



## FINANCING – Four Financing Concerns & Qualifying Ratios

I often tell people they'll find the most frustrating part about building a new home (or buying an existing home for that matter) isn't the building process, rather it's the financing. One is quickly reminded of Murphy's Law of Finance -- "In order to get a loan, you first have to prove that you don't need it."

Most people have four concerns or obstacles in financing a new home.

1. **Sales Price.** Some people have a specific sales price and loan value in mind. The key is to have realistic expectations for obtaining the home you want/need for the price you can purchase and keeping your home in price range you can easily afford. The largest expense of a home is the lot/land. As a rule the lot/land cost should not exceed 1/3 of the total home costs.
2. **The monthly payment.** Most people are not as concerned about the sales price as they are with the monthly payment. Lending requirements have significantly changed making obtaining a loan much more difficult. However, stay within qualifying ratios insures that you can afford your house payments. The National Banking Association and other Government Loans (FHA) have set some general qualifying guidelines which consist of basically two ratios:

- a. Buyer's Gross Monthly Income x 28% to 31% = Maximum House Payment
- b. Buyer's Gross Monthly Income x 38% to 41% = Maximum Amortized Debt

Of course there are other factors when qualifying, such as credit history to income levels. However, these ratios have proven statistically that very few buyers will default. Keep in mind there are only two ways to reduce your monthly payment.

- a. **Reduce your loan amount.** You can do this by: coming up with more down payment, choosing a less expensive home/lot, deleting options on your new home, doing more sweat equity, etc. The rule of thumb is for every \$1,000 you delete of the sales price of your home (or loan amount) it will adjust your payment about \$5.00 to \$7.00 a month.
- b. **Reduce your interest rate.** You can do this by: choosing different loans, doing buy-downs, paying points, taking an adjustable rate, etc. But the rule of thumb is for every 1% that you decrease your interest rate, it will decrease your payment by about \$150.00 a month on a 250,000.00 loan. This is equivalent to about \$30,000.00 with today's rates.

Obviously, nothing has a greater impact on your payment than do interest rates. That's why I caution people in not waiting to buy when interest rates are low because most simply cannot save the amount of money lost if rates were to go up just 1%.

3. **Out of pocket cash.** The amount of money needed to get into a home - that is, the down payment and closing costs required. Keep in mind, with all the different types of loans now available you are almost certain to find a loan that fits within your budget. In fact, there are even plenty of good solid loans that require no down payments.
4. **Credit.** Lending and consistently become credit score driven. You must protect and build your credit. If you are credit challenged, meet with a good lender who will help you build a credit "road map" with timelines, suggestion and written directions of what and how to build your credit.

I'm convinced if you'll follow this lending advice you'll be able to overcome any financing obstacles or concerns you may have. Good Luck - James Patterson -