

BoeKnows Real Estate

Your Questions from Real Estate Buyers, Seller, & Agents

By Patti Boe

Q: What's the difference between a stated income loan and a fully documented loan if I want to purchase a home or refinance my home loan?

A: To put it simply, a stated income loan is where you, as the borrower, are stating your income but not providing any proof of your income. The usual result is a higher rate for the loan because of the lack of documentation of your income. Under prime and Alternative A lending guidelines, a fully documented loan typically requires either the last 2 years of tax returns or W2s. With the subprime fallout and the resulting impact on the lending industry, programs like stated income loans have recently come under greater scrutiny. Stated income and fully documented loans are just two types of programs, there are others available but for now we will just address these two loan programs.

Is this greater scrutiny on stated income loans fair? Like a lot of things in life, stated income loans programs were created with good intentions but morphed into something abused by the less scrupulous elements in the lending industry. Stated income loans were originally designed for the self-employed but they also filled niches for other borrowers on the fringe who were unable to provide full documentation of their income. But as the subprime market began to grow, other types of borrowers started using stated income loans to qualify for purchase and refinance loans. Within the lending industry, stated income loans were referred to as "liar loans," which I believe is self-explanatory and doesn't require further explanation on what borrowers were doing on these loan applications.

During the most recent increase in the California housing market, many borrowers purchased homes with fairly exotic loan programs like the 80/20 Interest Only Stated Income loan. Let's break that down, this was a loan with 100% financing with zero down creating an 80% first and a 20% second and both loans were interest only payment loans with the borrower stating income. Well, guess what? It turns out this very popular loan program (and others similar to this one) was one (of many) culprits in the resulting subprime fall out. Recently, regulatory agencies have started examining certain loan programs like Interest Only loans, Stated Income loans, and Adjustable Rate Mortgage loans to see if they are in the best interest of the borrower.

So what should you do if you are self-employed and want to buy a home or do a refinance? Well, a lot of it will depend on you as an individual. To get the best rate possible, do the fully documented loan and submit the last 2 years of tax returns. If you aren't concerned with rate and more concerned with convenience, then stated income loans might be your best bet but please be truthful about your income on your loan application. But you should know, many lenders are now requesting a 4506T which gives the lender the ability to see what you declared as income on the last two years of tax returns. If the lender submits and they are beginning to do so more often, the numbers on your loan application and the 4506T better match up.

One last note, I believe, and please remember this is only my opinion, the stated income loans may go the way of the dinosaur and be disappearing in the near future (or at least be so rare it will be difficult to get one through the underwriting process). What is the evidence for this statement? Well, I do not have any evidence to present, it's a just a theory based on the rumblings coming out of Capitol Hill, changes in lender underwriting guidelines and keeping an eye on the market here in Santa Cruz and the rest of California. But rest assured, lenders will continue to tighten their guidelines to create a sellable security on the secondary market.

For fun, art appreciation and wine tasting, I just want to remind you of the Capitola Art & Wine Festival this weekend – Saturday and Sunday, all day with great music into the late afternoon for dancin' on the beach. Please stop by and say hello.

Call Patti Boe 800-738-3261, See PattiBoe.com for beachfront homes, commercial and

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