

## Home Buyer Information

### Common Questions from First-time Homebuyers

#### 1. Why should I buy instead of rent?

**Answer:** You'll love the feeling of having something that's all yours - a home where your own personal style will tell the world who you are. A thriving vegetable garden in the backyard, a tiled entryway, a yellow kitchen...when you own, you can do it all your way! But there's more to owning a home than personal satisfaction. You can deduct the cost of your mortgage loan interest from your federal income taxes, and usually from your state taxes, too. And interest will compose nearly all of your monthly payment for over half the number of years you'll be paying your mortgage. This adds up to hefty savings at the end of each year. And you're also allowed to deduct the property taxes you pay as a homeowner. If you rent, you write your monthly check and it's gone forever. Another financial plus in owning a home is the possibility its value will go up through the years.

#### 2. I've heard of HUD homes. What are HUD homes, and are they a good deal?

**Answer:** HUD homes can be a very good deal. When someone with a HUD insured mortgage can't meet the payments, the lender forecloses on the home; HUD pays the lender what is owed; and HUD takes ownership of the home. Then it is sold at market value as quickly as possible. Read all about buying a HUD home - one might be right for you!

#### 3. I've had bad credit, and I don't have much for a down-payment. Can I become a home buyer?

**Answer:** You may be a good candidate for one of the federal mortgage programs that are available. A good place for you to start is by contacting one of the HUD-funded housing counseling agencies. They can help you sort through your options. In addition, contact your local government to see if there are any local home-buying programs that might work for you. Look in the blue pages of your phone directory for your local office of housing and community development or, if you can't find it, contact your mayor's office or your county executive's office.

#### 4. I'm a single mother. How would I go about buying a home?

**Answer:** Although you won't have the benefit of two incomes on which to qualify for a loan, there's no reason that you can't become a homeowner. Become familiar with the process, pick a good real estate broker and think about getting pre-qualified for a loan. You might want to contact one of the HUD-funded housing counseling agencies in your area to talk through your options. And you also might want to think about buying a HUD home - they can be very good deals. Also, contact your local government to see if there are any local home-buying programs that could help you. Look in the blue pages of your

phone directory for your local office of housing and community development or, if you can't find it, contact your mayor's office or your county executive's office.

## **5. Should I use a real estate broker? How do I find one?**

**Answer:** Using a real estate broker is a very good idea. All the details involved in home buying, particularly the financial ones, can be mind-boggling. A good real estate professional can guide you through the entire process and make the experience much easier. A real estate broker will be well acquainted with all the important things you'll want to know about a neighborhood you may be considering...the quality of schools, the number of children in the area, the safety of the neighborhood, traffic volume and more. He or she will help you figure the price range you can afford and search the classified ads and multiple listing services for homes you'll want to see. With immediate access to homes as soon as they're put on the market, the broker can save you hours of wasted driving-around time. When it's time to make an offer on a home, the broker can point out ways to structure your deal to save you money. He or she will explain the advantages and disadvantages of different types of mortgages, guide you through the paperwork, and be there to hold your hand and answer last-minute questions when you sign the final papers at closing. And you don't have to pay the broker anything! The payment comes from the home seller - not from the buyer.

By the way, if you want to buy a HUD home, you will be required to use a real estate broker to submit your bid. To find a broker who sells HUD homes, check your local yellow pages or the classified section of your local newspaper.

## **6. How much money will I have to come up with to buy a home?**

**Answer:** Well, that depends on a number of factors, including the cost of the house and the type of mortgage you get. In general, you need to come up with enough money to cover three costs: earnest money - the deposit you make on the home when you submit your offer to prove to the seller that you are serious about wanting to buy the house; the down payment, a percentage of the cost of the home that you must pay when you go to settlement; and closing costs, the costs associated with processing the paperwork to buy a house.

When you make an offer on a home, your real estate broker will put your earnest money into an escrow account. If the offer is accepted, your earnest money will be applied to the down payment or closing costs. If your offer is not accepted, your money will be returned to you. The amount of your earnest money varies. If you buy a HUD home, for example, your deposit generally will range from \$500 - \$2,000.

The more money you can put into your down payment, the lower your mortgage payments will be. Some types of loans require 10-20% of the purchase price. That's why many first-time homebuyers turn to HUD's FHA for help. FHA loans require only 3% down - and sometimes less.

Closing costs—which you will pay at settlement—average 3-4% of the price of your home. These costs cover various fees your lender charges and other processing

expenses. When you apply for your loan, your lender will give you an estimate of the closing costs, so you won't be caught by surprise. If you buy a HUD home, HUD may pay many of your closing costs.

### **7. How do I know if I can get a loan?**

**Answer:** Use our simple mortgage calculators to see how much mortgage you could pay - that's a good start. If the amount you can afford is significantly less than the cost of homes that interest you, then you might want to wait awhile longer. But before you give up, why don't you contact a real estate broker or a HUD-funded housing counseling agency? They will help you evaluate your loan potential. A broker will know what kinds of mortgages the lenders are offering and can help you choose a lender with a program that might be right for you. Another good idea is to get pre-qualified for a loan. That means you go to a lender and apply for a mortgage before you actually start looking for a home. Then you'll know exactly how much you can afford to spend, and it will speed the process once you do find the home of your dreams.

### **8. How do I find a lender?**

**Answer:** You can finance a home with a loan from a bank, a savings and loan, a credit union, a private mortgage company, or various state government lenders. Shopping for a loan is like shopping for any other large purchase: you can save money if you take some time to look around for the best prices. Different lenders can offer quite different interest rates and loan fees; and as you know, a lower interest rate can make a big difference in how much home you can afford. Talk with several lenders before you decide. Most lenders need 3-6 weeks for the whole loan approval process. Your real estate broker will be familiar with lenders in the area and what they're offering. Or you can look in your local newspaper's real estate section - most papers list interest rates being offered by local lenders. You can find FHA-approved lenders in the Yellow Pages of your phone book. HUD does not make loans directly - you must use a HUD-approved lender if you're interested in an FHA loan.

### **9. In addition to the mortgage payment, what other costs do I need to consider?**

**Answer:** Well, of course you'll have your monthly utilities. If your utilities have been covered in your rent, this may be new for you. Your real estate broker will be able to help you get information from the seller on how much utilities normally cost. In addition, you might have homeowner association or condo association dues. You'll definitely have property taxes, and you also may have city or county taxes. Taxes normally are rolled into your mortgage payment. Again, your broker will be able to help you anticipate these costs.

### **10. So what will my mortgage cover?**

**Answer:** Most loans have 4 parts: principal: the repayment of the amount you actually borrowed; interest: payment to the lender for the money you've borrowed; homeowners insurance: a monthly amount to insure the property against loss from fire, smoke, theft, and other hazards required by most lenders; and property taxes: the annual city/county

taxes assessed on your property, divided by the number of mortgage payments you make in a year. Most loans are for 30 years, although 15 year loans are available, too. During the life of the loan, you'll pay far more in interest than you will in principal - sometimes two or three times more! Because of the way loans are structured, in the first years you'll be paying mostly interest in your monthly payments. In the final years, you'll be paying mostly principal.

### **11. What do I need to take with me when I apply for a mortgage?**

**Answer:** Good question! If you have everything with you when you visit your lender, you'll save a good deal of time. You should have: 1) social security numbers for both you and your spouse, if both of you are applying for the loan; 2) copies of your checking and savings account statements for the past 6 months; 3) evidence of any other assets like bonds or stocks; 4) a recent paycheck stub detailing your earnings; 5) a list of all credit card accounts and the approximate monthly amounts owed on each; 6) a list of account numbers and balances due on outstanding loans, such as car loans; 7) copies of your last 2 years' income tax statements; and 8) the name and address of someone who can verify your employment. Depending on your lender, you may be asked for other information.

### **12. I know there are lots of types of mortgages - how do I know which one is best for me?**

**Answer:** You're right - there are many types of mortgages, and the more you know about them before you start, the better. Most people use a fixed-rate mortgage. In a fixed rate mortgage, your interest rate stays the same for the term of the mortgage, which normally is 30 years. The advantage of a fixed-rate mortgage is that you always know exactly how much your mortgage payment will be and you can plan for it. Another kind of mortgage is an Adjustable Rate Mortgage (ARM). With this kind of mortgage, your interest rate and monthly payments usually start lower than a fixed rate mortgage. But your rate and payment can change either up or down, as often as once or twice a year. The adjustment is tied to a financial index, such as the U.S. Treasury Securities index. The advantage of an ARM is that you may be able to afford a more expensive home because your initial interest rate will be lower. There are several government mortgage programs including the Veteran's Administration's programs and the Department of Agriculture's programs. Most people have heard of FHA mortgages. FHA doesn't actually make loans. Instead, it insures loans so that if buyers default for some reason, the lenders will get their money. This encourages lenders to give mortgages to people who might not otherwise qualify for a loan. Talk to your real estate broker about the various kinds of loans before you begin shopping for a mortgage.

### **13. When I find the home I want, how much should I offer?**

**Answer:** Again, your real estate broker can help you here. But there are several things you should consider: 1) is the asking price in line with prices of similar homes in the area? 2) Is the home in good condition or will you have to spend a substantial amount of money making it the way you want it? You probably want to get a professional home inspection before you make your offer. Your real estate broker can help you arrange one. 3) How long has the home been on the market? If it's been for sale for a while, the

seller may be more eager to accept a lower offer. 4) How much mortgage will be required? Make sure you really can afford whatever offer you make. 5) How much do you really want the home? The closer you are to the asking price, the more likely your offer will be accepted. In some cases, you may even want to offer more than the asking price if you know you are competing with others for the house.

#### **14. What if my offer is rejected?**

**Answer:** They often are! But don't let that stop you. Now you begin negotiating. Your broker will help you. You may have to offer more money, but you may ask the seller to cover some or all of your closing costs or to make repairs that wouldn't normally be expected. Often, negotiations on a price go back and forth several times before a deal is made. Just remember - don't get so caught up in negotiations that you lose sight of what you really want and can afford!

#### **15. So what will happen at closing?**

**Answer:** Basically, you'll sit at a table with your broker, the broker for the seller, probably the seller, and a closing agent. The closing agent will have a stack of papers for you and the seller to sign. While he or she will give you a basic explanation of each paper, you may want to take the time to read each one and/or consult with your agent to make sure you know exactly what you're signing. After all, this is a large amount of money you're committing to pay for a lot of years! Before you go to closing, your lender is required to give you a booklet explaining the closing costs, a "good faith estimate" of how much cash you'll have to supply at closing, and a list of documents you'll need at closing. If you don't get those items, be sure to call your lender BEFORE you go to closing. Don't hesitate to ask questions.

#### **Fair Lending**

Discrimination in mortgage lending is prohibited by the federal Fair Housing Act and HUD's Office of Fair Housing and Equal Opportunity actively enforces those provisions of the law. The Fair Housing Act makes it unlawful to engage in the following practices based on race, color, national origin, religion, sex, familial status or handicap (disability):

- Refuse to make a mortgage loan
- Refuse to provide information regarding loans
- Impose different terms or conditions on a loan, such as different interest rates, points, or fees
- Discriminate in appraising property
- Refuse to purchase a loan or set different terms or conditions for purchasing a loan

#### **Filing a Complaint**

If you have experienced any one of the above actions, you may be the victim of discrimination. Recognizing the signs of lending discrimination is the first step in filing a complaint. HUD investigates your complaints at no cost to you. If you believe you have

experienced lending discrimination, visit our housing discrimination complaint website to learn more about the complaint process.

## **What is Predatory Lending?**

**In communities across America, people are losing their homes and their investments because of predatory lenders, appraisers, mortgage brokers and home improvement contractors who:**

- Sell properties for much more than they are worth using false appraisals.
- Encourage borrowers to lie about their income, expenses, or cash available for down payments in order to get a loan.
- Knowingly lend more money than a borrower can afford to repay.
- Charge high interest rates to borrowers based on their race or national origin and not on their credit history.
- Charge fees for unnecessary or nonexistent products and services.
- Pressure borrowers to accept higher-risk loans such as balloon loans, interest only payments, and steep pre-payment penalties.
- Target vulnerable borrowers to cash-out refinances offers when they know borrowers are in need of cash due to medical, unemployment or debt problems.
- "Strip" homeowners' equity from their homes by convincing them to refinance again and again when there is no benefit to the borrower.
- Use high pressure sales tactics to sell home improvements and then finance them at high interest rates.

## **What Tactics Do Predators Use?**

- A lender or investor tells you that they are your only chance of getting a loan or owning a home. You should be able to take your time to shop around and compare prices and houses.
- The house you are buying costs a lot more than other homes in the neighborhood, but isn't any bigger or better.
- You are asked to sign a sales contract or loan documents that are blank or that contain information which is not true.
- You are told that the Federal Housing Administration insurance protects you against property defects or loan fraud - it does not.
- The cost or loan terms at closing are not what you agreed to.
- You are told that refinancing can solve your credit or money problems.
- You are told that you can only get a good deal on a home improvement if you finance it with a particular lender.

**Remember:**

If a deal to buy, repair or refinance a house sounds too good to be true, it usually is.