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# Navigating the Mortgage Maze

By Sally Baird, REALTOR®

As a REALTOR, I'm often asked questions about mortgages.

I contacted a few mortgage professionals here in the Bloomington area who were gracious enough to answer a few of the most common questions I hear from home buyers.

There are many different types of loan programs to choose from. Establishing a relationship with a quality loan officer is the first step in finding the best programs available for you. Following is the unabridged version of my questions, answered by Bloomington-area lenders.

**Q:** I often work with Indiana University faculty members and other professionals; does Old National offer any special mortgage programs for them?

**A:** Kevin Cade, Old National Mortgage: Our "Mortgages for Professionals" program is available to physicians, dentists, optometrists and college professors. It's unique in that it is available for both professionals who have established their careers in the communities they serve as well as those just completing their education and internships. Rates offered for these loans are lower than the conventional mortgage rates offered to other borrowers.

- The mortgage is a 100% loan, and does not require mortgage insurance.



## Meet the Mortgage Experts

### Kathy Bowman

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### Juli Harding

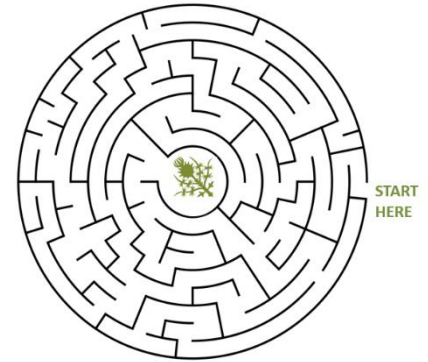
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- Qualified buyers can purchase and close on a property, prior to starting a new position with an employer (accepted employment contract required). Borrowers must meet the rules and regulations provided by conventional mortgage agencies of the Federal government (Freddie Mac, Fannie Mae).
- The minimum representative credit score required is 700, and maximum housing/income ratio required is 28%, and the maximum total loan obligations/income ratio cannot exceed 40%.
- Associate, Assistant, and Full Professors, who have completed their required schooling and are joining or currently employed by a college or university in a tenured-track or tenured position, are eligible.



**Q:** My client wants to buy a house, but it needs a lot of work. Can you help?

**A:** Heather Bozarth, German American Bank: We offer a fantastic renovation loan to help you turn a fixer-upper into your dream home. This is a two-loan process, which really benefits the buyer on a budget.

- The first loan is for 80% of the value that an appraiser thinks the home would be worth AFTER all your renovations are completed. Of course, to do this, we would need your plans, specs, and budget from the contractor of your choosing (no approved builder lists to worry about). This loan works more like a line of credit than a traditional mortgage.
- Let's say that once the house is renovated, it will be worth \$100,000. We would write you a line of credit for \$80,000. You pay interest only on the draws you take to buy the home and complete the work.
- When the house is fully renovated, the first loan is converted to a permanent mortgage. We refinance ONLY the amount you used into the permanent mortgage that makes sense for you. So if you only used \$75,000 of your \$80,000...your mortgage would only be for \$75,000.

**Q:** What are the top 3 types of mortgages that are popular with home buyers today?

**A:** Kathy Bowman, Ruoff Home Mortgage: I would say that the standard mortgage, also called a traditional or "conforming" loan, is one of our most popular. Home buyers have the option of a 5%, 10% or 20% down payment with a fixed mortgage rate. That means the payment stays the same throughout the life of the loan. Borrowers can choose either a 15-year or 30-year. If your down payment is less than 20%, you'll have to pay for Private Mortgage Insurance (PMI) – which protects the lender if you stop making payments on your loan. We also offer several lower down payment options, including:

- **Fannie 97** – this program is more like the standard conforming with only using a 3% down payment with cancellable monthly PMI, Credit score requirements apply
- **Home Ready** – this program is a 3% down program with Income restrictions, geographic restrictions at least one borrower must be a first time home buyer. Credit score requirements apply
- **Home Possible** – this program is a 3% down program with No Income restrictions or geographic restrictions, at least one borrower must be a first time home buyer. Credit score requirements apply
- **FHA** – The U.S. Government insures loans offered through the Federal Housing Administration, or FHA. Popular with first-time homebuyers, this program requires at least a 3.5% down payment, with monthly

and financed PM. You do not have to be a first time home buyer for this program and lower credit scores are allowed.

There are also two mortgage programs for home buyers with “zero” down payment. These include

- **Rural Housing** loan, for which geographic restrictions and household income restrictions apply
- **VA Loans** are designed for U.S. military veterans. Loan applicants must meet the basic service requirements set forth by the Department of Veterans Affairs and must obtain a VA certificate of Eligibility.

**Q:** I’m working with a couple that would like to build their dream home; what types of financing do you offer that may be appropriate?

**A:** **Kevin Cade, Old National Bank** : We offer a construction permanent mortgage, which is a onetime closing construction loan. Borrowers have up to 12 months to complete construction. Once the property is completed, the loan converts to monthly payments for a term the borrower chooses – such as 10-, 15-, 20-, or 30-year fixed-rate or adjustable rate mortgage, of which there are several. There is a minimum down payment of 10%, and equity if the borrower owns the lot, can be used as part of the down payment. The rates on this program are very competitive, and a construction specialist is assigned to each loan to ensure smooth administration of construction draws and updates. Borrowers can lock in their rate before construction begins, for BOTH the construction phase AND the permanent loan. This is a true advantage in a rising interest rate market like we have today. If rates fall during construction, the bank allows borrower’s to refinance, or do a rate modification at completion of the build. The rules and regulations for a conventional loan apply to this loan as well, and the credit score and ratio requirements are similar to the “Mortgage for Professionals” program. Old National allows principle reductions and re-amortization to lower the payments, at no charge to the borrowers.



**Q** In your experience, what’s one of the biggest snags in the loan approval process that buyers can avoid?

**A:** **Heather Bozarth, German American Bank**: The loans that I close the fastest are the loans where the buyer quickly responds. I’ve closed a loan in two weeks before because the buyer got me everything I asked for – the same day I asked for it. This won’t always be the case, but I find that in my line of work, it’s a lot of hurry up and wait. I always say that I am only as good as the buyer I am working with. Also...listen to your Realtor. They are the experts and know how to make the buying process easy!

**Q** When it comes to mortgages, how is your company different than a bank?

**A:** **Kathy Bowman, Ruoff Home Mortgage**: Our company is a family-owned, Indiana business; the only thing we do is mortgages. I think there are three key differences:

- **Service:** This is the #1 key to our success. We pride ourselves on delivering the best service in town with the best communication to all parties involved in the transaction. We are able to offer a more personalized experience tailored to specific needs/preference/timeline.
- **Seasoned loan officers:** to help educate the buyer(s) in choosing the best mortgage program for their needs and assisting them through the process from application to the day of closing.
- **Technology:** We have the best technology available when using our online application; **Loan Butler**, with the ability to upload all information needed for application to a secured website. Our high level of technology continues behind the scene enabling us to provide the best service, communication and fast turn times for loan approval.

**Q** Sometimes first-time buyers don't have enough money for the entire down payment. What can they do/what advice do you have for them?

**A:** **Kathy Bowman, Ruoff Home Mortgage:** When a buyer is short down payment funds, most programs do allow gift funds from a relative. The funds required will be the down payment, closing cost and pre-paid items (pre-paid items are the funds needed for one full year of homeowner's insurance and the setup of the escrow account to pay property taxes and homeowner's insurance that will be factored into the monthly mortgage payment) It's always a good idea to talk to a lender so you have an understanding of the amount of funds needed prior to making an offer. Often, you can request for the seller to cover some of your closing cost and pre-paid items when making the initial offer. This will help lower the amount of funds needed at closing.

**Q** What is the value of meeting with a lender – even if you know you're not quite ready?

**A:** **Juli Harding, Bailey and Wood Financial Group:** I would encourage all potential buyers (particularly first-time buyers) to speak with a lender as soon as they start thinking about purchasing a home. This accomplishes several things:

- Establishes a purchase price range for the buyer so they are looking for homes in a price range they can qualify for
- Establishes the loan program option(s) the buyer will qualify for and how much money (if any) they would need for closing, depending on the loan option
- Uncovers potential issues that the buyer can work to resolve. For example, Credit Karma is one of several very popular and very useful credit monitoring tools. However, they only monitor 2 of the 3 credit bureaus that the mortgage lender will obtain report/scoring information from. Also, the credit scoring models are different for consumer credit reports and mortgage credit reports so the scores they are seeing may not reflect what the mortgage lender will see when they pull their report.
- The mortgage professional can advise a specific action plan to fix credit problems/increase scores and a time frame for this to be effective.

I have spoken to many clients over the years who told me after our meeting that they were surprised to realize they could have purchased a home much earlier. More often than not it was fear they would hear "no" or embarrassment of past mistakes that kept them from pursuing their dream of home ownership. So the sooner you reach out to a mortgage lending professional the better...you will be one step closer to your dream!