

First-time Homebuyer Questions

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, a part of each mortgage payment is increasing your equity in the home. Owning a home allows you to 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.

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

- **Answer:** Yes, there are now many programs that are available for first-time home buyers with less than perfect credit. Talk with your mortgage broker to learn more about what options are available.

4. Should I use a real estate agent? How do I find one?

- **Answer:** Using a real estate agent 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 agent 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 agent 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.

5. 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. The good news is that there are loans that require little or no down payment. Check with a mortgage broker to understand what options are available for you.

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.

Closing costs - which you will pay at settlement - average 2-4% 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.

6. How do I know if I can get a loan?

- **Answer:** It is a good idea to get pre-qualified for a loan. That means you go to a mortgage broker or 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.

7. How do I find a lender?

- **Answer:** You can finance a home with a loan from a private mortgage company, a bank, a savings and loan, a credit union or various state government lenders. Most lenders need 3-4 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.

8. 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.

9. 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.

10. 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 your 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.

11. 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. Talk to your real estate broker about the various kinds of loans, before you begin shopping for a mortgage.

12. 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.

13. 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!

14. 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 attorney. The closing attorney 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!