

# ROAD TO HOMEOWNERSHIP

## Part 3: Mortgage 101

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You've made it through the first couple of phases. Now, it's time to think about qualifying for the home of your dreams!

### Have you saved money for downpayment and closing costs?

Not to fret, there are some programs available to assist with both. Think about how much money you can afford to put down on your home.



How much can you really afford to spend per month? Don't forget to factor in maintenance, utilities, insurance, taxes, etc. There are many financial responsibilities

that go along with homeownership.

### LOAN PROGRAMS

The most commonly used programs today are FHA, VA, and Conventional Loans.

HUD backs FHA loans, while VA loans are backed by Veteran's Affairs. Any number of sources may back conventional Loans.

The biggest differences in these loans are:

- Qualifying Ratios
- Downpayment
- Rate

While other factors contribute to the difference between these loans, like sales price, age of home, etc. Most attention is paid to the aforementioned factors.

### What are Qualifying Ratios?

Qualifying Ratios help the lender determine how much home you can afford based on historical performances of people in your same income bracket. Some loan programs allow you to spend more of your money toward your housing, while others demonstrate a preference for individual savings.

### What is downpayment?

The downpayment requirement for each loan varies. This is the money you have to deposit on the actual home.

FHA typically requires a 3% downpayment, VA typically requires a 0% downpayment and Conventional loans require a minimum of 5% down.

### How do I figure downpayment?

Take the percentage required by each loan program and multiply by the amount down. For example, for a Conventional Loan on a home with a sales price of \$80,000, multiply  $.05 \times 80,000 = 4000$ . Therefore, your downpayment requirement for this particular loan would be \$4000.

### **How much are closing costs?**

Closing costs are hard to calculate unless you know an exact loan amount. Speculatively speaking, estimate at least 3% of the sales price.

### **Where am I going to get all of this money?**

You can do this! You may need to save some and you can always seek assistance. For example, on FHA loans, the seller of the property is allowed to contribute up to 3% of the sales price toward closing costs. In addition, some loan programs allow family members to contribute gifts of money toward downpayment, etc. if carefully documented. **CASH IS NEVER ACCEPTED.**

Some loans even finance up to 100% of the sales price of the home, the Credit Union 100, for example, and allow the seller to contribute toward closing costs.

100% loans are typically designed for very good credit and carry a slightly higher interest rate and slightly higher rate for mortgage insurance.

So, get to the Qualifying Part Already!

By now, you should know how to calculate your gross monthly income. You should have cleaned up your credit, and you should have exhibited responsibility toward saving and financial obligations.

Prior to rushing out and picking out the dream home, let's get you qualified based on income and credit history.

We offer FREE credit and income prequalification to our members. If you are interested in exploring the options available to you, contact us to setup an appointment.

You will need the following information:  
(For all borrowers)

30 Days Pay stubs  
3 Months Bank Statements  
Two Years Tax Returns

This is the minimum documentation needed. Upon reviewing your situation, we will be able to tell you if other things will be required.