



# Home Loans 101: What you need to Qualify for a Great Mortgage Today!

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Most people know about the many benefits and rewards of becoming a homeowner or investment property owner. What they don't know is what it takes to *qualify* for a mortgage. Now, more than ever, there is a lot of confusion about qualifying for a purchase or refinance. Often, I hear people say that banks are not lending money right now or you have to have perfect credit or a lot of money down to buy.

As a mortgage banker, I want to dispel these myths and discuss with you what **is** needed to buy a house in today's market. While underwriters look at the whole loan file when evaluating risk on a loan, there are 4 primary areas they do focus on:

1. Ability to pay back the loan (Income/Debt)
2. Credit history
3. Assets
4. Equity or collateral (the property itself)

## **INCOME**

Debt to income is important when looking at what you qualify for. In general, you want a debt ratio to be 45% or less. There are certain loans and guides that allow for up to a 55% back end ratio. What is calculated in this ratio is what would show up on your credit report, so your utilities are not included. Lenders also want to see that you have some type of steady employment history unless you are a recent graduate, then you only need 30 days of paystubs and a copy of your recent college transcripts. If you are self employed, contractor or commissioned, you generally need 1- 2 years of filed tax returns.

## **CREDIT**

Your credit is one of the most important things we consider when giving you a loan approval. Most people really don't understand what and how credit scores work and for this reason we highly suggest you meet with us 3 months ahead of your purchase to get preapproved in person for a home loan. Credit scores can be greatly affected by your credit limit verses your current balance on each credit card. Maxed out credit cards can affect your credit score negatively. Most people are unaware that guidelines have actually loosened up in the last year. When buying, you can buy with a credit score as low as 580. The better credit score you have, the better the terms of the loan. If you have had any derogatory credit history in the last few years, it is even more important to get preapproved before you start looking for a home. Make sure you avoid credit pulls and that you do not open up new credit just before applying for a mortgage loan. Make all your payments on time including your mortgages.

## **ASSETS / DOWN PAYMENT / COLLATERAL**

You can actually buy a home with very little money right now if you are using the down payment assistance program from NC Housing. In general, people can buy with as little as 3% down and even do a no PMI loan with this small down payment. Investors need a minimum of 15% down when buying an investment property. Specific rules apply if you are moving out and then renting your current primary home when buying a new primary home. Remember when buying a home, you will need whatever down payment is required for that loan, along with any closing costs and prepaid items unless you can get the seller to pay these on your behalf. A good buyer's agent can help you negotiate this. Make sure you do get preapproved as there are some loan programs that may also require you to have reserves in the bank on each property that you own... (retirement accounts can be used for this purpose). Be careful of the flipping rules when buying or selling a property on homes owned less than 90 days by the seller selling them. Be aware that distressed properties are harder to finance and a rehab loan may be more applicable. Make sure you have 60 days to close these types of loans. Lastly, be very aware that underwriters watch carefully any deposits into your accounts and if these deposits do not match your paycheck, they will have to be sourced. This can be a huge issue when applying for a home loan because underwriters are concerned about people borrowing funds for their down payment.

## **REFINANCING**

The biggest obstacle people have when refinancing, is equity in the property. There are some great programs out there like HARP and ways to get up to 90 or 95% cash out of your primary home. We can also get cash out of investment properties as long as you meet guidelines. You can refinance up to about 97% of the value of your home on some loan programs.

In review, loan programs and guides are changing all the time. There are about 26 different factors that go into qualifying for a mortgage. Hopefully this guide will give you some idea of the basics. We suggest working with a local mortgage lender who has access to many lenders and programs. Get preapproved 2-3 months before you seriously start looking. This will give you time to work on things to improve your rate and terms if needed.