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## How Much House Can You Afford?

### Debt-to-Income Ratios

To determine your maximum mortgage amount, LUXMAC® Home Mortgage uses guidelines called debt-to-income ratios. This is simply the percentage of your monthly gross income (before taxes) that is used to pay your monthly debts. Because there are two calculations, there is a "front" ratio and a "back" ratio and they are generally written in the following format: 33/38.

The front ratio is the percentage of your monthly gross income (before taxes) that is used to pay your housing costs, including principal, interest, taxes, insurance, mortgage insurance (when applicable) and homeowners association fees (when applicable). The back ratio is the same thing, only it also includes your monthly consumer debt. Consumer debt can be car payments, credit card debt, installment loans, and similar related expenses. Auto or life insurance is not considered a debt.

A common guideline for debt-to-income ratios is 33/38. A borrower's housing costs consume thirty-three percent of their monthly income. Add their monthly consumer debt to the housing costs, and it should take no more than thirty-eight percent of their monthly income to meet those obligations.

The guidelines are just guidelines and they are flexible. If you make a small down payment, the guidelines are more rigid. If you have marginal credit, the guidelines are more rigid. If you make a larger down payment or have sterling credit, the guidelines are less rigid. The guidelines also vary according to loan program. FHA guidelines state that a 29/41 qualifying ratio is acceptable. VA guidelines do not have a front ratio at all, but the guideline for the back ratio is 41.

*Example:* If you make \$5000 a month, with 33/38 qualifying ratio guidelines, your maximum monthly housing cost should be around \$1650. Including your consumer debt, your monthly housing and credit expenditures should be around \$1900 as a maximum.

### Step One - Calculating Your Monthly Income

When a LUXMAC® Home Mortgage loan officer prequalifies you, he works backwards to figure your maximum mortgage amount. You can do the same thing. The first step is to determine your monthly income. It isn't quite as easy as it sounds because Lenders only count income they can document through paperwork.

If you are a salaried employee, and don't earn bonuses, it's easy. Get out your paycheck. If you get paid twice a month, multiply by two. If you are paid every two weeks, then you multiply by 26 (the number of pay periods in a year) and divide by twelve. Unless you're a teacher. Teachers don't always work year round and they have special rules.

If you are an hourly employee who works a straight forty hours a week and don't earn overtime income, then it's easy, too. Look at your paycheck, multiply your hourly rate by 40, multiply that total by 52, and then divide by twelve.

If you earn overtime, bonuses, or commissions -- it isn't as easy. Lenders don't give you credit for what you are currently earning. They average your income from those sources over the last two years, and then add that to your regular salary or hourly monthly income. If you want a shortcut that is usually close, get out your W2 forms for the last two years. Add them together and divide by twenty-four. That is your monthly income.



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If you are a teacher, a nurse, a seasonal employee, in construction, or earn only part-time income -- you can use that shortcut, too. Add the figures from your last two years W2', then divide by 24. It generally gets you close.

If you are self-employed or receive 1099 income, then you need a two-year track record. Lenders go by what you declare to the IRS as income, since that is documentable. Since some self-employed people overstate their expenses, this may understate your income. Look at the Schedule C of your tax returns for the last two years and the number at the bottom that says "profit" is your annual income. You can add any depreciation to that figure. Add them together and divide by twenty-four.

There are variations and exceptions like those who own their own corporations. At LUXMAC® Home Mortgage we perform a common sense review of your loan. We call it high-touch underwriting because we allow compensating factors to determine the outcome of your loans.

### Step Two - Working Backward

Once you have calculated your monthly income, multiply it by the back ratio for your particular loan. For generic purposes, it is fairly easy to work with thirty-eight. Take 38% of your monthly income or multiply it by .38. That tells you the maximum the lender wants you to spend on your housing costs and monthly consumer debt combined.

Now get out your bills and total them up to determine what you spend monthly on debt. Do not include your auto insurance or your utilities. Just creditors. For credit cards, use the minimum required monthly payment unless it is less than ten dollars. The rest should be fairly straightforward.

Deduct that amount from the total the lender wants you to spend on housing costs and consumer debt combined. Now you know the maximum the lender wants you to spend for housing costs, unless the figure is greater than 33% of your monthly income (there are exceptions, of course).

### Step Three - a Little Guesswork

The next step requires a little guesswork. If you have a vague idea of what price you might qualify for, you can estimate what your annual property taxes and homeowners insurance might cost. From there, you can easily calculate the monthly equivalent. Subtract those figures from your maximum monthly housing costs total.

If you are buying a condominium (or an area with HOA fees), subtract out an approximate figure to cover homeowners association fees. What you are left with is your maximum principal and interest payment.

### The Final Step...Almost

Now you have to go to a mortgage calculator and plug in some numbers. (We have one available at [www.LUXMACMORTGAGE.COM](http://WWW.LUXMACMORTGAGE.COM)) In the "payment" area, put the figure you just calculated. Plug in the current fixed interest rate. If you are putting less than twenty percent down, add a half percent to the rate to allow for charges you will pay for mortgage insurance.

Hit the calculate button and you should have your maximum mortgage amount. Add your down payment and you know your maximum purchase price.



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Maybe. You may have to do some fine-tuning to zero in on the exact figure. Plus, lenders know how to "stretch" a client a bit higher if they need it.

## Advice

If the figure is less than you expected (or need), we know programs that will help "boost" you higher in qualifying. LUXMAC® Home Mortgage is one of the most extensive Super Jumbo luxury mortgage product lines in the industry. We will match the most optimal program with any conceivable loan scenario. We have additional programs available for loans falling outside our traditional loan guidelines. Our Creative Team will review your loan prior to underwriting to determine what solution works best for your client. Our experienced staff will review and analyze your files to ensure they close. Submit your loan today to a Team that get's things done!

## Your Down Payment Affects Everything

### Your First Step towards Buying a Home

When preparing to buy a home, the first thing many homebuyers do is look at "homes for sale" ads in newspapers, magazines and listings on the internet. Some potential buyers read "how-to" articles like this one. The next thing you should do – before you call on an ad, before you talk to a Realtor, before you shop for interest rates – is look at your savings.

### Why?

Because determining how much money you have available for down payment and closing costs affects almost every aspect of buying a home – including how you write your purchase offer, the loan programs you qualify for, and shopping for interest rates.

### Writing Your Offer

Another reason you need to have a clue about your down payment is because it affects how you write your offer to purchase a home. Not only are you required to put your down payment information in the offer, but different loan programs have different rules which also affect how you write your offer.

If you are asking the seller to pay all or part of your closing costs, you have to be certain your loan program allows what you are asking.

Finally, your down payment also affects your ability to qualify for a loan. When you make a small down payment, you will have to conform more strictly to our underwriting guidelines. For larger down payments, we will tend to make allowances or exceptions to the rules.

## Conclusion

As you can see, the down payment affects every choice you make when you buy a home. Although you should look at ads, familiarize yourself with neighborhoods, learn about prices, and read as much as you can - when you get ready to take action – the first thing you should do is figure out how much money you have available for the purchase.



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## Documenting Your Assets – Verifying Your Down Payment

When buying a home, it is not enough to just "come up" with the money. With the exception of "no asset verification" loans, we need to verify where the money comes from. This is partially a quality control feature to protect against fraud, and partially an underwriting tool to determine your qualifications as a borrower.

If you can document the funds come from your personal savings, we will be more confident of your strength as a borrower. A savings history indicates a level of stability.

In addition, if you can verify you have additional assets that are not needed for the down payment, it is important to document those, too. Additional assets are "reserves" you can draw upon during times of trouble, such as unemployment, medical emergencies, and similar occurrences. Additional assets can also help to document that you have a history of saving money, which makes you a more dependable borrower.

It is extremely important to completely document the paper trail of any funds you use for down payment and closing costs. The sections that follow offer guidance on both verifying assets and documenting them as a source of your down payment.

### Checking, Savings, & Money Market Accounts

The quickest and easiest way to document funds in your bank account is to provide us with copies of your most recent bank statements. We will request two months bank statements, but in some cases we will ask for three.

Some lenders still send a "Verification of Deposit" to your bank in order to determine your current bank balances and average balance for the last two months. However, that is the old way of doing business and we prefer to have bank statements.

If the money you are using for the down payment and closing costs has been in the bank for the entire period covered by the bank statements, you're fine. These are known as "seasoned funds." However, if your statements show any large or unusual deposits we will ask you to explain them and document their source.

### Stocks, Bonds, Mutual Funds, etc.

Most of those who own stocks get a monthly or quarterly statement from their brokerage. You will need to supply statements for the most recent sixty or ninety days in order to document these assets.

Though it is rare nowadays, some people actually have stock certificates instead of having a brokerage account. When this is the situation, make copies of the certificates and provide those copies to your lender. You might also want to supply tax records to indicate you have owned these stocks for some time.

If part of your down payment will come from the sale of stocks and investments, you will need to keep all documentation that applies to the sale. Keep a copy of the check or wire used to deliver the funds to you, and a deposit receipt for wherever you deposit the funds. Provide these copies.



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## Gifts

Especially when buying a first home, some borrowers need help coming up with the down payment. Family members are often a good source of assistance. Mom, pop, grandparents, brothers, sister, aunts and uncles -- all are acceptable. Gifts from non-family members are generally not acceptable unless you can document a close past relationship. In other words, your friend or coworker is not generally acceptable.

If you do get help from family member, we require this to come in the form of a "gift." With rare exceptions, you are not allowed to borrow money to come up with your down payment.

We will supply you with a form called a "gift letter." The gift letter states the relationship between the parties, the address of the purchased property, the amount of the gift, and sometimes the source of the funds used to make the gift. The gift letter also clearly states that the funds are a gift and not required to be repaid. You and the person providing the gift will have to sign the letter.

The donor will have to also provide evidence that they have the ability to make the gift. This can be in the form of a bank or stock statement to show they have the funds available. You should also make a copy of the check used to make the gift and keep a copy of the deposit receipt when you deposit the gift funds into your bank account or escrow.

## 401K or Retirement Accounts

It is important to provide documentation about your retirement accounts or 401K programs because this is another asset you could draw upon as reserves in case of a problem. It is also another way to show you have a savings history. Just provide a copy of your most recent statement to your lender.

Many people use these accounts as a source of funds for their down payment, too. Some employers allow you to "cash out" a portion of the 401K and some allow you to borrow against it. Be sure to keep copies of all paperwork involving the transaction. If they cut you a check, be sure to make a photocopy of that, too, including any receipt for deposit into your personal bank account.

If you are borrowing against your 401K, some lenders will count this as an additional debt to go along with car payments, credit cards and other obligations. This may seem kind of silly because you are borrowing your own money, but from the lender's viewpoint it is still a monthly obligation that you must come up with and should be taken into account. If you are "tight" on your debt-to-income ratios in qualifying for a home loan, this could be an important consideration. It may affect whether you choose to cash out the account and pay any tax penalty, or simply borrow against it.

## Personal Property - Cars, Antiques, etc.

Personal property includes automobiles, vehicles, boats, furniture, collections, heirlooms, antiques, art, clothing, and practically everything you own except for real estate. The mortgage application asks you to estimate the value for these items.

The larger the loan amount, the more important it is for you to provide details on your personal property. This is because larger loans usually indicate larger incomes, and we check to see if your personal property matches your income. If it does not, this sends a "red flag" to the underwriter and they take a closer look at your application.



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You are not required to document the value of personal property unless you intend to sell them to come up with your down payment.

### **Selling Personal Property**

For those homebuyers who do sell personal property in order to come up with their down payment, the verification process can be arduous. We are much stricter about documenting this method of coming up with your source of funds.

Selling a car is perhaps the easiest to document. First, you need to photocopy the registration that shows you actually own the vehicle. You will have to provide a copy of the page in the "Blue Book" that shows your model and its value. Then you need to photocopy the bill of sale showing the transfer to another individual and a copy of the check used to purchase the vehicle. Do not get paid in cash because that makes it impossible to show you actually received the funds. Make a copy of the receipt when you deposit the funds into the bank.

Other types of personal property are more difficult because you have to show that you actually own the property and that it actually has the value that you sold it for. This is a little harder to do for most assets than it is for automobiles.

If you have records to show you purchased the property that would be helpful. You could also provide an old inventory that documents ownership. To determine value, you may have to contract with an independent appraiser or a specialist who has the knowledge for that particular type of property.

If you cannot document the item's value, the lender will not view the sale as an acceptable source of funds. Just like selling a car, you have to prove you own the item, make a copy of the bill of sale, copy the check used to purchase the item, and make a copy of your receipt when you deposit the funds into your bank.

### **Employers**

Some companies provide down payment assistance for their employees. They may feel that homeowners are more stable and reliable employees, or that providing down payment assistance fosters an environment of higher morale and loyalty to the firm. Just make copies of all the paperwork, including a copy of the check and the receipt when you deposit the funds into your personal bank account. It is important that these funds do not require repayment.

### **Savings Bonds**

If you have Savings Bonds, they are a financial asset, too. Since you hold the actual bonds in your possession, the easiest and best way to verify them for your mortgage lender is to make photocopies of them. If you choose to cash them in for down payment or closing costs, you should do this at your local bank. Be sure to keep copies of the paperwork the bank provides because that will establish the current value of the bonds and show that you received their cash value.

### **Borrowing to Come Up with a Down Payment**

For the most part, you aren't allowed to borrow to come up with your down payment. However, there is an exception. If the loan is secured against some asset, you can borrow the funds.



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For example, if you take out an equity line on your present house, you can use those funds to make the down payment on your next home. A lot of people do this when they intend to rent out their previous home. It also works in case you aren't certain of the housing market. Since equity lines are very inexpensive, it is a simple process to line one up before you put your own house on the market and begin looking for a new home. That would allow you to make a "non-contingent" offer, giving you more viability as a potential buyer.

As long as the loan is secured, you can borrow for your down payment. If you own a car free and clear, then get a loan from your credit union against the car that is an acceptable source of funds. If you have a stock portfolio and borrow against it, that is also an acceptable source of funds.

Of course, the payment on the loan is counted as one of your obligations when calculating your debt-to-income ratios.

A cash advance against your credit cards is not a secured loan. Therefore, it is not an acceptable source of funds. Neither is a signature loan from your credit union. Neither is a loan from your friend or family member. The loan must be secured against some asset you own.

## The Original Super Jumbo Loan People

Offering Super Jumbo Mortgage lending on 1-4 family residential properties nationwide. Our loans range from \$500,000 to \$40 Million. We understand the needs of the affluent borrower —whether it's a primary residence, second home or investment property. With such a large loan at stake, doesn't it make sense to talk to the super jumbo loan experts?

**After 28 years of financing luxury homes, our expertise is something you can bank on!**

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