Home Loans 101:

What you need to Qualify for a Mortgage Today!

Most people know about the many benefits and rewards of becoming a homeowner. What most don't know is what it takes to qualify to buy a house. Now more than ever, there is a lot of confusion about getting qualified for a mortgage. It's common to hear people say, "I heard banks aren't lending money right now" or "I heard you need to have 20 percent down to get a mortgage these days." This is now all true.

While mortgage underwriters look at a lot of different information to determine whether you'll qualify for a mortgage, ultimately, it comes down to four things: credit, equity, income and assets.

Credit:
Your credit is one of the most important things that will be considered when determining if you qualify for a home loan. Your credit history is how a lender will judge the likelihood that you'll pay them back the money they lend you. To do this, a lender will look at the length of your credit history, how reliably you've paid on your loan accounts and if you're maxed out on credit cards or loans. These are also the factors that determine your credit rating or credit score. Your credit score will be used to qualify you for a mortgage and will often determine the interest rate you will be offered.

In addition to your credit score, lenders will look at items on your credit report. They'll want to see that you've had accounts open for at least a year and that you don't have any large outstanding collections or judgments against you. If you have collections or judgments on your credit report, you will usually have to take care of those first before you can get financing.

Equity / Down Payment Buying a Home:
The minimum required down payment when buying a primary home is typically 3.5 percent of the sales price, which will allow you to get an FHA loan – but there is also a 0 percent down Rural Development loan, these are great for home buyers who can't come up with a huge down payment. FHA loans also don't penalize you with a higher interest rate if you have less-than-perfect credit. Another option is a conventional mortgage. Conventional loans typically require 5 percent down depending on the lender.

Income vs. Debts:
Another factor looked at by lenders is your debt-to-income ratio (DTI). This is simply your fixed expenses with the new mortgage compared to your gross monthly income (income before taxes are taken out). Lenders typically want to see someone spending less than 45 percent, depending on the loan program, of their gross monthly income on these fixed expenses, which include your mortgage payment, property taxes, association dues, home owners insurance, car loans, student loans, credit cards and any other fixed payments that would show up on your credit report. Variable expenses like utilities, phone and cable are not included in your DTI.

Lenders also want to see a good employment history and will verify your past two years of work. It's much more difficult to qualify for a mortgage if you don't work a typical "nine to five" job, are part-time or self-employed.

Assets:
Lenders also verify that the funds you will use for your down payment are in a liquid account, like a checking account or savings account.

In sum, there are many different factors that go into qualifying for a home loan. If you have any further question feel free to contact CJ Huber at cjhuber@hcpfcu.coop or call
605-725-0900.