How to qualify for a mortgage

August 18, 2022

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Welcome

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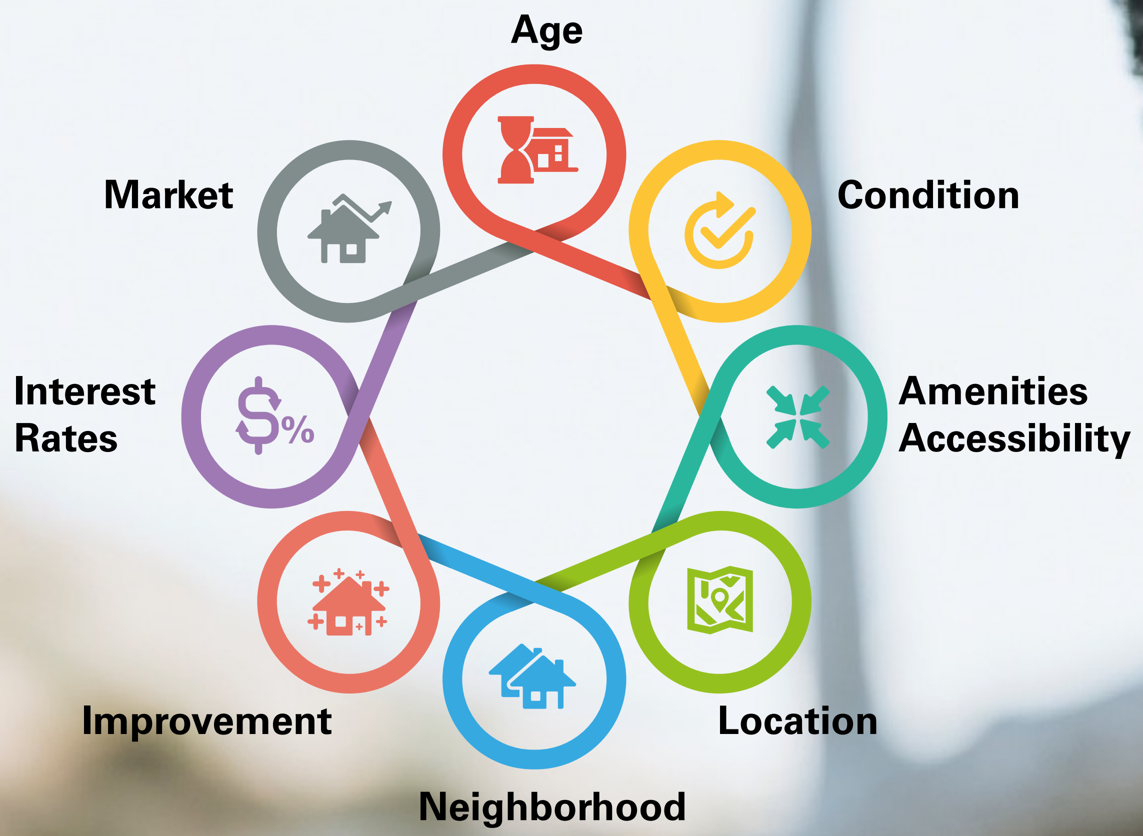
Things to consider



Try It: Estimating Affordability

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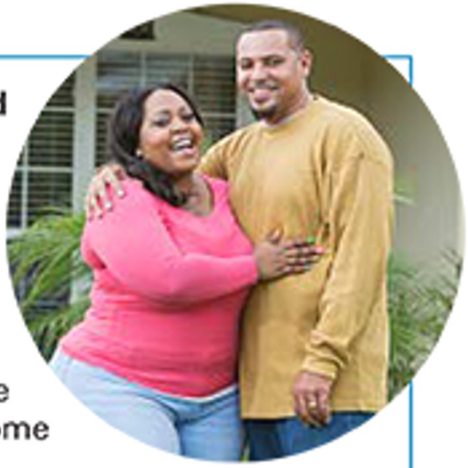
Read the scenario and then answer the question.



Scenario: Pat and Sam Estimate What They Can Afford
Pat and Sam have dreamed of buying a home. They have been saving for a home for four years and have set aside $10,000. They also have a little money set aside for emergencies. Together they make $48,000 a year in annual gross income. Their net income (after taxes and deductions) is $42,000.

They heard that a quick way to estimate what could be affordable is to take their combined annual gross income and multiply it by three.

They also heard about another quick way to estimate affordable monthly housing costs. These costs should be no more than 30% of their monthly housing costs. These costs should be no more than 30% of their monthly gross income.

They know these are starting points for thinking about affordability and not necessarily what lenders will use to figure out how much they can borrow.

Method 1

Annual Gross Income x 3 = Estimate of highest home purchase price

Gross income = income before taxes and other deductions are taken out

Method 1: Answer for Pat and Sam

Take their annual gross income:

$48,000 per year

Then multiply by 3:

$48,000 x 3

Answer = $144,000

- May be helpful when looking for houses to buy
- Not helpful to estimate affordable monthly payment

Method 2

$$\text{Monthly Gross Income} \times 0.30 = \text{Estimate of Monthly Housing Costs}$$

- Monthly housing costs include items such as rent or mortgage payments, insurance, utilities, maintenance, repairs
- May not be realistic or helpful

Method 2: Answer for Pat and Sam

Take their annual gross income:

$48,000 per year

Then divide by 12 months in a year:

$48,000 ÷ 12 = $4,000

Then multiply by 0.30:

$4,000 x 0.30

Answer: $1,200 per month

Method 3

Total Net Income − Total Non-Housing Expenses = What's Left for Housing Costs

- What’s left for housing?
- Use a spending and saving plan

Pat and Sam's
Total Net Income

Item	Monthly Amount
Net (Take-Home) Pay Job 1	$3,500 ($42,000 ÷ 12)
Their Total Net Income	$3,500

Remember:
Divide Annual amount by 12 (months) to get Monthly amount

Pat and Sam's
Total Non-Housing Expenses

Item	Monthly Amount
Their Total Non-Housing Expenses	$2,360

Pat and Sam's Comparison: What's Left for Housing Costs?

Item	Monthly Amount
Their Total Net Income	$3,500
Their Total Non-Housing Expenses	$2,360
What's Left for Housing Costs?	$1,140

How much down payment will I need?

A deep dive into down payment – skin in the game

- Mortgage programs are based on whether the loan will conform to conventional lending guidelines or not.
  - Conventional Mortgages: features include, fixed interest rate, terms up to 30 years – assumes 20% or more down payment
  - Government Programs: VA, FHA, USDA and other Rural programs designed to create more opportunity for home ownership
  - Adjustable Rate Mortgages satisfy unique situations
  - Portfolio Mortgages and Lender Programs: Physician, First Time Home Buyer, Affordable Programs, Grants
- Consider the down payment as fertilizer, when you start with a healthy amount it accelerates your equity growth.
- More is better but balance is key. What is the best down payment for me? My unique variables.
- Planning is key to making the right decision; make an informed decision to increase the opportunity for success.

Which type of mortgage is best for me?

Which type of Mortgage will help me best achieve this goal?

- My specific needs and goals – key questions
  - How much can I pay?
  - How long will I live here?
  - What will I need in 5 years, 10 years, more?
  - What programs are available for me?
- Conventional Mortgages – can help you build equity faster, typically lower interest rate, no PMI
- Government Programs – created to make ownership possible when there are extenuating circumstances
- Adjustable Rate Mortgages – expand ownership opportunities in certain circumstances
- Portfolio Loans – creative but prudent, gives the dream wings and wind

How is the interest rate on my mortgage calculated?

Simple Interest

Fixed Rate

Adjustable Rate / ARM

P + I + T + I

LIBOR

Prime

360 days

Amortization

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A few other important questions

- Are you a First Time Homebuyer? Are you considering a refinance or cash out loan?
- Do you know which components of your credit history will help you qualify?
- Will I have to pay Mortgage Insurance?
- How is my Interest Rate calculated?
- Do I need to get Pre-Approved for a Realtor to work with me?

What’s a credit score?

The biggest factors that impact your score are payment history and amounts owed.

Credit scores can increase over time with responsible credit usage.

Credit scores over

670

are considered good.

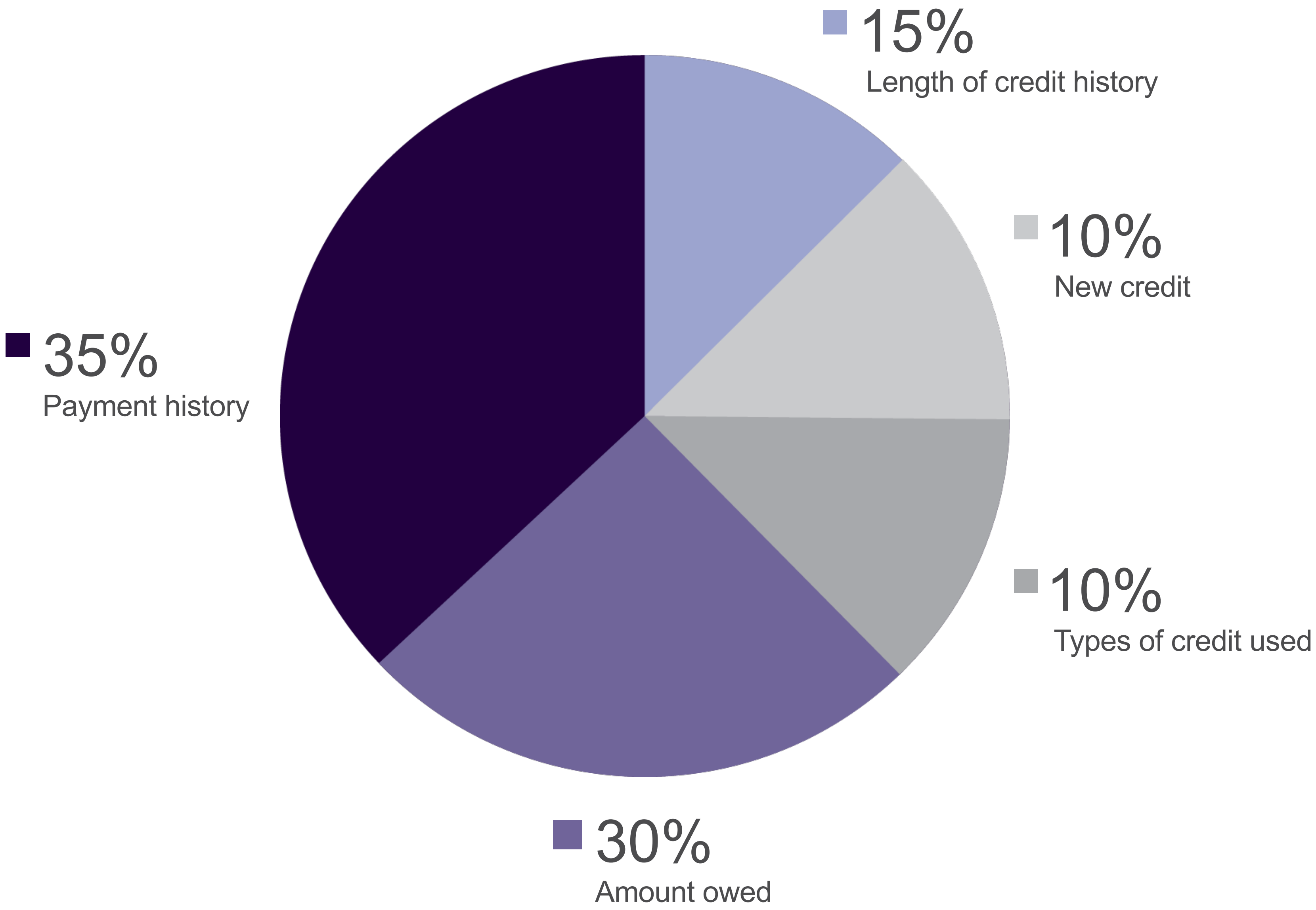
Credit scores under

670

are fair or poor.

Why are credit scores important?

A credit score is a three-digit number used to represent the likelihood an individual will repay a debt over time. Here are the elements that make up a credit score:



What will I need to provide?

Stay Loan Ready

- W2 for prior year
- 3 Months of pay Stubs
- 3 Months of bank statements, all accounts
- Investment statements / PFS
- Retirement Account Statement (prior quarter)
- Photo ID current, not expired
- SS Card or ITIN letter
- Proof of down payment funds
- Home owners Insurance company of your choice