Minimum Mortgage Requirements

1 – **AMOUNT OF DOWN PAYMENT DETERMINES YOUR LOAN TO VALUE RATIO.**

Best case scenario today is 80% LTV which means you need to have 20% as a down payment. For example: You want buy a home valued at $150,000, so to get LTV down to 80% you will need to pay $30,000 as a down payment. The more you can pay down to get the LTV lower the better your chances of getting a loan are. If you can't pay 20% down you may be able to pay less but you will generally be required to buy PMI, which stands for Premium Mortgage Insurance.

2 – **HOW MUCH HOUSE CAN I BUY?**

Several factors affect whether or not you can buy a home and how much you can afford. First, your Credit Score plays a major role in whether you can receive any financing. If you credit score is too low you may not be able to obtain the financing you need. See more under #3 below.

Second, banks and mortgage lenders use two ratios to determine how much debt you can afford to carry based on your income.

- Housing Ratio: 28% is the maximum housing ratio used to determine how much of your income you can use to pay for housing related debt. For example, if you gross monthly income is $2,500 then 28% of that is: $700. This is the maximum amount available to payment for PITI. See more on PITI below under #5. [Side Comment: In public housing HUD's housing ratio is 30% - Rent including utilities is set at 30% of adjusted Gross Monthly Income]

- Debt Ratio: Banks and mortgage lenders also use the debt to income ratio of 36% as another criteria for loan approval. In theory, this is the total debt for car payments, housing, credit cards and other installment credit a family can reasonably carry without getting into financial difficulty. For instance, consider the following scenarios:

	Client A	Client B	Client C
Gross Monthly Income:	1,200	1,800	2,500
Housing Ratio [28%]:	336	504	700
Potential Max Loan:	68,000	103,000	143,000
Potential House Value:	85,000	128,750	178,750
Require Down Payment:	17,000	25,750	35,750
Debt Ratio [36%]:	432	648	900

Simply based on the Housing ratio the table illustrates that level of income plays a key role in how much house a person can afford. But, when you subtract the amount available for housing from the total debt Client A can spend $96 on debt other than housing; Client B can spend $144 on other debts; and Client C can spend $200 on other debt.

So, if all clients have only a car payment of $200 a month then only client C would be the only one who may qualify for a loan to purchase the house the desire. Client B may also as long as he/she purchases a house of lessor value then the projected maximum house value. Client A probably will need to wait until they can obtain more income.

3 – **IMPACT OF THE CREDIT SCORE**:

Your credit score is very crucial to obtaining a loan for housing. A score of 740 in combination with a 20% down payment will result in favorable consideration by lenders and the lowest interest rates. If your score is less than 620 and a down payment less than 20% will typically result in no financing being offered. Offering a larger down payment with a score near 620 may still result in financing being offered. Subprime lenders may also offer loans in less than idea situations, but charge more higher interest and typically charge more fees. Last, if credit is marginal then a "cosignor" with good credit may help overcome a problem with poor credit.

4 – **WHAT IS PITI**?

P – stands for principal [loan principal]
I - stands for interest
T – stands for taxes
I - stands for insurance.

Typically, lenders will require as a part of the financing offered that the client pay a monthly principal and interest on the loan amount as well as placing 1/12 of estimated Annual property insurance and 1/12 of estimated property taxes into an Escrow account so the bank can pay the annual insurance and annual property taxes on your behalf. So, the 28% called the housing ratio has to cover all of these monthly costs.

5 – **WHAT ARE TYPICAL CLOSING COSTS**?
As a general rule of thumb typical closing depending on lender will range from 3.5 to 5% of the loan amount. These generally include: loan origination fees, discount points, appraisal, survey, underwriting fees, title search fees, title insurance, etc.

6 – **WHAT ARE THE MAIN BARRIERS TO OBTAINING MORTGAGE FINANCING**:

The 3 main reasons individuals may not obtain a home loan are: [a] – Lack of down payment and closing costs; [b] – Poor credit score [basically a poor credit record]; and [c] lack of income to cover the desired purchase [remember the debt to income ratio in combination with the housing ratio].

Source: Lendingtree.com and personal knowledge
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