

1st Time Home Buying FAQ

Why should I buy instead of rent?

A. 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. 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 yours and the pride of ownership.

Can I become a homebuyer with less than perfect credit and very little for a down payment?

A. There are programs available for first time home buyers with less than perfect credit and limited savings for a down payment. For example, Federal Housing Administration (FHA) loans require a minimum down payment of only 3.5% - some or all of which can be gifted to you by a family member. What's more, the seller may pay all of the home buyers closing costs (not to exceed 6% of the purchase price) and you may qualify even with a credit score below 600.

How much money will I have to come up with to buy a home?

A. The answer to this question 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.
- **Down payment** - a percentage of the cost of the home that you must pay when you go to settlement
- **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 usually varies. Ask your realtor for more information.

How do I know if I can get a loan?

A. Start by using our mortgage calculators to see how much mortgage payment you could potentially handle. If the amount you can afford is significantly less than the cost of homes that interest you, then you might have to wait awhile longer. Another good idea is to get pre-approved for a loan - which means you apply for a mortgage before you actually start looking for a home. That's a smart approach because then you'll know exactly how much you can afford to spend, and it will speed the process once you do find the home you want.

In addition to the mortgage payment, what other costs do I need to consider?

A. You will, of course, have your monthly utilities. If your utilities have been covered in your rent, this may be new for you. In addition, you might have homeowner association or condo

association dues. You'll definitely have property taxes, and homeowners insurance. Taxes and homeowners insurance are normally rolled into your mortgage payment.

So what will my mortgage payment cover?

A. 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.
- **Property Taxes:** the city/county taxes assessed on your property.

The most common repayment period for home loans is 30 years, although other terms 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.

How do I know which type of mortgage is best for me?

A. 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. The advantage of a fixed-rate mortgage is that you always know exactly how much your mortgage payment will be because future national rate changes will not affect your loan.

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, however this advantage may not outweigh the risks inherent in an ARM. Talk to us about the various kinds of loans before you begin shopping for a mortgage.

When I find the home I want, how much should I offer?

A. There are several things you should consider:

- Is the asking price in line with prices of similar homes in the area?
- Is the home in good condition or will you have to spend a substantial amount of money making it the way you want it?
- 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.
- How much mortgage will be required? Make sure you really can afford whatever offer you make.
- 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.

Having your offer be rejected is not uncommon! Don't let that stop you. 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.

Happy House Hunting!!!

To learn more contact:

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