

RATES, SELLER PAID BUYDOWNS & PMI BUYOUTS

How to structure a loan to save a
borrower thousands of dollars

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LENDING**
THE WOODLANDS

FIRST THINGS FIRST

This presentation is intended to give you general information about how interest rates, points and mortgage insurance buyouts can work to benefit a borrower. We also demonstrate how using seller assist can leverage those efforts and be more effective than a price reduction.

Each borrower is unique and the programs & rates they can qualify for can impact whether they can utilize a full seller assist to benefit their financing to the extent you will see in this presentation.

Always refer to your lender to get specific details on what might work for your client.



OUTLINE

- How Rates Work & Who Sets Them
- Rate Influencers
- What Points Are
- A Real Rate Sheet
- Mortgage Insurance Rate Cards
- Seller Buydowns
- Seller Assist Limits

TEMPERATURE CHECK!

WHO SETS RATES ON:
CONVENTIONAL LOANS
FHA LOANS
VA LOANS

HOW RATES WORK

Mortgage rates are determined by **INVESTORS**. They look at the overall profile of a loan and decide what they see as a fair return.

Mortgages are packaged into bundles of investment opportunities that are known as **MORTGAGE BACKED SECURITIES**. These bundles are created with loans of similar characteristics and typically sold in mass quantity to investment banks.

Note, not ALL lenders will sell their loans off, these are called portfolio lenders.

Government backed loans are insured, but come with no ties to offering any particular rate, meaning they are still open to investor appetite.





SO WHAT DOES THE FED RATE DO?



The Fed Funds Rate is the **OVERNIGHT RATE AT WHICH BANKS LEND TO EACHOTHER.**

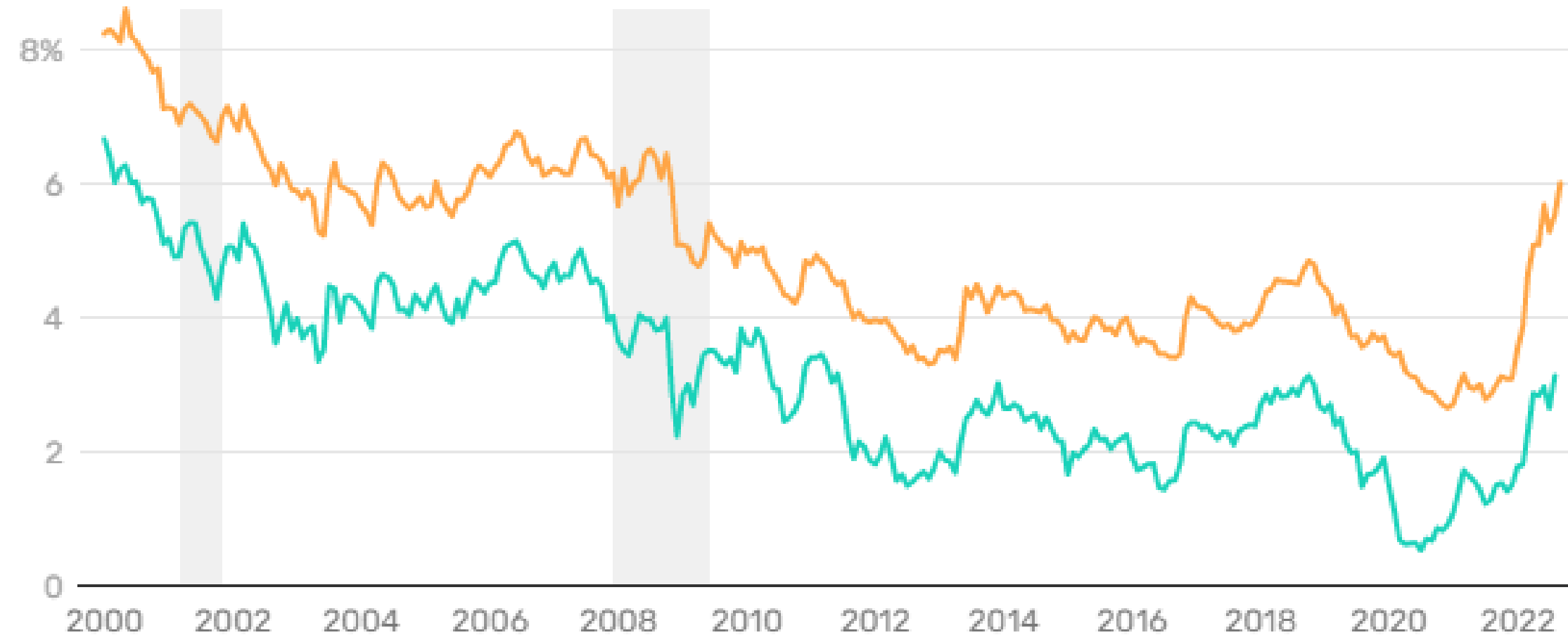
It's a tool the Federal Reserve uses to control the supply of available funds and hence, inflation and other interest rates. Raising the rate makes it more expensive to borrow. That lowers the supply of available money, which increases the short-term interest rates and helps keep inflation in check. Lowering the rate has the opposite effect, bringing short-term interest rates down.

MORTGAGE RATES & TREASURY YIELDS

Fixed Mortgage Rates vs. Treasury Yields

Fixed mortgage rates and Treasury yields tend to move together because fixed-income investors compare the returns they can get on government and mortgage-backed securities.

— 10-year Treasury yield — 30-year fixed rate mortgage



Source: [St. Louis Fed](#)

Chart: The Balance • [Get the data](#) • [Add this chart to your site](#)

the balance

So how exactly do Treasury yields affect interest rates? Investors who want a steady and safe return compare the interest rates of all fixed-income products. They compare yields on short-term Treasuries to [certificates of deposit \(CDs\)](#) and [money market funds](#). They compare yields on long-term Treasuries to mortgage-backed securities and corporate bonds. All bond [yields](#) are affected by Treasury yields because they compete for the same type of investor.

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TYPES OF LENDERS, THEIR RATE BASIS AND WHAT IS GOOD & BAD ABOUT EACH?

BANKERS & BROKERS: INVESTORS

PORTFOLIO LENDERS: THEIR BOARD/SHAREHOLDERS

CREDIT UNIONS: THEIR BOARD/MEMBERS

RATE & PMI INFLUENCERS

- | | |
|------------------|---------------|
| 1 Credit Score | 8 Loan Term |
| 2 Downpayment | 9 Lock Term |
| 3 Loan Amount | 10 Debt Ratio |
| 4 Property Type | 12 Reserves |
| 5 Loan Type | 13 Doc Type |
| 6 1st Time Buyer | 14 Occupancy |
| 7 Location | 15 Escrows |



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TEST TIME!

- *What does moving the Fed Funds rate do to mortgage rates?*
- *Who determines interest rates?*
- *Name 5 influencers on interest rates & PMI*

Selected Product: **CONF 30 (Retained Servicing)**
[Select as the Active Product](#) [What is this?](#)

Loan Amount: \$400,000.00

LO Comp:

Rate	08/19/2022	09/06/2022	09/19/2022	10/03/2022
4.250	4.294	4.444	4.694	4.844
4.375	3.746	3.896	4.146	4.296
4.500	3.250	3.400	3.650	3.800
4.625	3.065	3.215	3.465	3.615
4.750	2.492	2.642	2.892	3.042
4.875	2.050	2.200	2.450	2.600
5.000	1.698	1.848	2.098	2.248
5.125	2.035	2.185	2.435	2.585
5.250	1.543	1.693	1.943	2.093
5.375	1.160	1.310	1.560	1.710
5.500	0.799	0.949	1.199	1.349
5.625	1.216	1.366	1.616	1.766
5.750	0.770	0.920	1.170	1.320
5.875	0.449	0.599	0.849	0.999
6.000	0.177	0.327	0.577	0.727
6.125	-0.052	0.098	0.348	0.498
6.250	0.200	0.350	0.600	0.750
6.375	-0.062	0.088	0.338	0.488
6.500	-0.314	-0.164	0.086	0.236
6.625	-0.553	-0.403	-0.153	-0.003

Click on a price to select for locking.
Pricing is based on settings for the Loan Originator (Bersani , Sonya).

Pricing Adjustments				
Description	Price Adj	Rate Adj	Margin Adj	Max Price
LTV 75.01-80%, FICO >=740	0.500	0.000	0.000	100
Conf 30 State adjustment - TX	-0.180	0.000	0.000	100
Conf 30 Loan Amount \$360,001-\$647200	-0.040	0.000	0.000	100

A REAL RATE SHEET

Start with your lock term, then go to the rate that is the closest to zero cost. This would be considered your "Par" rate.

Example: 6.5% on a 30 day lock would be -.164% which is a credit to the buyer. On a \$400k loan, thats a credit to closing costs of \$656.

Consider lower rates and the cost of those rates to determine if the return on investment makes sense to the client respective of their anticipated time in the home.

Example: 4.875% would cost 2.2% or \$8,800 on a \$400k loan. The P&I savings between 6.5% and 4.875% would be \$412 a month. The return of the initial investment of \$8,800 would be 21 months.



SO WHAT ARE POINTS?

Points are PRICETAGS. Generally, they are an optional expense that a borrower can pay to BUY themselves a lower rate than what an investor would offer as a PAR/FAIR rate of return (0 point)

- 1 point is 1% of the loan amount
- Points are paid AT closing
- Points are considered in the total origination cost
- Sometimes points are unavoidable, especially on niche program and or where lower credit scores exist.



WHAT IS AN APR AND HOW IS IT CALCULATED?

- An annual percentage rate (APR) is the COST OF BORROWING money.
- It combines the interest rate and all costs associated with the financing to include PMI. It's then spread out to represent a percentage of what you would pay back every year.
- Your NOTE RATE is what determines how much your monthly payment will be, not your APR.
- The SPREAD between a note rate and an APR is demonstrative of the cost of a particular loan.



HOW TO CALCULATE THE ROI ON POINTS

*UPFRONT COST DIVIDED BY THE MONTHLY SAVINGS
FROM THE RATE WITH LESS OR NO COST*

- EXAMPLE
- \$600,000 LOAN
 - TODAY 6.5% WOULD BE ZERO POINTS OR NO COST. (\$3793 P&I)
 - 5.5% IS FOR AVAILABLE TO BUY FOR 1.5% IN POINTS OR 1.5% OF THE LOAN AMOUNT WHICH IS \$9,000 IN UPFRONT COST. (\$3406 P&I)
 - SAVINGS BETWEEN THE RATES IS \$387.
 - $\$9,000 / \$387 =$ A 23 MONTH RETURN

MATH TIME!

**IT'S TIME TO
QUOTE A CLIENT!**



"Always remember, you can get any rate you want with any lender, it's just a matter of what you are or are not paying for it"

"The true cost of a loan is the difference between the RATE and the APR. The spread is what you are shopping"

"The RATE is always there.. it's the cost of the rate that changes day to day"

"Every \$1k you do or do not borrow will change your monthly payment between \$6-\$7 a month"

-Sonya Bersani

TEST TIME!

- *How much would one point be on \$500k loan?*
- *What is considered in an APR calculation?*
- *You can get any rate you want with any lender..
it's just a matter of _____.*

MORTGAGE INSURANCE

MONTHLY PREMIUMS

GENERALLY MAKE MORE SENSE WITH LESS THAN 10% DOWN, UNLESS CREDIT IS OVER A 760.

How to Calculate

Loan Amount X Factor / 12 = Monthly MI

Example:

\$400,000 Loan X .78% = \$3,210

\$3,210 / 12 = \$260 / Month

BPMI

Borrower-Paid **Monthly** Premiums

MGIC

Effective date: July 9, 2018

Purchase & rate/term refinance (See Adjustments below for other eligible loan types)

Amortization term > 20 years | Non-refundable

Fixed (FIXED PAYMENTS FOR ≥ 5 YEARS)*

LTV	Coverage	760+	740-759	720-739	700-719	680-699	660-679	640-659	620-639
97% -95.01%	35%	.58%	.70%	.87%	.99%	1.21%	1.54%	1.65%	1.86%
	25	.46	.58	.70	.79	.98	1.23	1.31	1.50
	18	.39	.51	.61	.68	.85	1.05	1.17	1.27
95% -90.01%	30	.38	.53	.66	.78	.96	1.28	1.33	1.42
	25	.34	.48	.59	.68	.87	1.11	1.19	1.25
	16	.30	.40	.48	.58	.72	.95	1.04	1.13
90% -85.01%	25	.28	.38	.46	.55	.65	.90	.91	.94
	12	.22	.27	.32	.39	.46	.62	.65	.73
85% & Below	12	.19	.20	.23	.25	.28	.38	.40	.44
	6	.17	.19	.22	.24	.27	.37	.39	.42

Adjustments

		760+	740-759	720-739	700-719	680-699	660-679	640-659	620-639
Second Homes		+.12	+.13	+.14	+.17	+.20	+.35	+.40	+.45
Employee Relocation Loans		-.02	-.04	-.04	-.07	-.07	-.10	-.12	-.12
Manufactured Homes		+.18	+.20	+.20	+.25	+.30	+.50	+.55	+.60
3- to 4-Unit Properties		+.34	+.38	+.38	+.47	+.50	+.57	+.65	+.75
Lender-Paid Monthly Premium		+.04	+.06	+.08	+.11	+.13	+.19	+.21	+.23
Declining Renewals (Borrower-Paid Only)		+.02	+.03	+.03	+.04	+.04	+.05	+.07	+.07
Annual Premium (Refundable)		-.02	-.03	-.03	-.04	-.04	-.05	-.07	-.07
Refundable Monthly Premium		+.01	+.01	+.01	+.02	+.02	+.03	+.03	+.03
> 45% DTI	95.01%-97% LTV	+.10	+.14	+.17	+.21	+.26	+.35	+.37	+.38
	90.01%-95% LTV	+.09	+.11	+.14	+.18	+.23	+.27	+.29	+.31
	85.01%-90% LTV	+.07	+.10	+.12	+.15	+.19	+.21	+.23	+.24
	85% LTV & Below	+.03	+.04	+.05	+.05	+.07	+.09	+.09	+.09
≥ 2 Borrowers	95.01%-97% LTV	-.13	-.13	-.13	-.13	-.14	-.15	-.16	-.18
	90.01%-95% LTV	-.09	-.09	-.09	-.10	-.11	-.12	-.14	-.16
	85.01%-90% LTV	-.07	-.07	-.07	-.07	-.08	-.09	-.09	-.10
	85% LTV & Below	-.03	-.03	-.03	-.03	-.03	-.03	-.03	-.04

Rates and adjustments are subject to state regulatory approval and are subject to change. Additional rates may also be available. For questions regarding state approvals and additional rates, please contact your MGIC representative.

MORTGAGE INSURANCE

UPFRONT PREMIUMS

GENERALLY MAKE MORE SENSE 10% AND AT LEAST A 700 CREDIT SCORE.
UPFRONT PREMIUMS CAN BE FINANCED INTO THE LOAN OR PAID
UPFRONT AT CLOSING.

How to Calculate

Loan Amount X Factor = Upfront MI

Example:

\$400,000 Loan X 1.16% = \$4,640

BPMI

Effective date: July 9, 2018

Borrower-Paid **Single** Premiums

Non-Refundable

MGIC

Purchase & rate/term refinance (See Adjustments below for other eligible loan types)

Amortization term > 20 years

Fixed (FIXED PAYMENTS FOR ≥ 5 YEARS)*

LTV	Coverage	760+	740-759	720-739	700-719	680-699	660-679	640-659	620-639
97% -95.01%	35%	1.58%	2.19%	2.75%	3.18%	3.68%	4.65%	4.93%	5.96%
	25	1.36	1.88	2.31	2.65	3.06	3.86	4.10	4.95
	18	1.15	1.69	1.77	2.25	2.55	2.93	3.11	3.75
95% -90.01%	30	1.22	1.73	2.16	2.52	2.92	3.69	3.91	4.72
	25	1.20	1.59	2.11	2.41	2.79	3.52	3.74	4.51
	16	.96	1.26	1.65	1.81	1.98	2.27	2.41	2.91
90% -85.01%	25	.87	1.16	1.48	1.75	1.99	2.50	2.65	3.20
	12	.59	.74	.89	1.05	1.20	1.50	1.59	1.92
85% & Below	12	.47	.54	.64	.71	.85	1.00	1.06	1.27
	6	.43	.50	.59	.65	.78	.91	.96	1.16

Adjustments		760+	740-759	720-739	700-719	680-699	660-679	640-659	620-639
Second Homes		+.36	+.39	+.49	+.60	+.70	+1.23	+1.27	+1.35
Employee Relocation Loans		-.10	-.10	-.14	-.25	-.25	-.35	-.35	-.35
Manufactured Homes		+.54	+.60	+.70	+.85	+1.05	+1.50	+1.65	+1.80
3- to 4-Unit Properties		+1.02	+1.19	+1.33	+1.50	+1.75	+1.90	+2.00	+2.63
> 45% DTI	95.01%-97% LTV	+.38	+.62	+.76	+1.06	+1.24	+1.42	+1.60	+1.82
	90.01%-95% LTV	+.35	+.44	+.57	+.72	+1.00	+1.23	+1.27	+1.53
	85.01%-90% LTV	+.28	+.39	+.50	+.62	+.75	+.89	+1.01	+1.25
	85% LTV & Below	+.11	+.17	+.22	+.30	+.38	+.42	+.44	+.49
≥ 2 Borrowers	95.01%-97% LTV	-.18	-.20	-.20	-.20	-.21	-.22	-.23	-.27
	90.01%-95% LTV	-.14	-.14	-.14	-.16	-.16	-.17	-.19	-.25
	85.01%-90% LTV	-.10	-.10	-.10	-.10	-.11	-.11	-.12	-.15
	85% LTV & Below	-.03	-.03	-.03	-.03	-.04	-.04	-.04	-.04

Rates and adjustments are subject to state regulatory approval and are subject to change. Additional rates may also be available. For questions regarding state approvals and additional rates, please contact your MGIC representative.

SELLER PAID BUYDOWNS VS. PRICE REDUCTION

Example considers a sales price of \$500,000, client with a 760 Fico purchasing a primary single family home with debt ratios at or below 45% on a conventional 30 year fixed rate loan with 10% down.

	No Reduction	3% Price Reduction	No Reduction, 2% Buydown on Rate	No Reduction, 2% Buydown on Rate 1% MI Buyout
Purchase Price	\$500,000	\$485,000	\$500,000	\$500,000
Interest Rate	6.5%	6.5%	5%	5%
Monthly P&I & PMI	\$2949	\$2859 (\$90 savings)	\$2521 (\$428 savings from list)	\$2415 (\$534 savings from list or \$444 from same net to seller)
Buyer Principle In 7 Yrs	\$406,873	\$394,045 + \$7,560 in monthly savings	\$394,985 + \$36k in monthly savings	\$394,985 + \$45k in monthly savings
Seller Net Proceeds	\$500,000	\$485,000	\$490,000	\$485,000

SELLER ASSIST LIMITS

Conventional Financing < \$832,750

Primary & Second Homes:

- 5% Down: 3% Seller Assist
- 10% Down: 6% Seller Assist
- 25%+ Down: 9% Seller Assist

Investment Properties < \$726,200

- 2% Maximum Seller Assist regardless of downpayment

Jumbo Financing >\$832,750

- Always refer to the lender

FHA Financing

- 6% Maximum Seller Assist regardless of downpayment

VA Financing

- ALL customary closing costs, prepaids & escrows CAN be covered AND up to 4% in concessions are permitted.



Seller Assist can never exceed actual costs to include closing costs, prepaids & escrows.

THANK YOU!

★★★★★
REVIEW US!

THE TOP TEN MYTHS ABOUT VA FINANCING

HELPING OUR VETERANS REALIZE THE AMERICAN
DREAM OF HOMEOWNERSHIP

Sonya Bersani
CE Provider #10623
Course #46960

CLOSING DISCLOSURES, LOAN ESTIMATES & FEES WORKSHEETS

LEARN HOW TO READ, UNDERSTAND, EXPLAIN AND COMPARE
ALL OF THE CRITICAL ESTIMATES A BUYER RECEIVES
THROUGH THE PROCESS

Sonya Bersani CE Provider #10623
Course# 46010

THE NEW AGENT MORTGAGE CRASH COURSE

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2 Hour CE Approved Course

EXPATS, FOREIGN NATIONALS, VISA TYPES, DACA & MORE

UNDERSTANDING HOW RESIDENCY IMPACTS
LENDING IN THE UNITED STATES

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