CONSOLIDATED CREDIT®

When debt is the problem, we are the solution.

Keys To Homeownership

Your Guide to Buying a Home Smartly & Confidently

1-800-210-3481

www.**ConsolidatedCredit**.org

Letter from the President

*Congratulations on taking this important step to a brighter financial future. Consolidated Credit has been helping Americans across the country solve their credit and debt problems **for over 30 years.***

Our Educational Team has created over forty publications to help you improve your personal finances; and many available in Spanish. By logging on to www.ConsolidatedCredit.org you can access all of our publications free of charge. We have the tools to help you become debt free, use your money wisely, plan for the future, and build wealth. The topics Consolidated Credit addresses range from identity theft and building a better credit rating to how to buy a home and pay for college. On our web site you will also find interactive courses, calculators, video education, and much more.

*We are dedicated to personal financial literacy and providing a debt-free life for Americans. If you are overburdened by high interest rate credit card debt, then I invite you to **speak with one of our certified counselors free of charge** by calling 1-800-210-3481 for free professional advice. We also have partnership programs available where groups, businesses and communities can hold financial workshops and received money management guides and workbooks like the one you are reading now. Please call 1-800-210-3481 if you would like to discuss pursuing a personal financial literacy program.*

Sincerely,

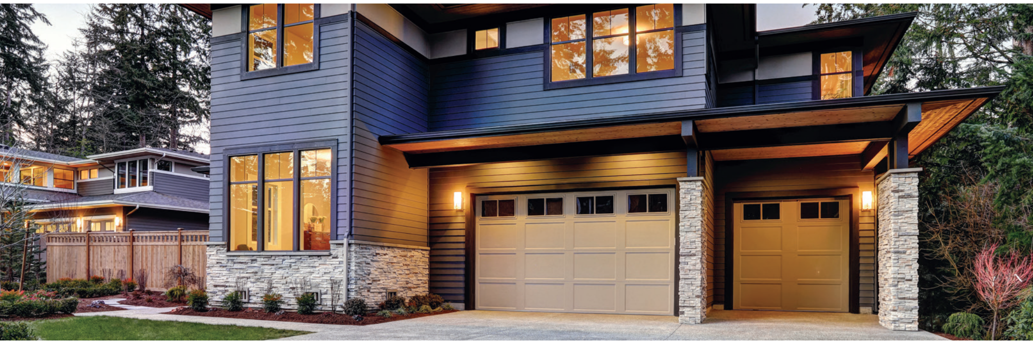
Gary S. Herman
President
Consolidated Credit

Buying a home is one of the biggest financial steps many people will ever take—and one of the most personal.

For some, it means stability. For others, it's about building wealth, having control over your living space, or putting down roots in a community.

If you're renting, you might already be paying as much—or more—than a mortgage would cost. So why doesn't everyone buy a home? Because it can be confusing, intimidating, and expensive upfront. But with the right knowledge and a clear plan, buying a home can be a smart, achievable goal.

Benefits of owning a home



When you own your home, your monthly payments are building something for your future. With each mortgage payment, you gain more equity—ownership—in the home. Over time, your home may increase in value, giving you a financial cushion or something to pass down to future generations.

Owning a home also gives you:

- More freedom to make your space your own
- More predictable housing costs (especially with a fixed-rate mortgage)
- The chance to claim tax deductions on mortgage interest and property taxes
- A sense of stability and pride in where you live

Is homeownership right for you right now?

It's okay if the answer is "not yet." There are real benefits to owning a home—but only when the timing is right. That means having a stable income, manageable debt, and enough savings to cover not just the down payment but also repairs, furniture, and moving expenses.

If you're unsure, this guide can help you figure out where you stand and what steps to take to move forward. Whether you're ready to buy in a few months or a few years, learning about the process now can help you avoid costly mistakes later.

Laying the foundation: Know what you can afford

Before you start house hunting, it's important to understand what you can realistically afford. This means examining your income, expenses, and overall financial situation closely. Buying a home without a clear plan can lead to financial stress and even the loss of the home later.

Start with your income

Start by calculating your gross monthly income — that's the amount you make before taxes and deductions. If you're paid an annual salary, divide it by 12 to calculate your monthly salary. If you're paid hourly, multiply your hourly wage by the number of hours you work each week, then multiply that by 52 (weeks per year), and divide the total by 12.

Your gross monthly income gives you the number most lenders use when deciding how much you can borrow.

Track your expenses

Now, take a close look at your current monthly expenses. Include:

- Rent or housing
- Utilities and phone bills
- Transportation (car payments, insurance, gas)
- Credit cards and loans
- Groceries, childcare, and medical expenses
- Subscriptions and personal spending

This step helps you figure out how much room you have in your budget for a mortgage, and where you may be able to cut back to save.

Build a spending plan

Once you know your income and expenses, you can build a spending plan. This is a flexible, monthly guide to how you'll manage your money. A good spending plan helps you:

- Prepare for new costs of homeownership
- Avoid overspending
- Reach savings goals like a down payment or emergency fund

Use whatever method works best for you: a spreadsheet, a budget app, or pen and paper.

How much house can you afford?

Financial experts recommend the **28/36 rule:**

- No more than 28% of your gross monthly income should go toward housing (including mortgage, property taxes, insurance, and HOA fees).

- Your total debt payments (including housing, credit cards, car loans, etc.) should stay under 36% of your gross income.

Use this quick formula:

Monthly income × 0.28 = Max housing payment
Monthly income × 0.36 = Max total debt payments

If your current debt load is too high, you may need to pay some of it down or look for a less expensive home.

Get your credit in shape

Your credit score plays a big role in the homebuying process. It affects whether you qualify for a mortgage and how much interest you'll pay. A better score can save you thousands of dollars over the life of your loan.

Why credit matters

Mortgage lenders use your credit score to decide whether to approve your loan—and at what rate. A higher score tells lenders you're less risky, so they're more likely to offer you better terms.
Here's how scores generally break down:

- **760 and above – Excellent:** You'll likely qualify for the best rates.

- **700–759 – Good:** You should qualify for most loans at decent rates.

- **640–699 – Fair:** You may still qualify, but rates may be higher.

- **Below 640 – Poor:** You may need to improve your score or seek special loan programs.

How to check your credit

Visit AnnualCreditReport.com to get free credit reports from all three major credit bureaus—Equifax, Experian, and TransUnion. You can do this once weekly from each bureau at no cost.

Review each report carefully:

- Are there any accounts you don't recognize?

- Are all your payments reported correctly?

- Are any debts listed that you've already paid?

If you find errors, you have the right to dispute them. Each credit bureau has an online dispute center to help fix mistakes.

Steps to improve your credit

If your score needs a boost, try these strategies:

- **Pay all your bills on time** – Payment history is the biggest part of your score.
- **Pay down credit card balances** – High balances hurt your credit usage ratio.
- **Don't open new accounts too quickly** – Too many hard inquiries can lower your score.
- **Keep old accounts open** – Older credit lines help build your credit history.

Improving your credit can take time—but it's worth the effort. Even raising your score by 20 to 50 points can open the door to better mortgage rates.

Avoid credit mistakes before applying

As you prepare to buy a home, avoid these common missteps:

- Don't max out your credit cards
- Don't take out new loans unless absolutely necessary
- Don't co-sign for anyone else's loan
- Don't close old credit accounts right before applying

Good credit is one of the most powerful tools you have in the homebuying process. Start working on it early—even six months to a year ahead of when you want to buy.

Saving for a home

One of the biggest barriers to buying a home is saving enough money up front. But with a clear target and smart planning, it's possible to save what you need—without derailing the rest of your finances.

How much do you really need for a down payment?

You may have heard you need 20% down to buy a home, but that's not always true. Many first-time buyers qualify for loans that require far less:

- **FHA loans:** As little as 3.5% down
- **Conventional loans:** Often 3% to 5% down
- **VA or USDA loans:** May require no down payment at all (if eligible)

Keep in mind: A smaller down payment can help you buy sooner, but it may mean paying for **mortgage insurance** until you build more equity.

If you're buying a **$250,000** home:

- A **3.5%** down payment = **$8,750**

- Estimated closing costs (at **3%**) = **$7,500**

- Budget another **$2,000–$3,000** for inspections, moving, and initial home setup

That brings your total estimated upfront costs to around **$18,000–$20,000**.

Saving strategies that work

Once you know your target, here are ways to build up savings:

- **Automate deposits** into a separate savings account

- **Cut back on extras** like takeout, streaming, or travel for a few months

- **Use windfalls** like tax refunds, bonuses, or gifts

- **Open a high-yield savings account (HYSA)** to earn more interest as you save

- **Set short-term milestones** (e.g., "Save $5,000 by summer") to stay motivated

Many buyers also save over time using budgeting methods like the 50/30/20 rule, where 20% of monthly income goes toward savings or debt payoff.

Create a realistic timeline

If you can save $500 per month, it would take about 36 months (3 years) to reach $18,000. That might sound long—but consistent savings often accelerate as your income grows or debt shrinks. It's better to save steadily than to stretch your finances too thin.

You can also look for ways to speed up the process, like getting a roommate, picking up a side gig, or temporarily downsizing.

Don’t forget reserves and emergency funds

Lenders often want to see that you have cash reserves—money left over after closing. It shows you’re prepared for life as a homeowner. Ideally, save 3 to 6 months of essential living expenses so you’re ready for emergencies like job loss, car repairs, or home maintenance issues.

Help is available

First-time homebuyers may qualify for:

- **Grants** that don’t need to be repaid

- **Forgivable loans** if you stay in the home a certain number of years

- **Matched savings programs** where every dollar you save is matched by a nonprofit or government agency

- **Employer-sponsored down payment assistance**

These programs can significantly reduce how much you need to save on your own. Ask your housing counselor, lender, or local housing authority about what’s available in your area.

Understanding mortgage basics

Mortgages can feel complicated, but once you understand the core terms and loan types, you'll be better prepared to choose the right option for your budget and goals.

Common types of home loans

There are several types of mortgages available, each with its own requirements and benefits:

- **Conventional loans:** Offered by private lenders, these typically require a higher credit score and a down payment of at least 3%. If you put down less than 20%, you'll likely pay for private mortgage insurance (PMI) until you build enough equity.

- **FHA loans:** Backed by the Federal Housing Administration, these loans are popular among first-time buyers. They require as little as 3.5% down, but you'll pay a mortgage insurance premium (MIP) both upfront and monthly.

- **VA loans:** For eligible veterans, active-duty service members, and some military spouses. These loans usually require no down payment or mortgage insurance, and often come with favorable interest rates.

- **USDA loans:** Designed for buyers in designated rural or suburban areas. They also offer low- or no-down-payment options if you meet income and location requirements.

If you're unsure which loan type is right for you, a housing counselor or mortgage broker can help you compare options.

Fixed vs. adjustable interest rates

Mortgages come in two basic interest rate structures:

- **Fixed-rate mortgage:** The interest rate stays the same for the life of the loan, which means your monthly principal and interest payments won't change. This is a good choice for buyers who want long-term stability and predictability.

- **Adjustable-rate mortgage (ARM):** The interest rate may start lower than a fixed-rate loan, but it can change over time—usually after an initial fixed period. ARMs can be risky if rates go up significantly, so make sure you understand how high the rate could rise and how often it can adjust.

Other key terms to know

- **Points:** Optional upfront fees you can pay to lower your interest rate.

- **APR:** The annual percentage rate includes the interest rate plus certain loan fees.

- **Loan estimate:** A detailed breakdown of your mortgage costs, provided early in the application process.

- **Escrow:** An account that holds funds for taxes and insurance, often built into your monthly payment.

What lenders look for

To approve your mortgage, lenders will review:

- Your income and job history
- Your credit score and credit report
- Your debt-to-income (DTI) ratio
- Your down payment and available cash reserves

Stronger financial profiles tend to qualify for better rates. You don't need to be perfect—but you do need to show you can repay the loan consistently.

Pre-qualification vs. pre-approval

These two terms are often confused, but they're very different:

- **Pre-qualification:** A quick estimate based on basic financial details you provide. It helps you understand what price range to shop in.
- **Pre-approval:** A more formal process where the lender verifies your income, debts, and credit. You'll receive a conditional commitment to lend a specific amount.

A pre-approval letter gives you a serious edge when making offers—it shows sellers that your financing is solid and you're ready to move forward.

The homebuying process—step by step

Buying a home isn't just one big decision—it's a series of smaller steps that build toward ownership. Understanding the full process can reduce stress and help you avoid delays.

Step 1: Find your team

Real estate agent: A buyer's agent helps you find listings, schedule showings, submit offers, and negotiate on your behalf. Look for someone with experience in your price range and preferred neighborhoods.

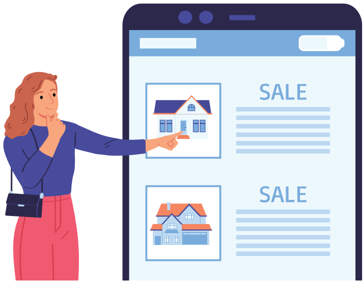
Lender or mortgage broker: Whether you work with a bank or an independent mortgage broker, getting **pre-approved** for a mortgage should be your first step. Pre-approval gives you a firm budget and shows sellers you're a serious buyer.

Step 2: Start house hunting

Once you have a pre-approval letter, you can begin looking for homes that meet your needs. Consider factors like:

- Number of bedrooms and bathrooms
- Neighborhood safety and school ratings
- Commute times and access to public transportation
- Whether you're willing to do repairs or want something move-in ready

Stay focused on your must-haves and budget, even if you feel tempted to stretch for your "dream home."



Step 3: Make an offer

When you find a home you love, your agent will help you submit a formal offer. This will include:

- The price you're offering
- Your pre-approval letter
- Any contingencies (like a satisfactory inspection)

- How much **earnest money** you're including (typically 1–3% of the purchase price)

Want to make your offer stand out? In competitive markets, buyers sometimes offer a quick closing date, limit contingencies, or write a personal letter to the seller. Just make sure any strategy aligns with your comfort level and finances.

Common contingencies include:

- **Inspection contingency:** Lets you cancel or renegotiate if major issues are found

- **Appraisal contingency:** Protects you if the home appraises for less than your offer

- **Financing contingency:** Allows you to walk away if your mortgage falls through

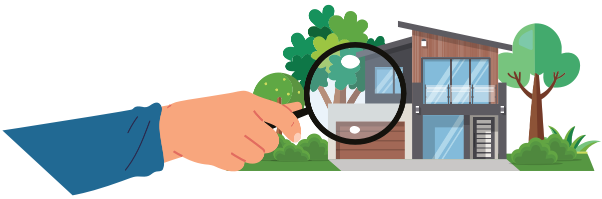
The seller may accept your offer, reject it, or make a counteroffer. Be prepared for some back-and-forth negotiations.

Step 4: Get an inspection and appraisal

After your offer is accepted:

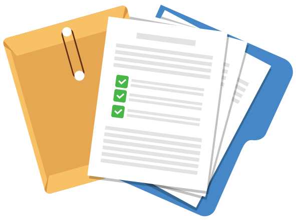
- **Home inspection:** Hire a licensed inspector to check the condition of the property—roof, plumbing, electrical, HVAC, foundation, and more. You'll receive a written report and can request repairs or price reductions based on findings.

- **Appraisal:** Your lender will order an independent appraisal to ensure the home's value supports the loan amount. If the appraisal comes in low, you may need to renegotiate the price or bring more cash to closing.



Step 5: Finalize your mortgage

This step is called underwriting, and it's where your lender does a deep review of your finances. You'll be asked for:



- Recent pay stubs and bank statements
- Tax returns or W-2s
- Proof of down payment funds
- Letters explaining any unusual financial activity

Avoid opening new credit cards, changing jobs, or making large purchases during this time—these actions can delay or derail your approval.

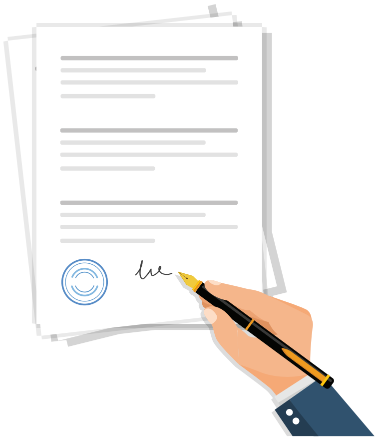
You'll receive a Loan Estimate and, later, a Closing Disclosure outlining the final loan terms and closing costs. Review both documents carefully.

Step 6: Closing day

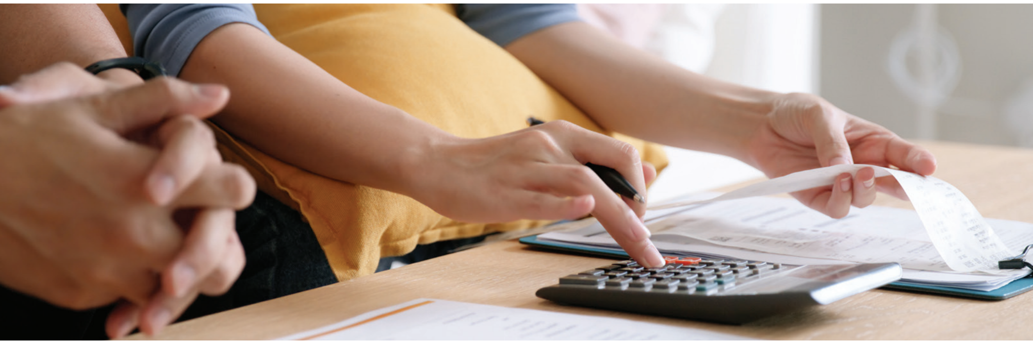
Closing is the final step before you officially become a homeowner. Here's what to expect:

- You'll meet with a closing agent (usually from a title company) to sign legal documents that transfer ownership and finalize the loan.
- You'll bring a certified check or wire transfer to cover your down payment and closing costs.
- You may also pay for prepaid taxes or insurance at this time.
- Your agent or lender may attend the closing with you—but if not, they should be available by phone for any last-minute questions.

Once everything is signed and the funds are disbursed, you'll receive the keys to your new home.



Financial tips for after you move in



You've crossed the finish line and received the keys—but smart homeownership doesn't stop at closing. Managing your finances after the move is just as important as getting the mortgage. Good habits now can help you avoid stress later.

Budget for new costs

Owning a home comes with new expenses—some predictable, others unexpected. It's smart to revise your monthly budget after moving in to reflect your new reality. Plan ahead for:

- Property taxes and homeowners insurance (often included in your monthly mortgage payment)
- Higher utility bills, especially if your new space is larger
- Routine maintenance like lawn care, pest control, or HVAC servicing
- Repairs, such as plumbing leaks, roof patching, or appliance replacements
- Homeowners association (HOA) dues, if applicable
- Furniture, tools, or appliances you didn't need while renting

Even small surprises can add up. For example, you may need to replace door locks, buy a lawnmower, or install window coverings in rooms that weren't staged.

Keep building your emergency fund

One of the most important things you can do as a new homeowner is to keep adding to your emergency savings. Experts recommend keeping 3 to 6 months' worth of living expenses in a separate savings account. This gives you a safety net if:

- You lose your job
- A major system in your home fails
- Your income drops temporarily

A home warranty may help with some repairs, but it won't cover everything—and insurance claims often come with deductibles. Having cash on hand gives you options and peace of mind.

Build equity with intention

Every mortgage payment increases your **equity**—the portion of the home you own outright. Over time, equity becomes one of your biggest financial assets. You can increase it more quickly by:

- Making **extra payments** on your mortgage principal (check with your lender for instructions)
- Avoiding unnecessary refinancing that resets your loan term
- Avoiding **home equity loans** or lines of credit unless they're truly needed

If you eventually sell your home, higher equity means more money in your pocket. If you refinance, it can help you qualify for better rates.

Stay ahead of financial stress

Here are a few tips to help you stay financially healthy as a homeowner:

- **Don't ignore maintenance**—small problems often become expensive if left unchecked.

- **Get familiar with your insurance policy**—understand what it covers and what it doesn't.

- **Set up calendar reminders** for annual expenses like property tax bills or HOA dues.

- **Continue budgeting**—don't let your spending spiral now that the house is yours.

- **Plan for upgrades**—if you want to renovate in the future, start setting money aside now.

Avoid common pitfalls

New homeowners sometimes fall into traps like:

- Taking on new credit card debt to furnish the home

- Skipping maintenance because they're "still recovering" from closing costs

- Ignoring small leaks, cracks, or electrical issues

- Forgetting to budget for seasonal costs like snow removal or hurricane prep

Your home doesn't have to be perfect right away. It's okay to decorate slowly and make upgrades over time. Focus on financial stability first — your dream home can come together in stages.

If you ever struggle to make your mortgage payments, don't wait. Contact your lender or a HUD-approved housing counselor immediately to explore your options.

Homeownership is a major milestone, but maintaining financial health as a homeowner is what truly makes it worthwhile.

Tools and resources

The homebuying process doesn't end with closing—and you don't have to figure everything out on your own. Use these tools and resources to stay informed, empowered, and financially confident.

Glossary of key terms

Understanding homebuying language can reduce confusion and help you make informed decisions. Here are some commonly used terms:

- **Amortization** – The gradual repayment of a loan over time through scheduled payments.

- **Appraisal** – An independent estimate of a home's fair market value.

- **APR (Annual Percentage Rate)** – The total cost of borrowing, including interest and some fees, expressed as a yearly rate.

- **Closing disclosure** – A final document from the lender that outlines the details of your mortgage, including costs.

- **Contingency** – A condition that must be met for a sale to go through (e.g., home inspection).

- **Down payment** – The amount of money you pay upfront toward the cost of the home.

- **Earnest money** – A deposit that shows a buyer's commitment when making an offer.

- **Equity** – The portion of the home you own outright, calculated as the home's value minus what you owe.

- **Escrow** – An account used to hold funds for property taxes and insurance, typically managed by the lender.

- **PMI / MIP** – Mortgage insurance required on some loans to protect the lender if you default.

- **Pre-approval** – A lender's conditional commitment stating how much they're willing to lend you.

- **Title search** – A review of property records to ensure the seller legally owns the home and there are no liens.

Programs for first-time buyers

Federal, state, and local agencies offer programs to help first-time homebuyers. These may include:

- **Grants** for down payments or closing costs
- **Forgivable loans** if you stay in the home for a certain number of years
- **Discounted interest rates** for income-qualified buyers
- **Homebuyer education courses**, often required for program eligibility

To find programs near you, check with your city or county housing department, or ask your lender or housing counselor for local options.

Where to get one-on-one help

If you want support throughout the process—or if you're feeling overwhelmed—connect with a **HUD-certified housing counselor**. These experts can help you:

- Review your credit and budget
- Understand mortgage options
- Navigate assistance programs
- Prepare for loan applications

To find a counselor near you, visit HUD.gov or call **1-800-569-4287**. Counseling is often free or low-cost.

Websites worth bookmarking

- AnnualCreditReport.com – Request free credit reports from all three major credit bureaus.

- ConsumerFinance.gov – Use tools, checklists, and interest rate data for home loans.

- DownPaymentResource.com – Search for assistance programs based on your ZIP code.

- NACA.com – A nonprofit offering zero-down, low-interest home loans and financial coaching.

- HUD.gov – Explore homeownership resources, counseling agencies, and state-level support.

Before trusting any housing resource, make sure it's backed by a government agency, nonprofit, or lender you've researched. Be cautious of any service that charges high upfront fees, promises guaranteed approval, or pressures you to act fast.