

## **REAL ESTATE 101 (To be a smart buyer read all topics)**

### **QUALIFYING FOR A HOME LOAN**

Many adults continue to rent rather than buy a home because they don't believe they can qualify for a home loan. Lack of a good income, down payment money, poor credit, and/or a full-time job are some of the reasons for these beliefs. Congressmen and Senators believe home ownership is a right for all Americans. Therefore, several programs are available for the financially challenged.

The following are the basic requirements for loan qualification:

1. Full-time job, generally requiring one year of work in the occupation. College graduates employed in professional jobs often can be approved after a few weeks on the job. People with income from social security, disabilities payment, and others who are self employed will be considered based on an expectation that their income will continue and this income must be documented on tax.
2. Acceptable credit, this varies according to the type of loan.
3. Acceptable income and debt ratios to qualify for the monthly payment.

Today there are many web sites that will provide you an opportunity to enter your incoming and monthly debt payments to determine what monthly payment you can qualify for. Debts that must be considered are monthly payments for student loans, car loans, credit cards, child support and/or alimony payments. The following example will illustrate a very conservative formula for loan qualification.

John has a monthly income of \$4,000 and Mary earns \$4,200 monthly. They have car payments totaling \$645 and student loans totaling \$350 monthly.

Total income  $\$8,200 \times 29\% = \$2,378$

Acceptable debt payments ratio  $\$8,200 \times 36\% = \$2,952$   
 $\$2,952 - \text{monthly debt of } \$995 = \$1,957$

\$1,957 is the maximum monthly home payment

Assuming monthly tax of \$275 and home insurance of \$75 the payment for principle and interests could be as high as \$1,607. A thirty year fixed loan @ 6% interest rate would provide for a \$265,000 loan.

Home buyers are able to receive 100% financing, However with less than 20% down payment money the buyer must pay a private mortgage insurance (PMI) and the monthly payment is increased significantly. Many buyers secure an 80% first mortgage and 15% second mortgage with a 5% down payment to avoid the private mortgage insurance payment. Veterans who are eligible for a VA loan can avoid paying a PMI and also can purchase a home without cash for a down payment.

Home buyers that have low credit scores may be able to qualify under an FHA loan. If qualification is not possible under an FHA loan, opportunities may be available for first time home buyers through Federal funded state programs which offer grants for down payment assistance. Other opportunities may be provided by securing an (a-) or (b) graded loan. These are considered risk loans and the interest rates and closing costs are higher than (a) rated loans. Home buyers need to be very careful when considering these loans as some of the mortgage companies offering these loans may put you in a difficult financial position.

Your National Home Buyer Association Quarterly conducts a loan interest rate and cost study. the two companies that provide the lowest interest rates and junk fees (fees such as origination, processing, administration and underwriting fees) have a link on NHBA's home page. **You are encouraged to consider filing a loan application with one of these companies.**