

# MORTGAGE BASICS AND DOWN PAYMENT ASSISTANCE GUIDE

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## Disclaimer

The information in this guide is current as of the date of creation. Please verify all details and check for updates regularly to ensure accuracy.

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# Mortgage Basics and Down Payment Assistance Guide



## Introduction to Mortgages

A mortgage is a loan used to purchase a home, where the property serves as collateral. Understanding the basics of mortgages, the types available, and down payment assistance can help you make informed decisions when buying a home.

### 1. Types of Mortgages

#### Conventional Loans:

- Minimum Credit Score: Typically 620
- Down Payment: As low as 3%, but usually around 5-20%
- Features: Not insured by the government, often require private mortgage insurance (PMI) if down payment is less than 20%

#### FHA Loans:

- Minimum Credit Score: 580 (with 3.5% down payment), 500-579 (with 10% down payment)
- Down Payment: 3.5% for scores above 580
- Features: Insured by the Federal Housing Administration, more lenient credit requirements, requires mortgage insurance premium (MIP)

#### USDA Loans:

- Minimum Credit Score: Typically 640
- Down Payment: No down payment required
- Features: Designed for rural and suburban homebuyers, income limits apply, backed by the U.S. Department of Agriculture

#### VA Loans:

- Minimum Credit Score: Typically 620 (varies by lender)
- Down Payment: No down payment required
- Features: Available to veterans, active-duty service members, and eligible spouses, backed by the Department of Veterans Affairs, no PMI



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## 2. Understanding Credit Scores in Mortgage Lending

**Median Credit Score:** Lenders use your median credit score, which is the middle score if you have three different credit scores from the major credit bureaus. If there are two borrowers, lenders use the lower of the two median scores.

### Example:

- **Scores:** 700, 710, 720
- **Median Score:** 710 (the middle score)
- **Two Borrowers:** Borrower A has scores of 700, 710, 720. Borrower B has scores of 680, 690, 700. The lender will use 690 (the lower of the two median scores).

## 3. Preparing for a Mortgage



**Checking Your Scores and Debts:** Before applying for a mortgage, check your credit scores and review your current list of debts. This helps you understand what is reporting and allows you to address any discrepancies.

### Debt-to-Income Ratio (DTI):

- **Definition:** DTI is the ratio of your monthly debt payments to your gross monthly income.
- **Importance:** Affects how much home you are approved for. Lenders prefer a lower DTI as it indicates better financial health.

### Example:

**Person A:** Monthly income of \$5,000, monthly debt payments of \$1,000. DTI = 20% ( $\$1,000 \div \$5,000$ ).

**Person B:** Monthly income of \$5,000, monthly debt payments of \$2,000. DTI = 40% ( $\$2,000 \div \$5,000$ ).

**Result:** Person A may be approved for a higher loan amount due to a lower DTI.

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## 4. Interest Rates for Mortgages

**Rates and Pricing:** Mortgage rates are generally similar across different lenders, but the cost to obtain those rates can vary. Your credit score and the lender's rate sheet determine the price for the rate you receive.

**Points:** Points are fees paid directly to the lender at closing in exchange for a lower interest rate. Always pay attention to your loan estimate to see if you are paying points.

**Decision Factors:** Having a lower rate or putting down more money doesn't always make sense. Consider how long you plan to stay in the home to determine if paying extra funds is worth it.



### Example:

- Extra Down Payment: \$10,000
- Monthly Savings: \$20
- Break-Even Point: 500 months (over 41 years)
- Conclusion: It may not be worth putting down extra funds unless it helps you qualify or meet your budget.

## 5. Down Payment Assistance

Down payment assistance programs are available from various sources, including state and local governments and lenders. These programs can help cover your down payment and closing costs.

### Michigan Down Payment Assistance:

- Program: Michigan State Housing Development Authority (MSHDA)
- Assistance: Up to \$10,000 towards the purchase of a home below \$244,000
- Requirements: Minimum 640 credit score, income limits based on family size
- Website: MSHDA Down Payment Assistance



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## 6. Key Mortgage Terms

**Escrow:** An account used by the lender to pay property taxes and insurance on your behalf.

**Principal:** The amount of money borrowed to buy a home.

**Interest:** The cost of borrowing money, expressed as a percentage.

**Down Payment:** The upfront payment made when purchasing a home, typically a percentage of the purchase price.



**Closing Costs:** Fees associated with obtaining a mortgage, including appraisal, title work, and inspection fees.

## 7. Mortgage Payment Structure

Most mortgages are due on the first of the month, with late fees applied after the 15th. Payments will be reported as late to credit bureaus if not received by the end of the month.

## 8. Calculating Your Income

**Example:**

- **Hourly Rate:** \$20
- **Full-Time Hours:** 40 hours/week
- **Weekly Income:** \$20 x 40 = \$800
- **Annual Income:** \$800 x 52 weeks = \$41,600
- **Monthly Income:** \$41,600 ÷ 12 = \$3,466.67

*For other pay types, such as part-time or self-employed, consult a mortgage broker.*



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## 9. Choosing a Mortgage Lender

### Recommendations:

1. **Mortgage Broker:** Often eligible to offer state down payment assistance programs.
2. **Credit Union:** Typically offer lower rates and fees.
3. **Direct Mortgage Lender (e.g., Rocket Mortgage):** Convenient online processes.
4. **Bank:** Traditional option, but may have higher rates and fees.

## 10. Shopping for Services

### Shop around for services to reduce costs:

- **Homeowners Insurance:** Check rates annually.
- **Title Work, Appraisal, and Inspection Fees:** Compare providers to find the best rates.

## 11. Working with a Realtor

Your realtor should be a partner, not just a salesperson. They are usually paid from the seller's proceeds, so you typically don't pay them directly. Choose a realtor who is knowledgeable, friendly, and willing to educate you throughout the process. If something seems off, consult another party after discussing it with your realtor.

**Recommendation:** We have great recommendations for realtors and mortgage brokers in Michigan and surrounding states, including Florida. Please reach out to us for referrals.

### Conclusion

Preparing for a mortgage involves understanding your credit scores, managing your debts, and making informed decisions about down payments and interest rates. **YOUR MORTGAGE LOAN OFFICER IS RESPONSIBLE FOR WALKING YOU THROUGH ANY QUESTIONS AND MAKING SURE YOU HAVE A COMPLETE UNDERSTANDING FOR POSSIBLY THE BIGGEST PURCHASE OF YOUR LIFE.** For personalized guidance or referrals, book a free consultation with FICO Pharmacy Consulting LLC.

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# NEXT STEPS



*Thank you!*

For personalized recommendations and further assistance, feel free to reach out to FICO Pharmacy Consulting LLC.

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