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letter regarding the difficult nature of Jumbo loans, here is an example of a Jumbo loan that was difficult to get closed based on some quirks in the guidelines:

Borrowers are self-employed in a relatively new business that they had been running for 2.5 years. The purchase price for the new home purchase was \$1,662,500. The property was a condominium and the borrowers were going to occupy the property as their primary residence. They wanted to put only 15% down payment, not the traditional 20%, because they needed to hold back some of their cash reserves to show the lender that they had emergency funds and to run their business. Credit scores were high, 792 middle score. The business was generating excellent cash flow and the income per month averaged over the prior two years was coming in at almost \$30K/month. Borrowers had close to \$400K in liquid assets (cash) in the bank. I was able to find them a 30-year fixed product that allowed for less than the conventional 20% down payment, while not requiring PMI, Private Mortgage Insurance, which is typically required as an additional monthly cost when putting less than 20% down payment. The interest rate was very low for a Jumbo loan with 15% down. The property was in a very competitive market in Manhattan Beach, Southern California, and was close to the beach. There was a fair amount of competition for this property, so the offer written was for a relatively short closing period with short loan and appraisal contingency periods as well. The Jumbo investor for this loan has very tight guidelines when it comes to qualifying for the payment and requiring 12 months of total mortgage payments, PITI (Principal, Interest, Taxes, and Insurance), held back in reserve in liquid (cash) assets. On paper it seemed like these borrowers could qualify for the payment, but the problem arose when showing the 12 months PITI in reserve. Even though the borrowers had enough cash to cover the down payment, closing costs, and 12 months of PITI, the investor had issues with the source of the cash reserves because

the borrowers kept all their personal and business funds in the same account. Upon reviewing the bank statements, the investor added conditions requiring the business Profit and Loss, P&L, statements to determine if the reserve assets, when depleted in an emergency, could still sustain the business expenses. The determination was made by the investor that the available cash in the bank was not enough to cover the down payment, closing costs, 12 months PITI reserves, and still have enough left over to fund the business expenses. While all of this was being assessed, the contingencies on the purchase contract for loan and appraisal time periods had elapsed and I was forced to make the buyer, seller, and both real estate agents wait on the investor's decision regarding the final loan approval. Naturally, this was a high-stress situation for all parties. The solution was to wait on payment of an account receivable from one of the borrower's vendors of \$50K that could put the total amount of cash funds over the top to meet all the investor's requirements. The borrowers had initially put \$50K on deposit when getting into contract to purchase the property and I wasn't willing to allow them to put those funds at risk by removing the loan contingency until ten days after it was due, until the investor gave its blessing to the additional cash influx from the \$50K account receivable payment. This delay was the right thing to do despite all the stress it caused to all parties in the transaction. The end result was that the borrowers got their dream house, a great rate, the right loan product, and did not put their \$50K deposit at risk.

More examples in coming issues.

*As always, your loan guy,
Viral (Vic) Joshi*

P.S. If you want to get more timely market updates, I have a weekly newsletter that goes out via e-mail. E-mail me, **viral@vicjoshi.com**, so that I can put you on the mailing list.

Vic's

Mortgage Report

"Home of Free Mortgage Consultation"

Viral (Vic) Joshi
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Mortgage interest rates started falling again with rates hitting another low point for the year on June 4th. The promise of the Federal Reserve starting to cut their target

interest rate, the Fed Funds, seems to be getting closer to becoming a reality. The most recent Federal Open Market Committee meeting that concluded on June 19th indicated that the Fed may start cutting their target rate as soon as the July meeting and seven of the acting Fed members called for multiple rate cuts this year. This is a very hard turn from the December 2018 Fed meeting when the Fed announced that they would increase rates three times this year. With the economy slowing and the job market adding fewer jobs, coupled with the Trump Tariffs, it appears the Fed is going to use the Fed Funds rate cuts to try and keep the economy from falling into a recession rather than wait until after we are in recession. We will see if this plan works but the end result is that Fed rate cuts are good for the bond market, which is good for mortgage interest rates. I am inundated with refinance requests and have been trying to be proactive reaching out to previous clients, time allowing. If you want to know whether or not a refinance and increasing monthly cash flow is in the cards for you, feel free to reach out to me for a *free* consultation.

Following up from last month's news-
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