



The Only
Mortgage Loan Options
Guide You Need

(How To Find The Right Mortgage Loan To Buy The Right Home)

The Only Mortgage Loan Options Guide You Need

(Or: How to Find the Right Mortgage Loan for the Right Home)

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AmeriFirst Home Mortgage
950 Trade Centre Way, Suite 400
Kalamazoo, MI 49002
www.amerifirst.com
1.800.466.5626

Introduction To This Guide

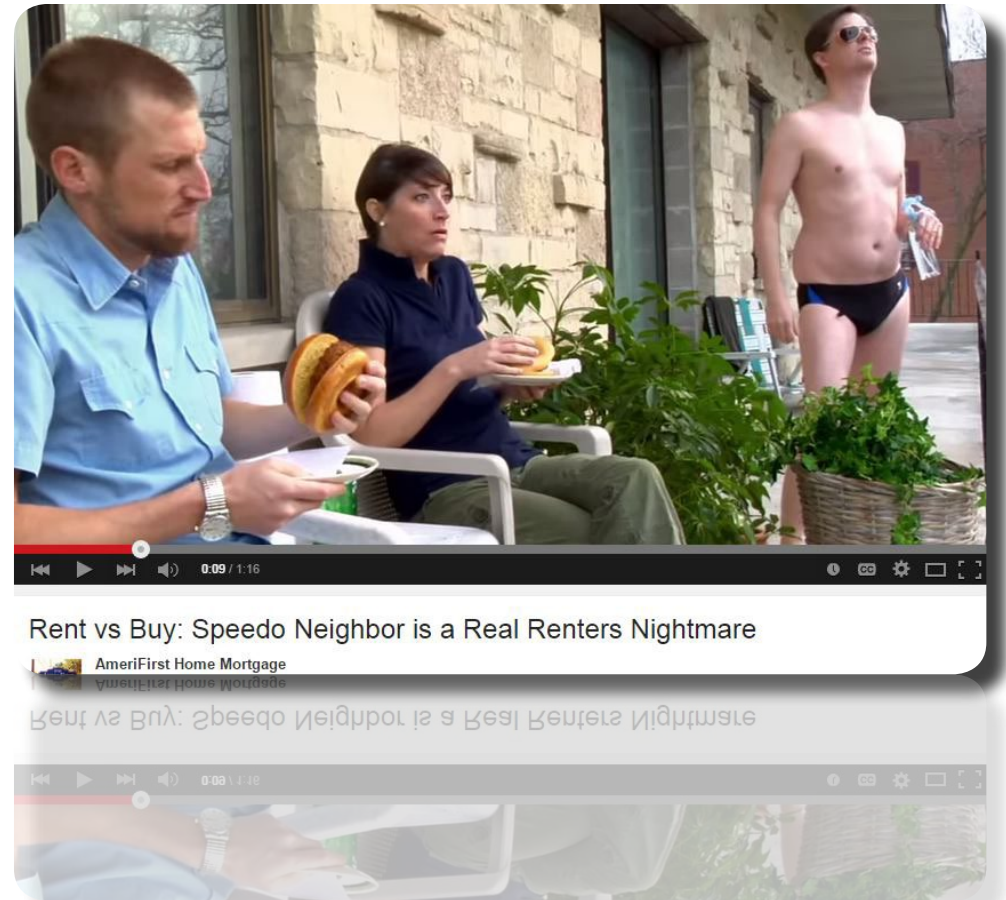
You may find yourself in a renter's nightmare. Maybe that's why you downloaded this guide. Living with mom and dad has lost its allure, or your neighbors are having kegger parties that go on for days. Your renter's nightmare could soon end.

Or maybe you're living in a home with a kitchen from the 70s and carpet even older. It's time to refinance and remodel, but you're not sure where to start.

However you found **"The Only Mortgage Loan Options Guide You Need,"** you're about to receive an education few other lenders will offer. AmeriFirst Home Mortgage is a [community mortgage lender](#), so we're very interested in our community. We want home buyers to understand the home buying process from mortgage pre-approval to FICO scores and down payments. An educated buyer is a powerful buyer, and one who's less apt to have problems later.

In this guide you'll find solutions to problems for first time home buyers with no down payment. You'll discover the answer to the often asked question, "How do I pay for this kitchen remodel?" You'll understand the difference between a fixed rate mortgage and an adjustable rate mortgage. We'll even cover a few of the programs you've probably heard about – the "evil" sub-prime mortgages and other programs that gave lenders a bad name and left borrowers with a bad taste in their mouths.

Thanks for downloading "The Only Mortgage Loan Options Guide You Need." We hope you find it useful as you move forward in the home buying process, wherever that may be. You can always find more information on a daily basis on the AmeriFirst Home Mortgage blog.



An educated buyer is a powerful buyer, and one who's less apt to have problems later.

Go Conventional

Let's take a look at a few explanations about mortgages. Mortgage loans are typically categorized as either fixed rate or adjustable rate. Sometimes they can even be a combination where the rate is fixed for a certain period of time and then converts to an adjustable rate for the remainder of the loan term. The most common loan terms are 30 or 15 years, but we also offer terms as short as 10 years and can offer 20 and 25 year terms in some instances.

In most cases, the shorter the loan term, the lower the interest rate. However, this does not mean a lower monthly payment as the loan is being amortized over a shorter period of time so it may actually be a larger monthly payment. As an example, total interest paid in a 15 year loan may end up being less than half what you'd pay on a 30 year loan, but your monthly payments will be higher.

A conventional mortgage is often one of the lowest-priced mortgages on the interest rate. It's also one of the most costly loans up front. From the consumer side of things, a conventional mortgage requires the borrower to have a 20% (or 10%) down payment (depending on your credit score, it is possible to have a down payment as low as 5%). Then you simply borrow the rest from the lender. Because you're putting more money down, you're starting with more equity than a borrower putting down a standard 3.5% down. With a 20% down payment, a buyer will avoid monthly mortgage insurance.



FHA Mortgage Loans

The Federal Housing Administration (FHA) does not actually issue mortgage loans. Instead, the FHA provides mortgage insurance to lenders like AmeriFirst Home Mortgage.

Customers like FHA loans because they have more liberal qualification requirements. Credit score requirements tend to be a bit lower than other mortgage loan programs. Debt-to-income ratios differ from other options – the general rule for FHA is that your house payment should not exceed 31% of your income. Adding your house payment to the rest of your debt should keep your total debt at or below 43% of your income. Higher ratios may be considered with compensating factors. FHA has no income limit and no geographic restrictions. You can also have non-traditional credit – great for self-employed borrowers.

In addition, they typically have a lower down payment requirement (as low as 3.5%), lower monthly insurance premiums and often have lower closing costs. This makes an FHA loan a very attractive loan for the first time home buyer, and for families with low-to-moderate income levels.

You can use an FHA loan to buy an existing home or build a new one. You can also refinance your home into an FHA mortgage. Eligible property types include approved condos, modular homes and manufactured homes with pre-approval. The home must be owner-occupied.

Other loans included under the FHA umbrella are the Full 203k and the 203k Streamline – both [home improvement loans](#) which we will cover later in this guide. The basic explanation of these loan options is that they allow the borrower to close on a home that doesn't meet FHA requirements, with the plan in place to make the necessary repairs to that home. You can also use the 203k loans to finance many desired home improvements into the life of the mortgage.



Bonus with FHA:

Seller can contribute up to 6% of the sale price to help cover closing costs. Gift funds are also allowed to cover closing costs.

USDA Rural Development (RD) Mortgage Loans

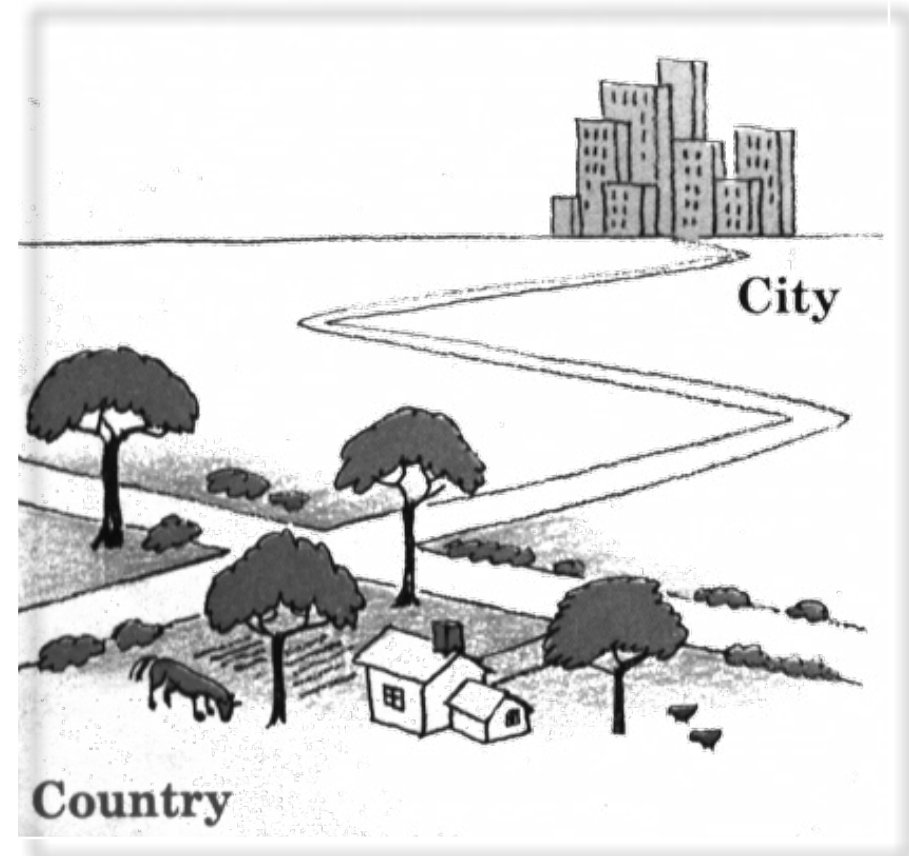
This mortgage loan option is one of those hidden gems no one seems to know about. AmeriFirst Home Mortgage is helping to change that. For buyers looking to buy a home with no down payment and are open to suggestion on the geographic location of the home, the Rural Development Mortgage from the United States Department of Agriculture (USDA) is a great option.

Under the Guaranteed Loan program, Rural Development (RD) guarantees loans made by private sector lenders like AmeriFirst. A loan guaranteed through RD means that, should the individual borrower default on the loan, RD will pay the private financier for the loan. The buyer works with the private lender and makes his or her payments to that lender.

Under the terms of the program, an individual or family may borrow up to 102% of the appraised value of the home, which eliminates the need for a down payment. The home must meet location requirements set up by the USDA. These are non-urban areas, but often include many villages and small towns near bigger cities.

The home must be owner-occupied and single family housing, but there are no lot size restrictions. The loan term is a 30-year fixed rate mortgage. Debt to income ratios for RD are: your house payment should be less than 29% of your income. Your total debt should not exceed 41% of your income, and it does allow for non-traditional credit. Another benefit to RD is that you have no limit on how much the seller can contribute to your closing costs, and gift money is allowed for covering those closing costs as well.

**A zero-down mortgage
loan option that works**



Another Zero-Down Option: VA Mortgage Loans



Veterans are eligible for several benefits, one of which is the VA mortgage loan. VA loans do not require a down payment (one of only 2 zero-down mortgage options) and have similar credit requirements as an FHA loan. Interestingly, research shows that despite the zero-down nature of VA loans, the default rate (where borrowers do not pay it back) is among the lowest in any mortgage program. A 2012 Washington Post article points out that the 90-day default rate for VA lending was 2.2% in one focused time period. That's less than half the rate at the Federal Housing Administration. This means veterans are paying off their homes, even though conventional knowledge would say it's a risky loan.

It's not just the service member who's eligible for a VA mortgage loan. The VA loan FAQ list, offer this question and answer:

Q: Is the surviving spouse of a deceased veteran eligible for the home loan benefits?

A: The unmarried surviving spouse of a veteran who died on active duty or as the result of a service-connected disability is eligible for the home loan benefit.

VA loans are guaranteed by the U.S. Department of Veteran Affairs and lenders like AmeriFirst Home Mortgage make the loans to eligible veterans for the purchase, construction, or energy-saving improvement (approved by the lender and VA) of a home. VA loans share similar eligibility requirements as FHA loans, often with lower closing costs, and more liberal terms (usually without requiring a down payment) and even negotiable interest rates. If you qualify, the VA will issue a certificate of eligibility that you can provide a lender when making application for your loan.

Also, credit standards are flexible and generous. Underwriting rules encourage loan officers to look for ways to approve applications rather than to reject them.

Home Improvement Loans

FHA 203k Home Improvement Loan

One of the most popular and diverse home improvement loans is the [FHA 203k](#). You can make home improvements to the house you want, or the home you already own. Use the funds for simple upgrades to your home like a kitchen or bath improvement, or to completely reconstruct a home that is presently unlivable. You can even use a 203k Rehabilitation Loan to tear down an existing structure and build a new one using some portion of the existing foundation. You can borrow up to 96.5% of the appraised value - based on the value when the improvements or repairs are completed.

HomeStyle Renovation Loan

With as little as a 5% down payment you can add your taste & style to a house to make it your home with remodeling projects like a new kitchen, bathroom, room addition or energy efficient upgrades. [HomeStyle Renovation](#) allows you to buy a home and fix it up, or refinance and remodel your current home.

- Purchase or refinance & remodel
- 5% minimum down payment for primary, single-family residences (10% for second homes)
- You can use gift funds for down payment & closing costs for owner occupied, primary residences after you contribute a minimum 3% down payment
- 3% seller contribution allowed
- Cosmetic and structural renovations allowed
- Allowable improvements can include landscaping, appliances, swimming pools and more



Home Equity Loans & Second Mortgages

If you've been in your home for several years, or you've done a good job of paying down the principal balance on your loan, chances are you've built up some equity that you can use to make larger purchases (such as an addition to your home, a new vehicle or even college tuition for a child). Equity loans (which are really second mortgages) are typically set with specific term and a set payment amount (much like a "traditional mortgage loan"). The loan amount will be based on your current mortgage balance compared to your home's value and then we apply a percentage amount to determine your loan amount. We'll be happy to help you determine the available amount based on your situation.

FAQ Section

What are fixed-rate mortgage loans?

The interest rate is fixed for the life of the loan, regardless of what rates do over the life of your loan. This ensures that your payment remains the same each month, which can make budgeting a lot easier. However, if your loan has an escrow account that is collecting for taxes or insurance, that likely will change over time and cause your payment amount to change annually.

What are adjustable rate mortgage loans (ARMs)?

The interest rate changes periodically by adding what's referred to as a "margin" to an index specified in mortgage documents. These two numbers are combined to create the loan's interest rate and often times have limits (sometimes referred to as "caps and collars") that ensure the rate does not increase over a certain amount over the life of the loan. As an example, a 1-year ARM will adjust every year, typically on the anniversary date of the loan.

Because the rate changes as the index changes with fluctuations in the market, monthly payments on an adjustable rate mortgage loan likely will be different every year. However, if you are planning on being in your home a short period of time, an ARM may be a very good option with a lower interest rate.

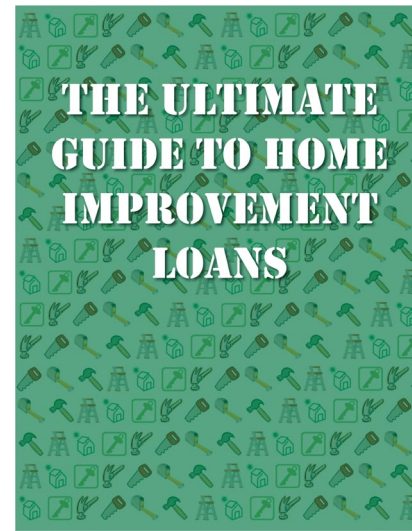
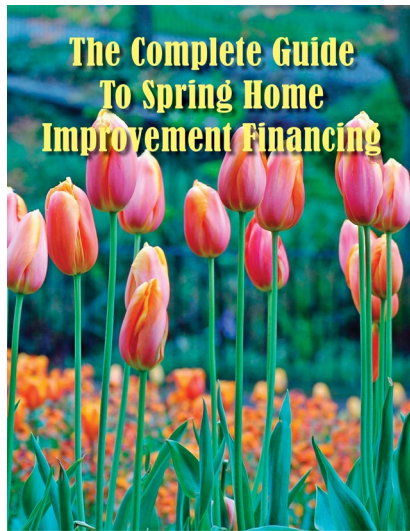
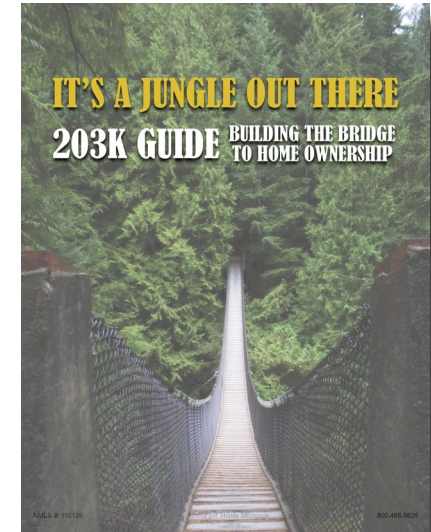
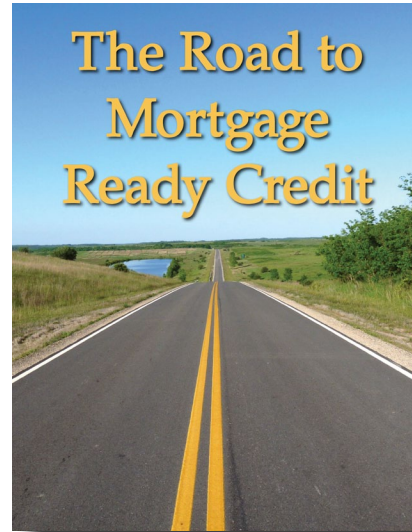
What about all the interest-only and sub-prime mortgages?

Programs like sub-prime mortgages, no-income-no-asset (NINA), stated-income-stated-asset (SISA), and interest only mortgage loans proved to be bad ideas for homeowners. Lending large amounts of money to borrowers who could not pay it off proved to create a huge housing bubble that eventually burst, putting us in the housing market we're in today. Because many investors at the time saw real estate as something that could never lose value, these mortgages could get "bundled" into investment portfolios. The problem we've seen is that real estate can de-value, and it did.

Fortunately for AmeriFirst Home Mortgage borrowers, we never took on the sub-prime mortgage market. Our home buyers were able to buy homes they could afford and make the payments when other homeowners had too much home and not enough income to cover the costs. You won't find these risky mortgage loan options at AmeriFirst.

More Home Buyer & Homeowner Resources to Download

AmeriFirst Home Mortgage has produced several guides to the home buying and home improvement financing process. Below is a snapshot of the e-Books we have to offer. Click a cover to learn more and download a free copy. Feel free to share them with other home buyers you may know!



Let Us Know How We Can Help

For more than 30 years, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, Rural Development or a 203k mortgage loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed for mortgage lending in: Michigan, Minnesota, Wisconsin, Illinois, Indiana, Ohio, Kentucky, Tennessee, North Carolina, Florida, Georgia and Alabama. There is sure to be an office near you. You can find the [AmeriFirst office locator here](#).

Get social with AmeriFirst!



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950 Trade Centre Way, Suite 400 | Kalamazoo, MI 49002 | 269.324.4240

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