



# Chicagoland2to4Flats.info

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## Mortgage 101 (Buying Your First 2- to 4-Flat)

We all know about predatory lending and subprime loans. How bad did it get? Picture an adjustable-rate loan with a 6-month 'teaser' rate and then rates that have virtually no cap on how high they could go. Buyers were approved based on the low 'teaser' rate – with no hope of making the adjusted payment. The good news: predatory loans have now been effectively outlawed; the bad news: fewer options exist right now, particularly for non-owner occupied.

### 1. Your Pre-Approval

You and I both need to know what you can afford BEFORE we begin to shop..

<b>Credit Score.</b> Most lenders regard a credit score (called a FICO) above 750 as good – and anything below 700 as a problem. Talk with your lender about what your score is—and potentially how to improve it.	<b>Documented vs. Stated Income.</b> Many people (like realtors) are in jobs that don't have a regular paycheck. In the past such borrowers just went 'Stated Income' and had no problem. Right now Stated Income is not so readily available..	<b>Debt / Income Ratios.</b> A PITI/PITA max of 28% of income without considering other debt or 36% when all other debt payments are added used to be the standard limit, but now you'll find more flexibility often exists.
<b>Conforming.</b> Unless theirs is a jumbo purchase, people with at least 5% down and good credit typically apply for what is called a 'conforming' loan (it conforms to Fannie May / Freddie Mac standards).	<b>FHA.</b> 'Modernized FHA' is the replacement for subprime loans—and, by all counts, a big improvement. Anyone who doesn't qualify for a 'conforming' loan will want to investigate this.	<b>Jumbo.</b> For loans too large to meet 'conforming' guidelines, lenders have 'jumbo' loans. The interest rate may be higher, but typically the down payment requirements stay the same.

### 2. Down Payment / loan programs

Choices	NOTES
<b>3.5% down FHA.</b> FHA loans have replaced subprime lending and are a GREAT option for owner-occupied 2-flats, but they have severe restrictions when it comes to 3-4 flats or non-owner occupied. What this means is that right now FHA only helps owner-occupied 2-flat buyers...	
<b>80 / 10 / 10.</b> Here the first mortgage is 80% and the down payment is just 10%; you avoid PMI by also taking out a <u>2<sup>nd</sup> mortgage</u> for 10%. This USED to be available for 2-flats but right now is NOT an available option; we do expect 80/10/10 to return for owner-occupied properties when normal lending conditions are restored.	
<b>20-25% down.</b> With 20-25% down, there's no PMI, but this is NOT an option many first-time buyers have the resources for!	
<b>Commercial loan.</b> Right now an option some non-owner occupied investors have chosen is to work with a COMMERCIAL bank to fund the deal. Most investors would prefer residential financing, but that in many cases simply isn't available.	

### 3. Closing Costs / Earnest money

- **Earnest Money.** \$1,000 typically goes with the opening offer. An increase to 2% is typically the minimum sellers will accept, 3% is normal, and it may be as high as 5%. Whatever it is, it will count toward your down payment and closing costs.
- **Seller Assistance on Down Payment.** Here you roll closing costs, which are about 2%, into your mortgage. It really isn't a gift from the seller—as it will cost you more because your mortgage is higher and can only happen when all the factors (including the appraisal) line up.



*Guaranteed Rate, the Midwest's largest independent residential mortgage lender, is the lending partner of Chicagoland2to4Flats.info—with expertise in the 2- to 4-flat market, a wide range of products, the ability to help you pick the right loan, and both an In-house Underwriting staff for quick turnaround times and onsite Closing and Funding Departments for easier closing.*

**BRIAN WEIS is our contact at Guaranteed Rate. His direct phone is 773-290-0591.**

*Guaranteed Rate is an Illinois licensed Mortgage lender located at 3940 N Ravenswood, Chicago, IL 60613.*