

# First Time Home Buyer Programs

## How to Choose a Loan Program

One of the most important factors in determining which first time homebuyer program will work for you is the monthly payment. You need to express to your loan officer what type of payment you can afford and how he/she can design a program which will not exceed a payment out of your comfort zone. Also, the length of time you will plan on staying in your home will help determine which program will best suit your needs. For example, if you plan on living in your home 4-5 years maximum, you may want to consider a 5/1 arm or adjustable rate mortgage which has a much lower rate and will keep your payment down. There are temporary buy down programs geared for individuals who know that their income will increase over the next couple years, but need a lower payment for the first couple years of the loan. If you are a teacher, firefighter, police officer, healthcare worker, or military personnel you may want to ask about special loan programs.



## PMI (Private Mortgage Insurance)

PMI is the special insurance that lenders require which protects the top 20% of the loan, allowing the bank to offer loans with less than 20% down. Currently, PMI is fully tax deductible for borrowers with adjusted gross income of \$100,000 or less. Please consult your tax accountant for advice.

**You need to ask your loan officer some basic questions about the First Time Homebuyer programs:**

1. What are the down payment and closing cost requirements?
2. What is the credit criteria used to qualify for these programs?
3. Are there income restrictions?
4. Are these programs available for the type of property you intend to purchase?
5. Does the property have to be located in a targeted area?
6. Is the program available on a fixed rate or adjustable rate?
7. What is the maximum loan amount?

8. What are reserve requirements?
9. Is there a pre-payment penalty?
10. Is there PMI and what are my options to get rid of it in the future?

### **FHA (Federal Housing Authority)**

The FHA loan program is one of the best programs for people with marginal to average credit but the lender must be licensed to do FHA loans in the state that you are purchasing in. There is a minimum credit score requirement of 620. In most cases, tax liens and judgments will have to be paid off prior to closing. Automated approval is available but the loan file can be underwritten and approved by a real life underwriter if the automated system does not approve the file. Truly,



this is one of the few loans left which takes into account each individual's circumstances before making a final decision whether to approve or decline the file.

There are many excellent options available with this program. The down payment and closing costs can be a 100% gifted and the seller can pay up to 6% of the purchase price in closing costs. You can put 3.5% down on 1-4 unit properties but there are maximum mortgage limits for each county in the United States. Condos and town homes are eligible and you need to check the HUD approved condo list to see if the building you are interested in is approved. You may still obtain FHA financing in a building which is not approved but the developer needs to submit a condo project approval package. Always check with your loan officer to see what options are available. I think it is very important to deal with an experienced FHA lender and processor so the transaction will go smoothly. You should also know that this type of mortgage is assumable which means a future buyer of your home can take over your loan providing that they qualify for the program. This is a huge selling point and you will be able to get top dollar for your home if rates go up because a buyer will be able to assume your mortgage at a rate which is below the current market rate.