

# Home Loan Funding

## Learn some not so traditional ways to get a home loan.

Following is a list of unconventional ways to get into a home if the conventional loan is not panning out for you, or if you have low or bad credit. Remember it is always a good idea to do your research when looking into any major purchase or obtaining a major loan, such as for homes, a car, student loans, etc., [www.bankrate.com](http://www.bankrate.com) is a good place to start.

**Interest-Only Loans:** An interest-only loan allows you to pay just the interest on the mortgage for a set period, often the first 5, 10 or 15 years. You don't have to pay on the principal during that time and therefore the payments are extremely low, but this also means you are not building any equity in your home until the interest-only period is over. When the interest-only phase is up, the monthly payments skyrocket as you begin paying principal over the remaining term of the loan, and therefore most borrowers expect to sell the house or refinance the loan before the interest-only period ends. According to Bankrate.com, these loans are best obtained through a mortgage broker who can search among various lenders. Be cautious about using this kind of loan to get into a home you could not otherwise afford – don't buy a six bedroom home instead of the three bedroom you had your eye on just because you can get lowered payments. Because the borrower has the option to pay more than the minimum payment, which would get applied to the principle, these kinds of loans are ideal for commission or bonus income earners, someone who expects to earn a lot more within a few years, or someone who will invest the savings.

**Homes in Pre-Foreclosure** – Approach the borrower/owner and offer to buy. The buyer has time to research the title and condition of the property and can purchase a home 20-40% below its market value. If the loan is not reinstated by the end of the pre-foreclosure period, potential buyers can bid on the property at a public auction. Buyers may be required to pay in cash at the auction but will see some of the best bargains... so a loan would already need to be in place. Companies to help buyers through the "pre-foreclosure home buying route" are out there.

**Shop Around** – There are some mortgage brokers out there who will say, "I can't help you, and if I can't help you, no one can help you." But, if you persist in talking with other brokers, you can find someone who would be willing to lend to you because each broker is varied in the types of loans they can offer. In addition, some brokers have relationships with more flexible mortgage lenders than others. Further, if you shop online, you will find mortgage services that will submit your application to multiple lenders, and then you can analyze multiple offers. There are also lenders out there who specialize in funding loans to people with not so good credit. Direct lenders mean saving money, because you won't be paying for broker fees, much like purchasing an airline ticket directly from the airline, rather than a travel agent.

**Improve Your Credit Score** - There are some really simple ways to improve your credit score. For starters, 70% of consumers who pull their report for the first time locate at least 1 error, and that could be the cause of increased interest rates on home and auto loans. You should run your report before making any major credit purchases for this

reason. All three major credit bureaus have areas on their website allowing you to submit disputes on your report, or you can call them to request the dispute address (see the end of this article). As for repair of valid items, make your payments on time and try your best to keep your debt to income ratio reasonable. If your debt to income ratio is high (i.e. income is \$2,200 per month and monthly expenses are \$2,000 per month), you may need to consider holding off on the home until you can pay some of your debt down, and it will mean a more affordable loan. Also, keep your number of credit inquiries down; too many inquiries can hurt your credit score if you are inquiring at random. For example, a period of 3 months with several home loan inquiries will not hurt your score, but applying for 8 credit cards over the course of 1 year will. If you want to buy a house, don't apply for any credit cards, auto loans or any other type of loan if you can avoid it. If you have declared bankruptcy in the past, the key now is to re-establish your credit – demonstrate you are no longer a credit risk by making timely payments.

**Save For A Down Payment** - There are lenders who may be able to qualify you for 100% financing, even with low credit scores, but your interest rate will be much lower if you can put even 3-5% down. If possible, try to save as much as you can for a down payment. Sometimes it may be better to wait about 3-6 months to get into a new home loan if it means the difference of having a down payment, because your interest rate will be better. However, if you don't have a down payment, you can always refinance later for a lower interest rate.

**No Income Verification Loans:** Ideal for those with complicated financial histories or small business owners with a hard-to-prove salary, these loans mean you say a lot less about your financial background, but you may pay a little more. Some of these "low-doc" or "no-doc" mortgages allow customers to simply state their income by filling in a blank on the application. Others go so far as to not require any information about income, assets or even credit. Each step down the ladder requires the borrower to put either more money down or accept a higher interest rate. These loans are ideal for a wide range of people, including self-employed businessmen and women who don't have the two year track record required for conventional loans, and active stock traders who don't want to share their financial history and complicated tax returns with a lender.

**FHA Streamline Loans:** This type of loan allows people who would otherwise not qualify for a loan to get one, because the risk for the lender is removed by the Federal Housing Commission (FHA). The most popular FHA home loan program only requires a minimum of 3% from the borrower and permits 100% of the money needed to close to be a gift from a relative, non-profit organization, or government agency. The main advantage to an FHA home loan is that the credit criteria for a borrower are not quite as strict as in other types of loans. Someone who may have had a few credit problems should not have a problem obtaining FHA financing. Also, FHA home loans are assumable, allowing a person to take over the mortgage without the additional cost of obtaining a new loan. In addition, the seller must pay for part of the "traditional" closing costs (called non-allowable costs) while a borrower's allowable costs can partially be wrapped into the loan. 100% of the down payment and closing costs can be gifted. You can apply for an FHA loan at <http://www.fhalibrary.com/>.

**HUD Housing:** The United States Dept. of Housing and Urban Development (HUD) acquires foreclosed properties, conveyed to them when a homeowner failed to make payments on their FHA insured mortgage, and sells them to pre-approved applicants. Before the bidding can take place, it is important to note that HUD requires all buyers to

be pre-approved for a mortgage (unless you plan on paying cash for the property). Pre-approval is the conditional approval given by a mortgage lender after a formal loan application has been taken and the lender has verified the information provided (such as employment, income, credit, etc.). Visit <http://www.hud.gov/> for more information.

**VA Streamline Loans:** The federal Dept of Veterans Affairs offers loans to some veterans, active service members, reservists and members of the Public Health Service, that require no down payment and are available from most lenders. Further, the government limits the amount of appraisal fees, closing costs, and origination fees lenders can charge so the loan may not cost as much as a conventional one. Rates for these loans generally follow the market, however they are still advantageous because no down payment is required, and neither is private mortgage insurance (because the government is guaranteeing the loan). Visit the Dept. of Veterans Affairs website at <http://www.homeloans.va.gov/> for more information.

**Creative Financing** - See if the seller would be willing to carry back a second mortgage on the home. You would set up a contract or agreement with the seller that you will pay them monthly payments, including interest of, let's say, \$150/mo on \$10,000 dollars of the price of the property, as a second mortgage. Then, to make it nice for the seller, perhaps put in the agreement that the entire amount is due in full within 2 years. That should give you plenty of time to refinance and then the seller doesn't feel permanently locked into the contract.