FOUR FACTORS THAT SUPPORT A MORTGAGE

Understanding the four primary factors that are considered in every mortgage

A properly underwritten mortgage takes into account four main factors: income, credit, assets and home value. Like a chair with a missing leg, if one of these factors is not accounted for the mortgage may not stand. If one of these comes up short, the mortgage will not be solid. Therefore, to ensure a smooth mortgage experience, clients should understand each of these factors so they can be prepared when they begin the process.

Clients should have income and asset documentation readily available when they start their application. The credit information will be obtained through the credit report and reviewed with the client. The appraisal will be obtained through an independent appraiser.

INCOME

This factor measures the client's income, be it from a salary, commission, stock dividends, or any other dependable source. The client will need to show proof of income and provide evidence that the income will be ongoing for the foreseeable future. Two ratios are evaluated to compare debt to income. The first is the front ratio (principal, interest, taxes, insurance and homeowner's association fees, if applicable) that generally should not exceed 28% of gross monthly income.

The second is the back ratio that includes the housing payment plus the monthly payment of all additional debt and generally should not exceed 36% of gross monthly income. Income must be verified by two years W-2s, current pay stubs (in some cases 6 months), employment contracts, and sometimes 2 years complete, signed tax returns.

CREDIT

Both a client's credit history and score are used to evaluate their credit. Past performance indicates future performance, so a lender wants to know how well an applicant has handled like types of debt in the past. Past delinquencies, debt ratios (credit usage to available credit), average age of credit usage, mix of credit, and number of inquiries determine a credit score. Currently, scores over 740 provide the best interest rates. Knowing one's score and monitoring one's credit are critical to managing one's finances.

ASSETS

A client's assets include all cash funds, investments, real estate and other property. Liquid reserves are important in the evaluation of a mortgage loan. Depending upon the loan and property type, generally liquid reserves from either 6 months to 18 months of mortgage payments or 10% to 20% of the loan amount are required to approve a mortgage loan.

HOME VALUE

The value of the property being purchased is obviously important because the lender needs to make sure that the money being lent corresponds to a home's value. This is determined through an appraisal by an independent appraisal company. Recently home values have decreased from 10% to over 50% throughout the country.

Although Raymond James Bank attempts to meet our clients' mortgage needs, some mortgage programs are very limited if available at all in some locales and for some property types. Federal laws have been enacted to further remove the lender from the appraiser to preclude the influence or perceived influence over an appraisal. The new legislation seeks to support an appraisal's goal of an independent reflection of a home's market value, to which Raymond James Bank has always subscribed. The appraised value is the basis on which a loan is considered.

TALK WITH A MORTGAGE CONSULTANT

For more details on these factors or other mortgage related questions, please call Raymond James Bank's toll-free at 888.457.5626. A Mortgage Consultant will be happy to assist.

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