



UNIT 4 – Overview

How Much Can You Borrow?

It's a wonderful feeling to own your own home, and it is something that most Americans aspire to. Some homes are big, others are smaller, but there is generally a real sense of pride that comes with homeownership.

Those feelings, of course, are the good ones, but to get there you will first have to find the home you want and then arrange for the financing. The financing, it turns out, is a bit more complicated because we first have to determine is that of how *much* you are able to borrow.

So, we start with some basics on borrowing and take a look at the relationship between an individual's income, debt, and overall borrowing capacity. There are ways to improve your capacity to borrow, but the real task should be to find the size of the mortgage that you can comfortably accommodate. After all, you want to enjoy your new home without being too stressed about the size of the monthly mortgage payments.

There are also some myths and misconceptions about homeownership that may actually discourage people from even trying to buy a home. We'll also examine these in some detail in an attempt to paint a better picture of the home ownership landscape. As usual, we'll rely on some short case studies to highlight the key points.

We also want to take a close look at some predatory lending policies and practices so that we can avoid them if they should ever come our way. These practices are more difficult to distinguish than you might think, which may explain why so many borrowers are in trouble today.

Finally, we'll spend a bit of time on the overall mortgage market and the way two federally-chartered agencies, Freddie Mac and Fannie May, are working to help make the dream of home ownership possible.



Unit Objectives:

- Explain how borrowers can improve their capacity to borrow for a mortgage.
- Explain how a potential homeowner can estimate the size of a mortgage they can afford.
- Discuss some myths and misconceptions about homeownership.
- Examine the advantages of getting a mortgage preapproved.
- Examine some predatory practices and policies that can be a problem for homeowners.
- Discuss the role of Freddie Mac and Fannie Mae in the mortgage industry

Key Concepts:

- **Fannie Mae:** Federal National Mortgage Association
- **Freddie Mac:** the Federal Home Loan Mortgage Corporation, a federally chartered, stockholder-owned corporation set up by the U.S. Congress to increase the supply of funds to lenders of mortgage funds
- **mortgage default:** failure to make the agreed-upon mortgage payments
- **predatory lending:** generally abusive and/or unfair lending practices
- **secondary market:** financial market in which financial assets such as bonds and mortgages are sold by parties other than the original issuer
- **securitizing mortgages:** process “bundling” or combining mortgages so that they can be used as an income-generating asset to back a bond

