Do NOT Make These Common Mistakes While in Escrow

Credit: https://www.trulia.com

1. **DO NOT give notice to your landlord.**

   The purchase of a BMR property is likely to take longer than the purchase of a market rate home. There are many parties involved in the process and many contingencies on a buyer's qualification. Do not give up your current housing until your purchase is a done deal.

2. **DO NOT leave town or delay communication.**

   Going on vacation or becoming hard to reach while in escrow is not a good idea. Your lender needs to be able to reach you quickly, and you will want to be around to submit any additional information they request to process your loan. Any glitches in that process can push back the closing date for your home.

   For the same reason, it's not a good idea to change your cell-phone number right now. It's best that you keep in touch with all necessary parties while you are working to close on the property. *Keep in mind that closing the purchase of a BMR unit cannot be done with a Power of Attorney. As a buyer, you must be present to sign the documents.*

3. **DO NOT change jobs or adjust your hours.**

   When you're looking to close escrow on a home, you don't want any changes to your financial situation, as that may invalidate your preapproval and/or make your lender uneasy. Changing jobs or becoming self-employed during this time period could lead that lender to question whether you'll be able to afford that home. Lenders prefer a steady and consistent job history. If you make a job switch or go on leave just before closing on a home, it could put everything on hold while your lender re-evaluates your financial position.

4. **DO NOT become a big spender.**

   You're about to get a new house, so why not whip out your credit cards and buy a new washer/dryer, dishwasher, and refrigerator? Or maybe even take out a loan for a new car for your new driveway? Because taking on more debt to make these big purchases will throw off what's called your "debt to income ratio," which measures how much of your monthly income goes toward debt obligations. The debt to income ratio is one of the primary data points for evaluating a loan application. Don't nix your chances of securing that mortgage before it goes through. And don't think you're off the hook if you lease a car instead of purchasing one! Leasing a new car at this time could jeopardize your standing with your lender as well.

   You might even run into trouble if you pay for new items with cash. Lenders look at how much cash reserves you have when approving a mortgage, so any big changes could create delays in the process. This includes liquating money to qualify for San Francisco's Downpayment Assistance Loan Program

(DALP). Paying off debt with your savings may be permitted by your mortgage lender, but it may jeopardize your ability to qualify for DALP.

Instead, try to keep the balances on your credit cards low, don't take on new debt, and limit big cash purchases until after you close on your home.

5. **DO NOT pay bills late.**

   If you're about to close on your home, stay current on your bills! You don't want to wreck your credit score just before your loan goes through. Lenders often run a credit check right before closing, and any changes to your credit status could affect the likelihood of closing on your new home. Keep your credit in tip top shape by making on-time payments.

6. **DO NOT open or close credit card accounts.**

   Opening up new credit cards and other lines of credit or closing old ones just before closing on your new home could negatively affect your credit status; so again, wait on making such moves until your mortgage is secure.

7. **DO NOT co-sign on anyone else's loan or credit card.**

   Now is not the time to help your partner or family member with their credit card or loan applications. Any new credit, including a co-signed account, has the potential to negatively impact your credit as well as your debt to income ratio. Don't jeopardize your chances, and hold off until after you close on your home.

8. **DO NOT move big amounts of money.**

   Before the transaction is complete, do not transfer large amounts into your checking or savings accounts. Check with your lender if you absolutely must transfer money or if you receive any large sums BEFORE making the transfer. If the lender sees unexpected money in your account, it may raise a red flag for them. For example, they may think you've secured another loan and have more debt obligations than you did when initially applying for the loan.

   If the lender sees money disappear from your account, you may not have enough cash reserves to close. Again, you don't want anything to delay or hold up your closing.

Things to Know About the Escrow Process

Be prepared to update financials

The Mayor's Office of Housing and Community Development and/or your lending institution will request updated documentation throughout the transaction. Please make sure you save all incoming bank statements, tax returns, pay stubs and any other financial documents you submitted with your application, and be prepared to provide them upon request.

There may be additional clarifying documentation requested by the Mayor's Office of Housing and Community Development or lending institution. Please provide this information as quickly as possible, even if it was not requested with the initial application.

Important forms

The 1003 mortgage application form is the industry standard form used by nearly all mortgage lenders in the United States. This basic form, or its equivalent, must be completed by a borrower to apply for a mortgage. While some lenders may use alternative forms or simply accept basic borrower information about identity, property type and value, the vast majority of lenders rely on the 1003 form.

Generally, the 1003 form is completed twice during a mortgage transaction: once during the initial application and once at closing to confirm the terms of the loan. Some lenders allow borrowers to complete the form at home, while others assist borrowers in person or over the phone. In either case, a potential borrower should understand the 1003 format and the information required before completing the form.

Form 1008 is a one page document used to summarize key information utilized in the comprehensive risk assessment of the mortgage and the final underwriting decision -- such as loan purpose, property type, proposed monthly payments, and debt ratio.

Loan Estimate Explainer

http://www.consumerfinance.gov/owning-a-home/loan-estimate/

A Loan Estimate tells you important details about a mortgage loan you have requested. Use this tool to review your Loan Estimate to make sure it reflects what you discussed with the lender. If something looks different from what you expected, ask why. Request multiple Loan Estimates from different lenders so you can compare and choose the loan that's right for you.
Read carefully and check details! Is your name spelled correctly? Do you have items in the Estimated Taxes, Insurance and Assessments that are not escrowed? Does your Estimated Total Monthly Payment match your expectations?

Closing Disclosure Explainer

http://www.consumerfinance.gov/owning-a-home/closing-disclosure/

Use this tool to double-check that all the details about your loan are correct on your Closing Disclosure. Lenders are required to provide your Closing Disclosure three business days before your scheduled closing. Use these days wisely—now is the time to resolve problems. If something looks different from what you expected, ask why. **Check details again!**

Additional Assistance for BMR Buyers

A buyer may be eligible for the following loan assistance programs. BMR buyers should ask their lenders to explore the following programs that work with BMR loans:

1. BMR-DALP (BMR Downpayment Assistance Loan Program) - A down payment assistance loan made possible by the California Department of Housing and Community Development (HCD) CalHome Mortgage Assistance Loan program for a loan amount of up-to $57,000 or 15% of the purchase price. This program is coordinated through the Mayor's Office of Housing and Community Development and made available to program and income qualified households with a household combined income not to exceed 80% of the State Area Median Income Table.

2. BMR-DALP-Plus (BMR-DALP-Plus Loan Program) - a down payment assistance loan program for a loan amount up to 15% of the BMR purchase price to qualified program and income BMR buyers with a household combined incomes ranging from 81% - 120% of the Area Median Income. The funding source for this program is made possible through the City and County of San Francisco's Housing Trust Fund. Lenders are advised to use the standard DALP loan application forms for to help a borrower apply for this program. Lenders are advised to use the standard DALP loan application. The BMR-DALP-Plus can be combined with the MCC program.

3. Mortgage Credit Certificate (MCC) – This State program allows first time homebuyers to deduct a portion of their monthly interest payments from their taxes, thereby lowering their monthly mortgage payment. This program is coordinated through the Mayor's Office of Housing and Community Development. To qualify to use an MCC with the purchase of a BMR home, the borrowers total household income must be between 81% and 120% AMI, and DIT ratio must be at least 33%.

4. WISH Program – The Workforce Initiative Subsidy for Homeownership (WISH) Program provides matching grants to qualified first-time homebuyers through Federal Home Loan Bank members. This program is coordinated through certain lenders.

For more information about BMR Ownership opportunities and additional assistance available, check out the website of the Mayor's Office of Housing and Community Development (MOHCD): http://sfmohcd.org. Other forms of downpayment assistance outside of MOHCD programs may be available to BMR buyers now and in the future. Ask your lender for suggestions!

Restrictions on BMR Units

Credit: http://sfmohcd.org

All BMR applicants should carefully review the current version of the City and County of San Francisco Affordable Housing Monitoring Procedures Manual to fully understand the restrictions on BMR units. The following information is for quick reference only.

- **Period of Restriction**: BMR units will be restricted in their resale price and other applicable restrictions for the life of the project unless otherwise noted in the planning approvals or other use restrictions for the project.

- **Re-Selling BMR Units:** A BMR owner is required to re-sell a BMR unit at a restricted price to a new qualified buyer through procedures established by MOHCD. Please review MOHCD's resale guidelines for process information.

- **Pricing BMR Units for Resale:** A BMR unit will be resold at a restricted affordable price to a household that meets the first-time homebuyer and income qualifications for the program and for the particular unit. New BMR units will be repriced according to change in the median income from the time of the current owner's purchase to the time of sale. Specific repricing methods vary by development per the Planning Approval and applicable Procedures Manual for each unit.

  The price of a BMR unit at resale is not guaranteed to exceed the initial purchase price of the unit. However, most long term BMR owners tend to see some appreciation on their units upon resale. Appreciation gained on a BMR unit upon resale belongs to the BMR owner minus all loans, closing costs, and any shared appreciation due from a City downpayment assistance loan.

- **Capital Improvements**: Owners may add eligible capital improvements and special assessments to their resale price only if the improvements are (1) eligible and (2) made after the unit is 10 years old.

- **Owner Occupancy**: BMR units are intended to be owner-occupied at all times and used as a principal residence for the duration of ownership.

- **Renting**: BMR units are intended to be owner-occupied and never used as investment property.

- **Title Changes**: A BMR owner cannot add or remove a person to or from the title of a BMR unit without permission from the Mayor's Office of Housing.

- **Refinancing BMR Units and Taking Cash Out:** In general, BMR owners may refinance their units only to take advantage of a new loan that benefits the owner financially (e.g. a lower rate or lower monthly payments). Owners must contact our office for prior approval of all refinancing and must work with an approved BMR lender.

- **Estate Planning:** Inheritance is limited in the case of the death of a BMR owner.

The Condominium HO-6 Insurance Policy

Credit: http://massrealestatelawblog.com

A HO-6 policy is like a regular homeowner's policy, but for a condominium unit, and with a lot more extras. HO-6 insurance policies cover the interior of the unit and personal property inside–commonly known as "studs in" or "walls in" coverage.

HO-6 Now Required By Lenders

Under the new Fannie Mae (FNMA) and FHA overhaul of condominium lending guidelines, lenders are now requiring HO-6 policies for new condo unit purchases. Sounds like common sense, but HO-6 policies weren't always required by lenders, and many condominium unit owners were under the mistaken impression that the master condominium insurance policy covered all damage to the interior of their unit as well as damage to furniture, appliances, etc. That isn't so. In most cases, that master insurance policy covers common areas such as the hallways, roof, basement, elevator, boiler, and common walkways, for both liability and physical damage–but not the inside of units.

Coverages

HO-6 policy benefits include:

- Coverage for damage to personal property such as furniture, computer equipment and clothing
- Fill in the gaps of the master insurance policy and cover losses under master policy deductibles
- Personal liability coverage
- Interior walls and floor coverings coverage
- Coverage for improvements or upgrades (most master insurance policies only cover the original condition and value of the unit).
- Usually has small deductible and fairly inexpensive

Under the new lending rules, an HO-6 insurance policy must provide coverage for no less than 20% of the condominium unit's appraised value.

High Deductible Protection

Another benefit of obtaining an HO-6 policy is that in certain situations, it will provide gap coverage caused by the often high deductibles on a master insurance policy. These days, condominium associations have been cutting costs by increasing their deductibles, anywhere from $10,000 to even $50,000. What's more, condominium documents often provide that the unit owner is responsible for losses falling below the deductible. A well-tailored HO-6 policy will protect you in this situation. Here is a good article about the tug-of-war on deductibles.

Loss Assessments

HO-6 policies can also provide coverage for assessments applied an individual unit due to a direct loss to the condominium. The loss must be a "peril" covered under the unit owner's individual policy, not be levied by a governmental agency, and not be related to earthquake damage. A standard condo policy typically includes up to $1,000 in loss assessment coverage. Additional coverage can be covered for a nominal amount.
The HO-6 policy is a must have for every condominium owner!