

Doron F. Eghbali Real Estate Law

[How to Qualify for a Home Mortgage in This Economy](#)

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Despite government efforts to encourage banking industry to restart approving and providing home mortgages to worthy potential home buyers, the banks have made their qualification requirements relatively more strenuous and more difficult to overcome. However, there are some guidelines that might help you assess your qualifications to approach the process intelligently and prudently.

GENERAL REQUIREMENTS

- **Job:** Having a job for consideration of home mortgage approval is mandatory.
- **Immediate Past Two-Years of Tax Return:** Banks want to determine other assets you might have and the discretionary income you have to spend on a home mortgage after you have spent on your other expenses. It is important to note, to the extent you have some deductions and credits that have reduced your adjusted gross income, might proportionally, reduce the loan for which you qualify.
- **FICO Score of At Least 720 out of a Possible 850:** FICO score of at least 720 is the threshold before a potential home buyer faces higher interest rates. In fact, under Fannie Mae guidelines - as one of the largest mortgage buyers - every 20-point drop in your credit score results in steeper origination fees.

DIFFICULTIES ABOUND

- **Down Payment and Mortgage Insurance Requirements:** Under the Federal Housing Administration (FHA) guidelines, down payments are allowed as low as 3.5%. However, such low down payment requires mortgage insurance payment of 1.75% of the loan amount. The 1.75% climbs to 2.25% next month. Such low down payments also trigger another \$500 per every \$100,000 a year.
- **Appraisal Problems in a Plummeting Real Estate Market:** One common problem is the continuing drop in real estate values. As such, a property put on the market some months ago might be appraised lower now by the bank. As such, the seller might have to drop the price or the purchaser has to come up with cash to keep the deal from falling apart.
- **Down Payment of 20%:** Most banks now require at least 20% down payment - despite the FHA guidelines stated before. However, the problem arises if purchaser puts down between 20%-25% the home purchaser end ups paying more in origination fees. The reason, strangely, is Fannie Mae considers this group to be risky since - generally - no mortgage insurance is required for 20% down payment home purchasers while home prices may decline even further.

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