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## Types of Lending Products

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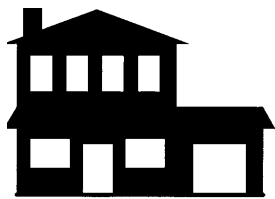
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**HOME OWNERSHIP  
FACT SHEETS**

# Types of Lending Products

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## I. Government Insured

<u>Loan Type</u>	<u>Benefit</u>	<u>Disadvantage</u>
<b>FHA</b> <i>PITI 29/41</i> <i>6% for closing costs and down payment</i>	Good Interest Rates Low Down Payment & Closing Costs Assumable Mortgage	Mortgage Insurance
<b>UHFA (Regular State Money)</b> <i>PITI 29/41</i> <i>6% for closing costs and down payment</i>	Same as FHA Lowest Fixed Interest Rate	Mortgage Insurance Potential Recapture Income Limits Can Never be a Rental 1st Time Homeowners
◡ <b>UHFA/CHAMP</b> <i>PITI 29/41</i> <i>UHFA credit of 4% toward closing costs and down payment</i>	Same as FHA & UHFA Home Owners Warranty UHFA Contribution of 4% Buyer Education	Same as Regular UHFA Income Limits
<b>2-1 Buydown</b> <i>Prepay interest at closing for 2 years</i>	Same as FHA & UHFA Can be used with most ARMs Lower Payment 1st Two Years Can Qualify at 2% Below Note Rate	Cost Approximately 2.5%
<b>USDA Home Guaranteed Farmers Home--(Rural Dev.)</b> <i>PITI 29/41</i> <i>0% down payment + 3% closing costs</i>	100% Financing No Mortgage Insurance	Home Inspection Required Home must be in Rural Area 1% Application Fee Income Limits
<b>FHA Adjustable Rate Mortgage</b> <i>PITI 29/41</i> <i>5.5% down payment + 3% closing costs</i>	Same as Regular FHA Interest Rate Caps, 1% per year, 5% over the life of loan Margin 2.5 - 2.75 Qualify at Start Rate	Same as Regular FHA
<b>FHA 203K</b> <i>PITI 29/41</i> <i>3% down payment + 3% closing costs</i>	Same as Regular FHA Includes Repairs / Fix Up in One Loan	1/2% Higher Rate (unless UHFA) Same as Regular FHA

**VETERANS  
ADMINISTRATION**  
*PITI 0/41*  
*0% down payment + 3% closing costs*

Same as Regular FHA  
100% Financing  
Good Interest Rates

Mortgage Insurance

**USDA Direct Loan (502)  
(Rural Dev.)**  
*PITI 29/41*  
*0% down payment + 1% closing costs*

100% financing  
Subsidy Available  
No Mortgage Insurance

Limited Funds (waiting list)  
Potential Recapture Fee  
Only on Rural Homes  
Has to be graduated when  
income is high enough

## II. Conventional Programs

Loan Type  
**Regular Fixed Rate  
Mortgage**  
*PITI 28/36 or 33/38 or 0/39*  
*5% or 3% down payment*  
*+ 4.5% closing costs*

Benefit  
95% Financing  
Good Interest Rates  
Less Expensive Mortgage Insurance  
No Mortgage Insurance if Loan to  
Value < 80%

Disadvantages  
Non-assumable  
Debt Ratios 28/36  
Closing Costs > FHA

**Non Conforming**

Buy Home  
Bad Credit is OK  
Easier to Qualify

Higher Interest Rates  
Larger Down Payment

△ **FreddieMac Affordable Gold**  
*PITI 0/41*  
*5% down payment + 3 ½% closing costs*

95% Loan  
Debt Ratio 0/41  
2% Gift Option  
Seller can pay 3% of Closing Costs  
Buyer Education

Income Limits  
Mortgage Insurance

△ **Fannie CHBP**  
*PITI 33/38*  
*5% down payment + 3% closing costs*

97% Loan  
2% Gift Option  
Seller can pay Closing Costs  
Buyer Education

Income Limits  
Mortgage Insurance

**Adjustable Rate Mortgage**  
*PITI 28/36*  
*10% down payment + 3% closing costs*

Many to Choose From  
Loan Start Rate Usually Low  
Interest Rate Caps 2% per year,  
6% over the life of loan  
  
Margins 2.75 - 3.0  
Convertible and Assumable

Payments can increase  
90% Loan  
Mortgage Insurance  
Watch for Negative  
Amortization

**Energy Efficient Mortgage**

Larger Mortgage or Lower  
  
Interest Rate  
Easier to Qualify for Loan  
Lower Utility Costs  
More Energy Efficient Home

Home must qualify as Energy  
Efficient

△ *Required participation in a Buyer Education Program*

Additional resources include: the Olene Walker Trust Fund, available through the USDA Rural Development Office; the HUD Bridal Registration for the down payment; reduced mortgage insurance if a buyer completes an educational program; FHA now allows a loan, rather than a gift, from family members for the down payment; mortgage loans are now available on the Indian Reservations; homes in kits that home owners can build themselves; and “Home Start Program”--where the Federal Home Loan Bank of Seattle provides a 1 to 2 match (homeowner saves \$1,000--match \$2,000.)

## Glossary

**Adjustable Rate Mortgage (ARM):** A mortgage whose interest rate changes over time based on an index.

**Assumable Mortgage:** A mortgage that can be taken over (assumed) by the buyer when a home is sold.

**Buydown:** A option of paying extra money to buying down the interest rate on a mortgage.

**Interest Rate Cap:** A provision of an ARM limiting how much the interest rate on a mortgage may increase.

**Convertible:** An adjustable rate mortgage that can be converted to a fixed rate mortgage under specified conditions.

**PITI Debt Ratios:** (Principle, Interest, Taxes, Insurance) Guidelines applied by lenders to determine how large of a mortgage to grant a home buyer. Lenders often use 29/41. This means that 29% of household income can be used for housing costs (principal, interest, taxes, and insurance) and 41% of household income can be used for housing costs plus other debts, such as auto loans, credit cards, student loans, and medical debt.

**FHA Loan:** A mortgage that is insured by the Federal Housing Administration.

**Fixed Rate Mortgage (FRM):** A mortgage in which the interest rate does not change during the entire term of the loan.

**FmHA Guaranteed:** The Farmers Home Administration, a branch of the U.S. Department of Agriculture, offers low-interest mortgages loans to low and moderate income persons who live in rural areas or small towns.

**Loan-to-value Ratio (LTV):** The relationship between the amount of a mortgage and the total value of the property.

**Margin:** The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

**Mortgage Insurance:** Insurance that protects lenders against loss if a borrower defaults on loan. Usually only required if loan is for more than 80% of purchase price.

**Negative Amortization:** Payment terms under which the borrower's monthly payments do not cover the interest due; as a result, the loan balance increases.

**Recapture Fee:** Taken by the Government, under law a fixed portion of earnings exceeding a specific percentage of the property value. Taken if all three conditions are met: 1) significant increase in income, 2) increase in home value, and 3) sell home within 9 years.

**UHFA Loan:** A Utah Housing Finance Agency mortgage, that is also called state money.

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