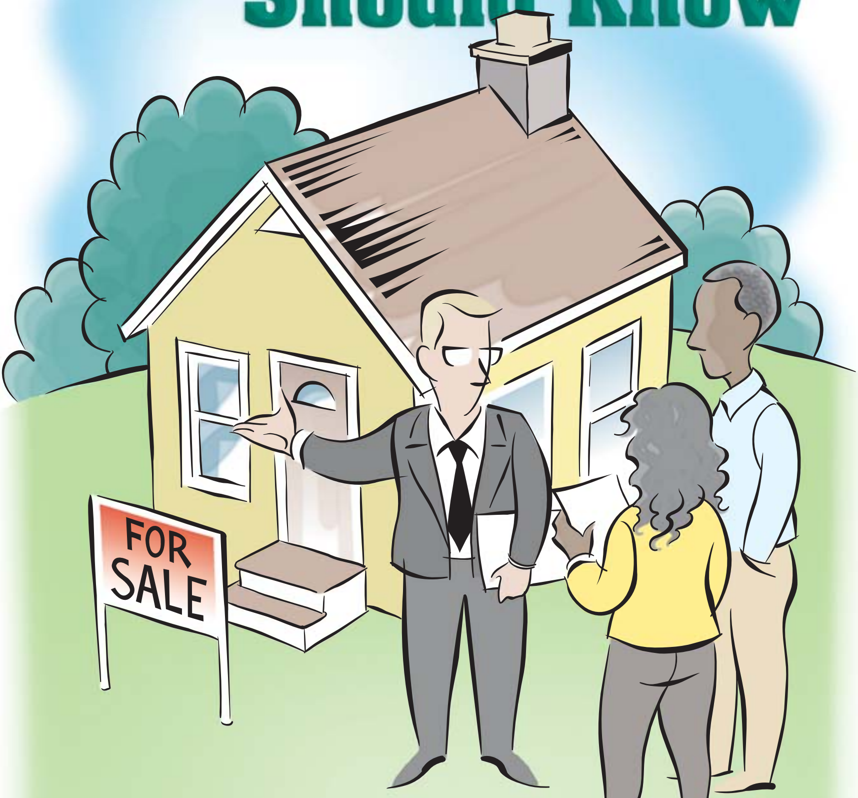
10 Secrets Every Homebuyer Should Know



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Keys to Success!

Buying a house is the biggest investment most people make in their lifetimes. These tips can help you:

- Take control of your financial picture
- Avoid costly and unexpected repairs
- Make sure that the house you buy will be a good investment and a home that you will enjoy living in.

1 First, visit a housing counselor at a nonprofit organization.

Owning a home requires a large investment of time, money and energy, so you should make your decision to buy a home carefully. A housing counselor, who is a trained professional working at a nonprofit organization, can help you take a realistic look at what you can expect from homeownership and what steps you would need to take to become a homeowner. A housing counselor will meet with you to help you overcome barriers that could prevent you from successfully achieving homeownership. The counselor may also provide or refer you to homebuyer education classes so that you can learn more about the homebuying process.

Because the housing counselor works for a nonprofit and has nothing financial to gain from you buying a home, you can expect objective advice and unbiased recommendations. It is essential to visit a housing counselor first, so that someone will be there for you throughout the entire homebuying process to provide you with impartial guidance and help you make informed choices about one of the greatest investments in your life—your first home. To get a referral for a reputable housing counseling agency near you, contact NeighborWorks® America (202-220-2300 or www.nw.org) or the U.S. Department of Housing and Urban Development (888-446-3487 or www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm).

2 Get your finances in order.

In order for lenders to decide if and how much money to lend to you, they look at four different factors called the 4 Cs of credit. Three of the Cs—*credit history, capital* and *capacity*—have to do with your finances because the lender is relying on you to repay the loan. The fourth C, *collateral,* considers the value and condition of the house. It is important that you understand what a lender is looking for and what counts most in your favor about your finances, so that you are prepared to get the best mortgage loan products available to you.

Credit history means your ability to borrow money. Lenders want to know how much money you owe to others, how often you use credit and whether you pay your bills on time. If you have a history of missed payments, late payments or unpaid debts to others, it will be harder to access the best interest rates from lenders. Lenders get most of this credit history from a credit report, and a number "grade" based on the information in the report called a credit or FICO© score. Lenders place great importance on your credit score when deciding whether to approve your mortgage loan application, as well as how much credit to extend and at what interest rate. With FICO© scores, higher scores are better scores, and generally, most lenders consider any score over 700 to be a good credit risk and will offer such borrowers the best rates available according to market conditions. Borrowers with low scores are frequently served by loans at higher rates. However, through time and effort, with help from a housing counselor, you can improve your credit score so that you can get the best mortgage rates possible.

It is a good idea to order your credit report and credit score from each of the three major credit reporting agencies—Experian (www.experian.com or 888-397-3742), Equifax (www.equifax.com or 800-685-1111) and TransUnion (www.transunion.com or 800-916-8800)—before you apply for a loan. That way you can correct any inaccuracies, remove old information and improve your credit record before you meet with a lender. Depending on when and how often you request your credit report from one of the three national credit reporting agencies, you may have to pay a small fee. Keep in mind that there is no quick fix for improving your credit score. For more information on credit scoring, visit www.myfico.com.

Some people do not have a credit history or credit score because they have never borrowed money and do not use credit cards. If you do not have a credit history, you may be able to qualify for a loan by building a non-traditional credit history that includes canceled checks, rent statements and phone or utility receipts. Together, these documents show lenders that you have a history of making regular, on-time payments. Most lenders accept nontraditional credit history as evidence of creditworthiness. It is important for you to keep records of your canceled checks and receipts as evidence of payment.

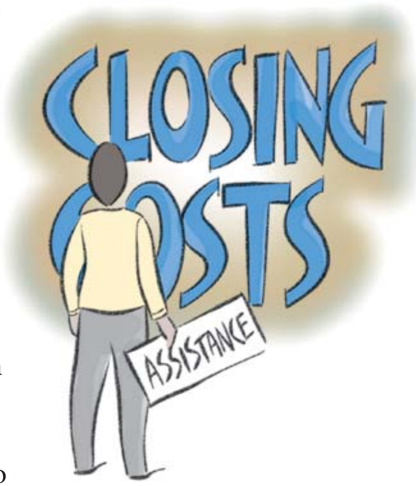
Capital is the money you have available to make the down payment required by the loan program, pay the loan fees and set aside for unexpected expenses. Lenders will ask you to prove how much capital you have and where it came from by requesting copies of your bank and investment account statements. Look at how much money you have in savings, and determine if you need to save more to afford all of the upfront and ongoing costs of homeownership before you visit a lender. Be sure to investigate if you qualify for any local down payment and closing cost assistance programs (see #3).

Capacity refers to your ability to make the monthly loan payments and also pay for other obligations or debts. Lenders will ask for proof of where you work and how much you earn. Lenders will also ask about long-term debts. Lenders want to know if you have adequate income and low enough debts to afford a monthly loan payment. Prior to applying for a loan, analyze how much you can afford to spend on a monthly mortgage payment by preparing a realistic spending plan that includes all your other monthly obligations and regular expenses. If you have high monthly debt payments, they will reduce the amount you can borrow for a mortgage loan and you may need to work on reducing debt before you apply for a mortgage loan.

Before you meet with a lender, get your finances in order by reviewing your credit report and score, establishing savings and preparing a realistic spending plan. Your housing counselor will be able to help you with all of these tasks.

3 Look for down payment and closing cost assistance programs.

Normally when you buy a home, you are expected to pay for all of the upfront costs of homeownership, including the down payment and closing costs. The down payment is the amount of cash you pay toward the purchase price. The minimum amount of down payment is determined by the lender and is usually three to five percent of the purchase price, although there are some loan products that require no down payment. Closing costs are expenses over and above the purchase price of a home that you incur by financing and transferring ownership of the home. Closing costs are different from place to place and loan to loan, but usually amount to between two and seven percent of the loan amount.



There are loan programs that allow you to borrow the down payment and closing costs, or at least part of them. Some nonprofit organizations and state or local government agencies can help you get a down payment and closing costs with grant money or low-interest loans. Your housing counselor can help you learn about special loan programs that are available in your area.

4 Make sure homeownership fits with your lifestyle.

Homeownership is not for everyone. Owning a home requires a significant commitment of time, energy and resources. Homeownership has a lot of advantages — stable housing costs, potential tax benefits, freedom to live as you wish and security. But it comes with a lot of responsibility to plan for expenses, maintain and repair the home and make the monthly mortgage payments.

When you consider whether to become a homeowner, you will face many trade-offs and tough choices. You have many options when choosing a place to live. Because your money is a limited resource, it is difficult to satisfy all of your housing wants and needs. Thus, choices require making trade-offs. Making the right housing choice for you—whether to rent of buy—depends on your finances, values and goals. Ultimately, you have to make this decision for yourself based on where you are now and what you think you might want in the future.

5 Shop around for everything related to your home purchase.

Homeownership is all about choices. You will need to decide which type of housing you want to live in, which type of mortgage loan is right for you, and which professionals will be involved in helping you buy a home. Purchasing a home is a sizable investment, and there are many items that affect your total cost of homeownership, such as financing, insurance, maintenance and repairs, utilities, taxes and resale value. As with any large purchase, shop around to make the best choices about your home—and the total amount it will cost you. Finding a good loan, the right home and reputable professionals can save you thousands of dollars. Follow the "rule of threes" by comparing at least three products, professionals or services before making your final selections throughout the homebuying process.

6 Get pre-approved for financing before shopping for a home.

When you find the right loan product for you, meet with the lender to get pre-approved. You should have your first meeting with a lender before you start looking for a home so you will know exactly what you can afford and find the best rates and terms in advance of the purchase. Pre-approval is where you apply for the loan before you find the house you want to buy. Pre-approval is different from prequalification. Prequalification is when a lender calculates how much mortgage you likely can afford based on unverified information. A pre-approval is a guarantee that the lender will loan you fixed amount of money, as long as the property appraises over the amount for which you are qualified and you buy within a certain time period. There may be a fee for pre-approval, but it helps you shop for a home with confidence by knowing how much you can afford based on your finances and credit.

7 Carefully select a location.

Real estate agents joke that the three most important things in buying a home are "location, location, location." When you buy a home, you are making an investment, and the neighborhood is a prime factor in how good an investment your home turns out to be. It is a good idea to start your search for a home by finding a neighborhood you like that has homes in your price range. Spend time thinking about things that may be important to you in a neighborhood, such as general safety and desirability, condition of other homes in the area, quality of local schools, distance from your work, availability of public transportation, recreational activities, easy access to shopping and places of worship. Decide which items are most important to you, and get to know different neighborhoods. Be sure to visit a neighborhood you are interested in at different times and days to make sure you are as comfortable there in the middle of the day on a weekday as you are in the evening on a weekend. Research area schools, property tax rates, insurance rates and crime statistics by contacting the appropriate professionals.

8 Get a professional home inspection.

When you make an offer to purchase a home to the seller, you should include a condition, or contingency, for a home inspection that indicates no major problems. As soon as possible after your offer has been accepted, you should hire a professional home inspector to check the structural and mechanical parts of a property. That way you can be assured that you are buying a home in good condition and avoid the expense of any long-term maintenance problems. Especially if this is your first home, it is a good idea to accompany the inspector during the inspection to learn about important features in your new home and get good advice on normal maintenance. Shortly after the inspection, the inspector will prepare a written report that describes any major problems with the home. If your purchase contract is contingent on a satisfactory home inspection, you have options to address any problems with the house before you have to live with them. For example, if the inspection shows major problems, you can cancel the sale and get back any earnest money you submitted with your offer to show good faith to follow through with the purchase. If you do not want to cancel, you can ask the seller to make the repairs, or the seller can give you a credit for the amount it would cost you to make them. Getting a professional inspection before you close on your home may save you money and give you peace of mind. The inspection can tell you whether a home is well built, in good condition or is need of immediate repairs.

9 Avoid rushing.

Sometimes enormous time pressures are put on homebuyers to race through the deal. It is easy to be blinded to "bad deals" when pressure is applied by different parties. Purchase contracts and loan documents are legally binding documents. If you are rushed to sign such documents, you could get locked into prices or terms that are not in your best interest. Making such a large purchase can be intimidating, but it is important for you to stay in control of the situation. Take your time, and carefully read every document you receive. Do not sign any contract until you understand exactly what you will receive and what it will cost. If you do not understand something, consult a trusted advisor, such as your housing counselor or an attorney. Always be willing to walk away from someone using high-pressure sales tactics.

10 Homeownership always costs more than you think it will.

While it may be fairly easy to anticipate the initial costs needed to purchase a home, it is often more difficult to plan for the ongoing costs of homeownership. When you are a homeowner, your housing costs will include your mortgage payment (principal, interest, taxes and insurance), utilities, maintenance and repairs. Many first-time homebuyers are surprised by how costly basic upkeep is, in terms of both time and money. Repairs often represent an unexpected expense, so it is important that you always have an available cash reserve on hand.

Continue to put money in savings on a regular basis after you become a homeowner. Ideally, you want enough savings to cover emergencies, routine maintenance and repairs, and your goals. Financial experts recommend building an annual emergency fund that is equal to at least one month's mortgage payment and an annual maintenance and repair fund that is equal to one percent of your home's purchase price. The amount of money you need to set aside to reach your goals depends on what your goals are and when you want to reach them.

Knowing these ten secrets will help you navigate the path to homeownership successfully! If you are willing to start your journey today, contact NeighborWorks® America (202-220-2300 or www.nw.org) to find a housing counseling agency near you.

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The secrets of putting it all together!

- Being prepared financially
- Choosing the right home
- Choosing the right mortgage
- Avoiding costly mistakes

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