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FREE Report: Loan Basics- Conventional, FHA, VA, Ameridream

Definitions:

Income Qualifying Ratios: what percentages lenders look at to qualify for a loan

How it's written: Housing Expense/ Total Debt Service (example: 28/ 36%)

Housing Expense: percentage of monthly housing expense to income

Total Debt Service: percentage of total monthly bills to income

Conventional: what people think of as "normal" loans

FHA: Federal Housing Administration

VA: Veterans Administration

What the numbers are:

Income Qualifying Ratios for conventional loans: 28/36%

Income Qualifying Ratios for FHA and VA loans: 29/41%

(in other words, people can usually qualify for higher amounts with FHA and VA loans)

Conventional: A buyer can get a conventional loan with 5%, 10% or 20% of the purchase price paid at closing, depending on the type of the loan. At least 5% must come from personal savings. There is often primary mortgage insurance (PMI) when the loan is more than 80% of the value. Newer loans are rarely assumable.

FHA: A buyer can get an FHA loan with only 3% of the purchase price paid at closing. This 3% can be a gift or personal savings. There is always a mortgage insurance premium (MIP). Most loans are assumable. Sellers are often asked to contribute money towards points, prepaid interest, or closing costs.

VA: A buyer must be an eligible veteran based on the amount of military service. A loan can be obtained with no down payment. If a down payment is used, it can be a gift, a loan, or personal savings. Instead of mortgage insurance, there is a one-time funding fee charged. Most VA loans are assumable- one can assume a VA loan and not be a veteran.

Ameridream: This non-profit organization allows buyers (who do not have personal savings of 3%) to get an FHA loan. How it works:

1. The seller contributes 3.75% of the purchase price to Ameridream (this is tax-deductible)
2. Ameridream gifts 3% of the purchase price to the buyers, and keeps .75% for administrative expenses