

Common Questions from First-time Homebuyers

1. Why should I buy, instead of rent?

- **Answer:** A home is an investment. When you rent, you write your monthly check and that money is gone forever. But when you own your home, you can deduct the cost of your mortgage loan interest from your federal income taxes, and usually from your state taxes. This will save you a lot each year, because the interest you pay will make up most of your monthly payment for most of the years of your mortgage. You can also deduct the property taxes you pay as a homeowner. In addition, the value of your home may go up over the years. Finally, you'll enjoy having something that's all yours - a home where your own personal style will tell the world who you are.

2. 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 we sell it at market value as quickly as possible. Read all about **buying a HUD home**. Check our listings of **HUD homes** and homes being sold by other federal agencies.

3. Can I become a homebuyer even if I have I've had bad credit, and don't have much for a down-payment?

- **Answer:** You may be a good candidate for one of the **federal mortgage programs**. Start by contacting one of the HUD-funded **housing counseling agencies** that can help you sort through your options. Also, contact your local government to see if there are any **local homebuying 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. Are there special homeownership grants or programs for single parents?

- **Answer:** There is help available. Start by becoming familiar with the homebuying process and pick a good real estate broker. Although as a single parent, you won't have the benefit of two incomes on which to qualify for a loan, consider getting pre-qualified, so that when you find a house you like in your price range you won't have the delay of trying to get qualified. Contact one of the HUD-funded **housing counseling agencies** in your area to talk through other options for help that might be available to you. Research buying a HUD home, as they can be very good deals. Also, contact your local government to see if there are any **local homebuying 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

your 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 very little down. 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.

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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 awhile, 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.

8. 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!

9. 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. Be sure to read our booklet on **settlement costs**. It will help you understand your rights in the process. Don't hesitate to ask questions.