FannieMae FOUNDATION

How the Fannie Mae Foundation can help.

If you're like most Americans, owning your own home is a major part of the American dream. The Fannie Mae Foundation wants to help you understand the steps you have to follow to reach that dream. Homeownership is a big responsibility, one that you will need to accept for many years to come. It's worth the effort, and the Fannie Mae Foundation can help.

You may not be familiar with us. We were formed and funded by Fannie Mae, which is a private company chartered by Congress to provide funds to local lenders for home mortgages in communities all across America.

The Fannie Mae Foundation is a nonprofit organization. Among other activities, the Foundation provides information useful to Americans who want to buy a home. We know that the whole process of getting a mortgage can be confusing, so an important service we provide is information such as this guide. We hope this objective information will help you get started on the path to homeownership.

Are you ready to buy a home?

When you want to buy a home, you will be faced with many decisions. The first is whether you are actually *ready* to buy. Finding the right home is not always easy, and getting a mortgage loan can be time-consuming and complicated.

To help you decide if you're ready to buy, we'll take you through the steps a mortgage lending institution uses to decide if you qualify for a mortgage loan.

When you take out a loan, you sign documents that say you promise to pay back the loan. When a mortgage lending institution makes your loan, it has determined that there is a good likelihood that you can keep that promise. The mortgage lender knows that it does not help you or the lending institution if you are given a loan, but then, for any reason, are unable to make the payments each month.

To decide if you will be able to repay the loan, the lender will look at many different pieces of information about you. This process is called "underwriting." These pieces of information show how well you have repaid your debts in the past, whether you are likely to repay your debts in the future, and your ability to repay the mortgage and your current debts.

There are some general guidelines that help a lender in looking at these pieces of information about you. But you should also remember that there is some flexibility in these guidelines, because everyone's financial situation is different. If you are very strong in one area, it may help balance out another area in which you aren't quite as strong.

The Fannie Mae Foundation wants you to be financially comfortable and secure in your new home, so we provide information that helps you make sure you and the size of your mortgage are a good fit.

Go through the questions below and test yourself. If you aren't ready to buy a new home now, you'll find we've included information that may help you qualify in the future. When you get to the end, you will have a better idea of whether this is the right time for you to buy a home, or whether you need to work on improving your credit history, paying off existing debts, or saving more money. Either way, the Fannie Mae Foundation will be able to give you some helpful information.

1

How steady is your job history?

This is important. Having a steady job helps you to keep your promise to pay back a mortgage loan. If you have been working continuously for two years or more, you are considered to have steady employment.

A lender will need to know your job history, and it will be a major factor in whether you qualify for a loan. However, you do not have to have held the same job for two years in order to be approved for the loan. Job moves that result in equal or more pay and continue to use proven skills are a plus for you.

If you have been working continuously for less than two years, the mortgage lender will look for an explanation. There may be a good reason:

– You may have been discharged recently from the military or just finished school.

– Your work may be seasonal, and you might have work gaps between seasons.

There may be other acceptable reasons why you have not been employed continuously for two years, too. For example, you may have been laid off because of a plant closing or an illness. Or you may be in a line of work in which frequent job turnover can be customary, but you have been consistently employed and have maintained a regular, consistent level of income.

If you have been fired for cause such as excessive absences, have long gaps in your employment record, or have dips in your income level that are difficult to explain, you should probably delay buying a home until you can demonstrate that you have a stable work history.

Based on the information above, give yourself a "+" if you think you have a stable work history or a "–" if you do not.

Do you pay your bills on time each month?

2

How you paid your bills in the past gives a lender some indication of how you can be expected to pay them in the future. When you apply for a mortgage, you will be asked to list all your debts, the amount of your monthly payments, and the number of months or years left to pay on the debts.

Your lender will order a credit report to verify the information that you give and to check on how well you have kept your promises to repay your debts. Credit reports are provided by credit reporting companies that make inquiries through a wide range of available sources of information: banks that may have given you a car loan, credit card companies, even gasoline companies and department stores that offer credit cards.

It’s important to disclose all debts and any difficulty you may have had in the past in repaying these loans. It’s also important not to leave out any information about money you owe. Credit reporting companies have access to a great deal of financial information about you, and they make it available to lenders who will be reviewing your loan application.

If you have previously owned a home, and your mortgage has been foreclosed upon within the last seven years, the foreclosure will be revealed on your credit report. Having a foreclosure on your records doesn’t mean you can never buy another home. Your lender will want to know the reason for the foreclosure, and most prefer that three years go by before you apply for a new mortgage.

If you have declared bankruptcy within the past ten years, that also will be revealed on your credit report, and it will be helpful for you to explain the circumstances surrounding it. Lenders usually prefer that you wait two years after discharge of the bankruptcy before assuming a new large debt like a mortgage loan. This gives you time to reestablish credit and show that you are again able to manage your financial affairs.

Sometimes credit reports are inaccurate, or they give a misleading picture of past credit problems that have since been resolved. To check the accuracy of yours, you can obtain a copy of your credit report. For a small fee or sometimes for free, you can request a copy from a “credit reporting agency” listed in your local Yellow Pages. If you find any errors, you can take steps to have the report corrected.

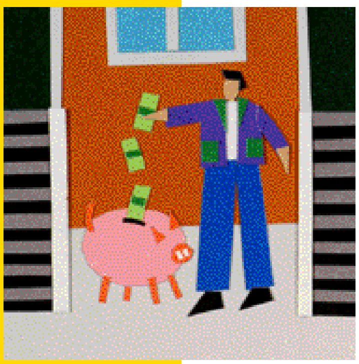
If your credit report shows that you do not have a good credit history, and the information reflected is correct, you should probably delay trying to buy a home and take steps to improve your credit profile.

For example, you may have too many debts, or you may pay some debts late each month. If so, you should work to bring your payments up-to-date and to pay off some of your debts. Even if your debts are current, you may not be considered a good candidate for a loan if you have made your monthly payment after the due date each month. After you have decreased the amount you owe and are able to show a two-year history of making payments on time, you may be ready to begin looking for a home to buy.

Give yourself a "+" if you have a good credit history or a "–" if your credit history shows some recent, unresolved problems.

3 *Do you have a credit history?*

If you have never had any credit cards or taken out a loan through a financial institution, the various credit reporting firms may not be able to issue a credit report on you. In that case, you may be able to use a "nontraditional" credit history. For example, you may be able to document that you pay your rent, telephone bills, or utility payments on time each month. You can put these records together yourself by making copies of canceled checks or showing copies of monthly bills that do not have any late charges. A mortgage lender may be able to help you put this information together.



If you have a good record of paying your rent and other bills and will be able to prove that record, give yourself a "+." If you do not always pay your bills on time or have no record of your payments, give yourself a "–."

4 *Do you have money saved for a down payment?*

When you buy a home, you will need money that you have saved for a down payment and "closing costs." The amount of the down payment may vary, but generally you must make a down payment that equals at least 5 percent of the purchase price. You will also need money for closing costs. These costs can be expensive, depending upon where you live. Sometimes the property seller is willing to pay part of your closing costs.

No matter where you live or which type of house you choose, lenders will use some general guidelines to determine if you qualify for a mortgage loan. Before you begin house hunting, you may want to read this guide to determine whether your income and your debts are in line with what lenders will be looking for and how big a mortgage you can afford.

The mortgage lender will want proof that you have saved the funds that you will use for a down payment and part or all of the closing costs. If the funds are in a savings account, the lender will ask the financial institution to verify the amount and the length of time that the funds have been in your account. The lender wants to make sure that you are not borrowing all the money you will use for the down payment and closing costs.

Some communities have programs to help first-time buyers. With some of these programs, you may be able to accept a gift from a relative or to borrow a portion of the money you will need for the down payment and closing costs from a local nonprofit organization or government agency. With others, you may be able to get a grant or other funds that you will not have to repay and can use to cover some of these costs.

If you do not now have at least a portion of the money saved, this probably is not the right time for you to try to buy a home. Instead, it would be a good idea to open a savings account and begin putting away some funds from every paycheck. The longer you have accounts and the longer and more consistently you have been able to save money, the better you will look to lenders when you are ready to apply for a mortgage in the future.

Based on the information above, give yourself a "+" if you have money saved for your down payment and closing costs. Give yourself a "–" if you do not have money saved right now.

Can you afford to pay a mortgage each month?

If you pay rent each month, you may be prepared to make monthly mortgage payments. The amount of your monthly payment depends upon the amount you borrow, the interest rate, and the repayment period or "term." The shorter the term, the higher your monthly payment. For that reason, most home buyers repay their mortgage over the longest term possible, usually 30 years.

How to calculate your payment.

The amount of your mortgage payment will depend on how much you borrow, the term (repayment period) of the loan, and the interest rate. If you know how much you need to borrow (the purchase price minus your down payment), and what the interest rate will be, you can use the chart on the following page to find out what your monthly payment will be with a standard 30-year, fixed-rate mortgage. Note that this chart includes only principal and interest payments, not property taxes and insurance.

LOAN AMOUNT	INTEREST RATES								
	5.5%	6%	6.5%	7%	7.5%	8%	8.5%	9%	9.5%
$20,000	$114	$120	$126	$133	$140	$147	$154	$161	$168
25,000	142	150	158	166	175	183	192	201	210
30,000	170	180	190	200	210	220	231	241	252
35,000	199	210	221	233	245	257	269	282	294
40,000	227	240	253	266	280	294	308	322	336
45,000	256	270	284	299	315	330	346	362	378
50,000	284	300	316	333	350	367	384	402	420
55,000	312	330	348	366	385	404	423	443	462
60,000	341	360	380	399	420	440	461	483	505
65,000	369	390	411	432	454	477	500	523	547
70,000	397	420	442	466	489	514	538	563	589
75,000	426	450	474	499	524	550	577	603	631
80,000	454	480	506	532	559	587	615	644	673
85,000	483	510	537	566	594	624	654	684	715
90,000	511	540	569	599	629	660	692	724	757
95,000	539	570	600	632	664	697	730	764	799
100,000	568	600	632	665	699	734	769	805	841

Loan Amount *Interest Rate* *Monthly Payment*

Use the chart above to calculate how much your monthly mortgage payment might be for a 30-year, fixed-rate mortgage. Let's suppose that you want to purchase a house that costs $50,000. If you make a $5,000 down payment, you would need a $45,000 mortgage. As you can see on the chart, the monthly payment on a $45,000 mortgage at 7 percent interest is $299. The $299 monthly payment only covers the principal, or a portion of the amount you borrowed, and interest on the mortgage loan. There are other expenses that will be added to your monthly payment. These include taxes and homeowner's insurance. If your down payment is less than 20 percent, you may need to pay private mortgage insurance. These costs vary depending upon where you live and the cost of your home, but they can add a hundred dollars or more to your monthly payment. In addition, if you are thinking about buying a unit in a condo or cooperative building, or a house in a planned unit development, you may also need to pay monthly homeowner's fees to cover maintenance expenses or special assessments related to the common areas.

How does a lender determine the amount of the mortgage you may receive?

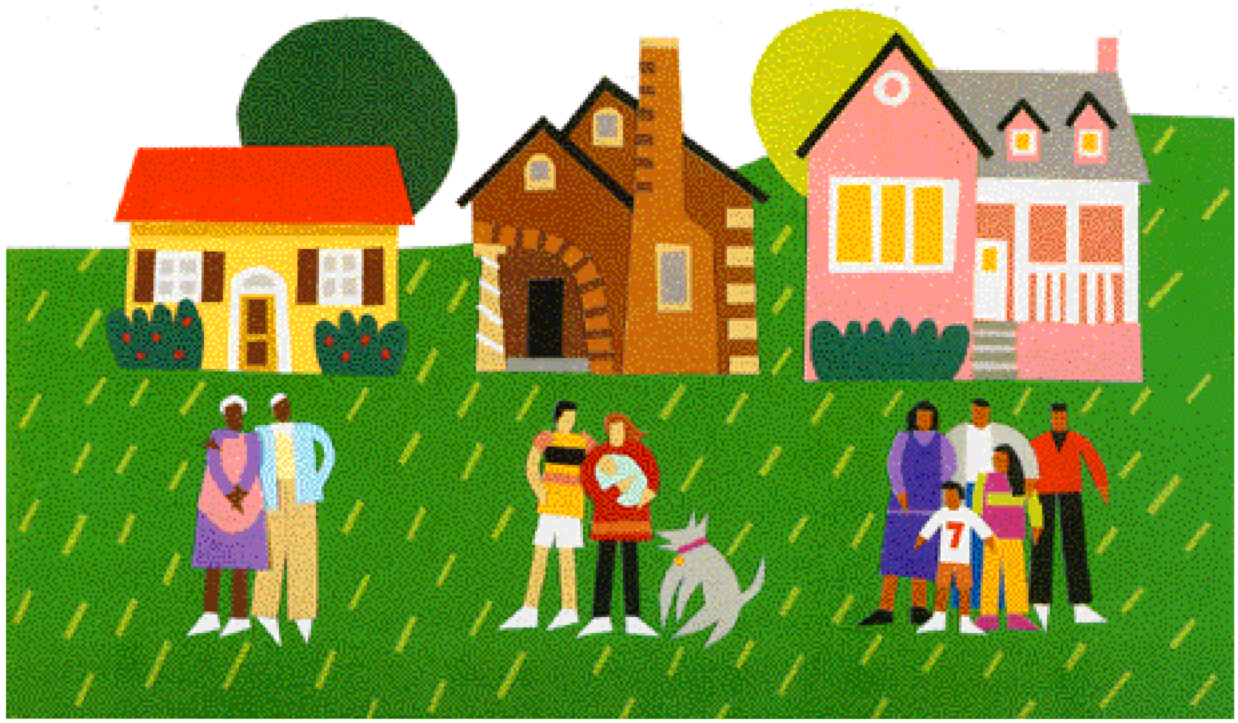
When you first approach lenders about financing a mortgage for you, they will use two commonly accepted guidelines to help determine your ability to make mortgage payments. These guidelines are a starting point for evaluating your ability to make the payments on the proposed loan. So your lender will look closely at your individual financial situation to determine if more flexible guidelines are appropriate for you.

1. Your monthly housing costs (including mortgage payments, property taxes, homeowner and mortgage insurance, and homeowner's fees) should total no more than 28 percent of your monthly gross (before taxes) income. In addition to your regular pay, your income can include funds you receive from overtime work, a part-time job or second job; retirement, VA, and Social Security benefits; disability; welfare and unemployment benefits; alimony; and child support.

2. Your monthly housing costs plus other long-term debts such as payments on car loans, student loans, or other installment debt (debts with more than ten months left to repay) should total no more than 36 percent of your monthly gross income.

Depending upon your household income, you may be eligible for special assistance programs. These programs may make it easier for you to get a larger mortgage loan than you normally would be able to using the above qualifying rules.

Now, to get an idea of the mortgage amount that you might be able to qualify for based on your annual income, look at the chart on page 16. You will need to know the approximate interest rate that lenders currently are charging for a 30-year, fixed-rate mortgage. Check the real estate section of your local newspaper or call a mortgage lender to get the current rates for your area. Find this interest rate (or the one closest to it) in the column on the left. Then follow that line to the right until you reach your approximate income level. This is the amount you could potentially borrow. Only you can decide whether you feel comfortable carrying the maximum amount of financing that you qualify for. And this chart can only help you with the first qualifying rule – the amount of your home payment. The chart does not take into account the amount of your other debts. If they are high, that could reduce the amount of the loan for which you can qualify.



The Fannie Mae Foundation is working to help more Americans achieve homeownership. One way it does this is by providing objective information that makes the process of getting a mortgage less confusing.

How large a mortgage do you qualify for?

This chart can help you find out how large a mortgage you might qualify for based on your annual income and the interest rate currently being quoted for 30-year, fixed-rate mortgages. Rather than using the normal 28 percent ratio, this chart uses a 25 percent ratio and assumes that the amount you need to set aside to pay for taxes and insurance would amount to approximately the 3 percent difference. This simplified approach should give you a fairly accurate answer.

INTEREST RATES	ANNUAL INCOME											
	$15,000	$20,000	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000
5.5%	$55,000	$73,400	$91,700	$110,100	$128,400	$146,800	$165,100	$183,500	$201,800	$220,200	$238,500	$256,800
6.0%	52,100	69,500	86,900	104,200	121,600	139,000	156,400	173,700	191,100	208,500	225,900	243,200
6.5%	49,400	65,900	82.400	98,800	115,300	131,800	148,300	164,800	181,300	197,700	214,200	230,700
7.0%	47,000	62,600	78,300	93,900	109,600	125,300	140,900	156,600	172,300	187,900	203,600	219,200
7.5%	44,600	59,600	74,500	89,400	104,300	119,200	134,100	149,000	163,900	178,800	193,700	208,600
8.0%	45,000	56,700	70,900	85,100	99,300	113,500	127,700	141,900	156,100	170,300	184,500	198,700
8.5%	40,600	54,100	67,700	81,200	94,800	108,300	121,900	135,400	149,000	162,500	176,100	189,600
9.0%	38,800	51,700	64,700	77,700	90,600	103,500	116,500	129,400	142,400	155,300	168,200	181,200
9.5%	37,200	49,500	61,900	74,300	86,700	99,100	111,400	123,800	136,200	148,600	161,000	173,400

Interest Rate *Annual Income* *Mortagage Amount*

Remember, you do not have to estimate the amount of taxes and insurance. To account for those costs and make it easier to calculate, this chart assumes that you can devote 25 percent of your monthly income to housing costs.

The home mortgage qualifying examples on pages 18 and 19 show how different families figured out whether they were ready to buy a home of their own.

In the first example, the borrower should not have a difficult time qualifying because the proposed monthly housing cost and the proposed total monthly debts are lower than the maximum guidelines. If the borrower has a good credit history and money saved for a down payment, most lenders would consider this borrower a good potential customer. The borrower is not attempting to buy a house that would strap him or her financially. This individual gives every indication of being able to follow through on the commitment to repay this mortgage.

The family in the second example, however, would probably *not* be able to qualify for a mortgage loan at this time–even if they have a good credit history. Even if the lender is very flexible and willing to use more generous guidelines, the family might have trouble qualifying because their proposed monthly debts are well above the range most lenders consider reasonable. In this case, the family should concentrate on paying off some of their credit cards and getting their monthly expenses to a lower level for a period of time before looking to buy a home.

On page 24, you'll find a personal worksheet to help you evaluate your financial readiness to a buy a home.

Give yourself a "+" if you think your family's monthly income is enough to pay both your current monthly expenses and the housing payment you would owe if you bought a home. Give yourself a "–" if you do not think you would qualify at this time.

Home Mortgage Qualifying Example I

Single borrower's gross annual salary	$	31,500
Total monthly income ($31,500 divided by 12)	$	2,625
Monthly gross income	$	2,625
Multiply by 28%	x	.28
Allowable monthly housing costs	$	735
Home purchase price	$	75,000
Down payment	–	5,000
Mortgage loan amount	$	70,000
30-year loan / 7% interest – monthly payment (PI)	$	466
Monthly taxes and insurance	+	155
Total monthly housing costs	$	621
Monthly gross income	$	2,625
Multiply by 36%	x	.36
Allowable total monthly debt	$	945
Other monthly debts		
Car payment	$	220
Credit cards	+	50
Total other monthly debts	$	270
Total monthly housing costs	$	621
Total other monthly debts	+	270
Total monthly costs	$	891

Home Mortgage Qualifying Example II

Borrower's annual salary	$	16,000
Co-borrower's annual salary	+	14,000
Total gross annual salary	$	30,000
Total monthly income ($30,000 divided by 12)	$	2,500
Monthly gross income	$	2,500
Multiply by 28%	x	.28
Allowable monthly housing costs	$	700
Home purchase price	$	70,000
Down payment	–	5,000
Mortgage loan amount	$	65,000
30-year loan / 7% interest – monthly payment (PI)	$	432
Monthly taxes and insurance	+	160
Total monthly housing costs	$	592
Monthly gross income	$	2,500
Multiply by 36%	x	.36
Allowable total monthly debt	$	900
Other monthly debts		
Car payment	$	200
Student loan		110
Credit cards	+	320
Total other monthly debts	$	630
Total monthly housing costs	$	592
Total other monthly debts	+	630
Total monthly costs	$	1,222

8

Have you been turned down for a mortgage?

If you have tried to buy a home, but were unable to get approved for a mortgage, you should try to find out why the lender did not want to make the loan.

Based on the information above, you may already have figured out why you did not get a loan. Maybe you did not have a steady work history, or you tried to buy a house that was too expensive for your income, or your debt level is too high. If you are unable to figure out why you were turned down, you should ask the lending institution for an explanation. You should also ask what steps you can take so that you can qualify in the future.

9

You're ready to buy a home. What do you do first?

If you have read all the information above, and have received a copy of your credit report, you may be ready to begin the process of buying a home. You may want to call a local real estate agent to show you homes in your area. You may also want to make an appointment with a mortgage lender. You can find the names of lenders in the Yellow Pages of the telephone book.

It will take some time working with a real estate agent to find the right home in the price range that you can afford. It will also take time to apply for the mortgage, have the lending institution evaluate your application, and have your loan approved. Still more time is required to do all the necessary paperwork and close on your loan. But in the end, you will have a home for you and your family, and you will have achieved an important part of the American dream.

Special mortgage programs may allow you to accept a gift from a relative or to borrow a portion of the money you will need for the down payment and closing costs from a local nonprofit organization or government agency.

10

You do not think you are ready to buy a home or you are not sure. What should you do?

If you took this test and received a couple of minuses, or you weren't sure about some the questions, don't be discouraged. You took the first step! The next step you may wish to take to put your family on the path to homeownership is to work with a consumer credit counselor. You can use credit counselors listed in the Yellow Pages of the telephone book.

Owning you own home may seem out of reach, but you can change that over time. Even if you know you cannot qualify now – or even six month from now – there may be a way you can work toward this important goal in the future. Nobody ever said becoming a homeowner was easy. It's difficult, but it's also rewarding. It can be worth sacrificing and planning over a long period of time to achieve it.

More about the Fannie Mae Foundation.

This publication was prepared by the Fannie Mae Foundation to help you understand more about the home-buying process. Having a place to call home is one of the cornerstones of the American dream, and the Fannie Mae Foundation wants to help you realize that dream.

The Fannie Mae Foundation would like you to have the information you need to buy a home. So if you would like a copy of our other guide, *Choosing the Mortgage That's Right for You,* or have questions about the Fannie Mae Foundation, give us a call at 1-800-688-HOME. We'll point you in the right direction.

Home Mortgage Qualifying Worksheet

How to use this worksheet: Estimate the purchase price of the home you would like to buy and the down payment you can afford. Complete each entry based upon this assumption and your personal finance situation. If your Monthly Housing Cost (F) is not more than your Allowable Monthly Housing Cost (B), and your Total Monthly Cost (I) is not more than your Allowable Monthly Debt (G), you may be qualified for this mortgage.

Monthly Gross Income		
Borrower's annual income	$	
Co-borrower's annual income	+	
Total gross annual income	$	
Divide total gross annual income by 12	÷ 12	
Total monthly gross income	$	(A)
Allowable Monthly Housing Cost		
Total monthly gross income (A)	$	
Multiply by 28%	x .28	
Allowable monthly housing cost	$	(B)
Mortgage Amount		
Home purchase price	$	(C)
Down Payment	–	
Mortgage loan amount	$	(D)
Monthly Taxes and Insurance		
Home purchase price	$	
Multiply by .0025 (local requirements vary)	x .0025	
Estimated monthly taxes and insurance	$	(E)
Monthly Housing Cost		
Monthly payment (P&I) on 30-year loan [use chart on page 12 based on (D)]	$	
Estimated monthly taxes and insurance (E)	+	
Condo or homeowner's fee (if applicable)	+	
Total monthly housing cost	$	(F)
Allowable Monthly Debt		
Total monthly gross income (A)	$	
Multiply by 36%	x .36	
Allowable total monthly debt	$	(G)
Other Monthly Debt Payments		
Car payment	$	
Credit card(s) payments	+	
Student loan	+	
Other	+	
Total other monthly debt payments	$	(H)
Total Monthly Cost		
Total monthly housing Cost (F)	$	
Total other monthly Debt (H)	+	
Total monthly cost	$	(I)

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