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GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE

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> FINANCING CONSIDERATIONS

NOT A U.S. CITIZEN? NOT A PROBLEM.

In recent years, cash has dominated U.S. real estate purchases by foreign nationals. According to NAR's *2013 Profile of International Home Buying Activity*, agents reported that 63 percent of their international transactions were conducted without financing.

Is that because foreign buyers prefer a cash purchase, or do they feel locked out of the U.S. mortgage market? If the latter, agents may be able to help more global buyers reach the closing table by identifying lenders ready and willing to meet their buyers' needs.

This issue of ***Global Perspectives*** looks at the foreign national mortgage market for U.S. properties from an agent's point of view. It turns out there are lenders and products that meet many different needs, and more are on the way. They are not, however, always easy to find.

Credit history has been a big hurdle for foreign nationals who want to finance a U.S. home but do not have a borrowing record in the states. Depending on the buyer's situation and resources, this is less of a problem today than in the past. Lenders are now able to work around the absence of a credit history and scores.

Read on to learn more about lending programs for overseas buyers and ways to find the right mortgage for your foreign clients.

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U.S. MORTGAGE OPTIONS

If you have worked with global buyers of U.S. properties, at some point you've probably been asked about financing. During and after the recession, mortgage programs were limited to non-existent. Recently, however, the tide has turned and credit to foreign buyers has loosened. In fact, some institutions view lending to foreign nationals as a growth market. Depending on your buyer's resources, there may be several products that meet their needs and circumstances.

Looking back

In the early 2000s, the housing and mortgage markets were booming and it was fairly easy to find mortgages for global buyers. Terms were attractive and buyers often qualified for 80 percent or even 90 percent loan-to-value ratios. Rates were higher than they were for domestic borrowers, but financing was readily available.

The recent economic recession in the United States (2007-2009) changed everything. Highly qualified cash-rich foreign buyers looking for a mortgage had to be turned away because no one was lending. "I had buyers who could put 50 percent down, who had impeccable financial histories and other liquid assets, and I had nothing to offer them. It was crazy," remembers Judy Hamblen, Senior Loan Originator with the mortgage brokerage firm Sentrex Finance in Fort Lauderdale, Florida. "Many excellent buyers had to walk away from their deposits."

Over the next few years, the market slowly loosened. A limited number of mortgage products became available but required 40 to even 60 percent down. Borrowers had to leap through hoops to prove creditworthiness. Documenting international financial and credit histories was expensive and lengthy, potentially involving other complications, including professional translation services.

What has changed?

Not only have there been improvements in the economy, but the wave of refinancing that drove lending during that period has wound down. Lenders are looking for new markets. Census and market data point to a growing role for immigrants and foreign nationals in the U.S. housing market. Already, the impact of global buyers has helped many markets turn the corner.

In the past year, lenders have begun introducing more products tailored to foreign national buyers. Loan-to-value ratios have improved and lenders are coming up with ways to work around the credit history issue. In short, there are still significant demands placed on global buyers' resources, but mortgages are available to qualified buyers, even in amounts up to $10 million.

Which segment applies to your buyer?

Just as there are different types of domestic borrowers, there are different segments of the foreign national mortgage market. Factors affecting mortgage type and availability include how the property will be used, accessibility of the borrower's credit history and financial profile, type of visa, loan size and funds for a down payment. Most buyers will fall into one of three general categories, segmented by their visa status and property use.

Buyer #1: Green card and work visa holders buying a primary residence
Immigrants with valid visa status to live and work in the United States, a history of U.S. employment and a social security number face fewer borrowing difficulties than other foreign buyers and can apply for a conventional mortgage.

People in this group tend to be first-time home buyers. They may or may not have established a U.S. credit history. Often they are looking for an entry-level home at a low price with a low down payment. Family members in their home country may be sending cash for the down payment.

Immigrant first-time buyers may qualify for an FHA-insured mortgage. (*For more details, see the subsequent article beginning on page 5.*) If they've built a solid credit history and meet FICO requirements, they may qualify for a 3.5 percent down payment, all of which can be funded as a gift, with proper documentation.

Buyer #2: Foreign nationals buying a second residence or vacation home
With their primary residence outside the U.S., many consider this group as the prototypical "foreign national." Their length of stay in the U.S. is limited by the type of visa they hold and they are not allowed to work here.

There are a number of hurdles to finding a loan that fits their needs. Comprised of visitors and vacationers who want to spend more time in the U.S., members of this group probably haven't established a paper trail in the U.S. banking system. Whether justified or not, they are perceived as risky. Compounding the risk is that they are looking to finance a second residence, always more dicey than the first.

"This buyer is typically cream of the crop in their own country," says Hamblen. "They are financially solid enough to afford buying a second home and use it only part of the year, but their overseas resources can't easily be documented in a format familiar to U.S. lenders." Banks get especially nervous if these mortgages turn out to be jumbo loans. There are a number of ways lenders can work around the absence of U.S. documents to determine if an applicant has enough income and assets to qualify for a mortgage. However, after a borrower qualifies, they should expect to make a substantial down payment in the range of 30 to 50 percent. Lenders may require as much as two years of mortgage, insurance and tax payments to be deposited in a U.S. account.

Depending on the lender, these buyers can borrow up to or more than $5 million. Lenders will be looking for extensive documentation of their foreign assets, liabilities, credit dealings and proof of income.

Buyer #3: Luxury and other high-end foreign buyers
At the top end of the second home market is a smaller group of ultra-high net worth foreign buyers. Though these buyers usually pay cash for high-end properties, they sometimes want a mortgage to free up funds for other investments. They may initially purchase with cash to gain an advantage in bidding, then cash out after closing with a post-sale mortgage.

Fewer lenders serve this market, which is largely geared towards international banks looking to expand relationships with high-net-worth individuals. Borrowers can expect a low loan-to-value ratio, perhaps 40 to 50 percent. Large deposits in a U.S. account will also be required, although borrowers may be allowed to pledge other assets as collateral.

Where to find lending programs

Typically, foreign nationals do not fit the underwriting requirements of retail banks. There are, however, three major types of institutions serving the foreign national mortgage market: local-level lenders, wholesale lenders that operate regionally or nationally, and international banks with a global reach. A closer look at each:

Lender #1: Community banks and credit unions
Chartered to lend in specific geographic areas, community banks and credit unions focus on local businesses and residents. Community banks are a good place to look for conventional and FHA-backed mortgages. In terms of

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CANADIANS IN THE U.S.

Canada's financial and credit systems are similar to the United States', which can make it easier for Canadians to secure a mortgage for U.S. property:

- **Credit reports** can be pulled from Equifax Canada and TransUnion Canada
- **Credit ratings**, determined by Beacon scores, assign credit risk much like the U.S. FICO score

Canadian banks with lending offices in the U.S. include Royal Bank of Canada, BMO/Harris and others.

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U.S. MORTGAGE OPTIONS

FINDING LENDERS

MortgageElements.com
Conduct state-by-state searches of wholesale lenders with programs for foreign nationals (choose the purple Fn element under Specialty Programs and select a state).

CanadaBuySouth.ca/mortgage-brokers
Mortgage brokers and lenders serving Canadians and other international buyers who want to purchase U.S. property, along with other resources (real estate agents, listings, and more).

residential loans, credit unions tend to be less active in the secondary market and more likely to service their own mortgage portfolio. If their market includes areas with large immigrant populations, community banks and credit unions may have lending programs designed to service this group.

Areas where you might expect to find lending relationships in immigrant communities are Boston and its suburbs, the New York City/Newark MSA, parts of south Florida, Chicago and large cities on the west coast. In some cases, these lenders have multicultural outreach programs to educate newly arrived immigrants on consumer finance. Here you will find conventional, conforming and jumbo mortgages, depending on the needs of the buyers.

Lender #2: Wholesale lenders
A handful of wholesale lenders are originating loans specifically for the foreign national market. Working through mortgage brokers who are on the front lines with consumers, wholesale lenders cover a broad spectrum in size and scope, with some originating U.S. mortgages in all 50 states while others operate on a smaller regional basis. Some wholesale lenders offer financing on 1- to 4-unit income properties and jumbo loans are easy to find. Expect extensive financial documentation requirements and down payments in the 25 to 40 percent range.

These lenders work through mortgage brokers who are familiar with the foreign national market. The broker can typically help your buyer connect with lenders that service your area and whose requirements will fit your buyer's qualifications. For example, New Penn Financial, Western Bancorp, and Supreme Lending are all wholesale lenders with programs for foreign nationals.

Lender #3: International banks
This group includes both foreign banks with offices in the U.S. and U.S. banks with international offices. Their global networks provide much easier access to financial information from other branches. International banks may also have proprietary risk evaluation methods which can be applied to lending standards across their system. Some international banks offer jumbo loans, although foreign buyers of U.S. properties can probably expect 50 to 75 percent loan-to-value ratios.

International banks lend to foreign borrowers as part of a larger strategy of broadening customer relationships. Buyers who already have accounts with branches in their home country may find the loan process moves faster than those who don't. However, they can still expect to maintain substantial sums on deposit in the U.S. For new clients, especially wealthy ones, large global banks see the opportunity to cross-sell other products and manage investments.

International banks lending to foreign nationals in the U.S. include Citibank (U.S.), HSBC (U.K.), BMO/Harris (Canada), CTBC (Taiwan) and RBC (Canada).

Some banks don't limit their focus to one type of borrower. "Under our foreign national programs we can offer up to 65 percent loan to values for a second home purchase or possible investment property using income and asset verification from their country of origin," says Latonia Donaldson, Vice President and National Multicultural Lending Director at PrimeLending. "But we also have a non-traditional credit program for borrowers who have been relocated to the U.S. which does not require the traditional three credit scores. Instead, alternative credit may be used."

Today there are more types of mortgages available to foreign buyers than since the beginning of the credit crunch. It's worth investigating options further so you can provide resources and references to your global clients.

For any real estate agent—and especially for those involved in cross-border transactions—your ability to reach the closing table is largely dependent on your ability to be a problem-solver. Fortunately, mortgage financing for foreign buyers of U.S. property is one problem that is becoming easier to solve.

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Clearing the CREDIT HURDLE

When it comes to mortgage financing on U.S. properties, domestic buyers have one distinct advantage over global ones: their credit history is easily accessible. Not so with foreign borrowers. Verifying an overseas credit standing can be the make-or-break hurdle to getting a loan and closing a transaction.

Why is documentation so important?

Perhaps you have a global buyer with considerable assets overseas, a steady income stream from employment and investments, extensive dealings in his business community and a solid relationship with his local bank. To you, he seems readily qualified to borrow. A lender, however, will want solid documentation of income, assets, liabilities and past credit dealings, supplied by reliable sources. Without this, they may not be willing to roll the dice.

In the U.S., credit reporting is the cornerstone of mortgage risk assessment. Domestic borrowers must produce credit reports from the three big credit bureaus, Equifax, TransUnion and Experian. No other country, however, has three credit bureaus. Only a handful have one or two and most don't have any.

Lenders working with foreign nationals have to find alternative ways to assess risk. If an applicant meets the standards, the lender will require a substantial down payment. Loans above $1 million may require 50 percent down. This is because the loan will most likely stay on the lender's books.

Domestic mortgages can be bundled and securitized on the secondary market, relieving the original lender of default risk. However, a non-resident foreign national's mortgage doesn't conform to the same standards and can't be sold into the secondary market.

Not only does the risk remain with the lender, it will be more difficult to pursue action against a non-resident mortgage holder in case of non-payment. This is why lenders typically require larger down payments and substantial cash reserves held on deposit in the U.S.

Most mortgage lenders to foreign nationals have ways to evaluate risk in the absence of FICO scores so they are comfortable holding the loan. Here are some of the things they look for.

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COMMONLY REQUIRED DOCUMENTS

For second home and luxury purchases, lenders may ask foreign nationals for copies of any of these applicable documents:

- Two years of home country personal tax returns with all pages and schedules
- If self-employed:
  —personal and business tax returns
  —profit and loss statements and balance sheets for the business
- Recent pay stubs
- Letter verifying employment or copy of employment contract
- Letters of reference from creditors
- Two most recent monthly or quarterly statements for all:
  —bank accounts and CDs
  —mutual and stock funds
  —retirement accounts
  —any other liquid assets
- Mortgage statements for all properties owned
- Previous year's property tax statement
- Current homeowners' insurance statement showing annual premiums
- Monthly condo or homeowner association fees
- Passport, visa, driver's license
- Statements from current mortgages
- Possibly international credit reports, depending on origin country
- Individual Taxpayer Identification Number (ITIN)

Asset statements must cover the down payment and closing costs.

(continued from page 5.)

Clearing the CREDIT HURDLE

Existing bank relationship

Given a choice, people generally prefer working with someone whose background is known or can be vouched for, rather than a stranger. Banks think the same way. They like it when a foreign buyer already has an account with one of their overseas branches.

International banks can assess risk by drawing on documentation from their overseas offices. The borrower's accounts are on file; their assets and liabilities may be documented; their personal relationship with a bank manager can be vouched for. For a global lender, this may overcome lack of a U.S. credit history.

For example, Taiwan-based CTBC (formerly China Trust Bank) makes mortgage loans to overseas buyers though branches in California, New York and New Jersey. A U.S. branch can supplement its risk analysis by tapping the buyer's financial records from its offshore parent bank.

Other banks with world-wide reach include Citibank with branches in 36 countries, and HSBC, which is represented in 81 countries. If your buyer has a relationship with a big international bank, this may be the best path for obtaining a mortgage.

Alternate ways to assess risk

What if your client buying a second home in the U.S. does not have accounts with a major international bank? Lenders serving this market have their own internal processes for constructing an alternative to a credit bureau report. For instance, HSBC has a proprietary model that uses documentation of an applicant's income, assets and liabilities that fall outside the U.S., then balances the perceived risk with high down payments and account reserves.

Large banks and wholesale lenders ask overseas applicants for substantial documentation from reliable sources in their home country. (See Commonly Required Documents, left.) They may order international credit reports, mostly available for buyers from the U.K., Ireland and Canada. The process can take weeks and be costly, especially if documents must be professionally translated.

Paper trail in the U.S.

Permanent and non-permanent resident immigrants buying a moderately-priced primary residence are governed by a different set of rules. Depending on their visa status, they may qualify for an FHA-insured mortgage under requirements similar to those set for domestic applicants. (See Non-citizen Requirements Under FHA Guidelines on page 7.)

For immigrants who have not established a credit history in the U.S., FHA-insured mortgages are an attractive option. An added advantage is they can require as little as 3.5 percent down. Community banks in immigrant communities are a good source of information on FHA-insured products. They will have experience working outside the credit bureau arena in non-traditional methods of qualification.

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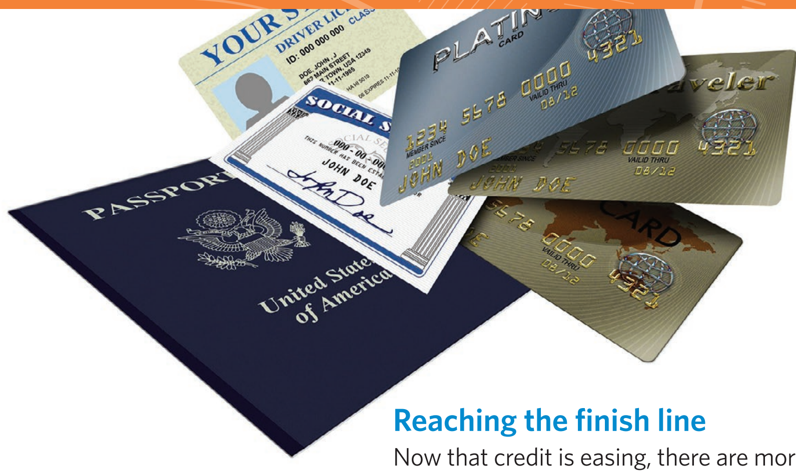

Reaching the finish line

Now that credit is easing, there are mortgage products that can meet the needs of most immigrant and foreign national buyers. The key to qualifying will be how well the applicant can document their sound financial position through sources a lender recognizes as valid.

Loan documentation, however, is also a topic that requires cultural sensitivity. Pointing clients to the best sources for financing requires understanding details about their personal financial situation they may not feel comfortable sharing.

Education can be the best way to make progress. Teach your clients how financing works in the U.S. and which pathways may be most viable. Assisting them with mortgage solutions will help clients appreciate your role as a problem-solver, raise their confidence in working with you and make it easier for them to disclose their personal financial details—initially with you, but in much greater detail with whichever lender they decide to use.

FOUR THINGS TO ASK FOREIGN NATIONALS PURCHASING PROPERTY IN THE U.S.

1. **What visa do you hold?**
   - Lenders may not work with holders of some types of visas.
2. **Are you buying new construction or a property in a new development/building?**
   - Lenders prefer existing homes in established developments
3. **Are you buying a condo?**
   - Some lenders do not finance condos
   - Others have requirements that affect LTV ratios; if requirements are met, down payments will be lower

     Lenders look at:

     —percentage of sold units

     —limit on how many units are owned by one entity

     —amount of commercial space in the building
4. **Do you plan on renting your home off-season?**
   - Some lenders don't allow it. Your buyer may have to sign a affidavit that they will not rent the property.

NON-CITIZEN REQUIREMENTS UNDER FHA GUIDELINES

Permanent and non-permanent U.S. residents can apply for an FHA-insured mortgage with:

- Social security card
- Evidence of two years steady employment, two to three years of tax returns (non-U.S. acceptable)
- No U.S. credit rating necessary
- Evidence of one year of consistent payment history (rent, utility bills, cell phone, cable, auto insurance, etc.)

However, visa status and terms of ownership are different:

Permanent Resident	Non-permanent Resident
Valid Green Card, Form I-551	Work visa with one of the following designations: E1, E2, H1B, H2A, H2B, H3, L1, G series and 0-1. If visa expires within a year, must produce history of prior renewals or written intent to renew.
Property can be non-owner occupied	Property must be primary residence of owner

Source: HUD

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FIRPTA UPDATE

NAR Work Group Develops Recommendations

As Washington, D.C. lawmakers consider easing restrictions on **foreign investment in U.S. commercial property** governed by the Foreign Investment in Real Property Tax Act (FIRPTA), NAR convened a work group of member experts to study the issue and make recommendations. (The special work group included representatives from the Federal Taxation Committee, Commercial Committee and the Global Businesses & Alliance Committee.)

The work group's recommendations were presented at the REALTOR® Party Convention & Trade Expo (previously called the Midyear Legislative Meetings) in May. For complete details on their recommendations and related developments, visit The Global View blog at **theglobalview.blogs.realtors.org**.

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REALTORS® Conference & Expo In Full Swing!

Registration is now open for the REALTORS® Conference & Expo. Register and book hotels early as hotels fill up quickly!
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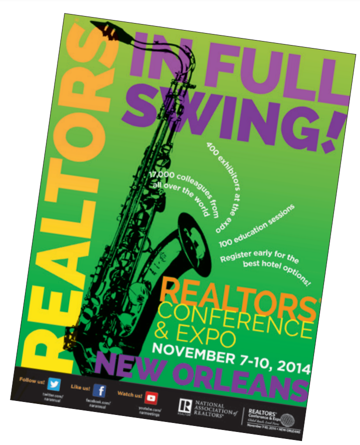

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