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| Anjali: | 00:07 | Hi everyone. Thanks for tuning in to today's episode of money checkup where we take a deep dive into matters related to money, business and personal finance. I'm your host, Anjali Jariwala, CPA and Certified Financial Planner. My guest today is Christina Razzi. Christina is the number one US bank loan officer in her region with over 20 years of experience. Her NMLS number is 162739 I'm excited to have her on today to talk about mortgages and whether you're looking to purchase your first home, buy an investment property, and more. Christina is going to share her wealth of knowledge with us today. Christina, welcome to the show. |
| Christina: | 00:56 | Hi, thank you for having me. |
| Anjali: | 00:58 | So I'm excited to have you on today and pick your brain about mortgages, which for a lot of people can be a very overwhelming process since there's a lot of nuances involved. So if someone is thinking about buying a home, what are some things that they should start doing right away so that when the time comes, they're ready to go. |
| Christina: | 01:17 | So Anjali first I agree with you about the nuances of mortgages and how it's a little bit of an arduous process. What I try to do is I try to make mortgages at least a little bit fun because it's just a painful process in a way, and I just try to get people ready. So when it comes to the time when they have to be underwritten, they have everything set up and then it's less of a hurdle for them. One of the most important things would you hear on every kind of newscasts or every kind of commercial is your credit score. So the number one thing people need to do is check their credit score, there is a few companies that offer free credit score reports. There's a company called Credit Karma at the people use. The only thing about Credit Karma that I would say is that sometimes the credit scores on credit Karma are not always exactly what a mortgage credit score is. So I would actually recommend using something like Transunion, Equifax, or TRW, the credit reporting agencies that actually report to the mortgage companies. I personally use Transunion. They may not be free it might cost $9 and 95 cents or something, but it's worth it to spend that money. Obviously if you're getting your credit ready for a mortgage. So that's the number one thing. Once you get a credit score, you kind of know what you need to do to get your credit ready for a mortgage. The best rates of course are always going to be with the higher credit scores. The way that you get your credit score, if you pull your credit, then you see that maybe it's not at a great number and a great number would be something over a 740 credit score. Those are usually the top tier credits right now if it's not over a seven 40 |

there's probably a couple of reasons. One is usually credit card utilization. So a lot of times when you go into a clothing store at like a Nordstroms or Neimans and they'd say, Oh, do you want to save 10% on a credit card? And you say, yeah, I'd love to. And you get a credit card and it's like $500 limit and you spend $500 now you have a credit card that is maxed out. Those affect your credit score is a lot. So once you pull your credit, you're going to see some things like that. So what I would definitely suggest is pull your own credit to see what it is. So you're in charge of what's happening with your credit. And then the backup plan of pulling your own credit is, I'm sort of going off on a tangent, but I have to say this, it resonates with me when I go in stores. Please don't open credit cards in stores to get 5% off your purchase. It ends up really hurting your credit. I've never seen people with credit card from department stores with high credit scores because they really affect your credit with that maximum credit rating.

Anjali: 04:12

I think that's a, it's a really great point that you bring up. I think people get caught up in that and they have all these credit cards and then they wonder why their score is so low. And another great point you brought up is having that $500 limit and then you spend 500 that's the credit utilization ratio, so it actually hurts you when your credit limit might be low on your various credit cards and you're sticking to the Max each time. That can really depress your score, which would have a material impact on rates. Would you agree with someone's looking to purchase a home and their score is well below. That had 740

Christina: 04:45

I agree. a thousand percent. Every time the target person says, how would you want to open a credit card? I'm like, do you know that what we'll do to your credit score if you're going to buy a home? And they're like, oh no. That's the answer to that question. Your credit number one, keep your documents. Number two, so you're going to need your W2 is you're going to need all of your K-1s. You're going to need your last year's Paycheck sub. People forget about that stuff. It just got a folder, a file folder, either our virtual or real, all of your paperwork together. Most people say like, how long is it going to take me to get my mortgage? How hard it's going to be. It's really up to you and how you are keeping organized. One of the great things about Anjali is she helps her clients organized, so still say like I'll ask her and she'll give me the documents for people when they're trying to buy a mortgage. So get getting good credit, keeping your documents together. One other thing is if you can possibly, you know, not jumping around in jobs would help because it's a much easier process if you have one job for a certain amount of time when you're going to get a mortgage.

But if you have to move around jobs, it's fine. Just keep all of your paperwork. That's the most important thing.

Anjali: 05:59

That's a good point. And that's something that we'll discuss later as well and is the type of job you have and how that may impact the underwriting when it comes to getting a mortgage. So those are all really, really great points. In terms of the documentation as Christina mentioned a lot of it is going to be all of your bank account statements, tax returns, W2s recent pay stub, so it can be daunting. But I think if you're an organized person and can turn things around quickly, that'll just make the whole process a lot smoother, not only for yourself but also for the lender that you may be working with.

Christina: 06:31

That's correct.

Anjali: 06:33

So why don't we go through the different types of mortgages out there. There's, there's sometimes confusion as to like what type of mortgage to get and what the differentiation is. So what's a fixed mortgage versus an ARM versus an interest only and any other type that they you see working in this space for so many years.

Christina: 06:54

Okay. So there's the three. We're going to go over a fixed ARM and interest only. There's a lot of different mortgages, but those are the three main mortgages that people normally do interest only being very few people do it. But that's a loan that I'll explain. That is actually a good option for some people. So we have a fixed mortgage rate where you get a 30 year fixed rate, it doesn't move, the payment won't move, the rate won't move. It's the most conservative. Or You could do a 15 year amortization also, but this is the most conservative mortgage, meaning that it won't move. The 30 year amortization means that every month you're going to pay principal and interest and you're going to have a minimum payment. And if you make that payment every month, at the end of 30 years, your loan will be paid off for the first seven years of the 30 year fixed. You're paying mostly interest with a small amount of principal and then it starts to turn around year eight and it goes until the end when you're paying mostly principal and less interest. I would say that probably 90% of people use a fixed rate mortgage in the United States. I'm not saying I don't recommend or not recommend mortgages to people. I explain them to people because I want people to have their own, what they feel most comfortable with. So if somebody is most comfortable with a 30 year fixed and I, I'm happy to give a 30 year fix. My thought in my mind is that most people don't actually keep their 30 year fixed mortgages for 30 years, but they do have a comfort level

and I always say, look, if you do it for five or six years, you can always refinance and get a different mortgage if you think you're not going to stay in the property. But I would say of my client, personal opinion, 95% of my clients don't keep their fixed rates because they get married, they get divorced, they move, they retire, just things happen. So, but it's the most conservative rate and it's probably the one that most people know in their mind. I want a fixed rate, I want a fixed rate, I'm happy to do a fixed rate. The second mortgage that we have is an adjustable rate mortgage or an ARM. So adjustable rate mortgage means that the loan can adjust, but there's a fixed rate period where the loan will not adjust it. So we have a three, five, seven or 10 year adjustable period, which means that those portions will not adjust. Three, five, seven and 10 the loan will not move. There are all amortized over 30 years, but the payments stayed the same for an intro rate. So the bank is saying we're going to give you an intro rate that's lower than the 30 year fixed rate, but we're only going to give it to you for a period of time. So if it's a young couple who is, you know, Hey Christina, I'm buying a Condo, we're going to live there three to five years and then for sure we're moving to the suburbs, were going to buy a big house. A seven year ARM is is usually a pretty good product for that because it gives them a little extra term in case they stay six years. But if they know for a fact that they're going to leave, I will definitely recommend intro rate ARM. If they want to keep the property for any reason, like after they leave, then I would still do a fixed rate because you can keep the property and rent it out and keep your fixed rate. So three, five, seven or 10 year ARM, it doesn't move for that period. So I'll just give you a, for instance, these are not real rates but I'm just giving you a, for instance, if a 30 year fixed rate was 4% you might be able to get a seven year ARM at three and a quarter. So you would get a three quarter discount on doing a seven year ARM. And most of the clients that do the arms are going to leave and let's say they leave in five years, so they get three and a quarter for that five years instead of 4% so it's a really good product. I think the ARMs are great, but I don't push them because it's really up to the borrower and their personality and how they feel and I'm always very open and explain it to them. If you want to be super conservative on an ARM, if you are nervous about the change rate because the rate can change after the intro period, you can always pay extra towards the principal balance. And if you pay extra towards the principal balance, the change rate is even less meaning that at the end of the term of the ARM, so let's say you have a seven year arm on the eighth year, it can go up to a certain amount. So usually it's going to be, let's say it's five percentage points over the start rate. So if you start at three and a quarter, an eighth year, it'll

go to eight and a quarter. So a lot of times people are nervous. They're like, oh no, what if it goes to eight and a quarter? So I will explain to them, well, if you pay it as if it's 4% it gives you an extra buffer that you're saving so much money that it really is good for an extra like two years, mathematically, two years more. I'm doing an ARM over effects. Once again, I don't push it, I just explain it to people. And then they pick the program. I have some people that are like, I'm definitely only staying there for five years. There's no way I'm staying. If that's true than an ARM is a really good program for you.

Anjali: [12:10]

So the ARM period makes for the term and then afterward it switches to a variable rate. Correct. So then that rate can be a moving target. So it's definitely not necessarily a good option for people who are going to be in their passed that because we are in somewhat of a rising interest rate environment. So definitely right. But that's a good point you bring up about the differential in terms of if you're going to pay it off quicker than the ARM still may make sense. Cause you and I have a mutual client where they did do a ten one ARM and their goal is to essentially pay it off in 10 years and they got to a little bit more of a competitive rate that way. And they probably will come out a little bit better than if they were to do a 30 year fixed and then try to pay it off sooner.

Christina: [12:54]

Correct. You can amortize your loan anyway you want. So if you were to close with me or any lender, you can say, Hey, I want to pay this loan off in like 12 years. What do you think I could make for a principal payment that would make my loan go away in 12 years? You can always amortize your loan yourself. You don't have to do biweekly payments. There's something that's called biweekly that banks used to offer as a servicing. And now a lot of the banks do not offer the biweekly. You can still make your loan of biweekly mortgage payment by doing it yourself. So what that means is you could always pay extra towards your principal balance of your loan and it does make your principal balance go down because you're paying it off quicker. And so your amortization schedule will be shorter if you're paying the loan off. If you're paying the principal balance off, it makes your amortization go shorter. So sometimes people ask me like, how much do I have to pay a month to pay it off in x, Y, z? You know, whatever time period. And I'll tell them personally. I'm a big fan of ARMs. I've been on an ARM on my mortgage and I always pay it down as it goes. I don't like up the loan amount, but I have been on ARMs for a while and I've been lucky. But I would agree on to that. It's an upward rate trending market so you have to be careful. But you know things change and they always do. Just to let you know, cause I've been doing this for awhile. So when

the 30 year fixed rates were at nine and a quarter, the banks made adjustable rate mortgages that were very short term, like one year ARMs. And those were still like in the fours, like four and three quarters. So when rates go up they do still offer adjustable rate mortgages that are low. And also I tell people that rates are tandem. So right now you get very, very little in interest on your savings and your mortgage are low. But when we were paying nine and a quarter on 30 or fixed rates, people were getting 5% on their checking account. So it's not like just the mortgage rates will go up, your investments should go up to in a rising interest rate is the banks will give more interest on savings.

Anjali: [15:09](15:09) That's a really good point. I think people forget that historically raised something significantly higher. So I know people were complaining that at a certain point the mortgage rates were a little over four, four and a half percent but that's still pretty low compared to what it was. You know, during, right. Seventies 80s or when my parents got their first mortgage many years ago,

Christina: [15:33](15:33) our parents probably were at like 20 something.

Anjali: [15:38](15:38) But then you know, big, big savings accounts, maybe we're giving 10% so there's a little bit of an offset there. Like you mentioned,

Christina: [15:45](15:45) and don't forget Anjali, when the rates were that high, the mortgages were a lot lower. Our prices are inflated so we have to keep the rates to a certain level. When our parents, our parents mortgages, maybe they owed 50,000 on a house. Now we owe, our age group owes $1 million on a house. If the rates go to 20% might cause, a lot of issues and when there's issues there's a depression or or a recession. So I mean there is something to say, you know, I never say anything with certainty. We're experts in our field, but you'd never know what's going to happen if we knew exactly we'd be billionaires. Right. So well we can give some advice to people and I always tell people not to. Rates are historically low right now you can still get in the threes on certain products that's really low. And in my family comes from Switzerland. They're rates are like zero here, 0.875 I think on a seven one ARM. So it national, I mean not internationally, like rates, all the rates are low. So we just have to hope that they stay low. I still think that home ownership is, is an American dream. Like people should purchase homes. I think that's a great way to make money because the equity in our properties are going up. So even if it's sort of like, it's sort of like the market, right? If you stay in it for, if you're not just jumping in and out of real estate, you're going to end up making

money. In the past. It usually works out that you're going to make money on real estate. So in 2008 when there was a crash, if you like bought in and then you sold, yeah, maybe you didn't make money in that one year, but if you kept it, if you kept your property through that, I think, I know personally out of my home, it went back to the same value that it was prior to. So it's just a long, you know, it's a, it's a longterm investment or if it's a short term investment by a place that you know is going to have a good resale value that people will want to buy, like maybe smaller, not, you know, smaller, smaller based for different people. But like I think under a million you buy a place in general in the big cities. I mean this podcast could go everywhere. So, but in the big cities like Chicago, New York, California, unfortunately the prices are a little bit more inflated. But in the out other states, you know you can buy places that are between three and 500,000 easily and get a great, I think you can, can I tell you probably could get three times the home in Chicago that you could in California and then if you're buying in a rural area you can get even a nicer place.

Anjali: 18:41

Right. And I know that all too well. Moving from Chicago to California, so definitely a difference in, in home pricing between those two areas. Okay. So what's an interest only loan and when would that make sense for someone?

Christina: 18:55

Okay, so interest only loans, people are, I would say people are very afraid of interest only loans, but they're not scary. But people are afraid of them because they did get a bad rap in 2008 so what happened was we were doing interest only all the time. Mortgage companies were doing interest only loans. And what happens with an interest only loans, there's different kinds of interest only loans. But the ones that have the bad press, they were interest only loans maybe at like 2% and then after like six months they went to 10% principal and interest and people couldn't afford the difference. The swing and the price change. So they ended up foreclosing on their houses because they never could afford the payment. When it changed principal and interest and they had really short term interest. Only portions now are interest only loans are exactly like the ARM rates, so the interest only portion is for 10 years it'll be you have to pay interest only for 10 years, but the rate will be fixed once again for three, five, seven or 10 years. So let the interest only is good for is if you have a cash, like doctors for instance, sometimes when they're starting out in their careers, they're not making as much money. The interest only payment is a lot lower than the principal and interest. It's you're only paying interest on the loan. You're not putting anything down towards the principal. It's a good program. If you think that you're going

to have a bonus money coming in or increasing income and you want to purchase a home and have the lowest payment available, it is difficult to get an interest only loan. There's a lot of guidelines that you have to pass to get an interest loan because there's a lot of concerns that people are, you know, they want to make sure people can qualify. So now if you get an interest only loan, they will qualify you on the change rate. So let's say you start off at a three and a half percent interest only loan, they're going to qualify you at five and a half percent and a 24 year amortization. So they're going to make sure that if the loan changed, if you had the loan for that ARM period, that you actually could make the payment when it changed though, because they're going to be strict in the qualification. People will not end up foreclosing because they will be able to make that payment if they had to. This is a good short term program and if your cash flow is low in the beginning, but you know you'll start making more money, you can always pay principal. So let's say your interest only payment is $2,000 a month. You can give them $3,000 a month and it'll be exactly amortize the same as if you were doing a principal and interest loan. So you can make the amortization schedule yourself, you can pay it, you can ask me, you can ask your loan officer, you can do an online calculator just to see what the payment would be. But if you couldn't make the payment for whatever reason, like I'll tell you, I have a lot of trader clients, the ones that are left, the traders, they get big bonuses. So they might get a $200,000 bonus at the end of the year, but there their salary is low, so they don't want to make that monthly payment. So they just want to, at the end of the year, Hey, this hundred thousand dollars towards their principal and their payment will go down. So that's a type of person that would like an interest. Only somebody that has a cash flow issue or they know they're going to be making a lot more money in the future and they've just really want the lowest that they could, you know, pay in the beginning. Some places where their equity is going up very quickly is also a good place to do an interest only loan. But it's not that easy to qualify. You do have to have, I believe the guidelines sometimes change, but you do have to have at least $150,000 in liquid assets after your down payment and you have to make at least 150,000 a year. So you need those two items to even try to qualify for an interest only loan.

Anjali: 23:12 And you can't use gifted funds, correct. For the down payment, correct? Yes. And then that may rule out people who are getting gifts from a parent to help them, their down payment.

Christina: 23:23 Well you can use gifted funds for the down payment, but you can't use it for the, the 150,000 left over. So you can't use it for

reserves. So you'd have to have 150,000 in reserves of your own money. That cannot be a gift.

Anjali: [23:38] So the reserve is a, is a good point you bring up. So if you're getting an another type, you know like let's say you're doing an ARM, the fixed rates, you still have to show some proof from reserves, correct? After you close,

Christina: [23:50] correct? Yes.

Anjali: [23:52] So can you explain to our listeners what exactly does that mean and what accounts you can use? Cause I think a lot of people may think that, oh, I wouldn't say I'm down payment money. That's sufficient. But that may not be the case because of the reserve requirement.

Christina: [24:05] That's correct. Now all banks are different. And I'm saying this like with the disclosure that our underwriting guidelines can change. You know, it's kind of up to the banks when they changed their guidelines. But in general, right now, if your loan is under a million and you're in one of our private wealth or private client group loans, you need to show that you have at least six months of reserves leftover after you close over 1,000,000 12 months of reserves and reserves means if your payment is $10,000 a month, then you need to show that you have $60,000 leftover. They want to see that you have six months of making your mortgage payment. If you had to in a reserve, a reserve item can be a 401k an IRA or stocks, any type of savings account, life insurance policies, you can use whole life insurance policies. You just have to show that you can get the liquid acid in an emergency if you need it. So a lot of times this is important. It's for every bank it you show, I'm on all these loan officers boards too. So I read, you know from other banks like the other guidelines, you do need to show up terms of withdrawal. So like if you give a 401k asset, you have to go on your website specifically and get the piece of paper that says you know what their terms are. If you have an emergency like and you can't pay your mortgage or you need that money in an emergency, you have to give those guidelines to the bank so they can read it and say, okay, great. I see. Yes, you can get that money in there in an emergency on a Fannie Mae or Freddie Mac loan, which means conventional financing on Conventional Financing not jumbo, you usually need two months of reserves leftover. They're a little bit more lenient on non-jumbo loans I'll will, we can go over the, uh, the difference between a jumbo and a conforming if you would like, we can do that. I got to get some specific numbers that just changed. So they're a little bit higher now than they were in January of 2019. But anyway, so

you need two months on a conforming six months to 12 months on a jumbo.

Anjali: [26:21]

The thing to keep in mind is that people can use their retirement accounts for things like an employer retirement plan. That document that Christina mentioned is usually the summary plan document, the SPD that we'll usually list out the withdrawal of the plan and how it works, so that's something that the bank needs and it's not necessarily that you need to withdraw but it's just showing that you have other funds outside of what was presented within the various bank accounts if you need to meet that reserve requirement. I think another important factor when people are trying to price shop for mortgages is understanding the fees. I know in my experience along with your help, I have clients who will send me proposal. They've gotten from various banks and one bank might have a lower rate than the other, but when I dig down into the details I realized that there is a bunch of fees that are being layered on which will actually make them mortgage more expensive even though the rates lower. So could you walk through some of the fees that banks charge and the ones to watch out for in terms of when you're looking across banks and tried to figure out which one's the best deal?

Christina: [27:27]

That's a great question. I'm so glad you asked that because it's very important. What I always tell my clients is the title fees, the third party fees. Every bank is going to have the same thing because the title fees are usually picked from the seller of the property so that the seller picks the title company and the seller will, we'll have title fee, so title fees, you don't have to worry about transfer Sam tax. You don't have to worry and when I say don't have to worry, I mean it doesn't change between bank and bank. If it's a third party fee, not a bank fee, they're just estimating it. So some banks, like I happened to know our bank. Sometimes we disclose more fees on the loan estimate that I have to go over with the borrower because I have to explain that they're not. Our fees are just, we're just estimating what the fees are going to be and we might want to be more conservative about estimating a third party fee. Something that we're not charging. The most important thing is the loan origination fee or the points. It's called different things, loan origination fee points or loan discount fee, but sometimes banks call them underwriting fee back prep fee, like there's some different words that they use. Our appraisal is another one, a flood cert, but all I do, all I tell clients is to just get the bank fees. Say, hi, I just want to know what your bank fees are and not that they don't care about the title fees. but just, what are your fees and I'm going to pay because I'm going to Citibank

or Bank of America, US bank. Tell me what the bank fees are. If you get that number, then you get the rate. You should be fine. You can shop around like that. When you find the best of that group of whoever has the best rate with the lowest origination charge or points or bank fees. I always call them bank fees because if they have a different name, when you're talking to a lender you can sound very savvy. If you're like, listen, I just want to know like your origination fee or your long discount or your points, any bank fees, please just tell me anything that your bank is charging. You get to kind of say it a few times. Just that they are like, okay, I got it. Once you get that and you get the best rate, then you could ask for, there's something called the loan estimate. Now loan estimates, I know at my company we have a third party that disclosed them, the disclosure team who sends out the loan estimates, but you don't want to go through eight different lenders to get loan estimates because to get a real, a real loan estimate, they have to pull your credit. They have to do all this stuff, so you've got to have a little bit, some level of an initial level of trust with the person that you're talking to and just get it in verbally. If they're really, really better than another bank, then say, you know what? I pick you you're great, I'm going with you. Then you could get the loan estimate and go over it. One of the things that banks let borrowers do is they might get a few loan estimates from different banks. It's sort of a waste of your time and the bankers time. If you're getting like 10 different ones and they're pulling your credit 10 times and you might be getting, you know, your credit pulled on all different companies. Now they say, by the way, it's fine to pull your credit if you're searching for a loan. It's still under advisement. To me, I'm not as a thousand percent sure if it doesn't change your credit at all because I have seen it move from one lender to another. But if you just say those words, what's your bank fee or your lender fee and what's your rate like? You don't have to be so concerned about the loan estimate. Just you could get it and you definitely should 1000% and Anjali or myself or anybody that you know, a trusted third party person can help you look over a loan estimate. Then you could see that what they said was true. I mean that's the only thing that you need to, you know, make sure that they're not just saying it. I always ask, you know, hey, I can email it to you so you have it in writing. That's always a good way to do it too. But that my rambling point.

Anjali: 31:47

So when your rate shopping, the main things you want to know is what the rate is going to be. Make sure you specify the type of loan that you want, whether you're doing fixed, ARM or an interest only on the term on that, so know what the rate is and know what the bank fees are. The loan estimate is is important,

but you usually don't necessarily need that detail until you finalized and picked your lender and you're on the next step because something to keep in mind is that what you're going to owe when you close is probably going to be higher than just your down payment because of the other various fees involved and those fees more or less you don't really have control over because it's just part of the process. So when you're kind of figuring out how much you need to close, the loan estimate will be helpful because it'll give you kind of that ballpark number as to how much money you need to bring to the table. When you're ready to close

Christina: [32:38] and you do need to get along with your loan officer, you have to like them as a person, you definitely want to get a good rate. You want to get the best rate. Obviously you want to get the best rate, which you're going to be with this person for a while. You want to have a a nice rapport with them. You want to feel that they're trustworthy. So, so it is important, rates are important, fees are important, but there is also a thing of, of service. I'm very lucky, you know, I, I feel like I've always at a place that has very competitive rates, but I also offer a good service. So you want to have a loan officer who is dedicated, who will pick up their phone at night, who will pick up their phone on the weekend. I think it's very important because it's an emotional process buying a house and you really need a support staff. And having a, a mortgage person as, as you know, even a sounding board is always helpful. Like I end up being friends with my clients, so I don't think of it as a one time transaction. I want to stay with that client for life and I want them to always give, you know, give me a chance if I'm not the best, Anjali you, you know that I will refer you to a different, I won't refer you to a different lender, but I'll say this is my, this is my, uh, what I have and I'm not hurt if somebody goes somewhere else because they have some special deal at like their credit union or you know, if I can't compete, I will support that person because I, I consider it a relationship and not a transaction.

Anjali: [34:11] That's great. Yeah, I think that's really important. It is because I think we need to make sure that you find someone who has the transparency and who is available, especially nowadays if you're in a really competitive market, most sellers want to close very quickly. Underwriting unfortunately does take some time, especially if your situation is, is a little bit more complex. So you need someone who's really going to be willing to work and be available to get that loan done in time. Because Christina and I have had experiences with mutual clients where we've gotten a runaround with the lender only for them to deny the loan a few

weeks before closing. And Luckily Christina was able to pick that loan up and get those clients approved. But that's usually a worst case. Scenarios. Rates are important, so are the fees, but you also want to make sure that the person you're working with, just like with anyone that you pick to work with for big financial transactions is someone that you feel like you can trust who's very and being very open and honest with you in that respect. So it's something that comes up a lot in my client base because I work with a lot of physicians is student loan debt, especially the younger physicians coming out. They could have debt burdens that are anywhere from 200,000 to half a million. So how exactly does debt play into this process? And if someone has a huge student loan burden, are they just out of luck in order to qualify for a loan?

Christina: 35:37

So, um, luckily there are a lot of doctor loans that banks offer where they're a little bit more lenient on the debt for a doctor because they know that this is a normal occurrence that they have to take on this large burden of debt. And they know after all the education than a physician goes through that they're most likely going to stay in their profession and be an upward trending income. So most lenders will have, and some are are more lenient on doctor loans and some are more strict. So you just, you really do on that situation with a doctor loan you have to like I always want to recommend myself, right? Because I would use myself as a lender. So I think I'm good. But you have to shop around. So you do have to, in that situation where a doctor loan, it's a good idea to check a couple of different lenders because there are some lenders that are specialists in MD loans. It's like that's their, their forte.

Anjali: 36:42

If you are a physician, there are some nuances and no, I would call them advantages with using a doctor alone. So not all beings offer doctor loans. US Bank is interesting in that they do have kind of a professional loan, so you kind of get some of the same benefits you would with a doctor loan. But essentially with the doctor loan and you can usually put less down than you would otherwise. So you could get a loan for 10% down versus normally you need to put 20% down for a single family home, possibly more if you're purchasing a condo or a townhome. The underwriting process can be a little bit easier for a doctor loan program. Usually you can just have an executed contract in place in order to qualify versus for most other types of mortgages you usually have to have that work experience and that income already built in order to qualify. So for any physicians who are looking at obtaining, you know, their first home, a doctor loan program is something that's definitely worth exploring. So US Bank does have a doctor loan program

and there's a handful of other banks that offer it as well. So it's definitely something when you're shopping around to look and the, the main differentiator with a doctor loan type program is if you're only putting 10% down, you're not going to be paying any PMI, which is insurance. So Christina, I'd love for you to tell our listeners what exactly PMI is.

Christina: [38:07]

Yes, yes. So on our professional programs and our doctor loans, we self insure up so there's no actual monthly private mortgage insurance. But there is something called PMI, private mortgage insurance that sort of gets a bad rap that I would like to talk about. It's, it's really a way for people to buy a property. It's a mortgage insurance, it's ensuring the bank, it gives the bank some coverage on alone. So they'll let you put less down on a purchase. So if you wanted to buy a place and put as little as let's say 3% down, they would, they would say, yeah, we'll do it as a bank, but we want to get private mortgage insurance. We want to make sure that if you foreclose that we have a little bit of coverage. So in the old days, you know, a lot of banks were not doing the private mortgage insurance and, and what happened was it sort of got a bad rap. So a lot of times clients will say, I don't want to pay mortgage insurance, so I'm going to save up 20% before I buy my place. Well, my opinion on that is that it's really just a little extra fee that you're paying to enable you to buy a home before you have, let's say 20% put down. So if you want to buy a home and you really love the place and you want to buy it, I wouldn't let them mortgage insurance scare you off. It's just, it's, it's a cost of doing business. Let's say you get to buy a property without saving up 20% and you get to own a home. So yes, you have to pay this little extra coverage to the bank because they are covering themselves because they don't want to own the whole loan if you foreclose. But I think it's got a bad rap is my point. I feel like it's got a bad rap, but I think that it's not a terrible thing and you can get rid of PMI. You don't have to keep it forever. So if you have private mortgage insurance and then you own the property for two years, you can call up your private mortgage insurance and your bank and say, listen, I've owned my property for two years now. I've been paying mortgage insurance and my house is worth a lot more money. They will let you do an appraisal and they will say, you know what? We did an appraisal. You've been paying the mortgage for two years on a case by case basis and, and in my experience it's taken off, you know, 95% of the time. Like when people, in my experience, when people do it, because the values have been going up, it's just you do have to wait for two years, so you just keep it in your, in your cost basis of the loan. Like okay, I have to pay $100 a month for this mortgage insurance. That's $2,400 and then I'm sure the value will go up

or I'll be able to pay it down and then you can get rid of it. But it's a way to own a property without the saving of 20% it's good for starter homes. It was what I would say.

Anjali: [40:56]

Yeah, I agree. I have a client earlier this year and they were able to get rid of their, their of mind because they did some improvements in their homes and the appraisal came back where the loan to value was 80% and they were able to drop that so that the differentiator there is, you know, usually with the doctor loan, you're not going to have to pay that mortgage insurance, not a doctor loan, and we don't have the 20% then you may be subject to the mortgage insurance. But it may not be the end of the world if the goal is to get into a home sooner rather than later. And that's something that may not be current and that you could eventually get rid of. So those are all really, really great points. So another thing that comes up a lot, especially with the clients that you and I work with, Christina is someone who is a W2 employee versus an independent contractor. I work with a lot of physicians and business owners and they don't have W2's, they have 1099 income or business income and the underwriting may differ in those respects. So can you kind of walk through the differentiator when it comes to that and what people need to keep in mind if they are, you know, an independent contractor or a business owner?

Christina: [42:06]

Yes. So one of the things that that we will do if the loan makes sense. I see things with trepidation because everything really needs to be underwritten and it's a case by case scenario. So I'm not, I'm just saying things like you know in general this is what happens in general. If you're self employed, most banks, I'm going to say what most banks would like a two year history of you being self employed. At my company we are a common sense company too. So let's say we have a physician who was W2 or an attorney, you know a W2'd attorney for awhile and then they went off on their own and then they were self employed. If they do a year's worth of tax returns, we feel like they're in the same line of work. They have a tax return showing they're making money. That's a comfortability. What you're trying to do for banks is to make them feel comfortable. They want to feel like, wow, I would, I want to lend this person money. I think this is a good risk. So the problems with self employed at the biggest problems that I see is a lot of times people are like, well I'm self employed and I was starting a business or I just started out. So I wrote everything off. So now I have, I didn't make anything last year. I'm self employed and look, I have all this money coming in. Well, the issue with self employed you really need to claim some income with the IRS on a tax return to have a bank say, wow, okay, I can see it there.

They're making money, they're recording this with the government. This makes me feel comfortable. It's all about getting banks to feel comfortable. Any Bank. So, and what, I go back to my paperwork story. If you have like an audited profit and loss from an accountant, that would also make a bank, feel comfortable. You know, maybe your tax returns aren't due yet or they didn't come out. If you're showing that you're doing well and you're making money and your document, don't forget, it has to be documented. That's the main thing. You have to have an underwriter. You know the underwriters are W2 employees that work for a bank. They want to feel comfortable. They want to say like, I approve this loan and this is a good risk for our company. So whatever you can do to paint a picture of yourself being a good borrower is what's going to help. It's kind of funny in a way Anjali because if you're a W2 worker and you one day on a job, that's probably easier to get a mortgage than if you're a self employed borrower that's had 10 years of of history but, but they had like a bad year last year. So I don't think that it's necessarily right with that's the way it is. I guess my best advice is for self employed borrower you have to be making money and it has to be verified, right? So that's the most important thing. If you know you can't say well you know I didn't make money cause it's a start up. That's what's going to make a bank comfortable is that you're showing that you're making it. It's a little harder. I'd say maybe 60% of my clients are self employed. So you also want to get a loan officer that's used to looking at tax returns, understands them, underwriters who will look at things like depreciation, meaning that if you're a dentist and you know, you became a dentist and you bought all this equipment and you wrote off the equipment, but you don't write it off every year, underwriters know to look at that stuff. And if they don't, if you get an underwriter that doesn't, you have to be your advocate. You have to be like, listen, that was my dental equipment and I bought it once and that's all. And now I have a dentist with the equipment and I'm fine.

Anjali: 45:40

Uh, you know, those are really great points and I think it's important for anyone who's a 1099 or a business owner, is that you really need to have that history there in which you may not need if you're a W2 employees. So the best way to prove history is with a tax return. And unfortunately, I know I've been in this situation, you have certain years that are better than other years. So usually the the underwriter and the loan officer will kind of look back to two years of tax returns, but something to keep in mind that has come up with Christina and I have been working together when I've worked with other lenders who do doctor loan programs is if you're negotiating the your first job out of residency or fellowship and you are going to take a 1099

position and you know you're probably going to purchase a hope in the next six to 12 months. It's a good idea to make sure if you can, to ask the person that you'll be working with, whether it's the group or the hospital to really put into your contract. If they can tell you that you're to have a certain number of guaranteed shifts. I know that's come up before because that just makes the underwriter right? That makes the underwriter much more comfortable because if they see that, okay, well that this person is going to be guaranteed 20 shifts, that will yield $20,000 a month and that's income that they can pick up. You may not necessarily need to prove with a tax return. So you know more information, more concrete information is better than information that's not concrete. So these are things that you want to keep in mind and kind of make sure you think ahead and look forward to those types of aspects. And as Christina mentioned, it's really important to find a lender who understands 1099s and business owners who knows how to underwrite those and doesn't very regularly. Usually if you're going with a doctor loan program, most of those lenders should have that experience because if you don't, that'll just make the process much more cumbersome and you may risk the loan getting rejected when another lender may have been able to do it without that rejection.

Christina: 47:34 That is true. We've had that experience right on,

Anjali: 47:37 correct. Unfortunately, we've had that experience, but it's not Christina and her team's saved the day. So our clients got into their dream home and it was great.

Christina: 47:47 Your loan officer needs to be an advocate for you and you need to be an advocate for yourself. And those are the two things and it's, it's an intrusive process. That's what I was saying about you have to like your loan officer to, you have to make sure your loan officer's going to go to bat for you and understands. You gotta talk to them and explain, okay, I'm doing this. I'm a 1099 I have these shifts. People like explain things and then you know what to explain. Your loan officer needs to know what to, to tell the underwriter because the underwriter calls up the loan officer or they call me up. I know. And they'll say, so what about this client? What's going on? And I and I'll know what's going on with that client.

Anjali: 48:22 That's a good point because the underwriter is not going to talk to you as the borrower. The underwriter's going to talk to the loan officer. So it's really important that you fully disclose as much information as you can to your loan officers so they can present the best case for you to the underwriter because it's the

| | | underwriter that's ultimately give you, you're clear to close so that you can actually close on your property. |
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| Christina: | 48:45 | Correct. And then I will wait, do well given advice. Even if if you're using me it'll be fine. But if you ever have a problem with your loan officer, you need to go over their head. Like you need to say listen as a manager in, I mean you just need to make sure that you're, I hate to say it, but the squeaky wheel a little bit because you don't have to say, listen, I want to talk to somebody else because I have had experiences where people are like, my loan officer disappeared. Like I don't know where they are. Like, and that's not the norm, but I'm just saying make sure you're the squeaky wheel and say, well I need to talk to their supervisor. I need to talk to somebody else. That that is a really important thing. Sometimes you'll just get overwhelmed and then they just don't know what to do. So that's most everybody has on their signature page, their manager's name or anything like that. So just always keep that in mind if you need help, there's other people at the bank that will help you. |
| Anjali: | 49:39 | Correct, because they don't want to lose the loan if they don't need to. And that's why it's important when you're shopping for lenders, if you have someone who's a referral from someone else that worked with that person, I think that always helps because just like any industry, you may not have the best players in every space of having that recommendation I think is really important. So thank you so much Christina. This was really great information. So tell our listeners how they could reach out to you if they're interested in obtaining a mortgage and want to connect with you |
| Christina: | 50:13 | so you can Google me. Christina Razzi RAZZI. My email is Christina.razzi@usbank.com I recommend looking me up seeing, I have a lot of good reviews, I only work with referrals in general, but this I feel like this would be a referral source. A podcast. Yes. Yeah, that's it. That's how you get in touch and |
| Anjali: | 50:38 | Christina's contact information will also be in the show notes for the podcast so if anyone missed the email or wants her direct phone number, um, all of that will be in the show notes and I highly recommend Christina if you are in the process of looking at a mortgage just to pick her brain on it. She's, she's usually my preferred lender, a she as I mentioned in my first home and overall I heard her team are really great and provide that excellent customer service, which I think is really important in this industry. Thank you Christina for being on the podcast. |
| Christina: | 51:10 | Thank you so much. Have a good day. |

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| Anjali: | 51:14 | Thanks for tuning in to today's episode. If you're wondering how much home you can really afford stay tuned for episode next week in which I walk through home affordability analysis, things to consider, and how to come up with a price range that works for you and your financial situation. |