



Who wrote the article. This article was written by CBC Mortgage Agency (<https://chenoafund.org>) staff writers for the purpose of helping homebuyers learn about the mortgage industry, down payment assistance, and related topics.

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Article Title: Homebuying Simplified: Which Loan for Me?

Sooner or later, young adults pouring paycheck after paycheck into rent ask themselves a question: is it time for me to consider buying a home? If you're at that point in life, it's important to have a good grasp of some basics before making the leap.

The first key issue is which type of home loan suits you best. The options can seem dizzying, and picking the right loan is key to your success as a borrower. If you take time to educate yourself before committing to a mortgage, your odds of happy homeownership will improve.

Most loans fall into two basic categories – government and conventional. While there are several types of government loans, the most common is the FHA loan. These mortgages, issued by a federally approved bank, financial institution or state Housing Finance Agency, are insured by the [Federal Housing Administration](#). This protects lenders in case the homeowner defaults, minimizing risk and allowing lenders to reduce loan requirements for borrowers. FHA loans are particularly popular with first-time homebuyers. One downside: you'll have to pay personal mortgage insurance, which will raise your monthly loan amount.

Conventional loans are not government-backed but must meet guidelines established by [Fannie Mae and Freddie Mac](#), two enterprises created by Congress to provide funds for mortgages to lenders. Loans that fall within their size limits are known as “conforming” loans, while those that exceed such limits are called “jumbo” loans.

Let's run through some pros and cons of both loan types to help focus your choices.

Conventional loans

- Pros
 - Better terms
 - Personal mortgage insurance may be avoidable, depending on down payment

- Available for primary residence, vacation home and investment properties
- Cons
 - Require higher credit score
 - Larger down payment needed
 - Higher interest rates

FHA loans

- Pros
 - Allow lower credit score
 - Allow lower down payment
 - More flexible on debt-to-income ratio
- Cons
 - Require mortgage insurance
 - Less flexibility on terms
 - Not available for second homes or investment properties
 - Lower loan limits

To determine which loan works best for your situation, you'll need to have a clear picture of your credit score, your present and future income stream, your other debt obligations, and your down payment options. Generally speaking, your [FICO](#) credit score – the most widely used score in the lending community – must be at least 620 to qualify for a conventional loan, and you can expect higher interest rates the lower your score. For an FHA loan, buyers need a credit score of at least 580. If your magic number is below that, it might make sense to put off homebuying and work on [rebuilding your credit](#) first.

You'll also need to consider your debt-to-income ratio, or DTI. To calculate your DTI, lenders take the monthly amount you pay toward debt (ie. car payments, rent, credit card debt, student loans) and divide it by your monthly gross income. A higher DTI hurts your chances of qualifying for a loan and can reduce your buying power.

A third ingredient of your homebuying analysis is the down payment – the sum of money lenders require you to invest up front as a condition for

receiving a loan. We'll devote a future article to down payments and options for buyers short on cash, but a basic rule is that FHA loans require less money down (as little as 3.5 percent) than conventional loans, which typically require a down payment of five to 20 percent.

Finally, most lenders require borrowers to document a two-year work history, so they can be assured the homebuyer is financially stable. If you've recently changed jobs, it's not necessarily a deal breaker. What's most important is demonstrating a consistent, stable income stream that suggests you will remain gainfully employed – and able to make your mortgage payment in the years to come.

More on loans next time ...

Homebuying Simplified: Shopping for Loans

Finding a home loan that meets your needs can feel overwhelming. The lending marketplace is vast and ever-changing, and sorting through the options is a daunting challenge, especially for first-time buyers. On top of that, unscrupulous lenders can tweak loans to distort their real costs, leaving novice, unsuspecting borrowers in the lurch.

A good way to avoid that fate is to do some homework on the lending industry. Loans don't come just from banks any more. Instead, many homebuyers borrow through credit unions, correspondent lenders, or through state [Housing Financing Agencies](#) (HFAs), which partner with lenders to offer their products and services. HFAs are state-chartered nonprofit organizations that seek to expand homeownership opportunities, especially for low- and moderate-income people and special populations, such as first-time homebuyers, active military and veterans, police, and teachers.

Another popular loan source is mortgage brokers, who act as intermediaries between borrowers and multiple lenders. Experienced brokers can often help find borrowers the most competitive rates, and can be particularly helpful to applicants with poor credit. But be cautious: the more expensive the mortgage, the more the broker gets paid.

As you dig in on your loan search, begin with some online research to get a picture of what's out there, and then start comparing rates on similar loans – loans that have the same term, require the same down payment, and are for the same amount. It's also important to get a detailed summary of rates, points, fees, and closing costs. Remember that the rate quote you see on the Internet is just a starting point, subject to change depending on your credit score and other information you'll enter on your loan application.

Once you have a feel for the landscape, it's time to pick a mortgage broker or loan officer. As with babysitters and doctors, personal referrals are a great way to go here. Consult with friends, family, colleagues, or realtors for some names, and then interview several candidates. Ask the brokers about their communication system, turnaround times for preapprovals, appraisals and closings, and what lender fees you can expect to pay. Make sure you feel comfortable with the person you choose and steer clear of those trying to push you too hard in one direction. The bottom line: you want someone experienced and diligent and dedicated to finding the best loan for you.

As you move closer to the point of applying for a loan, make a list of questions for the broker or lender. These might include:

- How much money do I need for a down payment?
- Can my parent co-sign to help me get a loan?
- How much will mortgage insurance add to my monthly payment?
- I'm a first-time homebuyer. Is there a special program for me? (Most likely.)
- I'm a veteran. Am I eligible for special loans? (Yes.)

A good loan officer or mortgage broker will be able to walk you through the process and steer you toward a variety of loan options. As you evaluate them, keep in mind the three things that affect your mortgage costs: the term of the loan, the interest rate, and personal mortgage insurance.

While the term of the loan is typically 30 years, the interest rate and mortgage insurance can vary widely – and will have a decisive impact on what you'll pay. Read the fine print! Ask questions! It's easy to get worn down during the home loan process, but vigilance is a must as you get set to make what will likely be the most important financial commitment of your life.

Happy hunting ...

Source: Chenoa Fund, <https://chenoafund.org>

The Chenoa Fund is an affordable housing program administered by CBC Mortgage Agency (CBCMA), a federally chartered governmental entity. CBCMA specializes in providing down payment assistance financing under FHA and conventional guidelines.