle Federline

1. Does your buyer have a sufficient down payment?  
Yes –  $(\$250,000 \times 20\% = \$50,000) < \$70,000$  down payment
1. What is the buyer's source of down payment? Does this effect your willingness to provide a loan?  
Down payment from gift, concern
3. Does your buyer's mortgage payment exceed 28% of their gross monthly income? Does the buyer's source of future payments concern you?  
No –  $(\$10,000 \times 28\% = \$2,800) > \$2,000$   
Both have jobs that provide inconsistent income, concern
4. Does your buyer's total monthly debt obligation exceed 36% of their gross monthly income?  
No –  $(\$10,000 \times 36\% = \$3,600) > (\$2,000 + \$500 + \$400 = \$2,900)$

### Provide Loan?

Maybe

Q & A