- Know your credit score—a number that measures the quality of your credit history. You can buy your score at www.myfico.com, www.experian.com, www.equifax.com or www.transunion.com.
- Don't apply for other loans (auto, credit card) near the time you apply for a mortgage as it might lower your credit score.
- If rates are heading up, consider paying extra to lock in (guarantee) your interest rate.

If you plan to apply with several different lenders, do it within 60 days. Multiple credit report "inquiries" from lenders do not lower your credit score (and result in a higher interest rate) if they are all made within a short period.

Participation in first-time homebuyer programs can reduce your interest rate, limit fees or help with a downpayment. Check with a housing counselor, or with your city, county and state government, to learn about affordable housing programs.

Private mortgage insurance (PMI). If you put down less than 20%, lenders require you to pay PMI. To avoid PMI, you sometimes can take a second, or "piggyback," mortgage at the same time as the first mortgage to put toward the downpayment and get around the PMI requirement. PMI premiums and the interest on most piggyback loans are tax deductible, along with your mortgage interest.

Appraisals. Lenders hire appraisers to estimate the home's value. You're entitled to a copy of the appraisal before closing.

Truth in Lending statement. Within three days of submitting your application, the lender is required to give you this statement containing information on the annual percentage rate, the finance charge, the amount financed and the total payments required. This document will also provide information about prepayment penalties (if any), whether the loan is assumable, the payment schedule of the loan and any late payment charges.

Good Faith Estimate. Also within three days of submitting your application, the lender must give you a "Good Faith Estimate" of settlement costs (GFE). This standardized form is intended as a tool to comparison shop for a mortgage. It should include the interest rate, amount to be borrowed, taxes and insurance, plus the type and length of the loan. Focus on the summary section, which will also list how much the interest rate could increase and when, and how long the estimate is good for. Final costs may be several hundred dollars more than the GFE shows. Expect closing costs of 3%-6% of the mortgage. Ask for an explanation of all fees and shop around.

Title insurance. Lenders require that you pay the premium for this insurance policy to protect the lender from losses due to such things as forged titles, liens and errors. If only the lender is covered by the title insurance policy you are required to pay for, consider buying a homeowner's policy to protect you from title problems that were not found during the title search and to cover any legal fees needed to defend your title.

Making an offer

When you find the right home, it's time to submit a purchase offer.

Contingencies. Make sure your offer gives you a way out by including home inspection, financing, insurance and other contingencies. If you find a serious structural problem or can't get a mortgage at a competitive rate and terms, you'll be able to walk away.

Earnest money. Most sellers want you to make an earnest money deposit. When the seller accepts your offer, your deposit is held by a third party—an escrow or title company—until closing.

Negotiations. Be prepared to make a counter-offer if the seller rejects your first bid. Know your limits and stick to them.

If you offer to buy a home and the seller accepts, you've got a deal—and it's binding.

At your closing

The final step in the home purchase process is closing (settlement). Your sales contract sets the closing date, typically 30-90 days for existing homes. Before closing, take a final walk through the property to check the home's condition.

A day or so before closing, your lender will give you a HUD-1 settlement statement listing all closing costs. Review all costs and payments carefully and call your lender if you have questions.

Go to closing with a certified check in the amount called for on your HUD-1 form, a photo ID and extra personal checks. You'll be asked to sign many papers. Review each document carefully before you sign—mistakes can be costly. If necessary, ask someone you trust to go with you to the closing.

At closing, you'll pay a pro-rated portion of the property taxes and, in some cases, utilities, such as electricity, gas or oil. The lender may also require you to pay for homeowners insurance and prorated interest from the date of closing until your first mortgage payment is due.

When all the papers are signed, you'll get the keys to your new home.

Consumer Action

www.consumer-action.org

Contact our Hotline:
www.consumer-action.org/hotline/complaint_form

415-777-9635
Chinese, English and Spanish spoken

Housing Information website: www.housing-information.org
MoneyWi$e website: www.money-wise.org

Housing Information
A Consumer Action Project

Capital One

Consumer Action's Housing Information Project created this brochure in partnership with Capital One Services, Inc.

You Can BUY A HOME

The Keys to Homeownership

MoneyWI$E

A CONSUMER ACTION AND CAPITAL ONE PARTNERSHIP

A home of your own is one of the most important purchases you'll ever make.

Owning your own home helps you build wealth, save on taxes and become your own landlord. But you need to be prepared for the costs of homeownership—in time, effort and money.

The true cost of owning a home includes more than just your monthly mortgage payment. You must pay property taxes, homeowners insurance premiums, and a variety of maintenance and emergency bills. Homeowners also must invest many hours of work and a lot of care to ensure their property remains in good condition and, hopefully, appreciates in value. Despite these costs, the vast majority of homeowners would say that the benefits of homeownership are well worth it.

Getting ready

Buying a home is a big step. It takes time. Start by organizing your finances:

- **Save.** Put money in a savings account each month for a downpayment. You can make a downpayment of 3% to 20% or more if you wish. Aim to make the largest downpayment possible. If your downpayment is less than 20%, lenders require that you pay extra for private mortgage insurance (PMI).
- **Housing counseling.** Enroll in a certified counseling program that helps buyers get ready for homeownership. To find a local program, go to www.hud.gov/buying and click on "housing counselors," or call 800-569-4287.
- **Credit history.** You'll get a lower interest rate on your mortgage if you have good credit. The best way to have a good credit history is to pay your bills on time. Get free copies of your credit report at www.annualcreditreport.com or call 877-322-8228. If you find a mistake, follow the directions in the report for disputing errors.
- **Budget.** Track your spending. Can you trim expenses and have more money to save for a home?
- **Income and assets.** Add up your income (wages, child support, benefits, etc.) and assets (money in checking, savings and retirement accounts).
- **Debt.** How much do you owe? List all your monthly bills, rent, insurance premiums, payments due on car loans and credit cards, etc.

What size loan can you qualify for?

Very few buyers can pay cash for a home. Instead, most homebuyers apply for a mortgage.

Many things influence the type and amount of mortgage you will be approved for, including the credit history and debts and income of all applicants, the downpayment, your savings, and the type of loan you choose, such as fixed rate or adjustable rate.

The kind of property you choose to buy, such as a single-family home, duplex, condominium or cooperative unit, could also figure into the kind of loan you'll get.

When you apply for a mortgage, lenders compare your income to your housing costs and other debts to see how much you can afford to spend each month on mortgage payments and other housing expenses. This percentage also helps them determine how much money you can borrow to buy a home. All debts, including housing costs, should total no more than 36% of income.

In general, the smaller the amount you owe on things like credit cards, auto loans and other debts, the higher the mortgage you'll qualify for. Pay off any debts you can before you apply for a mortgage.

The higher your downpayment, the less you have to borrow. The downpayment is a percentage of the sales price. Don't pledge all your cash—you'll need money for closing and moving costs. To find local downpayment assistance programs, visit http://portal.hud.gov/hudportal/HUD?src=/buying/localbuying.

Who's who in real estate

Real estate agents. Buyer's agents represent the homebuyer in the sale. Seller's agents may work with buyers, but they are responsible for the seller's best interest. Typically, the seller, not the buyer, pays agent fees.

Mortgage brokers. These lending professionals match homebuyers with lenders. Broker fees are negotiable—ask for a breakdown of how your broker is compensated and question all charges so that you don't pay more than you need to.

Mortgage banks and online lenders. You can meet directly with banks and other mortgage lenders or visit them on the Internet. Sites such as Bankrate.com make it easy to find lenders and compare interest rates.

Appraisers. These professionals determine the current value of the home you want to buy. An appraiser is usually hired by your mortgage lender, but you pay the appraisal fee of $300-$500.

Home inspectors. Hire an inspector to learn if there are any major problems with the home you want. When you sign a contract for a home, ask for a home inspection contingency—then you can walk away if the inspection finds problems you don't want to fix. To find an inspector, visit the International Association of Certified Home Inspectors (http://www.nachi.org/find-an-inspector) or the American Society of Home Inspectors (www.ashi.org/find) online.

Get the right home

Check out the neighborhood. If possible, walk around to get a feel for the community. Check out the schools, shops and crime statistics with the local police or town newspaper, or online at Homefair.com.

Check environmental hazards. Order an environmental hazards report to rule out toxic contaminants or natural hazards like floods or forest fires.

Flooding. The federal government offers flood insurance. Do you need it? Check your flood risk at FloodSmart (www.floodsmart.gov).

Mortgages

The most common mortgages last for 15 or 30 years. Several types of mortgages are available:

Fixed-rate mortgages carry the same interest rate throughout the life of the loan. Your monthly mortgage payment is always the same. (If your lender collects monthly property tax and insurance payments from you, your monthly payment may fluctuate due to changes in these costs.) Fifteen-year mortgages have much higher monthly payments.

Variable-rate mortgages, also known as adjustable-rate mortgages (ARMs), allow you to qualify for a larger loan because the typically lower introductory interest rate requires a lower monthly payment. However, your monthly payment can increase if interest rates rise. Learn how high the rate can go, how often the rate may change, and be sure you can afford a higher payment.

Federal Housing Administration (FHA) loans. If you have damaged credit, FHA loans are easier to qualify for and usually have lower downpayment requirements. To find out more, visit the FHA Web page (http://portal.hud.gov/hudportal/HUD?src=/buying/loans).

Unfair and inappropriate loans

Watch out for loans that contain unfair or deceptive (predatory) terms, such as prepayment penalties (hefty fees for paying the loan off early). Be cautious about "interest only" loans or any mortgage that starts out with low payments that can jump to unaffordable levels. Zero-down loans don't require a downpayment. This means you will have no equity in the property until you repay some of the principal over time or the home's value appreciates (increases). Be sure you won't need to sell for at least a few years or you may have to pay real estate commissions and other expenses out of your pocket.

Qualifying for a mortgage

Get pre-approved. Lenders "pre-approve" you for a loan only after a thorough review of your credit history and income. Being pre-qualified is not the same as being pre-approved. Pre-qualification is only a general estimate of the loan amount you might qualify for.

Contact a few lenders to compare rates, fees and points (an optional charge to get a lower rate). A point is 1% of the loan amount.

In preparation to submit a mortgage application:

- Copy your most recent tax returns, pay stubs and bank account statements.