Consolidated Credit®
When debt is the problem, we are the solution.

BUYING A HOME

Taking the Right Steps to Achieve Homeownership

1-800-210-3481

www.ConsolidatedCredit.org

5701 West Sunrise Boulevard | Fort Lauderdale, FL 33313

Congratulations on taking this first step to achieve homeownership. Consolidated Credit has been helping Americans across the country solve their debt and credit problems for over 25 years.

Our educational team has created over forty publications to help you improve your finances. Visit ConsolidatedCredit.org to access all our publications free of charge. You’ll also find a range of financial education resources, including interactive courses, instructional videos, webinars, infographics, and more. Our mission is to provide all the tools you need to become debt-free and use money wisely, so you can plan for the future and build wealth.

If you’re feeling overwhelmed by high-interest rate credit card debt, I encourage you to call **1-800-210-3481** to receive a free evaluation from a certified credit counselor. Together, you can find the best solution to pay off your debt and achieve financial stability.

I also invite you to share these resources with others you know who want to improve their finances. Consolidated Credit provides partnership programs, which can help groups, businesses and communities learn and grow together. If you’re interested in learning more, please call us and we’ll be happy to help you customize a program for your organization.

Sincerely,

Gary S. Herman
President
Consolidated Credit

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Buying a Home

Taking the right steps to achieve homeownership

Many renters may find the monthly payment on a home is equal to what they're now paying for rent—or even less. Yet, many still don't take the step to buy a home because they find the entire process intimidating or think the upfront costs will be too expensive.

The three most common questions people ask when they're thinking about buying their first home are:

1. Which home can I afford to buy?
2. How much will it cost?
3. Can I qualify for a loan?

The goal of this guide is to help you answer those questions and understand the costs and processes involved in buying a home. That way you can feel more confident and get ready to buy a home if you find it is right for you.

Question 1: How much home can you afford?

The general rule of thumb is that you can afford a home that's about **two or three times your annual income.**

So, if you make $50,000 a year, you may be able to buy a home for $100,000-$150,000.

However, that's just a rule of thumb. In terms of percentages, financial experts advise using the same ratios that lenders will use when you apply for a mortgage:

1. **Front-end debt-to-income ratio (housing ratio):** How much you can spend on housing payments, which should be less than 28% of your gross income.
2. **Back-end debt-to-income ratio (debt ratio):** How much you spend on all your debt payments, which should be no more than 36% of your gross income.

Understanding and using these two ratios will help you narrow your search for the right home and give you a little peace of mind that you can qualify for a mortgage.

Step 1: Determine what you earn

Before you can figure out your housing and debt ratios, you must be clear about how much you earn in terms of your gross monthly income.

Gross monthly income is your income before taxes.

If you are paid an annual salary, then take that salary before taxes, health insurance premiums, or retirement plans are taken out. Divide it by 12, and that will give you your monthly income.

Your annual income	$________
Divided by 12	÷12________
Equals your gross monthly income	=________

If you are paid hourly, then you need to calculate based on your hourly wage and the base number of hours you work each week. You calculate your annual salary and then divide by twelve to determine your monthly income.

Your hourly pay	$_________
Multiply it by the base (or regular) hours you work each week	x_________
Then multiply by 52 weeks in a year	x 52_______
52 (the number of weeks in a year)Divide by 12	÷12_______

Let’s say you earn $20/hour and you normally work 25 hours a week:

- You’ll take 20 and multiply it by 25 = 500 to get a weekly figure
- You’ll then multiply 500 x 52 = 26,000 by twelve to get an annual figure
- Then divide 26,000 by twelve to get a monthly income of $2,166

In calculating your income, a lender must allow you to include:

- Child support (with proof of on-time payments for at least 6 months)
- Alimony (if they owe at least 3+ years and pay regularly)
- Retirement income, including Social Security benefits, or a pension as long as it will continue
- Dividends and interest from investments
- Overtime and commissions

For those who have income from a side business or if you are self-employed, you will need a lender that has programs for the self-employed. If you receive overtime or bonuses, the lender will generally need documentation that pay is regular and likely to continue.

NOTE: When you apply for a mortgage jointly with your spouse, then both your incomes are included. However, if you apply on your own, then only your income is included.

Step 2: Determining the maximum housing payment you can afford

Now that you have your monthly income, you can calculate your front-end or housing ratio. This is the maximum amount of monthly income that should go towards your housing payment. The total should cover your mortgage payments, as well as housing association or condo association fees, if you will have any.

It's important to note that most housing payments have four parts—principal, interest, taxes, and insurance or PITI:

- **Principal:** The amount that goes toward paying off the loan balance
- **Interest:** Interest on the balance
- **Taxes:** Annual tax assessment on the property
- **Insurance:** Homeowner's insurance, as well as insurance required by the lender in case the property is damaged by fire, hurricanes, flooding, etc

With most loans, the lender will "**escrow**" part of your PITI payments. You set up an escrow account where they will collect a portion of each monthly payment. Then when property taxes and insurance premiums are due each year, they are paid out of the account.

You may be able to avoid escrow, in which case your mortgage payments would solely cover principal and interest charges. However, lenders will generally charge a slightly higher interest rate if you want to avoid escrow and pay your property taxes and insurance yourself.

Since the recommended housing ratio is 28% or less, you calculate it by multiplying your monthly income from Step 1 by 0.28%.

Your monthly income:	$__________
	x.28__________
Max housing payment:	__________

Continuing the example from Step 1 above, the lender would want to see a total monthly payment of no more than $606.48. ($2,166 in monthly income x .28 = $606.48)

Step 3: Calculating your debt ratio

The next ratio that you want to check is your back-end debt-to-income (DTI) ratio, also known simply as your debt ratio.

To calculate your back-end DTI, you'll need to add up your monthly debt payments including:

- Car payments $__________
- Minimum required payments on credit cards $__________
- Minimum payments on student loans $__________
- Child support or alimony you pay $__________
- Minimum payment on any other debt that appears on your credit report $__________

Add these to your maximum monthly housing payment to get the total monthly debt payment you can afford with your prospective house payment included. The target is to have your ratio at 36% or less.

If your back-end DTI is higher than 36%, you may need to pay down debts or aim for a less expensive home to reduce the housing portion of the ratio.

If your two ratios are higher than 28% and 36%, that doesn't mean you can't buy a home. Some lenders will lend to borrowers with debt ratios of 55% or higher! It does mean that you will likely pay at a higher interest rate because the loan is considered riskier. And you would be more likely to be on a tight budget.

A word to the wise: Homeownership is always more expensive than people realize. When you rent, the landlord is responsible for most of the minor—and all the major—repairs to your home. When you own a home, it's up to you to pay for any repairs. Whether it's a leaky toilet or roof, or a fridge that stops working, you'll have to take care of it yourself. This can get very expensive very quickly. It's a good idea to get your debt under control and get a home that will remain affordable.

Question 2: How much will it cost?

There are several expenses you'll encounter when buying a home. Let's look at each of these.

Down Payment

Gone are the days where you need to put a required 20% down payment on a house. Now, you could be approved for an FHA loan that requires as little as 3.5% down, depending on your credit score.

A downside to FHA loans is that you must pay a mandatory **Mortgage Insurance Premium (MIP)**. This covers the lender in case you default on the loan. MIP can add $50-$150 or more to the monthly payment, so make sure you figure that cost into your housing ratio if needed.

You can also get conventional loans at 5% down if you have a good credit score. However, these loans will also require added insurance known as **Private Mortgage Insurance (PMI)** until you have 20% equity built up in the home.

Although these are relatively low down payment requirements, not everyone can afford them. Luckily, there are several ways to get assistance with down payments. Here are a few options worth exploring.

Down Payment Assistance Programs

Most state finance and housing agencies, as well as city and county government programs, will offer loans and grants to ease the financial burden of a down payment. These programs are typically funded by the U.S. Department of Housing and Urban Development (HUD). Usually, they're offered with mortgages and for first-time buyers.

The amount of assistance you get depends on where you live, as each state has different rules. However, four types of assistance could be given under a down payment assistance program.

- **Grants** which don't have to be repaid
- **Second mortgage loans** must be repaid alongside your primary mortgage
- **Second mortgage loans with deferred payment**, meaning

you don't have to repay until the home is sold, refinanced, or you move
- **Forgivable second mortgage programs**, which are forgiven after you live in the home for a set number of years, or if you sell or refinance
- **Matched saving programs** where your savings for a down payment are matched by banks, government agencies, or nonprofits

Connect with your state's housing finance agency to see what programs are available based on where you want to buy a home. You can also check your city or county programs using the Department of Housing and Urban Development resource, which lists local home buying programs by state.

You'll usually be required to take a homebuyer's education course, which may be offered in a classroom or online. What are some benefits of homebuyer's education courses? You'll learn fundamentals of homeownership like:
- How to comparison shop
- How to interview and locate Realtors®
- How to maintain a home and finances
- How to budget

One of the greatest benefits of homebuyer education is the financial perks you get access to. As mentioned earlier, some include down-payment assistance, closing-cost assistance, mortgage loan forgiveness, and competitive mortgage rates.

Non-profit Organizations

Another option is down payment assistance through a non-profit organization. These programs will provide a down payment of up to 5% if the seller of the home participates. The program doesn't cost the buyer anything, and the down payment never needs to be repaid. Other down payment assistance programs may be available through local agencies.

Gifts

You can use a gift to pay for your down payment if you know anyone generous enough to help. However, for conventional loans, the gift must be from a family member. FHA loans are more flexible, as you can use a gift from friends or family.

Closing Costs

Expect to pay about 4-5% of the sales price in closing costs—sometimes more, sometimes less. If you are short on cash, your real estate agent may help you write an offer that includes the seller paying for some of your closing costs.

Ask the lender or broker about each closing cost or fee. Some may be negotiable, while others may not be.

Typical closing costs include:

- Application fee (find out what the refund policy is), processing fee, lender's underwriting fee, and/or a mortgage broker fee
- Appraisal, survey, and flood certification (to show whether your home is in a flood zone)
- Title charges, including the title search, a title policy (lenders

and/or owner's policies) as protection if there's a problem with the title, and in some states, attorney fees
- Two months' worth of homeowner's insurance and/or property taxes to be held by the lender if they'll collect your insurance and taxes with your monthly payment
- Miscellaneous charges like courier or wire transfer fees
- Private mortgage insurance (a mandatory mortgage that covers the lender if you're getting an FHA loan)
- Others: lender-based origination fee, state recording fees, transfer tax

For a more detailed list of closing costs, refer to Consolidated Credit's Mortgage Guide. Within three business days of applying for your mortgage, you'll get a good faith estimate of closing costs.

Go over it carefully and discuss it with your lender or mortgage broker. Take a copy with you to closing to check for any new surprises that show up when you close.

As with down payment assistance, there are also ways to reduce the financial burden of closing costs. You may qualify for a closing cost assistance program. In some cases, you also may be able to negotiate for the seller to cover some closing costs

Question 3: Can you qualify for a loan?

There's no doubt that getting your first mortgage can be intimidating. But keep in mind that there are thousands of lenders with many different programs available. If you can't qualify with one, you may with another!

Lenders will consider the following to determine if you qualify for a loan:

1. **Your income:**
   a. If you are a paid worker, you will provide your two most recent paystubs and W-2s.
   b. If you are self-employed, you may be required to provide your tax returns to verify your income.
   c. If you receive income from investments, rent, or other sources, you will need to provide documentation, such as canceled checks.
2. **Your debts:**
   a. The lender will check your credit report with all three major credit reporting agencies—Equifax, Experian, and TransUnion—to make sure it has a complete list of your debts.
   b. The minimum payments listed on your credit report will be used to calculate your debt ratio. Keep in mind that if you have a credit card that you use, but pay in full, your credit report may show a monthly payment that the lender will then include in calculating your debt ratio.
3. **Your credit history:**
   a. The lender will usually also obtain a credit score from all three reporting agencies, (read Consolidated Credit's publication, Make the Most of Your Credit Score, for more information on credit scores).
   b. They will then look at the middle of those three scores to determine which program you qualify for.
   c. For example, if your credit scores are 650, 675, and 700, they'll use the 675 credit score to decide the rates and

fees you'll pay.

4. **The property:**
    a. The lender will require an independent appraisal of the property to make sure it's worth the sales price.
    b. You'll pay for the appraisal, but the lender will usually order it from a list of its approved appraisers.
    c. A survey will be conducted to make sure the property lines are correctly established, and a title search will be conducted to make sure there are no liens on the property.
    d. If a flood certification shows you're in a flood zone, the lender will require you to purchase flood insurance.

If you aren't sure whether you qualify for a home, call **1-800-435-2261** to request a free evaluation with a HUD-certified housing counselor.

What if I Have Credit Problems?

Bad credit won't necessarily prevent you from buying a home. There are many loan programs out there that may be able to help. You may even be able to buy a home if you've completed a Chapter 7 (straight) bankruptcy or are still in Chapter 13 (repayment plan) bankruptcy.

You can also take the following steps to build credit before you apply for a mortgage:

1. Order your credit report at annualrcreditreport.com to find out exactly where your credit stands now
2. Talk with a mortgage broker who works with multiple lenders. If you have extenuating circumstances that led to your credit problems—such as a small business failure or large medical bills—the broker may be able to find a

program that will allow you to get a mortgage with proper documentation of the problem
3. Make sure you are actively rebuilding your credit with positive credit references. See Consolidated's publication Rebuilding your Credit for more information
4. Look for a "rent to own" home where some of your monthly rent will be credited toward your down payment or closing costs if you buy
5. Look for "owner financing" where the qualifications may be more lenient. Keep in mind, though, that the owner who will be financing the home will want to see that you can make your monthly payments. He or she doesn't want to foreclose on a borrower!

The Homebuying Process

Now that you have answered those three questions, you can get ready to buy a home. Here is what you should plan for a do to make the process run smoothly:

1. First, contact a HUD-approved housing counseling organization to request a one-on-one home buying consultation.
2. Together, you can create a homebuying action plan and the counselor can inform you of any assistance programs that may be available.
3. You should also contact a mortgage lender or mortgage broker to get pre-approved for a mortgage.
4. You can also open a homebuying escrow account which will

allow you to deposit **earnest money**. This is a good faith deposit that lets home sellers know you are serious when you make an offer on their home. It is generally around 1-3% of the home's sale price.

5. If you are working with a real estate agent or Realtor® then you can let them know what you are looking for and they will do the house hunting for you. Otherwise, you will need to look for homes that fit your criteria.
6. Once you find a home you want, you make an offer. This is a formal letter that states what you're willing to pay for the home.
7. The seller will usually counter your offer and there will be some negotiation. If it is successful and you reach an agreement on price and terms, then the home will be officially "**under contrac**t."
   a. If you have earnest money, the deposit on the home will be official and you will lose this money if the contract is broken unless the deal falls through for a specific reason as outlined below.
8. Next, your mortgage lender will be informed that you've had an offer accepted. First, they will contact a **title company** to do a **title search**.
   a. This ensures that the seller has the right to sell the property and that there are not any liens against the home.
   b. The title company will also order a **property survey**, which verifies the boundaries of the property and checks for any **encroachments** where a neighbor has built on the property.
9. The mortgage lender will also order an **appraisal of the home**.
   a. The appraiser will assess the value of the home to ensure it is worth the money being offered or at least

worth the amount you wish to finance with your loan.

b. If the appraiser finds that the home is not worth the amount agreed, this is one way to break the contract without losing your earnest money.
c. Although your lender will choose the appraiser and handle the appraisal process, you will pay for the appraisal as part of the closing costs on the home.

10. You will also need to arrange for a **home inspection**, which you will also need to pay for.
    a. A basic home inspection will cover heating and air, interior plumbing, electrical, the roof, attic, exterior, foundation, and basement.
    b. You can pay for additional inspections for mold, asbestos, lead, or if you want the swimming pool inspected.
    c. Findings from the inspector can lead to renegotiation of the purchase agreement or, in rare cases, the deal may fall through if issues cannot be rectified to the satisfaction of both parties.
    d. Issues found during an inspection can be a reason for you to break the contract without losing your earnest money.
11. As the appraisal and inspection are being completed, you will work with the mortgage lender to set up your home loan.
12. You will also need to get all of the appropriate insurance set up on the property. This includes basic homeowner's insurance, as well as required insurance for flood, fire, or wind damage that may be required in your area.
13. Then, once everything is done and set up, you will get to **closing day**.
    a. In most cases, you, the seller, and a closing agent from the title company will attend. In some cases, your

mortgage broker or real estate agent may also attend.

b. The title officer will oversee the signing of all documents necessary to execute the sale.

c. Then, you get your keys and officially own your home.

Do I need a broker?

When you get a mortgage, you can borrow directly from a bank or credit union that lends money for purchasing a home, or you can use a **mortgage broker** to do the shopping for you.

A mortgage broker usually acts as a middleman between you and the lender. They work with numerous lenders to find the right program for the borrower.

Mortgage brokers can be helpful if you have past credit problems, are self-employed, or aren't going to put much money down on your loan. They have access to a wider range of programs which gives you more to work with.

You can also get an **insurance broker**, who can help you find the best deals on the insurance you need.

Do I need a real estate agent?

You are not required to work with an agent to buy a home, but if this is your first time going through the process, it can be extremely beneficial. They will help you find the right homes quickly, set up appointments, and—most importantly—help you submit offers.

A Realtor® is a real estate agent that's licensed by the National Association of Realtors® so they have passed a rigorous licensing process

Home Shopping Tips

- Ask for a mortgage broker or lender to pre-approve you in writing for a loan before you start home shopping. A **pre-approval** letter may save you money since a seller usually prefers a pre-approved buyer.
- Consider working with a real estate **buyer's agent** who will represent your interests. The real estate agent who sells a property usually represents the seller.
- Budget for furniture, window coverings, and renovations. It's very frustrating to buy a home and have it sit half-empty. If you haven't set aside money for those items, however, you may find yourself running up additional debt to pay for them.
- Don't wait for the perfect home—it may not exist. However, do choose a home that will be comfortable and affordable for at least the next five years.
- Pay for a professional home inspection from an inspector who is a member of the American Society of Home Inspectors. If possible, go along during the inspection.
- Shop around for your homeowner's insurance when you start shopping for your home. Don't just look at the price, but also look at the stability of the insurance company. You want to make sure they can afford to pay claims promptly in the case of a disaster.

Tools to help simplify the process

There are multiple tools you can use to aid your home buying process. Some are:

- Mortgage Payment Calculator
- Zillow for real estate agent reviews
- Great Schools for school district ratings
- Neighborhood Scout for neighborhood ratings
- Redfin to find homes in your area
- Consumerfinance.gov to explore interest rates

About Consolidated Credit

Consolidated Credit is a consumer oriented, public education organization. We are an industry leader in providing credit counseling and debt management services throughout the United States.

Our mission is to assist individuals and families end financial crises and help them solve money management problems through education, motivation, and professional counseling.

We are dedicated to empowering consumers through educational programs that will influence them to refrain from overspending and abusing credit cards, as well as to encourage them to save and invest. We sponsor local free seminars that are also available to any group or organization that requests our educational services.

Our professionally trained counselors have assisted thousands of families across the United States. Regardless of whether your financial problems are due to the purchase of a new home, birth of a child, major illness, or any other circumstance, we can help.

Our organization is funded primarily through voluntary contributions from participating creditors. Our programs are designed to save our clients money and liquidate debts at an excellent rate.

Consolidated Credit is a member of the Better Business Bureau, the National Association of Credit Union, United Way of Broward County and Financial Counseling Association of America.

NOW YOU CAN FIND FREEDOM FROM DEBT!

Consolidated Credit, a nationally recognized organization, will provide you with professional financial education, counseling and resources. In addition, you can benefit from customized Debt Management Programs, which incorporate a bill consolidation plan to help you regain your financial freedom.

Our Certified Financial Counselors can:

- Reduce or even eliminate interest rates!
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- Consolidate debts into one lower payment.
- Help you pay off debt faster.
- Rebuild your credit rating.
- Save you thousands of dollars.
- Get you on a plan to be debt free!

Call today, and take your first step toward financial freedom!

1-800-210-3481

or visit www.ConsolidatedCredit.org

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