

# the Mortgage Bulletin

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## Movin'on up?

Back in the good old days (or bad old days, depending on your point of view), lending guidelines were much more relaxed than they are today. Guidelines surrounding a move up purchase transaction are a prime example.

The difference between then and now is how lenders treat the monthly payments (PITI) on the "departure residence" if it won't be sold and closed prior to closing on the new purchase.

In the past, it was possible to get a rental survey (by an appraiser) to establish the monthly market rent for the buyer's present home. Lenders would then take 75% of that amount and apply it against the PITI.

If the result was a negative figure, it was treated as a monthly payment when computing debt to income ratios.

For example, assume the buyer's present PITI is \$3,000 per month, and the rent survey shows \$3,000 per month. 75% of \$3,000 is \$2,250, so the negative figure is \$750. In computing ratios, the buyer was hit with \$750 per month.

That was then. Today it is different. Although lender guidelines can differ, following are typical guidelines for move up buyers.

Today's borrower in the above example would be hit with the whole \$3,000, and that of course makes a huge difference in the debt to income ratio and thus what the buyer can borrow on a purchase.

If the buyer's present residence is under contract to be sold, the entire PITI can be excluded from ratios -- if there are either no financing contingencies or all financing contingencies have been removed. Provided, of course, all other guidelines are met.

It is possible to deduct rental income on the departure residence from PITI if: the buyer

has 30% or more equity in his present home and some guidelines require two years history managing investment property. A fully executed lease agreement is needed, plus a receipt for the security deposit from the tenant and supporting documentation of deposit into buyer's account. Credit can then be given for 75% of the monthly lease payments.

Precious few buyers meet the requirement for two years history managing investment property. And producing documentation for the tenant as outlined above could be extremely challenging considering the timing involved.

Obviously these new guidelines can severely restrict the move up buyer. And move up buyers are critical to a vibrant real estate market.

We haven't seen offers contingent on buyers selling their home for a very long time, but that's one way for move up buyers to move up.

Whether sellers are willing to accept contingent offers is a big question. Most won't want to but some might.

Two other things bear consideration.

One: see if a refinance of the departure residence could reduce monthly payment enough to make the ratios work. This should be fully explored.

Two: although inconvenient and perhaps unsettling, buyers could sell their present home, put their belongings in storage and rent until they find a new home to buy. The broader purchase choices this gives buyers may be worth the inconvenience.

Given current guidelines, move up buyers should contact their Mortgage Consultant when they first think about moving up. And develop a strategy that makes sense.



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