FACT SHEET

L-759

SHOPPING FOR MONEY

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Getting the best house loan on the best terms requires "shopping around."

A mortgage, a special loan for buying a house, is a legal document binding the person to repay the loan in regular monthly payments plus interest for a specified number of years. The house, land and improvements are pledged as security. The owner promises to pay taxes, keep the house insured and maintain the property in good condition. If the owner defaults on payments, the lender has the legal right to foreclose the lien. The owner can recover only the money left from the foreclosure after the loan agency is repaid.

VETERAN'S ADMINISTRATION MORTGAGE

The VA mortgage is also known as the GI mortgage. Its advantages are lower interest rate, lower down payment and built-in legal protections for the buyer. At present, the highest allowable interest rate for a VA loan is 6¾ percent. This may fluctuate slightly. Some lenders require 5 to 10 percent cash down payment while others require nothing. The loan may extend as long as 30 years or it may be paid in advance with no penalties.

The VA does not loan the money, except for a VA direct loan. It protects the lender against loss by guaranteeing up to 60 percent of the mortgage to a maximum of $7,500 without limit on the mortgage amount.

A VA appraiser will inspect the house and set a value before a loan is approved. The prospective buyer gets a copy of the appraisal called a "certificate of reasonable value." It is illegal for the seller to ask more than the appraised value.

VA loans are sometimes difficult to obtain since they have low fixed interest rates. Lenders receive higher return on their money by making other loans.

In small towns or rural areas where a prospective owner cannot get a VA loan, he may apply for a VA direct loan. Direct VA loans are made up to $15,000 and do not require a down payment unless the house costs more than $15,000. Direct loans are not usually available in metropolitan areas.

To get a VA loan, the prospective buyer takes his original military discharge certificate to the nearest VA office and gets a paper called a "certificate of eligibility." This paper must be presented to the bank or lender making the mortgage.

A non-veteran can assume a VA loan when buying from a veteran.

FEDERAL HOUSING ADMINISTRATION MORTGAGE

Anyone can apply for an FHA mortgage. The buyer must meet certain income requirements, based on the house price and mortgage carrying charges. The house itself must also pass minimum construction standards set by FHA. The house must be reasonably well built, a new house or an old house in fairly good condition. However, the house need not be flawless, excellently constructed or a bargain. The house is not necessarily superior to another house sold with a conventional mortgage. An FHA approved house is good assurance that it is soundly constructed.

FHA interest is usually lower than conventional mortgage interest. FHA rate now is 6¾ percent and no more can be charged. One-half to 1 percent insurance service charge can be added, totaling 7¼ percent. This makes an FHA loan more expensive than expected. The ½ to 1 percent service charge may be lowered to ¼ of 1 percent. Part of this service charge is later returned as a rebate when the mortgage is fully paid or when the owner has had the house five or six years before selling it.

An advantage of an FHA loan is its low down payment scale of 3 to 5 percent for houses up to $18,000 and more for higher priced houses. If more is spent for a house, the difference is paid in cash by the prospective owner. An FHA mortgage can be made for as long as 35 years.

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When money is scarce, an FHA mortgage may be hard to obtain since lenders prefer the higher interest rate they get on conventional mortgages.

An FHA mortgage is often made by many of the same banks and other lenders who offer conventional loans. The FHA loan does not extend cash. It insures the lender against loss if the mortgage is foreclosed. The lender furnishes the money. Therefore, it is an "FHA-insured" mortgage.

A person on active military duty can get an "FHA-in-service" mortgage. The maximum mortgage loan is $20,000. The Department of Defense pays the ½ to 1 percent service charge as long as the buyer is on active duty. This means 5 percent lower monthly payments. Eligibility information is available at local military headquarters.

On a $10,000, 25-year mortgage, every ½ of 1 percent additional interest raises the total interest payment about $900. Lengthening the time to repay may cost more money. Extending payment time from 25 to 30 years on a 6 percent, $10,000 loan, reduces monthly payments only $4.50, yet the total bill rises $2,250.

THE CONVENTIONAL MORTGAGE

Conventional loans are not FHA or VA insured. These mortgage loans are made by banks, savings and loan associations, insurance companies, other lending institutions or individuals financing house purchases.

A conventional mortgage loan is usually the easiest to secure, involves the least "red tape" and can be obtained quickly. It generally carries the highest interest rate, the largest down payment and more "small print" restrictions.

Interest rates range from 7 to 8½ percent in Texas. Down payments generally range from 10 to 40 percent.

The required down payment usually is less for a new house than for an older house of the same price. This also depends upon the appraisal value of the house and the buyer's credit rating. A conventional mortgage generally extends from 10 to 25 years, but seldom longer.

The prospective owner pays for the appraisal, but the report is sent to the lender. The owner has a right to ask the lender for the appraisal value, which might be lower than the asking price. If it is much lower, find out why.

RURAL HOUSING LOANS

The Farmers Home Administration makes rural housing loans in rural areas and small communities up to 5,500 population, which are not part of an urban area. Special loans are provided for rural senior citizens aged 62 years or over.

The interest rate is 6½ percent per year on the unpaid principal. Each loan is scheduled for repayment within a period consistent with the borrower's ability to pay. The maximum term is 33 years.

Qualification and application information is available in local county Farmers Home Administration offices.

DOWN PAYMENT

The minimum down payment depends upon the loan. The minimum should not be the only guide. A large down payment means a smaller mortgage, smaller monthly carrying charges and less total interest. However, the buyer should avoid using all of his cash for the down payment. He should allow for moving expenses, any repairs, additional landscaping and redecorating.

An owner can choose between (1) signing for a long-term 25 or 30 year loan with lowest monthly payments and highest total interest, or (2) a relatively short term mortgage with higher monthly payments. The best compromise usually is the term with the highest monthly payments the buyer can afford, allowing for additional expenditures for taxes, insurance and maintenance.

Lenders charge much less interest on home loans than on almost any other typical consumer loan. The owner's costs of interest and taxes are income-tax deductible. Rent is not.

In this example, the monthly payment on a $10,000 loan at 6½ percent would vary from $113.55 for a 10-year loan to $63.21 for a 30-year loan.

Monthly Payments Based on a $10,000 Loan

Maturity	6¼ %	6½ %	6¾ %	7 %	7¼ %
(Years)			Dollars		
10	112.29	113.55	114.83	116.11	117.41
12	98.89	100.20	101.52	102.84	104.18
15	85.75	87.12	88.50	89.89	91.29
20	73.10	74.56	76.04	77.53	79.04
25	65.97	67.53	69.10	70.68	72.29
30	61.58	63.21	64.86	66.54	68.22

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