

Tips for Buying: How to secure home financing the smart way



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Three elements are crucial to the purchase of a home—the down payment, closing costs, and qualifying for a mortgage. Here is a quick rundown of what you should know:

Down payment

Typically, conventional lenders will require a 20% down payment, although you may be able to find loans with down payments of as little as 5% (perhaps less in some cases). With down payments less than 20%, you likely will have to pay private mortgage insurance, which guarantees the lender will be repaid in case of default.

Mortgages insured by the Federal Housing Administration (FHA) and those available to U.S. veterans often require very low down payments. Ask your lender if you can qualify for one of these loans.

If you are having trouble coming up with the down payment, here are some tips to ease the burden:

- Start early. Begin saving for a down payment as soon as possible. After a few years, it adds up.
- Ask for a Flex 97 mortgage. Underwritten by Fannie Mae, it only requires 3% down, provided you have good credit. And, you may be able to borrow that 3% on credit cards.
- Convert stocks. Consider selling stock for the down payment. The housing market often is a better investment anyway.
- Sell an asset. If you have “toys” such as a boat, extra car, or other asset, consider selling it for the down payment.
- Borrow from relatives. Today lenders will allow you to use money borrowed from relatives as the down payment. In many cases the relatives do not need to co-sign the mortgage. Check with your lender for restrictions.

Closing costs

No matter what home you buy, there will be closing costs. These can include: discount points, title insurance, escrow fees, attorney fees, termite report, recording fees, appraisal fees, document preparation fees, notary fees, and a loan underwriting fee. Usually these are due in cash, but sometimes they can be folded into the mortgage.

Loan qualification

The size of the mortgage you qualify for is based mainly on the interest rate offered and your income. The higher the interest rate, the higher the monthly payment. And, the higher the monthly payment, the more income you will need to qualify for the mortgage. For conventional financing, lenders generally limit the monthly payment to 28% of your gross monthly income, although exceptions can be made depending on individual circumstances. The amount of debt you currently have may also factor in the decision.

Contacting a lender before you're actually ready to make an offer on a house can be a good idea. This head start gives you a chance to work out any problems that may arise without the pressure of contract deadlines. You also can get pre-approved for a loan, which will put you in a strong position if you end up making an offer on a house that receives offers from other buyers.