

How To Buy A Home With Only A 5% Down Payment... Or Less!

**A Special Report
Compliments Of...**

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How To Buy A Home With Only A 5% Down Payment... Or Less!

If you're dreaming of buying a home, congratulations!

You're in good company! Almost two-thirds of the nation's households own their own home.

In this report, you'll learn how you can get into your own homes with little cash up front.

Also, you'll learn about mortgage insurance and how it works, and look at the two options – private mortgage insurance and government mortgage insurance.

Why Buy A Home?

Like many people, owning a home may be one of your biggest goals in life.

You gain many benefits for owning a home, including having a sense of security and belonging that can't be found elsewhere.

Your homeownership represents personal and financial success for you. You get to enjoy the personal satisfaction of living in a home that you own.

A home is still a valued investment that can have many financial advantages and tax benefits. The amount of interest you pay on a home loan and the real estate taxes you pay on your home are among the few major federal tax deductions.

Again, like many people, owning a home is probably your main way to build wealth.

Homeownership is also good for our communities, because families who own their homes are more involved in their local communities and participate in local events.

In short, here are five rewards of homeownership:

- Personal satisfaction
- **Sense of community**
- Tax savings
- **Stability for you and your family**
- Investment in the future

How to Overcome the Obstacles to Homeownership

While there are many great benefits of homeownership, for many Americans, owning a home continues to remain just slightly out of reach.

For more and more families, saving the money for a down payment is the biggest obstacle to homeownership.

But, the good news is, today, you don't need to have a down payment equal to 20% of the price of a home in order to buy one.

Traditionally, lenders have required home buyers to make a down payment of at least 20% of a home's purchase price to get a home loan or mortgage. But, now, if you qualify and are willing to insure the loan, then you can get a mortgage with a down payment of as little as 5% of the purchase price.

Nowadays, home loans with down payments of less than 20% are increasingly popular. They're called "low down payment mortgages."

So, if you're having trouble saving enough money for a down payment, then this is wonderful news for you, especially if you're buying your first home.

What Makes Low Down Payment Loans Possible?

Simply put, mortgage insurance protects the mortgage lender against financial loss if you stop making mortgage payments. This is why lenders usually require insurance on low down payment loans for protection in case you can't pay your monthly mortgage payment.

When you can't make the mortgage payments, a default occurs and the home goes into foreclosure. When this happens, both you and the mortgage insurance company will lose.

You lose the house and all of the money you put into it. And the mortgage insurance company loses because they'll have to pay the lender the mortgage you owe.

For this reason, you need to make sure you can really afford to buy a home – not only at the time it is purchased – but also throughout the period of the loan.

Although you, as the borrower, pay for the cost of the mortgage insurance, the mortgage insurance company works directly with the lender.

Mortgage insurance is available to commercial banks, savings, and loans and mortgage bankers, all of whom offer mortgage loans to home buyers.

As you can see, thanks to mortgage insurance, now you can buy a home with a down payment of as little as 5% of the purchase price, instead of the traditional 20%.

By the way, please keep in mind, mortgage insurance is not the same as credit life insurance, also called mortgage life insurance. This type of insurance policy repays an outstanding mortgage balance upon the death of the person who took out the insurance policy.

The Secondary Market

The lender's decision to use mortgage insurance is driven by the requirements of investors in the mortgage market. Because of the losses that could occur, major investors require mortgage insurance on all loans made with low down payments.

The three primary investors in home loans are Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association (Ginnie Mae).

By purchasing and selling residential mortgages, Fannie Mae and Freddie Mac help keep money available for homes across the country.

Unlike Fannie Mae and Freddie Mac, Ginnie Mae doesn't actually buy the mortgages. It adds the guarantee of the full faith and credit of the U.S. Government to mortgage securities issued by private lenders.

The Two Choices: Government Insurance and Private Insurance

Now that you've learned how mortgage insurance works and why it is necessary, let's look at the basic kinds of mortgage insurance.

Low down payment mortgages can be insured in two ways – through the government or through the private sector.

Mortgages backed by the government are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Farmers Home Administration (FmHA).

The minimum down payment required by FHA is less than 5%. For single-family homes, the standard limit for an FHA-insured mortgage ranges from \$67,500 to \$151,725 (in certain high-cost areas).

Although anyone can apply for FHA insurance, the other two government mortgage guarantee programs are much more targeted.

The VA program is limited to qualified, eligible veterans and reservists. This program is very specialized, so contact your lender for the details. The FmHA insures loans for the construction and purchase of homes in rural communities.

The alternative to obtaining a home loan backed by the government is to get a conventional mortgage.

This is a mortgage not guaranteed by the government, but usually is guaranteed by a private mortgage insurance company.

While government and private insurance are based on the same concept of you (and other families) to get into a home with less cash down, there are many differences between the two.

Often, the lender or loan originator will play an important role in suggesting and deciding which insurance is selected.

You must make a down payment of at least 5% of a home's value to be considered for private mortgage insurance.

However, under some special programs, the down payment requirement allows you to use a gift or grant to cover 2% of the 5% down payment required by private mortgage insurers. The gift or grant may come from a friend or relative, or a community group or other organization.

Private mortgage insurance is available on a wide variety of home loans and there is no pre-set limit on the loan amount. Although differences such as these may affect whether the lender prefers to work with government or conventional mortgages, your lender will discuss which one would be better for your situation.

With the wide variety of loans available, you have the freedom to choose the type of loan that best suits your needs.

Early on in the home buying process, it's a good idea to meet with several lenders to compare the types of mortgages they offer and shop for the best price and terms.

Best of all, working with a mortgage insurance company can be very easy – whether your loan is insured by the FHA or a private mortgage insurance company – because your lender handles all of the arrangements.

By making lending money to home buyers safer, mortgage insurance helps you get into a home of your own.

QUALIFYING FOR A LOW DOWN PAYMENT LOAN

Qualifying for a low down payment loan is much like applying for a regular loan.

To be considered for a low down payment loan, you generally need to have...

- Sufficient income to support the monthly mortgage payment
- **Enough cash to cover the down payment**
- Sufficient cash to cover normal closing costs and related expenses (explained below)

- A good credit background that indicates your payment history or “willingness to pay”
- **Sufficient appraisal value that shows the house is at least equal to the purchase price**
- In some instances, a cash reserve equivalent to two monthly mortgage payments

Closing costs, or settlement costs, are paid when you, the home buyer, and the seller meet to exchange the necessary papers for the house to be legally transferred.

On the average, closing costs run about 2% to 3% of the house price. This percentage may vary, depending on where you live.

Closing costs include the loan origination fee (if not already paid), points, prepaid homeowner’s insurance, appraisal fee, lawyer’s fee, recording fee, title search and insurance, tax adjustments, agent commissions, mortgage insurance (if you’re putting less than 20% down) and other expenses.

Your lender will give you a more exact estimate of your closing costs.

Points are finance charges that are calculated by the lender at closing. Each point equals 1% of the loan amount.

For example, 2 points on a \$100,000 loan equal \$2,000. Lenders may charge 1, 2 or 3 points in up-front costs in addition to the down payment. The more points you pay, the lower your interest rate will be. In some cases, you may be able to finance the points.

How Much of a Mortgage Can You Afford?

Lenders typically use two basic formulas to determine how much of a mortgage you can reasonably afford. These formulas are called qualifying ratios because they estimate the amount of money you should spend on mortgage payments in relation to your income and other expenses.

It’s important to remember that the following ratios may vary from lender to lender and each application is handled on an individual basis, so the guidelines are just that – guidelines.

There are many affordability programs, both government and conventional, that have more lenient requirements for low- and moderate-income families.

Many of these programs involve financial counseling for low- and moderate-income people interested in buying a home and in return, offer more lenient requirements.

Generally speaking, to qualify for conventional loans, your housing expenses (including the mortgage principal, interest, taxes and insurance, often abbreviated PITI) should not exceed 26% to 28% of your gross monthly income. For FHA loans, the ratio is 29% of gross monthly income.

For example, if your annual income is \$30,000, your gross monthly income is \$2,500, times 28% = \$700. So you would probably qualify for a conventional home loan that requires monthly payments of \$700.

Any expenses that extend 11 months or more into the future are called long-term debt, such as a car loan. Total monthly costs, including PITI and all other long-term debt, should equal no greater than 33% to 36% of your gross monthly income for conventional loans.

Using the same example, $\$2,500 \times 36\% = \900 . So the total of your monthly housing expenses plus any long-term debts each month cannot exceed \$900. For FHA the ratio is 41%.

Maximum allowable monthly housing expense

26% - 28% of gross monthly income – Conventional
29% of gross monthly income – FHA

Maximum allowable monthly housing expense and long-term debt

33% - 36% of gross monthly income – Conventional
41% of gross monthly income – FHA

One way to determine how much to spend for housing is to compare your monthly income with monthly long-term obligations and expenses. You can use the worksheet at the end of this report to figure out how much money you can spend on housing.

When budgeting to buy a home, you need to set aside enough money for additional expenses like maintenance and insurance costs. If you're buying an existing home, get information, such as utility cost averages and maintenance costs from previous owners or tenants, to help you better prepare for homeownership.

Homeowner's insurance or property insurance is another cost you will have to consider. Your mortgage lender will require you to buy enough insurance to cover the mortgage.

But, for your added security and peace of mind, you should consider buying enough insurance to protect the full value of your home, rather than just enough to cover the mortgage. This way, if something disastrous happens to your home, you'll have the money to rebuild it to the way it was.

What Kind Of Property Can You Buy With A Low Down Payment Loan?

There are few restrictions regarding the type of home you may buy with a low down payment loan. In addition, low down payment loans may be used with the wide variety of mortgages.

Besides price range, there are many other factors to consider when purchasing a home. It's in your best interest to choose a home that will have lasting value as well as provide shelter for your family. So make sure the neighborhood and house meet the needs of your family.

If you have children, you may want to choose a house located in a neighborhood that has other children, school, and playground nearby. Also consider the availability of public transportation and how far family members will have to commute to work or school.

Before buying a home, you may consider hiring a certified home inspector to check it out to make sure it's in good condition. The last thing you need is an unexpected and huge repair bill after moving into your new home.

Like most people, a home is probably the single largest purchase you'll ever make. So, choose one that will meet your family's needs and keep you happy for years to come.

Your Initial Meeting With a Lender

The loan approval process generally begins with an initial interview where you, the prospective home buyer, and the lender meet to discuss the potential loan. You'll need to bring information to verify your income and long-term debts.

You may want to meet with the lender before house hunting to determine in advance what price range you can realistically afford and what mortgage amount you can qualify for. This step is called pre-qualification and can save you a lot of time and trouble by making sure you're looking for a house within your price range.

For your first meeting with the lender, you should bring:

- A purchase contract for the house (if you have one)
- Your bank account numbers and the address of your bank branch, along with checking and savings account statements for the previous 2-3 months
- Pay stubs, W2 withholding forms, tax returns for two years, or other proof of employment and income verification
- Divorce settlement papers, if applicable
- Credit card bills for the past few billing periods, or canceled checks for rent or utility bill payments, to show payment history and amount of revolving debt
- Information on other consumer debt such as car loans, furniture loans, student loans and retail/credit cards
- Balance sheets and tax returns, if you are self- employed

- Any gift letters, if you are using a gift from a parent or relative or other organization to help pay the down payment and / or closing costs. This letter simply states that the money is in fact a gift and will not have to be repaid.

Having these items on hand when you visit the lender will help speed up the application process.

After your initial meeting with the lender, you should have a general idea if you qualify for the type and amount of mortgage you want. And the lender should let you know within 30 to 60 days.

If you don't get the mortgage you want, then the lender must explain the reasons to you. If this happens, the lender will usually discuss any options with you.

Generally, the lender doesn't charge a fee for the pre-qualification process.

Two Key Factors in Qualifying for a Home Loan

Lenders basically look at two key factors to determine whether you qualify for the type and amount of mortgage you want: (1) Your ability and willingness to repay the loan. (2) Your financial ability to repay the mortgage based on your current employment and total income.

Generally speaking, lenders prefer you to have been working at the same place for at least two years, or at least be in the same line of work for a few years.

Your willingness to repay is determined by examining how the property will be used, whether you'll live in your house or rent it out.

Willingness is also closely related to how you've fulfilled your previous financial commitments (by examining your credit report) and how you're paying your present bills, such as rent and utilities.

Because each applicant is handled on a case-by-case basis, your lender can be flexible in approving your mortgage. For example, even if you come up a little short in one area, perhaps one of your stronger points will make up for the weak one.

Since mortgage lenders make money by giving out mortgages, they usually do their best to qualify you for the amount you want. And, if they can't, then they'll try to figure out a way for you to qualify for a lesser amount.

Anyway, after you've negotiated a price and terms on a house, and the seller has accepted your offer, the next step is for you to formally apply for a mortgage with your lender.

Unlike the pre-qualifying process, which is usually free, you normally need to pay an application fee and the appraisal fee when you submit the mortgage application.

However, before you pay the fee, ask your lender if they can waive it. If another financial institution doesn't charge a fee, then mention it to your lender. In some cases, they may want to match their competitor and waive the fee on your loan.

PAYMENT TABLE MONTHLY PAYMENT FOR EACH \$1,000 BORROWED

This table helps you calculate your monthly housing costs, not including taxes and insurance.

For example, let's say you have a 30-year mortgage and the interest rate is 8%. The table shows the monthly payment per \$1,000 is \$7.34. So, if you want to borrow \$75,000, then you can estimate the payment by multiplying 75 x \$7.34, which equals \$550.50 per month.

As you can see, the lower the interest rate, the bigger the home you can afford to buy.

HOW TO EVALUATE YOUR FINANCIAL RESOURCES

Step 1: Determine Your Net Monthly Income

Gross Monthly Income	\$ _____	(1)
Gross base pay (All wages and salaries other than overtime)	\$ _____	(2)
Net profit (from business)	\$ _____	(3)
Interest and dividends	\$ _____	(4)
Other income	\$ _____	(5)
Total gross income (add lines 1 to 5) =	\$ _____	(6)
Deductions	\$ _____	(7)
Income tax (federal, state and local)	\$ _____	(8)
Social Security/retirement	\$ _____	(9)
Insurance (life, health, property)	\$ _____	(10)
Other (charities, etc.)	\$ _____	(11)
Total Deductions (add lines 7 to 11) =	\$ _____	(12)
Total take-home pay (line 6 – line 12) =	\$ _____	(13)

Step 2: Figure Out Your Long-term Monthly Obligations (longer than 12 months)

Car (or other monthly) payment	\$ _____	(14)
Other debt, owing 12 months or longer	\$ _____	(15)

Total long-term debt (line 12 + line 13) = \$ _____ (16)

Income after monthly long-term debt payments (13-16) \$ _____ (17)

Step 3: Calculate Your Monthly Non-Housing Expenses

Food, beverages (home and work) \$ _____ (18)

Transportation/auto expenses \$ _____ (19)

Education \$ _____ (20)

Medical/dental care \$ _____ (21)

Clothing and grooming \$ _____ (22)

Insurance (life and health) \$ _____ (23)

Child care \$ _____ (24)

Gifts and charity \$ _____ (25)

Entertainment and recreation \$ _____ (26)

Savings \$ _____ (27)

Other \$ _____ (28)

Total monthly non-housing expenses (add lines 18 to 28) \$ _____ (29)

Income after non-housing expenses (line 17 – line 29) \$ _____ (30)

Step 4: Estimate Your Monthly Housing Expenses

Proposed mortgage payment \$ _____ (31)

Allowance for property taxes \$ _____ (32)

Allowance for utilities (heat, water, phone, and electricity) \$ _____ (33)

Allowance for maintenance, furnishings \$ _____ (34)

Allowance for insurance \$ _____ (35)

4. Total monthly housing expenses (add lines 31 to 36) \$ _____ (36)

Step 5: Compare Your Monthly Net Income With Total Expenses

Income After Housing Expenses (line 30 – line 36) \$ _____ (37)

If the amount in line 37 is zero or greater, then you can afford to buy a home with a monthly mortgage payment of the figure shown in line 30. Otherwise, you'll have to choose a home with a lower monthly mortgage payment.

In this case, re- evaluate your budget and resources. And then re-calculate what monthly mortgage is suitable for you.

Anyway, if you're in the market to buy a home now or two or three months from now, then take this information with you when you go see your mortgage lender. When they see how well

prepared you are, they'll have more confidence in you. And so they likely will work harder to help you qualify for a loan.

Have fun buying a home (especially if it's your first one)!

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