The Mortgage Process and things to consider when buying a Home: Rent vs. Buy

Physician Mortgage (The Basics)

The Physician mortgage program is designed to making home ownership easy and affordable for recent medical school graduates heading into residency.

Program Basics:

- Up to 100% financing
- No Mortgage insurance required (NO PMI)
- Exclusion of Student Loan debt payments from the credit approval process
- Up to 6% seller paid closing cost and pre-paid costs are allowed
- Gift funds are allowed: No Limits
- Close 90-120 days prior to your start date
- No Cash Reserves requirements

STEP ONE (1)

Pre-Qualification:

Fill out basic information online.

Receive a Pre-Qualification Email and Letter within minutes.

Make a note: This is NOT a commitment to lend nor does this lock you into the loan.

Why is Pre-Qualification (PREQ) so critical?

What is the Value of the PREQ?

- Speed & efficiency - Know you are qualified within minutes
- Peace of Mind - Knowing you have been screened by a bank
- Confidence - To start looking for a home and make an offer
- Trust – That you are getting the guidance you need to make good decisions

The Four C's

- **Capacity:** How much payment can you afford?
- **Capital** / Cash Reserves: Do you have enough cash on hand?
- **Collateral:** Are you paying a fair price for you home?
- **Credit:** Do you pay your bills on time?

Pre-Qualified		Pre-Approved
• No obligation • Informal • Specific purchase price • Specific loan amount • Based on opinion of questionnaire answers	VS	• Formal commitment from lender • Specific purchase price • Specific loan amount • Based on facts verified by documentation

STEP TWO (2)

- Bank will send you an email with instructions on next steps
- You will make an offer on a home purchase
- Offer is accepted
- You will email the signed purchase agreement to the bank
- Bank will review and confirm the agreement and send a loan estimate and all disclosures electronically
- **You will Read and Sign all e-disclosures immediately to prevent delays. (Electronically) (This does NOT commit you to the loan…..but are required for the Bank to move forward)**

STEP Three (3)

Some of the documents you will need to provide prior to Full Approval:

- Evidence of acceptance into a residency program
  - Executed (Signed) employment agreement with your residency program
  - All Bank Statements, all pages (including blank pages) 2-months
  - Source of cash for closing costs
  - If Gifted funds (source of those funds)
  - We will assist in finding the most appropriate type of mortgage loan for you

STEP FOUR (4)

<u>Lender Verifies</u>:

- ✓ Credit Reports
- ✓ Your Financial Status
- ✓ Debt-to-Income Ratios
- ✓ Balances on all account statements
- ✓ Residency Enrollment (VOE) Verbal Verification of Employment
- ✓ Application accuracy
- ✓ Contract
- ✓ Sources of all funds for down payment and escrows
- ✓ Property Appraisal
- ✓ An underwriter will review the loan and submit for a final approval

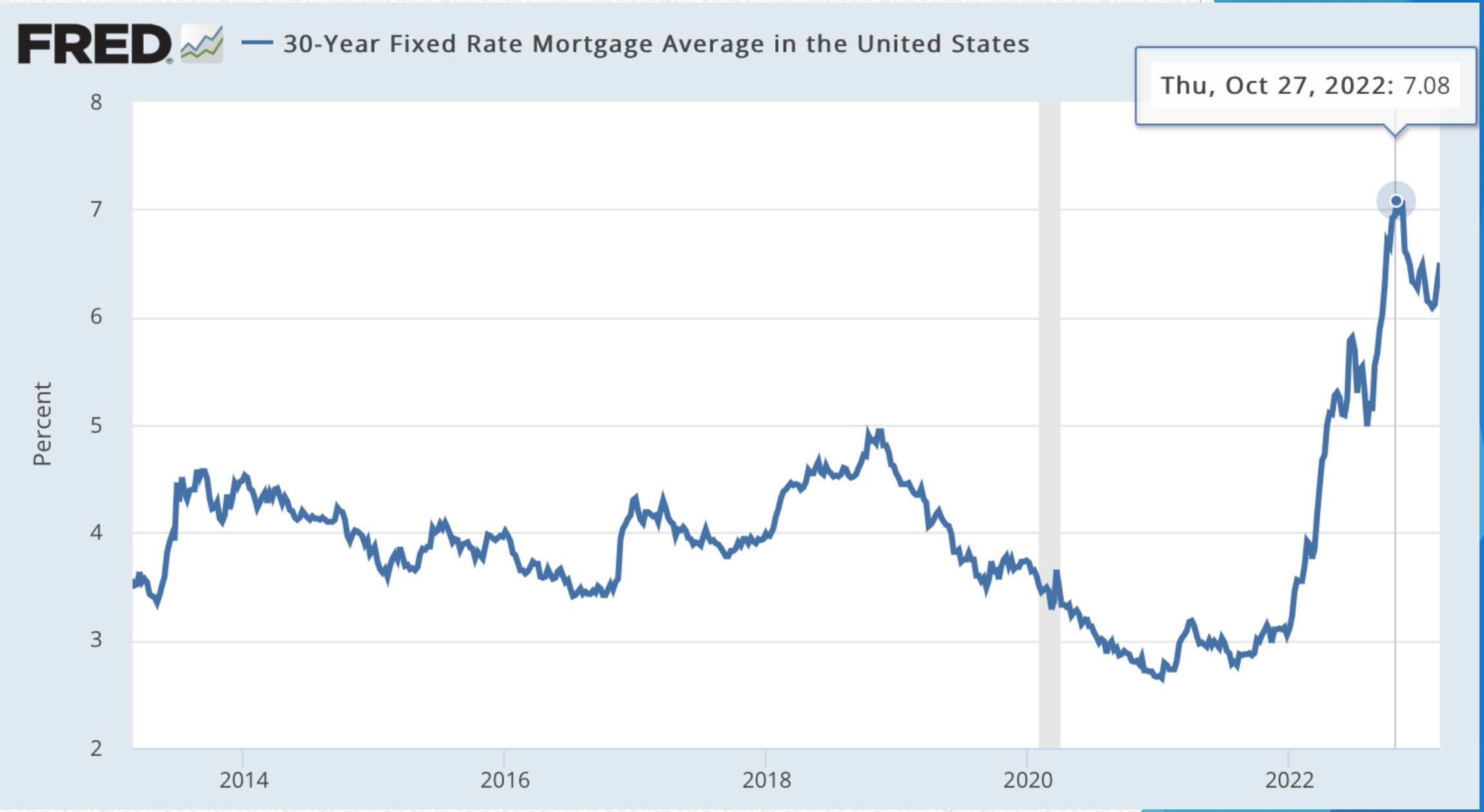
STEP FIVE (5)

Once All documentation is received and reviewed;

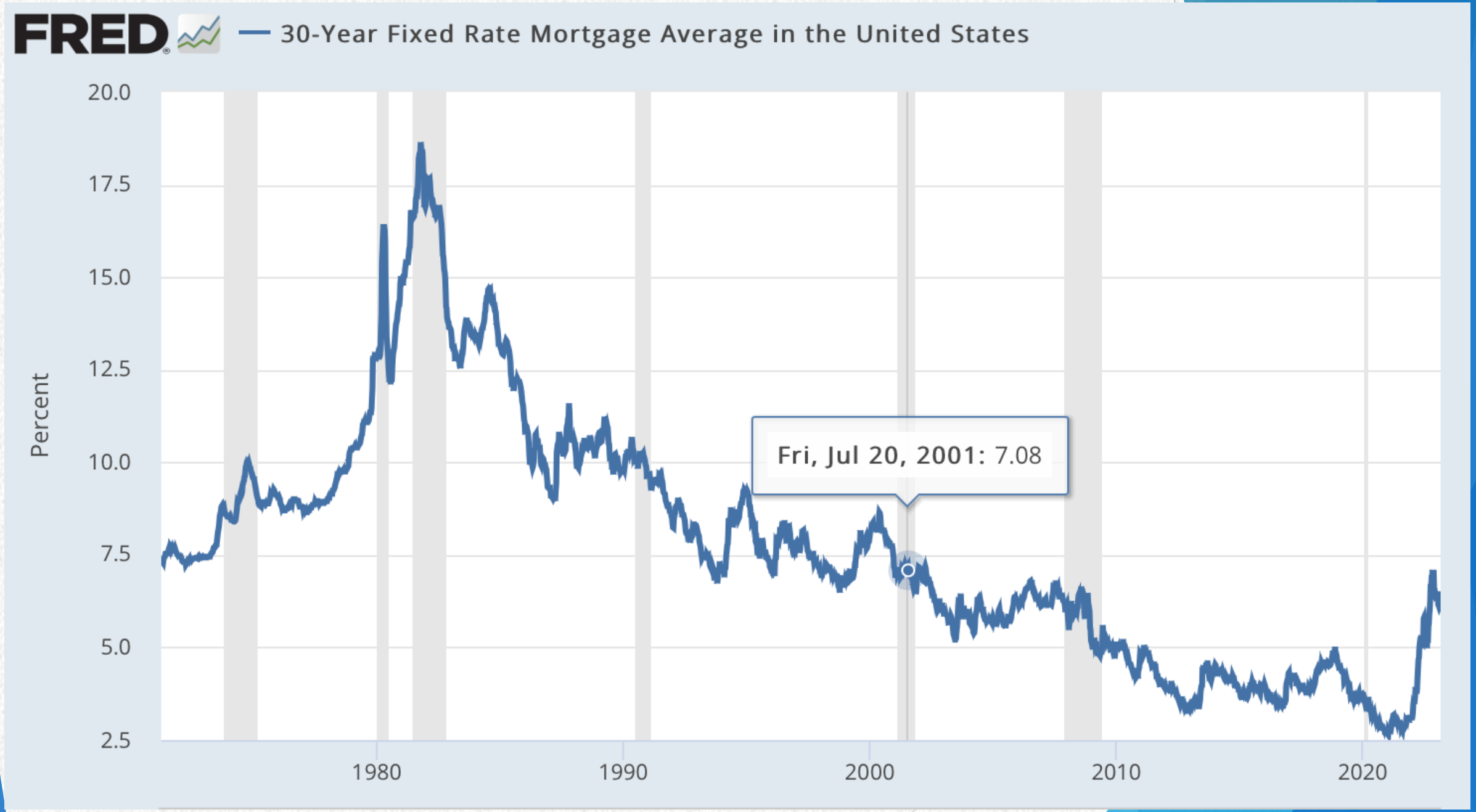
- ✓ Loan will be submitted for full approval and a closing date will be set
- ✓ You will receive an Initial Closing Disclosure (CD), which will provide an estimate of closing costs. You must open the email and click on the attachment.
- ✓ Once you open the CD, this will begin a three (3) day right of rescission. So you can change your mind at anytime. The loan can't close until the three (3) days expire.
- ✓ Our Closers will work with the Title Company to "fine tune" the closing statement. You will eventually receive a final settlement statement breaking down the closing costs and amount you need to bring to closing to close on your new house.
- ✓ Closing Occurs
- ✓ The title of the home will be transferred to you

Some Data for your consideration

Historical Interest Rates (10-yr. timeframe)

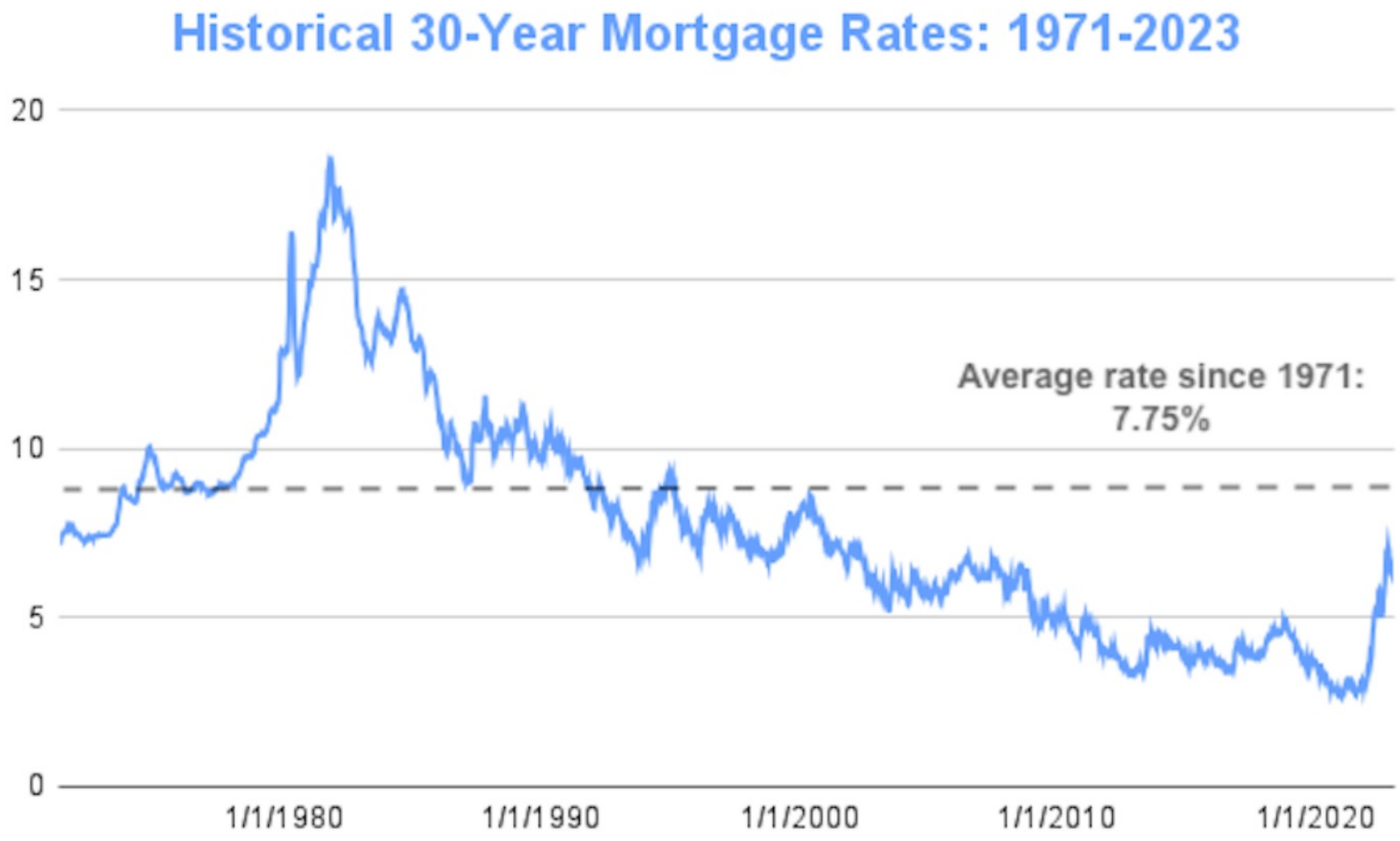


Historical Interest Rates (50+yr. timeframe)



Historical Interest Rates (50+yr. timeframe)

Historical 30-year mortgage rates chart




BUH
PEVT

Buy or Rent?

Key takeaways

- Whether you buy or continue to rent can have important implications for both your finances and happiness.
- As you're weighing your decision, try comparing prices and rents in your area, and think about how long you'd likely stay in a home.
- If you're running the numbers, make sure you consider the full costs of ownership, such as maintenance, taxes, and insurance.
- Many renters dream about eventually owning their own home. There can be many perks to becoming a homeowner—from having more control over your space to building equity and potentially benefiting from rising home values.
- But it also might be one of the biggest financial commitments you'll ever make, and it's not the right move in every situation.

Owning a Home Pros	Owning a Home Cons	Renting Pros	Renting Cons
Can build equity	Home value can decrease	Have flexibility, can move to a new place each year	Rent prices can increase each year
Mortgage payments stay stable each month (with a fixed-rate mortgage)	Property taxes can increase each year	Landlord handles repairs	Landlord might not be responsive
Tax deduction	Must take responsibility for all maintenance	Have fewer upfront costs	Rent payments don't help you build equity
Home value can increase	Must pay homeowners insurance costs		
	Have less flexibility		
	Have high upfront expenses with down payment and closing costs		

BankMD

The 5 Things to Consider When Considering Buying a Home

1) Are you truly in a financial position to buy?

Why it matters: If buying overstretches your finances, you might be less able to cope with a financial emergency or save for other important goals like retirement. Plus, an inadequate down payment or subpar credit score might leave you at a disadvantage if you're trying to get an offer accepted in today's competitive buying market.

What to consider: The relevant aspects of your finances include:

Your income: If you don't have stable, sufficient income, it might not be the right time.

Your down payment: Remember that you typically need a down payment of at least 20% to avoid paying for private mortgage insurance (which protects your lender if you're unable to make your mortgage payments).

Your credit score: Without solid credit, you might not qualify for a favorable mortgage rate or even be approved for a loan in the first place.

Your other debts: One guideline is that your total monthly debt payments shouldn't exceed 36% of your pretax income. If you have other debt, there may be less room in your finances for mortgage payments.

2) Will you stay for at least a few years?

Why it matters: When you buy, you'll face a boatload of one-time expenses, like broker fees, mortgage origination fees, and title insurance. The longer you stay put, the more time you have to spread out those costs and for your home to potentially rise in value.

What to consider: If you're planning to stay less than 3 years, it likely doesn't make financial sense to buy. (Staying less than 2 years can come with particular tax disadvantages, because you generally won't qualify for a capital gains tax exclusion . This means you'll owe capital gains tax on the full amount of any increase in your home's value.)

3) Which offers better value in your area?

Why it matters: You might assume buying is a better value because it lets you build equity in a home. But that may not be the case if rents are low relative to purchase prices in your area.

What to consider: In any comparison, first make sure you're looking at similar properties in the same area (i.e., don't weigh renting your city studio against buying that country cottage). Then you can compare the renting and buying price tags with: The price-to-rent ratio: Take a monthly rent figure and multiply it by 12, so it's an annual number. Divide the purchase price of a similar property by that annual rent number. A ratio greater than 20 generally weighs in favor of renting, while a figure less than 20 generally favors buying.

Example:

Rent for Similar home in the area you want to live in: $1,700

Multiply that number by 12: ($2,100 X 12) = $20,400

Purchase Price of Similar Home in the same area: $350,000

Divide the Purchase Price by the Multiple number: ($350,000 / $20,400) = 17.16

IF the final ratio is less than 20 THAN (generally favors BUYING)

IF the final ratio is more than 20 THAN (generally favors RENTING)

Running the numbers?

Some people decide with their guts. Others want a detailed analysis. If you're in the latter camp, here are some finer points to keep in mind as you're calculating your rent vs. buy comparison:

Factor in the full costs of ownership. In addition to mortgage payments, you'll face property taxes, insurance, routine maintenance, and occasional larger upgrades. (One guideline is to estimate maintenance costs at 1% of the home's value per year.)

Double-check on that mortgage interest deduction. It won't make sense for you to deduct interest unless all your itemized deductions are greater than the standard deduction (which in 2022 is $12,950 for individuals and $25,900 for married couples filing jointly).

Consider your next-best use for that money. Remember that a home isn't the only way to build equity. If renting is cheaper, you could invest the money you save by renting in a diversified portfolio to potentially build wealth over time.

4. Would you still want to buy if your home's value doesn't rise?

Why it matters: Although home prices have historically risen over long periods, there's no guarantee that they will in any given time frame or in any particular area. Plus, what matters for you will be the value of your specific property, which can be influenced by everything from the local economy to whether your neighbors take good care of their lawns.

What to consider: Think about how you'd feel if your home's value didn't budge over 10 years or didn't rise as much as inflation. If you buy, you'll need to accept the possibility that your home won't be a great investment.

5. What does your heart say?

Why it matters: Buying a home isn't just a financial transaction. It's also a source of added responsibility, and for many people, pride and satisfaction. You want to make a decision that you can feel good about years down the line.

What to consider: Ask yourself if you feel ready for the level of commitment that owning a home entails. If being on the hook when the basement floods or the roof leaks terrifies you, it could be you're not quite there yet. On the other hand, if you know you want to put down more permanent roots, then you might be ready to take the next step. Ultimately, the numbers can help you decide, but they can't decide for you.

Tools and Resources for you

Good Links to help you with financial decisions as you move into your career:

- www.freddiemac.com/research/ (Original research and analysis on housing trends, the economy and the mortgage)
- https://www.jacksonphysiciansearch.com/salary-calculator/ (See how your offers stack up to the statistics. Salary and compensation averages. Easy to plug and play)
- https://bankmd.com/ (Open and Account, Apply for a Loan)

DISCLAIMER

The material in this presentation has been prepared by LMII Healthcare, LLC and is general background information about the mortgage process at the date of this presentation. This information is given in summary form and does not purport to be complete. Information in this presentation, including any forecast or rate and financial information, should not be considered as advice or a recommendation to borrowers or potential borrowers in relation to applying for a loan, applying for pre-qualification or pre-approval, purchasing or selling a home, assessment of interest rate risk and or selection of mortgage products or services. This presentation does not consider your individual particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. All mortgage and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or interest rate risk. This presentation may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to the mortgage process, operations, market conditions, specific provisions and interest rate risk management practices. Readers are cautioned not to place undue reliance on these statements. While due care has been used in the preparation of this information, actual circumstances may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside of our control.