HOME MORTGAGE OPTIONS

WHAT YOU NEED TO KNOW TO PICK THE BEST MORTGAGE FOR YOU

Hello!

A house is probably one of the biggest purchases you'll ever make. Choosing a mortgage isn't as simple as it sounds. That's because there are many types of mortgages available and they're made up of different components—from the interest rate to the length of the loan to the lender.

Getting a home loan doesn't have to be intimidating – especially when you understand the basics like options, features and costs of a home loan. I have developed this guide to help you understand and educate yourself on the different mortgage loan types you have available.

Please reach out if you have any questions, we are always here to help!

MORTGAGE TERMS

1 **CLOSING COSTS**
Also known as settlement costs, this is the amount of money you need to close the mortgage deal. Closing costs could include title insurance, escrow fees, lender charges, real estate commissions, transfer taxes and recording fees.

2 **ADJUSTABLE-RATE MORTGAGE (ARM)**
a mortgage with a variable interest rate, which adjusts monthly, biannually, or annually. Option-arms and hybrid mortgages are also considered adjustable-rate mortgages.

3 **FIRST-TIME HOME BUYER**
typically defined as someone who has not owned another property at any time during the three years prior to the date of the purchase.

4 **POINTS**
When you buy points, you're paying more upfront in exchange for a lower interest rate, which means you pay less over time. Each point equals 1% of the mortgage.

5 **BRIDGE LOAN**
a short term loan taken out against one property to finance the purchase of a new property.

6 **DEBT-TO-INCOME RATIO**
the ratio of monthly liabilities and housing expenses divided by the monthly gross income of the borrower.

7 **REVERSE MORTGAGE**
a mortgage reserved for homeowners aged 62 or older who wish to tap their home equity without paying monthly mortgage payments.

What is a Conventional Loan

A conventional loan is a type of mortgage loan that is not insured or guaranteed by the government. Instead, the loan is backed by private lenders, and its insurance is usually paid by the borrower.

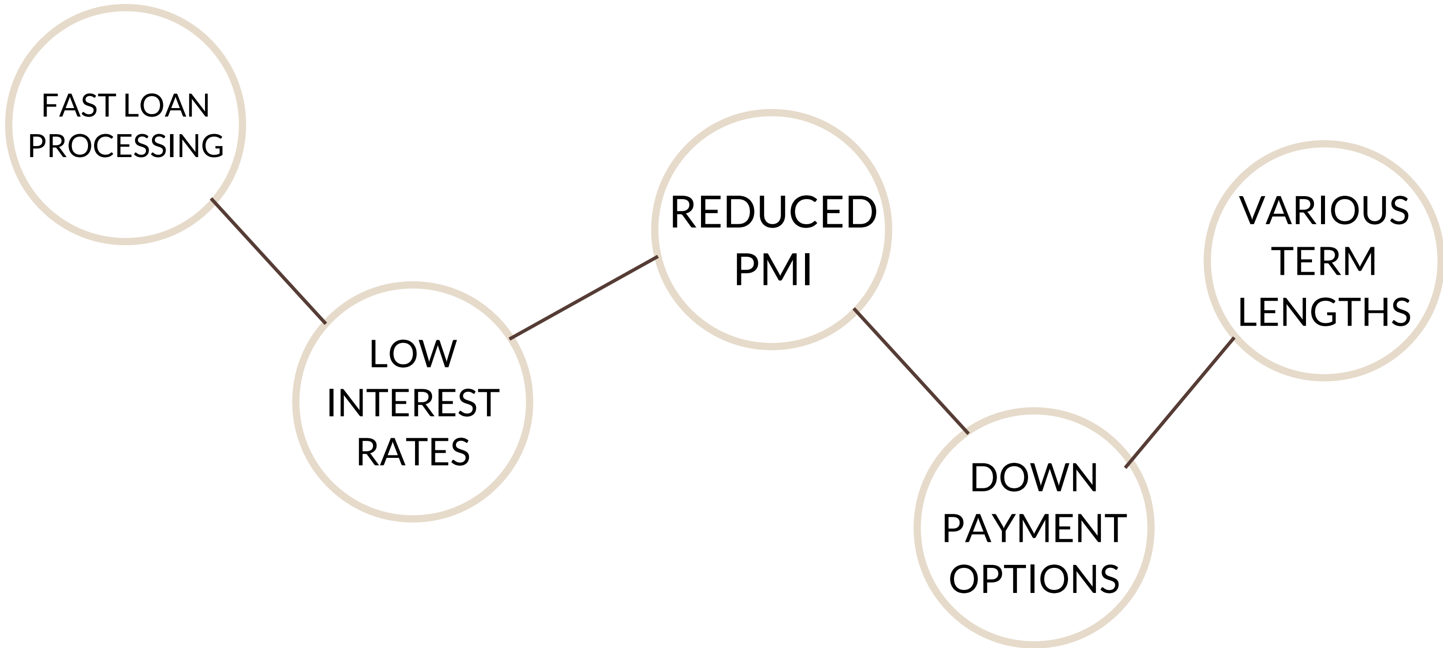
Though conventional loans offer buyers more flexibility, they're also riskier because they're not insured by the federal government. This also means it can be harder for you to qualify for a conventional loan.

With a conventional loan, the lender is at risk if you default. If you can no longer make payments, the lender will try to recoup as much of the remaining balance as they can by selling your house through a short sale process or even foreclosure.

Because of this additional risk to the lender, you're required to pay private mortgage insurance (PMI) on a conventional loan if you put less than 20% down.

When you meet with a lender, they'll ask for documentation like recent pay stubs, tax returns, bank statements, and other financial information. They want to make sure you have a steady income and can make your monthly mortgage payments on time.You will also need a down payment to qualify for a conventional loan. Though you can put as little as 3% down when you get a conventional loan, we recommend putting at least 10% down. But 20% is even better because then you can avoid paying PMI!

CONVENTIONAL LOAN BENEFITS



Conventional mortgage borrowers typically make larger down payments than FHA borrowers, and they tend to have a more secure financial standing and are less likely to default.

A larger down payment means lower monthly payments. Plus, with the ever-increasing mortgage insurance premiums on FHA loans, payments for conventional loans that don't require private mortgage insurance can be much more manageable in comparison.

In addition, with a conventional loan, you can cancel your mortgage insurance when the principal loan balance drops to 78% of the home's value. FHA loans charge mortgage insurance premiums for the life of the loan.

WHAT IS A FHA LOAN

An FHA loan is a type of loan from the Federal Housing Association for first-time buyers and for folks who might have a hard time getting approved for a conventional mortgage when buying a home.

Allowing down payments as low as 3.5% with a 580 FICO, FHA loans are helpful for buyers with limited savings or lower credit scores.

The problem is, an FHA loan can cost thousands more in the end.

To get an FHA loan, you'd have to work with an FHA-approved lender, which could be a bank, credit union or mortgage company. Then, the FHA provides a guarantee on the loan so your lender doesn't lose money.

You'll need to satisfy a number of requirements to qualify for an FHA loan. It's important to note that these are the FHA's minimum requirements and lenders may have additional stipulations.

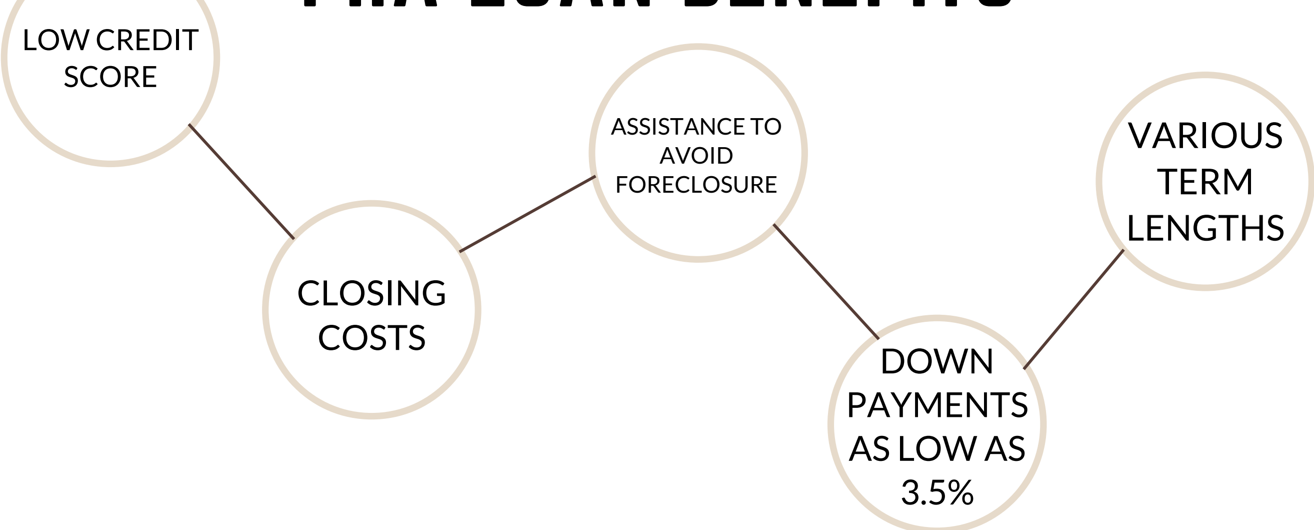
Simply put, we don't recommend FHA loans, because they're one of the most expensive types of mortgages. You might not realize this if you only look at how much money the FHA "saves" you on the front end. But if you want to win with money, consider total cost.

Credit score
The minimum credit score for an FHA loan is 500. If your score falls between 500 and 579, you can still qualify for an FHA loan, but you'll need to make a larger down payment.

Down payment funds
If you've got a credit score of 580 or higher, your FHA down payment can be as low as 3.5%. A credit score that's between 500 and 579 means you'll have to plunk down 10% of the purchase price.The good news? It doesn't all have to come from savings. You can use gift money for your FHA down payment, so long as the donor provides a letter with their contact information, their relationship to you, the amount of the gift and a statement that no repayment is expected.

Debt-to-income ratio (DTI)
The FHA requires a DTI of less than 50, meaning that your total monthly debt payments can't be more than 50% of your pretax income. This includes debts that you aren't actively paying. For student loans in deferment, your FHA loan underwriter will include .5% of the loan's total as the monthly payment amount. For other types of loans that you aren't currently repaying, underwriters will use 5% of the loan's total to calculate your DTI.

FHA LOAN BENEFITS



WHAT IS A VA LOAN

A VA loan is a mortgage loan that’s issued by private lenders and backed by the U.S. Department of Veterans Affairs. It helps U.S. veterans, active duty service members, and widowed military spouses buy a home.VA loans were introduced as part of the GI Bill in 1944, but they’ve become increasingly popular in recent years This type of loan is an attractive option because it’s pretty easy to qualify for and doesn’t require a down payment.

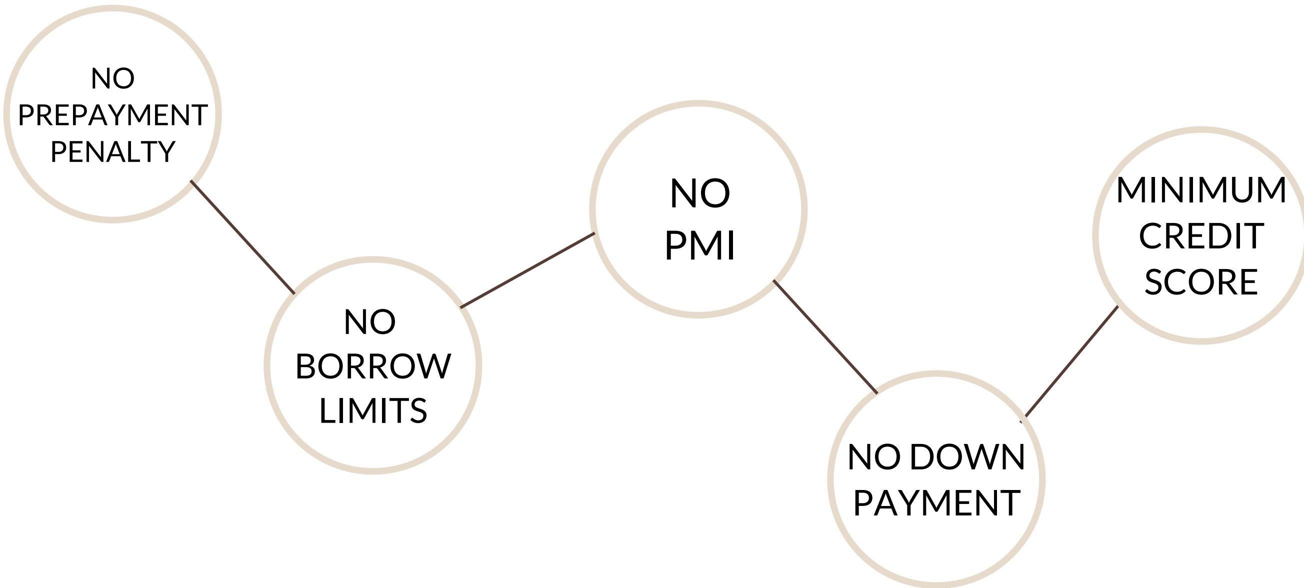
VA LOAN REQUIREMENTS

In order to get this loan when you're looking to buy a home, military personnel have to meet the VA’s specific service requirements. Generally, you’re eligible if you fall into one of these three categories:

1. You’re an active duty service member or an honorably discharged veteran who has 90 consecutive days of active service during wartime or 181 days of active service during peacetime.
2. You have served more than six years in the National Guard or the Selected Reserve.You’re the spouse of a service member who died in the line of duty.

If you were to go through the application process, you would need a Certificate of Eligibility (COE) to show mortgage lenders that you qualify for a VA loan. You can apply for a COE through the VA website, by mail, or through your lender.

VA LOAN BENEFITS



While a VA mortgage's qualifying requirements are more relaxed than those for a conventional loan, an applicant still needs to have decent credit and sufficient income to buy a home. And the home being financed must serve as the primary residence.

Credit score requirements
The VA doesn't set a minimum credit score to qualify for a loan. Instead, it requires a lender "to review the entire loan profile to make a lending decision," according to the VA.

VA loan debt-to-income ratio
The VA also doesn't specify a maximum debt-to-income ratio. But if the total debt-to-income ratio is over 41%, lenders will need to provide proof of an applicant's ability to repay the loan.

Down payment requirements
Under most circumstances, you don't need to make a down payment. However, if the purchase price of the home is greater than its appraised value, you may have to make up at least a portion of the difference.

THE FEAGLEY TEAM 717-885-8097 WWW.NICKFEAGLEYREALTOR.COM

ADDITIONAL LOAN TYPES

REVERSE MORTGAGE

A reverse mortgage is a home loan that allows homeowners 62 and older to withdraw some of their home equity and convert it into cash. You don't have to pay taxes on the proceeds or make monthly mortgage payments.

JUMBO LOANS

A jumbo loan is a mortgage used to finance properties that are too expensive for a conventional conforming loan. The maximum amount for a conforming loan is $647,200 in most counties, as determined by the Federal Housing Finance Agency (FHFA). Homes that exceed the local conforming loan limit require a jumbo loan.

HELOC

A home equity line of credit, or HELOC, is a second mortgage that gives you access to cash based on the value of your home. You can draw from a home equity line of credit and repay all or some of it monthly, somewhat like a credit card.