

Owning Your Own Home

Home ownership means you no longer pay monthly rent for the roof over your head. You can do what you want with your house (within reason). When you leave, you can sell it to recoup the purchase price and - with any luck - earn a profit too. But don't kid yourself. Home ownership comes with a slew of disadvantages, responsibilities, and downright headaches. So before going any further, consider whether your lifestyle and finances make home buying a smart move.

Is home ownership right for you?

Ask yourself the following questions. If you answer "yes" to most of the questions, you're probably ready to buy a home. If you answer "no," concentrate on strengthening these areas or take a Home ownership education class in your area.

- Do I have a continuous, reliable source of income?
- Have I been employed continuously for the last 2 years even if it has not been in the same job, and is it likely to continue?
- Do I have a checking and/or savings account established with a financial institution or do I keep accurate records of paying my bills regularly and on time?
- Do I file an income tax return with the IRS each year?
- Do I pay my bills on time?
- Is my total debt manageable?
- Are all of my regular financial obligations accounted for in my total debt?
- Do I have some money saved for a down payment?
- Do I have some money saved for closing costs?
- Can I afford both the mortgage and other expenses?
- Do I have time to take care of a house?
- Do I have time to devote to buying a home right now?
- Do I have money to cover moving expenses?
- If I've experienced financial difficulties in the past, can I prove that it was due to events beyond my control?

TIP: High costs mean you should be prepared to stay put. Except in a roaring real estate market, it usually doesn't make sense to buy a home you'll own for less than three or four years. Reason: the high transaction cost of buying and selling property means you could lose money on the deal.

When home prices are falling, it just makes the case against buying even stronger. So ask yourself if you can really stay put for that long. Will you need to move because you are transferred by your current employer or a new one? Are you thinking of going back to school?

TIP: It may make more sense to rent: On the financial side, one key question is whether it costs more, on average, to rent or own in your area. The rule of thumb is that if you pay 35 percent less in rent than you would for owning - including the monthly mortgage, property taxes, and any homeowner's fees - then it's smarter to continue renting.

But there are many good reasons to own a home.

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You build equity! In the early years of a mortgage, the majority of your monthly payments go toward paying the interest. Over time, an increasing amount goes toward reducing the mortgage balance, or "principal." The process of paying off a loan over a set period of time is called "amortization."

As you make payments, you reduce the principal and increase your share or "equity" in your home's value. If your home increases in value through "appreciation" - an increase in the value of a home - your equity builds even faster.

Building equity - or savings - in your home is important. For many people, it lets them plan for retirement, pay for college and achieve other future goals.

You gain tax advantages! When you own a home, you can deduct mortgage interest and property taxes from your federal income taxes and some state income taxes. These deductions can mean significant tax savings, especially in the early years of the mortgage when interest makes up most of the payment. (You may wish to consult a tax advisor for your individual situation.)

You have a place for your family and relatives to live in and gain a sense of community! When you own a home, you can be secure in knowing that your family, and, if need be, your relatives, will have a place to live. When you rent, you might not always be able to renew your lease.

Owning also gives you an opportunity to get involved in the well-being of your community. You may even feel a greater sense of belonging.

How much down payment do you need to buy a home?

You'll most likely need money for a down payment on a mortgage. (With some mortgages, however, you don't need to make a down payment). You'll also need money for closing costs and other housing-related costs, such as moving and repair costs.

Down Payments

A down payment is a percentage of the value of the property and is determined by the type of mortgage you choose. Down payments typically range from 0 to 20 percent of the property value.

You also might be required to have private mortgage insurance, called PMI, or government mortgage insurance, called MIP, if your down payment is less than 20 percent. PMI is an insurance policy that protects lenders if the borrower defaults on the loan agreement.

Closing Costs

Closing costs include points, taxes, title insurance, financing costs and items that must be prepaid or escrowed and other settlement costs. These costs generally range from 2 and 7 percent of the mortgage amount.

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You'll receive an estimate of these costs from your lender after you apply for a mortgage. Some mortgage programs provide assistance with closing costs. Discuss this option with your lender.

Other Costs

In addition to the down payment and closing costs, you'll also have to pay for move-in expenses, including:

- Van rental or moving company fee
- Changing the locks on doors, installing window bolts and smoke detectors
- Deposits and start-up fees for utilities, phone, cable, trash removal and other services
- Immediate repairs or work your home may need, such as cleaning and painting
- New appliances, if necessary
- Equipment, such as lawn mowers and hoses, if needed
- Decorating and furniture, if needed

Where can I find a lender?

You can get a mortgage from many different types of lenders, including mortgage banking companies, commercial banks, community banks, thrifts and credit unions.

Some places to start getting information include:

- Your own financial institution. Sometimes financial institutions offer better mortgage terms to current customers.
- Real estate professionals
- Relatives, friends and co-workers who own a home
- Home ownership education providers
- Your local newspaper, telephone book or the Internet
- Churches or places of worship
- Employers
- Department of Housing and Urban Development

Who are real estate professionals?

Real estate professionals are people who earn their living matching home buyers with sellers. They are licensed by the state where they live and have taken classes in subjects such as real estate law and finance.

Working with a real estate professional to find a house can save you time and sometimes can save you money. They know what homes are worth and can tell you if a seller is asking too much money for the house being sold.

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Ask your family and friends for the names of real estate professionals with whom they've worked. Or, review newspaper ads for a listing of open houses. Stop by and talk with the real estate professional showing the house.

You'll want to choose a professional that makes you feel comfortable and can provide the knowledge and services you need. If you prefer to speak Spanish, for example, be sure to find a real estate professional that also speaks Spanish.

Most real estate professionals' services are paid a commission by the seller of the house when the sale closes. The buyer does not pay the real estate professional unless they have contracted with the buyer's agent. A buyer's agent is a real estate professional who is paid for by the buyer and therefore, solely represents the interests of the buyer.

Questions to ask a Real Estate Professional

- How long have you been in real estate?
- Are you a full-time real estate professional?
- Are you familiar with the community in which I want to look?
- Do you speak languages other than English?
- How many homes have you sold in the last year?
- What is the average sale price of the homes you sold last year?
- Do you usually work with sellers or buyers?
- How many buyers are you presently working with? Are you acting as the exclusive buyer's agent?
- How many sellers are you presently working with?
- What do you consider your strengths?
- Can you provide the names of three home buyers as references?

So what if you aren't ready yet?

If you think that you're not quite ready to buy a home, don't give up. Divorce, losing a job, emergency medical expenses or simply not having the financial literacy skills to effectively manage your money can result in credit difficulties. There are resources available to help you build back your credit and prepare to buy a home (see next section).

Taking a Home ownership education class can help you become a successful homeowner. Home ownership education classes provide information about:

- The mortgage approval process
- Qualifying for a loan
- The importance of establishing a strong credit reputation
- Selecting a home that's affordable over the long term
- The financing and closing processes
- Avoiding mortgage delinquencies, defaults and foreclosures

Credit counseling can help you improve and build back your credit. A credit counselor can provide:

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- ➔ Credit education
- ➔ Confidential budget and debt counseling
- ➔ Debt repayment programs
- ➔ Financial management education

Above adapted from <http://www.alliemae.org>

Getting Started

Owning a home is a big part of the American Dream. Here are some resources that can help you buy, maintain and keep your home.

- ▶ **Home Buyers Club**, Phone: (812) 349-3401, Email: sloughk@bloomington.in.gov. This program operated by the City of Bloomington Housing and Neighborhood Development Department offers participants a chance to explore the possibility of affordable home ownership. The Home Buyers Club is offered on two consecutive Saturdays. Participants will have the opportunity to meet one-on-one with a housing counselor to discuss any potential obstacles to achieving their goal. Income eligible graduates may qualify for up to \$5,000 in down payment and closing cost assistance from HAND. Class size is limited to 25.
- ▶ **Home Buyers Kit**: The US Housing and Urban Development agency provides a detailed handbook for prospective homeowners. It can be downloaded at http://portal.hud.gov/hudportal/HUD?src=/topics/buying_a_home
- ▶ **Indiana Housing and Community Development Authority Programs**: The following programs are available in Indiana to help you become a homeowner. You can visit their website at <http://www.in.gov/ihcda/> or call (800) 872-0371 (Inside Indiana Only) for more information.
 - **The First Home program** offers qualified Hoosiers below market interest rate mortgages. This program can be used with other plans, such as the FHA/VA, Fannie Mae, or USDA Rural Development financing. You can find the current interest rate by calling (888) 227-4452 24 hours a day, 7 days a week or by visiting this page of our website.
 - **The First Home/PLUS program** offers the First Home special mortgage rate, as well as 6% down payment assistance. Capped at \$7,500 with zero interest, this is a perfect program for Hoosiers who do not refinance once they have moved into their new home, and who are also committed to staying in their new home. The Down Payment Assistance funds must be repaid in full once the borrower sells or refinances the home.
 - **The Mortgage Credit Certificate program** offers first-time homebuying Hoosiers a Federal tax credit. The tax credit amount ranges between 20% and 35% of the interest paid on a mortgage each year, depending on the mortgage loan amount. The maximum credit per year is \$2,000. This program is available on a limited basis when announced by IHCD.
 - The online **First Time Homebuyer Education Course, IHCD University**, is a free educational course designed to inform Indiana consumers about the basics of purchasing a home so that they are prepared for situations that may arise during the

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process. The course walks potential buyers through several lessons, including getting ready to buy a home, managing money, understanding credit, and selecting the right mortgage product. Completion of the course satisfies the Homebuyer Education requirement that is necessary for all homebuyers through the Agency's Single Family purchasing programs.

- **The Indiana Foreclosure Prevention Network** (IFPN) was created to provide the thousands of Hoosiers who may be facing foreclosure with access to free and unbiased information and counseling. Visit <http://www.877gethope.org/> to educate yourself on the options available to assist you. A certified foreclosure specialist is also available by calling (877) GET-HOPE any day of the week between 8:00am and 8:00pm.