GETTING THE Low-Down on Low-Down Mortgage Options

BY JANET THOMSON

The resurgence of low-down financing seems dangerous on the surface. However, since the 2008 recession, things have drastically changed, including requirements regarding down payments. What's different this time? According to Karen Dowell of Real Estate Solutions (www.karendowell.com), the primary difference is the underwriting criteria. Although there are still some low credit score types of programs out there, most lenders and the government have restricted their programs to something a little more reasonable. For example, credit scores of 620 and above is generally the favorite amount, but you can find some programs with credit scores below that – but they are generally non-traditional and not safe vehicles, Dowell adds.

USDA Loans (also known as Rural Development Loans)

If a first-time buyer is looking for 100 percent financing, the go-to product is usually a Rural Development Loan, which is offered through the Department of Agriculture, according to Dowell. These loans are demographically restricted to rural areas, "and anything outside the city in our demographic qualifies as a rural area," says Dowell. According to the USDA Loan Eligibility website, USDA loans allows for all closing costs to be paid for by the seller or financed into the loan. The factors that determine eligibility are: credit worthiness, income and where you live. When a buyer is being considered for a USDA loan an underwriter is looking for a good paying history. If you have past blemishes, they can be overlooked as long as you have reestablished your credit over the past 12 months. A buyer will need to show a two-year history of employment or steady income, but there are some exceptions. Lastly, in order to qualify, the property must be located in the designated demographics.

Federal Housing Administration (FHA) Loans

If a Rural Development Loan doesn't meet the specifications for a new buyer, and they are looking for 100 percent financing, there is another option, says Dowell. Lenders can offer buyers a government backed Federal Housing Administration ("FHA") loan that offers a 3.5 percent down payment, if it's a traditional FHA loan. In addition, lenders can also offer 100 percent financing when they partner with the Virginia Housing Development Authority ("VHVA") for lower interest rates, and a second mortgage to cover the down payment and closing cost – giving a buyer 100 percent financing. To qualify for a FHA Loan, a buyer must demonstrate a solid credit performance history. If your credit history is blemished by late payments and delinquent accounts, it's best to clean up those issues before approaching any lender. If you plan to purchase a single-family home in Albemarle County, the FHA limits for 2015 is $437,000, according to www.fha.com.

Department of Veterans Affairs (VA) Loans

The Department of Veterans Affairs ("VA") loan program is a government program available to qualified military veterans, reservists, active duty personnel, or eligible family members. The loan is available in a variety of fixed and adjustable rate options. In addition, borrowers are allowed to use gifts or grants towards their closing costs. The VA loan takes into consideration sporadic residency, which allows for deployment issues, and doesn't automatically disqualify those who have filed for bankruptcy or experiencing credit issues. In fact, it doesn't require monthly mortgage insurance, and there is the potential for minimal out-of-pocket expenses with seller contributions, according to wellsfargo.com. However, buyers can typically expect to pay a one-time VA funding fee that can be financed into the loan amount.

What about Private Mortgage Insurance (PMI)

Although low-down payment loans are appealing to most potential buyers, there are some who are concerned with having to pay Private Mortgage Insurance ("PMI"). PMI protects lenders in case buyers default on their loan payments. For this reason, the Rural Development Loan is the go-to product, said Dowell. The Rural Development Loan has what's called the funding fee - and this fee is structured with a 2 percent upfront (cash or financeable) component, which is financed somewhere in the ballpark of 1 to 1½ percent. In addition, there's a monthly component of .40 percent of the outstanding balance that is spread out over 12 months, and adjusted each year. Dowell believes that this is the cheapest way to give buyers 100 percent financing with the lowest payment, which is why this product fits the needs of most buyers.

Make 2015 the Year of Homeownership

According to money.cnn.com, 2015 is the year for the home buyer to get into the housing market. In some markets, rents are continuously rising higher than wages. Now that down payment requirements are lower, potential buyers can finally afford to get into a home. Borrowers with steady employment, income and good credit history, but not enough money in the bank, will find it easier to buy a home. With the resurgence of low-down payment options, prospective homebuyers have the opportunity to finally stop renting and purchase the home they've always wanted. ■

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Sources:

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