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HOME OWNERSHIP

IS HOME OWNER-SHIP FOR YOU?

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Buying a home is a decision that only you can make, and is one that should be based on your individual financial situation and long term financial goals. Owning a home comes with a lot of responsibility and not everyone fits into the homeowner profile. But if you're on the fence or have been thinking about purchasing a home, there's never been a better time to evaluate your options. With rates at record lows and high home affordability, buying a home in today's market could be a great investment. Before you decide, you'll need to sort out the real concerns from the media hype.

REASONS TO WAIT

REA-SONS TO WAIT

1. Houses are not liquid investments. I know, shows like Flip this House make dealing in property look easy and profitable. But in real life, buying and selling real estate involves lots of time and the costs are high – mortgage lender fees, real estate commissions, title and escrow services, and more. Closing costs for buyers come to, on average, 3.5 percent of the price of the home, according to the Federal Reserve Bank. Selling a home costs even more – seven to ten percent of the sales price! This means that real estate is probably not a good investment unless you plan to keep it for several years.

2. You're stuck. Renting means having the freedom to get up and go – for a new job, for the man or woman of your dreams, to bicycle around the world – that owning just doesn't offer. If you rent and your newest neighbor decides to relive his youth with loud parties and racing pipes on his Harley, you can leave if it bothers you. If you own, ear plugs may be in your future.

3. When things go wrong, it's your problem. When good appliances go bad, you get to stay home waiting for the plumber and write a painful check. If you buy a home with a beautiful yard, realize it won't stay beautiful for long unless you devote your weekends to it or pay someone else to.

4. Your home's value could decrease in the short term.As many found during the 2008 recession, home prices don't always increase. Your down payment could disappear if your home's value erodes. You could find yourself owing more on the property than it's worth.

- Home ownership is generally not a great idea for rolling stones – buying and selling houses involves real estate commissions, lender fees, and title charges. That can reverse a lot of wealth-building if you move frequently.

- You may not be able to buy a home yet if you have no savings and don't qualify for community homebuyer programs.

- Finally, delay your home purchase if you lack job security, health insurance, marital stability or emergency funds – according to the University of Illinois, the top causes of foreclosure in the US are medical bills, divorce and job loss.

REASONS TO BUY

1. You accrue wealth. Your mortgage is a "forced savings" plan. Paying it down builds home equity, which is an asset that you can sell or borrow against. When your home's value increases, you earn even more. In fact, the Federal Reserve Bank says the average homeowner's net worth of $171,000 is nearly 46 times that of the $4,800 average net worth of renters! Almost 60 percent of the wealth of homeowners is in the form of home equity.

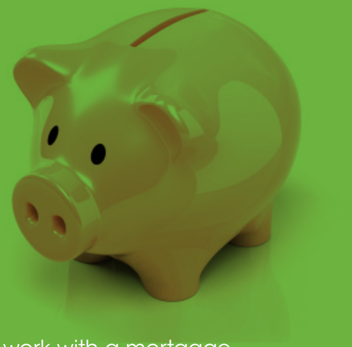
2. You can pay less to Uncle Sam. Home mortgage interest is usually tax deductible for people who itemize their deductions. So are mortgage insurance and property tax payment. You can even defer most gains when you sell your home. Congress's Joint Committee on Taxation found that the tax benefits of home ownership are worth on average $2,213 per year.

3. You can kiss your landlord goodbye. If you rent, you may not be able to change the color of the walls or carpets, bring a pet into your family, wash your car in the driveway, or buy your kids a swing set. Some communities don't allow renters at all – if you want to live there, you have to buy.

4. You can freeze your payment with a fixed rate mortgage. You can't do that by renting. Yearly rent increases will likely exceed 10 percent for the next couple of years, according to John Burns Real Estate Consulting quoted in CNNMoney. There's San Diego (31 percent by 2015), Boston, (25-30 percent) and Seattle (4.5 percent in 2012 and 6 percent in 2013.

5. It's good for your kids. Children of homeowners are 59% more likely to become homeowners according to Habitat for Humanity. They are also 25% more likely to graduate from high school, 116% more likely to graduate from college, and exhibit fewer behavioral problems.

- Running some numbers can help you make your buy-versus-rent decision.
- Today, it's more expensive to rent. Deutsche Bank AG USA recently reported that average monthly rents are now 14.9 higher than average mortgage payments.
- And although nationally, home prices continue to lag, many local markets are improving.
- According to the National Association of Realtors (NAR), Inventory of homes for sale fell to 6.1 months in March. That's the lowest level since April 2006. For the market, shrinking supply is a positive.



HOW MUCH CAN YOU AFFORD?

How much home can you afford? You could use a general rule, work with a mortgage calculator, ask a loan officer, or submit an application to a mortgage underwriter. However, the highest authority may be your own gut.

The rule of thumb

One common rule says you can borrow three times your annual gross income to buy a home. If you earn $50,000 per year, you can borrow about $150,000. This rule has two big flaws. First, it doesn't account for mortgage rates – at four percent over 30 years, the principal and interest payment is $716. But at 8 percent, it's $1,101, so it's harder to qualify for financing. Second, the rule ignores your other expenses – if you're financing a boat, RV and college tuition, you may have less income available to pay a mortgage.

Mortgage calculators

Mortgage calculators use debt-to-income ratios to come up with your loan amount. Your proposed mortgage payment plus payments on student loans, credit cards, and other accounts (but not utilities or living expenses) divided by your gross income is called your debt-to-income (DTI) ratio, bottom ratio or back-end ratio. Mortgage calculators frequently set this number at a maximum of 36 to 43 percent. Your proposed housing mortgage payment (principal, interest, taxes and insurance) divided by your income is called your front- or top-end ratio. If a lender says you have an ugly back-end, she means your expenses are too high and is not criticizing the fit of your pants.

Underwriting software

Automated underwriting systems (AUS) take a little more into account. They adjust the amount you may qualify for up or down according to formulas. Your credit rating, assets and down payment all influence how high a ratio an AUS considers acceptable.

Humans

Human underwriters have more latitude. They can adjust your maximum loan amount up or down according to guidelines. **Here are some factors that can get you a bigger loan:**

- Your new house payment won't be any higher than your current rent.
- Your down payment is substantial.
- Your income is expected to rise (medical school grads, we're talking about you!).
- You have money and investments that could be used to pay your mortgage if necessary.

These factors could lower your loan amount:

- Your new house payment will be much higher than your current rent. That goes double if you've been living in Mom's basement.
- You change jobs frequently and your earnings don't increase.
- Your credit cards are maxed out and you have little or no savings.

HOW MUCH CAN YOU AFFORD?

Every right decision I have ever made has come from my gut. Every wrong decision I've made was the result of me not listening to the greater voice of myself.

Oprah Winfrey

Here's where you come in

Only you know how well a new house payment fits into your life. On paper, you may qualify for a lot more or a lot less than you should spend. Only you know if you're planning to start a business, send a kid off to college, or kick grown children out of your house. Or that you play polo, give lots of money to charity, save for a trip around the world, or that a couple of times a year your money goes to Vegas...and stays in Vegas...

So when determining what you can afford, sketch out what you think your life may look like one, five, or ten years down the road. Look at your goals and what kind of money you need to meet them, and where it's going to come from. Decide what payment works for you and then use the mortgage calculator to determine your loan amount. And remember – rules of thumb are great, but only if you're buying thumbs.

ONLINE BROWSING

Thanks to the Internet, you can replace a lot of the home-buying legwork with "mousework." A little online exploration can help you discover which neighborhoods meet your needs and what home prices within those neighborhoods are like. You can find real estate listings online, and in many cases you can set up alerts and get emails whenever homes that meet your criteria come on the market.

Better information

While online searches can't replace a good local real estate agent, they can provide important information. In fact, going online may be the only way to find out certain facts about a neighborhood – Federal equal housing laws prevent real estate agents from supplying information that could be interpreted as an attempt to "steer" you into (or away from) certain neighborhoods.

Mortgage Shopping Online

Online resources can be a great way to check out home listings, take virtual tours, and scope out the neighborhoods. But did you know that the Web is a fantastic source of mortgage information?

Shopping for your mortgage and your lender should happen before you begin seriously looking for homes. Fortunately, it's easy to get your competitive bids from lenders online. You can find your best mortgage rate and apply for financing for your new home – without leaving your old one.

Household income

Your agent can't tell you if an area is considered if an area is considered "down market" or "upscale," but it's relatively easy to find demographic information online. Average household income is collected by the Census Bureau and it's public.

School quality

As with income level, sharing information about schools might be perceived as steering someone into a certain neighborhood. You probably want this information, though – even if you don't have school-age kids. School quality affects neighboring home prices. Most school district's Web sites contain information about test scores, college acceptance, etc.

Religion

The religious makeup of a neighborhood is another topic that's off-limits for real estate agents to discuss. If you want to find houses of worship near a particular neighborhood, try the "search nearby" function in Google maps or check the local newspaper's online edition.

Crime statistics

This data is considered off-limits under the Fair Housing Act. Homebuyers can find crime statistics online, including where sex offenders live, by logging onto Family Watchdog.

Environmental concerns

You'd want to know if a home is located near a sewage treatment plant or fertilizer factory. And you'd have to research this on your own – try the EPA's web site, which includes a database of environmental information, searchable by Zip code.

YOUR DOWN PAYMENT

Your down payment requirement depends on what sort of home loan you choose. The table below shows loan types and their typical down payments, from lowest to highest.

Down Payment Requirement by Loan Type

Loan	Minimum Down Payment	Comments
VA Veterans	0.00%	Loan amounts limited to $417,000 in most areas.
USDA Rural Housing	0.00%	Loan amount limits apply. Property must be located in designated rural area.
Community Homebuyer	3.00%	Income limits apply, mortgage insurance required.
FHA – FICO 580 or higher	3.50%	Loan limits apply. Limits range from $271,050 to $729,750.
Conforming with mortgage insurance	5.00%	Loans limited to $417,000 in most locations.
FHA – FICO 500-580	10.00%	Loan limits apply. Limits range from $271,050 to $729,750.
Conforming – no mortgage insurance	20.00%	Loans limited to $417,000 in most locations.
Jumbo loans	5.00%	Very high credit scores needed for loans with less than 20% down.

How do you come up with a down payment?

Most first-time buyers save their down payments over time. However, there are other alternatives that you can explore.

These options are:

- Gifts
- Borrow against your retirement account
- Sell assets
- Down payment assistance from government agencies and local charities.
- Withdrawal from business accounts

In fact, the only off-limits source of money is anyone who stands to benefit from your property purchase – the seller, real estate agent, or loan officer, for example. There are special rules that apply to each kind of down payment, but in general, expect to prove that the funds come from an acceptable source.

Savings

It's common for people to save money over time until they have enough for a down payment. You'll be asked for at least two months of account statements.

- If your down payment is in a joint account with someone who will not be taking out the mortgage with you, you'll need a letter from this person stating that you have access to 100 percent of the funds, or, if you don't, what amount you do own.

- If your savings has been under your mattress for years, you'll have to take care of a couple of things – first, open an account and deposit the cash into it. Second, your loan officer will help you demonstrate that you were capable of saving such a sum over time – together, you'll list your income and expenses, and explain how you saved the money.

- Money withdrawn from business accounts may trigger additional inquiries from underwriters. The idea is that business accounts are not generally used for personal purchases, and there may be concern that your business would suffer following a substantial withdrawal.

Gifts

You can meet some or all of your down payment requirement (guidelines vary with loan program) with a gift from a close friend, relative, employer, government agency or charitable organization. The donor must write a gift letter stating the nature of your relationship and that the money need not be repaid.

You also need to document the transfer of the gift funds with bank statements from you and the donor, and copies of canceled checks or deposit slips.

Sale of Assets

Many times, money to buy a home comes from the sale of another house, car, or other valuable asset. You need to prove several things: that you owned the asset, that you sold it, its value, and that the funds were paid to you.

Other Windfalls

Whether it's a tax refund, inheritance, legal judgment, divorce award, or gambling winnings, you'll have to prove that you have a right to the funds and that you have received them. Your lender should be able to tell you exactly what documentation is required to substantiate your claim.

SPECIAL PROGRAMS

What is a first-time homebuyer?

Many programs are available to first-time homebuyers and those who meet income guidelines or other qualifications.

For most programs, "first-time homebuyer" means:

1. People who have not owned a primary residence during the three year period immediately preceding the close of escrow on the new home. You can still be a first-timer if you only owned rental property and did not live in it.

2. Single parents who owned a home with an ex-spouse.

3. Displaced homemakers who owned their homes with their ex-spouses.

4. Folks who owned homes not considered real property, such as mobile homes not affixed to permanent foundations.

5. Property owners whose current residence can't comply with building codes for less than the cost of rebuilding.

So there are many ways for previous homeowners to recapture their first-timer status and take advantage of whatever special assistance becomes available to them.

SPECIAL PRO- GRAMS

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Down Payment Assistance (DPA)

Down payment assistance can be a grant or a low- to no-interest loan. You can qualify for such assistance by meeting income eligibility requirements, taking a home ownership class, purchasing a home in a designated area, or by being a member or employee of an organization. HUD's web site lists agencies in all states and many local areas that can help you connect with such programs.

Good Neighbor Next Door and $1 HUD homes

Law enforcement officers, firefighters, emergency medical technicians and teachers can purchase homes in designated revitalization communities. HUD's Good Neighbor Next Door initiative is designed to encourage renewal of these areas by discounting these homes by 50 percent from their list price. Buyers can secure FHA financing for these properties and pay just $100 down.

HUD's Dollar Homes initiative helps low- to-moderate income families purchase qualified HUD-owned homes for $1 each. Dollar Homes are single-family homes that are acquired by the Federal Housing Administration (FHA) as a result of foreclosure. HUD's Home Store has a list of the homes and what you need to do to qualify to purchase one.

SPECIAL PRO– GRAMS

Mortgage revenue bonds (MRB program)

Mortgage revenue bond programs were created to make home ownership more affordable. MRB programs subsidize home purchases for qualifying first-time home buyers. The funding comes from tax-exempt bonds issued by state and local governments.

First-time home buyers with low-to-moderate incomes can qualify for below-market mortgage interest rates. MRB programs may also be combined with other community home buyer programs, such as Fannie Mae's My Community Mortgage or Freddie Mac's Home Possible 97.

Bonding experience: MRB Facts

- There are limits on the home's purchase price, depending on the property's location.
- You have to use the property as your primary residence.
- To be eligible, you must meet HUD's definition of "first-time buyer."
- Guidelines vary by location. Typically, with subsidized payments, your debt-to-income ratios can't exceed 43% for all monthly debt payments. Your credit score, unless it has been lowered by inaccurate information, may have to exceed 620 or 640.
- The property must pass an inspection and appraise for at least the sales price.
- Depending on the state you live in, you may be required to keep the home for a certain number of years or face a tax penalty.

Home Possible 97 or Fannie Mae My Community Mortgage

Freddie Mac's Home Possible 97 or Fannie Mae's My Community Mortgage feature extra underwriting flexibility, so qualifying for a low down payment loan is easier. These mortgages can be combined with MRBs to create a loan with a tiny down payment and a rock-bottom interest rate.

Keep in mind that:

- Your down payment requirement is 3% (for single-unit properties, including condos) to 5% (2- to 4-unit homes or manufactured homes, or for loans that can't be electronically underwritten).
- You need to complete home ownership education taught by an approved provider.
- Your credit and income must meet Freddie Mac or Fannie Mae's guidelines.
- Mortgage insurance is required, but coverage is lower and costs less.

How do you know if you're eligible?

Check the median household income in your area with efanniemae.com.

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Get started on the path to homeownership
at **www.lendingtree.com** or call **1-800-555-8733.**