"For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it?" (Luke 14:28)

Buying a home for the first time or refinancing an existing home is one of the most important investment decisions a person or couple will have to make. In either case the decision to purchase a home or refinance an existing home should not be a hasty one. This decision will affect you and your family's future for the next 15 to 30 years, so do your homework before signing the papers! Today we will explore some options for purchasing a home, such as loan types.

Once the decision has been made to purchase a home, you will need to get "pre-approved" by a lender for the mortgage loan, and this must be done before meeting with a real estate agent. There are several ways to secure a loan such as a "conventional loan; a subprime loan (mortgage brokers); an FHA loan; a VA loan; or a HELOC. Selection is based on the buyer's qualifications, such as credit scores and amount of money available as a down payment. This quarter we will discuss securing a conventional loan, next quarter subprime lending.

Conventional Mortgage: This is securing a mortgage loan from a local banking institution. A conventional mortgage is underwritten by Freddie Mac and Fannie Mae, which means that they create the rules and regulations associated with these products. Most conventional loans require higher down payments and solid credit worthiness. These programs are mandated from the US Department of Housing and Urban Development (HUD).

The borrower is usually required to have a 20% down payment. If less than 20%, a PMI or private mortgage insurance is charged to a borrower when he has less than 20% equity in the residence. This insurance covers the lender in the event that the borrower defaults on the debt. Therefore, the only benefiting party in the transaction is the lender. To avoid this fee, a borrower must either make a down payment of 20% or more, or procure subordinate financing to cover the needed funds.

The borrower(s) credit report is reviewed by the lender to determine his ability to repay a mortgage debt. If the borrower has any liens or judgments on his credit report, they must be paid in full prior to procuring a conventional mortgage. A bankruptcy must have a minimum of two years discharged or dismissed from a bankruptcy in order to qualify for the new debt. Any late payments on a current mortgage of 30 days or later in the previous 12 months automatically disqualifies a borrower from a conventional mortgage, even if other requirements are met.

The borrower must have a credit score of 620 or higher for consideration of a loan. The borrowers **"debt to income ratio"** is used by lenders to determine the amount of a borrower's income that is strictly dedicated to debt repayment. *The higher the debt to income ratio, the more likely the borrower is over his head in debt.* The preferred debt to income ratio for most conventional mortgage companies is less than 30% although with certain situations lenders will qualify a borrower with a ratio up to 40%. This is a lender-to-lender decision and case-by-case situation. Interest is applied to all mortgage loans and can be either a fixed rate or an adjustable rate. Note, rates vary year to year. Personally I don't recommend an adjustable interest rate. *Next quarter—Subprime Lending*