Executive Perspectives
Insights on Housing Finance

The 4 Cs of Qualifying for a Mortgage

By SVP and Head of Single-Family Sales & Relationship Management Christina Boyle on April 6, 2015

If you're thinking about buying a home but unsure whether you could qualify for a mortgage or have enough cash for a down payment, you might be worrying too much. Yes, credit standards are higher now than they were a decade ago. But they actually are about the same as in the mid-1990s. Factor in today's very low interest rates and current home prices, and affordable mortgages are within reach for many qualified borrowers who may have been hesitant to enter the market.

Although owning a home isn't for everyone, and renting might be a better option for some, keep in mind the following facts if you choose to pursue homeownership.

What Lenders Look For

It's important to remember that Freddie Mac doesn't make loans directly to borrowers; we buy mortgages that meet our requirements from lenders. The lenders decide the standards they ultimately apply in making loans.

When deciding whether to make you a loan, lenders evaluate the four Cs:

- **Capacity** – Your current and future ability to pay back the loan. Lenders look at your income, employment history, savings, and monthly debt payments, such as credit card charges and other financial obligations, to make sure that you have the means to take on a mortgage comfortably.
- **Capital** – The money and savings that you have on hand plus investments, properties, and other assets that could be sold fairly quickly for cash. Having these reserves proves that you can manage your money and have funds, in addition to your income, to help pay the debt.
- **Collateral** – The value of the home that you plan to buy.
- **Credit** – Your record of paying bills and other debts on time. (Even if you don't plan to buy a home now, it's always a good idea to build and maintain strong credit. Landlords often check it to make sure that you can pay the rent; it's also important if you want to apply for a mortgage or other credit line in the future, such as a student loan, car loan, or credit card.)

Another important consideration is the down payment – the percentage of the cost of the home that you put down in cash when you buy it. Although references often are made to a 20 percent down payment, mortgages can be had with less. In fact, homebuyers in 2014 put down an average of 14 percent, according to a recent RealtyTrac report. Freddie Mac has long allowed for 5 percent down, and our new Home Possible Advantage[SM] mortgage is available to qualified borrowers with as little as 3 percent down. If you put down less than 20 percent, however, your interest rate might be a little higher and you must purchase mortgage insurance.

No one benefits from putting you in a home you can't afford. That's why Freddie Mac focuses on creating opportunities for sustainable homeownership. If you're thinking about buying, explore the possibility – don't assume that you won't meet the requirements.