

Mortgage Option Analysis

Chapter 10.3: Understanding Home Buying

Instructions

This worksheet will help you analyze different mortgage options to find the best fit for your financial situation. Work through each section to understand the features, requirements, and costs of various mortgage types. Then compare options for specific scenarios and determine which option might be best for your situation.

Conventional Loans

Key Features

- Not backed by the federal government
- Offered by banks, credit unions, and mortgage lenders
- May be conforming (meet Fannie Mae/Freddie Mac guidelines) or non-conforming (jumbo loans)
- Fixed-rate or adjustable-rate options
- Various term options (15, 20, 30 years are most common)

Eligibility Requirements

Requirement	Typical Minimum	Optimal
Credit Score	620-640	740+
Down Payment	3-5%	20%+
Debt-to-Income Ratio (DTI)	43-45%	<36%
Mortgage Insurance	Required if down payment <20%	None with 20%+ down
Employment History	2+ years in same field	2+ years with same employer
Income Verification	Pay stubs, W-2s, tax returns	Steady income with upward trend

Advantages

- No upfront mortgage insurance premium (unlike FHA)
- PMI can be cancelled once you reach 20% equity
- More flexibility in property types
- Generally lower total cost for borrowers with excellent credit and 20%+ down
- Various term options to fit different financial goals

Disadvantages

- Higher credit score requirements than government-backed loans
- Higher down payment needed for best terms
- Stricter qualification requirements
- PMI can be expensive with minimal down payment
- Less flexible with credit issues or unique income situations

Best For

- Borrowers with good-to-excellent credit (680+)
- Those who can afford a 10-20% down payment
- Borrowers seeking lower overall costs over the life of the loan

- Those with stable, well-documented income
- Buyers interested in different property types (primary residence, second home, investment)

FHA Loans

Key Features

- Backed by the Federal Housing Administration
- Designed to help first-time homebuyers and those with limited funds or credit challenges
- Available from FHA-approved lenders
- Fixed-rate and adjustable-rate options
- Primarily for primary residences only

Eligibility Requirements

Requirement	Typical Minimum	Optimal
Credit Score	500 (with 10% down) 580 (with 3.5% down)	620+
Down Payment	3.5% (580+ credit score) 10% (500-579 credit score)	10%+
Debt-to-Income Ratio (DTI)	43-50% (with compensating factors)	<43%
Mortgage Insurance	Upfront premium (1.75%) + annual premium (0.55-1.05%)	Required for the life of the loan with <10% down
Property Requirements	Must meet FHA property standards	Move-in ready condition
Loan Limits	Varies by county	Lower than conventional conforming limits

Advantages

- Lower credit score requirements than conventional loans
- Lower down payment options (as low as 3.5%)
- More flexible with recent credit issues
- Seller can contribute up to 6% toward closing costs
- May qualify with higher debt-to-income ratios

Disadvantages

- Mandatory mortgage insurance for all loans
- Upfront mortgage insurance premium (1.75% of loan amount)
- Mortgage insurance typically required for the life of the loan (with <10% down)
- Property must meet FHA standards, which can be strict

- Limited to primary residences only

Best For

- First-time homebuyers with limited savings
- Borrowers with lower credit scores (580-680)
- Those with higher debt-to-income ratios
- Buyers with past credit issues that preclude conventional financing
- Those who need a low down payment option and don't qualify for VA or USDA

VA Loans

Key Features

- Backed by the Department of Veterans Affairs
- Available to eligible service members, veterans, and surviving spouses
- Offered through VA-approved lenders
- No down payment required in most cases
- No private mortgage insurance

Eligibility Requirements

Requirement	Typical Minimum	Details
Military Service	Varies by service period	Must meet minimum service requirements and have valid Certificate of Eligibility (COE)
Credit Score	580-620 (lender specific)	No official VA minimum; lenders set their own standards
Down Payment	0%	100% financing available
Debt-to-Income Ratio (DTI)	41% standard, can be higher with compensating factors	More flexible than conventional loans
Funding Fee	1.25-3.3% of loan amount	Varies based on service type, down payment, and first-time use
Occupancy	Primary residence only	Must intend to occupy as primary home

Advantages

- No down payment required
- No monthly mortgage insurance
- Competitive interest rates
- More flexible credit requirements
- No prepayment penalties
- Limited closing costs (seller can pay all)

Disadvantages

- One-time funding fee (which can be rolled into the loan)
- Limited to eligible veterans, service members, and spouses
- Primary residence requirement
- Property must meet VA standards
- Some sellers may be hesitant about VA loans due to appraisal requirements

Best For

- Eligible veterans and service members
- Those with limited savings for down payment
- Borrowers looking to avoid mortgage insurance
- Those seeking competitive interest rates
- Buyers with good but not excellent credit

USDA Loans

Key Features

- Backed by the U.S. Department of Agriculture
- Designed for low-to-moderate income borrowers in eligible rural and suburban areas
- No down payment required
- Lower mortgage insurance costs than FHA
- Fixed-rate terms

Eligibility Requirements

Requirement	Typical Minimum	Details
Property Location	USDA-eligible area	Must be in a designated rural or suburban area
Income Limits	Varies by location	Typically cannot exceed 115% of area median income
Credit Score	640 for streamlined processing	Can be lower with manual underwriting
Down Payment	0%	100% financing available
Debt-to-Income Ratio (DTI)	41% standard (front-end) 41-46% (back-end)	Can be higher with compensating factors
Mortgage Insurance	1% upfront guarantee fee 0.35% annual fee	Lower than FHA mortgage insurance

Advantages

- No down payment required
- Lower mortgage insurance costs than FHA
- Competitive interest rates
- Can finance closing costs if the property appraises above the purchase price
- Flexible credit requirements with manual underwriting

Disadvantages

- Geographic restrictions (only eligible in certain areas)
- Income limits restrict higher-earning households
- Upfront guarantee fee and annual fee required
- Primary residence only

- Property must meet USDA standards

Best For

- Low-to-moderate income borrowers
- Those looking to buy in eligible rural or suburban areas
- Buyers with limited savings for down payment
- Those seeking lower mortgage insurance costs than FHA
- First-time homebuyers (though not limited to them)

Mortgage Type Comparison Summary

Feature	Conventional	FHA	VA	USDA
Minimum Down Payment	3-5%	3.5% (580+ credit) 10% (500-579 credit)	0%	0%
Minimum Credit Score	620-640	500-580	580-620 (lender specific)	640 (streamlined) Lower possible
Mortgage Insurance	PMI if down payment <20% Cancellable at 20% equity	1.75% upfront 0.55-1.05% annual Often for life of loan	None (Funding fee instead)	1% upfront 0.35% annual
Maximum DTI	43-45%	43-50%	41%+	41-46%
Special Requirements	None	Property must meet FHA standards	Military service Property must meet VA standards	Income limits Eligible rural/suburban areas
Property Types	Primary, second home, investment	Primary residence only	Primary residence only	Primary residence only
Loan Limit Restrictions	Conforming limits (higher for jumbo loans)	FHA limits by county	No firm limit (but requires sufficient entitlement)	None, but limited by income qualification
Best Use Case	Good credit, 10-20% down, stable income	Credit challenges,	Eligible veterans with	Low-income buyers in

		low down payment	limited savings	rural/suburban areas
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Tip: When comparing loan options, look beyond just the interest rate. Consider down payment requirements, mortgage insurance costs, and how long you plan to stay in the home to determine the true cost of each option.

Mortgage Cost Calculator

Loan Details

Home Purchase Price:	\$ <input type="text"/>
Down Payment Percentage:	<input type="text"/> %
Down Payment Amount:	\$ <input type="text"/>
Loan Amount:	\$ <input type="text"/>
Loan Term (years):	<input type="text"/>
Interest Rate:	<input type="text"/> %

Cost Comparison

Cost Element	Conventional	FHA	VA	USDA
Down Payment	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Monthly Principal & Interest	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Upfront Mortgage Insurance/Funding Fee	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Monthly Mortgage Insurance	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Total Monthly Payment (P&I + MI)	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Total Upfront Costs	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Total 5-Year Cost	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Total Lifetime Cost	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>

This is a simplified calculation. For actual mortgage costs, consult with a mortgage professional.

Scenario Analysis: Which Mortgage Is Best?

Scenario 1: First-Time Homebuyer with Limited Savings

Buyer Profile: Sarah is a first-time homebuyer with a credit score of 650. She has saved \$10,000 and wants to purchase a \$200,000 home. She has stable employment but limited savings beyond her down payment funds.

Mortgage Option	Pros for This Scenario	Cons for This Scenario	Recommendation Rating (1-5)
Conventional			
FHA			
VA (assuming eligibility)			
USDA (assuming eligible area)			

Best Option for This Scenario:

Rationale:**Scenario 2: Veteran with Excellent Credit**

Buyer Profile: James is a veteran with 8 years of service. He has a credit score of 750 and has saved \$40,000 for a down payment. He is looking to purchase a \$300,000 home in a suburban area.

Mortgage Option	Pros for This Scenario	Cons for This Scenario	Recommendation Rating (1-5)
Conventional	<input type="text"/>	<input type="text"/>	<input type="text"/>
FHA	<input type="text"/>	<input type="text"/>	<input type="text"/>
VA	<input type="text"/>	<input type="text"/>	<input type="text"/>
USDA (assuming eligible area)	<input type="text"/>	<input type="text"/>	<input type="text"/>

Best Option for This Scenario:

Rationale:

Scenario 3: Buyer with Credit Challenges

Buyer Profile: Miguel has a credit score of 580 due to past financial challenges. He has saved \$15,000 and wants to purchase a \$180,000 home in a suburban area. He has steady income but limited credit history.

Mortgage Option	Pros for This Scenario	Cons for This Scenario	Recommendation Rating (1-5)
Conventional	<input type="text"/>	<input type="text"/>	<input type="text"/>
FHA	<input type="text"/>	<input type="text"/>	<input type="text"/>
VA (assuming eligibility)	<input type="text"/>	<input type="text"/>	<input type="text"/>
USDA (assuming eligible area)	<input type="text"/>	<input type="text"/>	<input type="text"/>

Best Option for This Scenario:

Rationale:

Personal Mortgage Analysis

Your Current Situation

Current Credit Score:	<input type="text"/>
Available Down Payment:	\$ <input type="text"/>
Target Home Price Range:	\$ <input type="text"/>
Monthly Gross Income:	\$ <input type="text"/>
Current Monthly Debt Payments:	\$ <input type="text"/>
Eligible for Special Programs:	<input type="checkbox"/> VA Loan <input type="checkbox"/> USDA Eligible Area <input type="checkbox"/> First-Time Homebuyer Programs <input type="checkbox"/> Other: <input type="text"/>

Your Mortgage Options Analysis

Based on your current situation, analyze which mortgage options might be best for you:

Mortgage Option	Would I Qualify?	Advantages for My Situation	Disadvantages for My Situation	Rating (1-5)
Conventional				
FHA				
VA				
USDA				
Other: <input type="text"/>				

My Best Mortgage Option

Based on my current situation, I believe the best mortgage option for me would be:

Rationale:

Next Steps to Prepare

To prepare for this mortgage option, I need to take the following steps:

1.

2.

3.

4.

5.

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