

# Consumer Guide: Achieving Homeownership



**CREDIT.ORG**

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# About Credit.org

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## Credit.org is a non-profit agency formed in 1974

Our mission is simple, yet vital: Improve the financial well-being of individuals and families by providing quality financial education and counseling. We offer personal assistance with money, credit, and debt management through educational programs and confidential counseling.



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# Our Services

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## Financial Education Programs

We offer seminars, workshops, and educational materials on topics such as budgeting and money management, identity theft, and understanding credit.

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## Debt Management Programs

If you choose this option, we can work with your creditors to reduce costs and repay debt through one monthly payment.

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## Confidential Debt Counseling

Our certified consumer credit counselors will discuss your financial situation with you, help you understand what may cause financial stress, and help you create a personalized budget, an action plan and give you options to help manage your finances more effectively.

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## Credit Report Review

Our certified coaches work with you to break down your credit report, answer questions, and give guidance for improving your credit score over time.

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## Housing Counseling

We are a HUD-approved comprehensive housing counseling agency. We provide homebuyer education seminars, mortgage coaching, foreclosure prevention assistance, landlord/ tenant counseling, post homebuyer education and reverse mortgage coaching (please call ahead for reverse mortgage appointments).

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## Bankruptcy Pre-petition Credit Counseling

We provide counseling (and a certificate of completion as mandated by the bankruptcy reform law) for those considering bankruptcy. We also provide financial education (and a certificate of completion as mandated by the bankruptcy reform law) for those completing their bankruptcy discharge.

# Achieving The American Dream

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The American Dream continues to include homeownership as a key component. We strive to help both new and former homeowners achieve this dream. Whether you've never bought a house before, or lost a home due to a financial hardship, it is possible to get into a home of your own.

Preparing for homeownership includes a lot of factors, and while saving money is a crucial part of the puzzle, there are other things to consider that are even more basic. Why do you want a home? What do you expect from homeownership? Having the right answers to these kinds of questions will get you on the right mindset to accomplish your homeownership goals.

**Here are some key things to think about when it comes to achieving homeownership:**

# 1 Homeownership For The Right Reasons

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Rising home prices and mortgage interest rates have left many people arguing that home buying isn't attainable. The Washington Post recently argued that half of American homeowners should put all their money into retirement funds instead of a home.

We don't agree with that advice. We think homeownership is an important part of everyone's financial plan and is in fact part of one's smart retirement plan, not at odds with it.

One problem with the housing market is that too many people treat real estate as an investment, and like all investments, it doesn't always pay off with big returns. That's not why you should buy a home. Buy a home so you'll have a roof over your head. You don't need home values to skyrocket; you just want to pay off your mortgage by the time you retire. Then you'll have a place to live without needing to pay rent or a loan payment. Think about how much of your monthly income goes straight toward paying the rent or toward your mortgage. Remove that obligation and living off of your retirement income becomes much easier. That's why we want everyone to become homeowners.

We're not arguing that property values should not be a factor in your decision at all; of course, you want to buy property in a stable area that has good schools and will be easy to sell should the need arise. But this should not be your primary concern. Giving you a place to live is a house's main function, not accruing value.

Besides the all-important goal of having a place to live, homeownership also affords you privacy that renting doesn't. If you own the place in which you live, you have more rights than if you rent. Your landlord has access to your property if s/he is the true owner. The importance of privacy can't be overstated, and it's hard to assign a monetary value to this important benefit.

Owners have more freedom to renovate their properties as well. Want to add a room? Build a deck? Finish your basement? You'd be crazy to do this in a home you're renting. But as a homeowner, each improvement you make leaves you with a home that is nicer, more livable, worth more money, and easier to sell.

# 2 There are Significant Financial Advantages to Homeownership

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Now that we've cautioned you not to treat homeownership as a get-rich-quick scheme, we're going to talk about the financial benefits of owning a home.

Homeownership helps you build wealth, true, but you shouldn't think of this wealth in terms of dollars and cents. Wealth includes more than just money. Having security and comfort, a nice community to live in, trees in your yard—what are these things worth? How do you put a dollar amount on a tree? Sure, it can provide shade that cuts your air conditioning bills, and you can buy trees from nursery, but the true value of having your own lawn and a tree for your kids to climb is not something that can truly have a dollar value.

While we don't think people should treat homeownership as an investment the way they do their retirement accounts or mutual funds, homeownership is a good financial move, and that should be part of your thinking.

Just income taxes alone add up to a significant benefit. A study published by the National Association of Home Builders showed that in the first five years of homeownership saves a typical household \$8,607 on taxes. Be honest—have you set aside that much money over the past five years? If you're a homeowner, you can reap these benefits without having to do any extra saving.

Also think about the equity you build with every mortgage payment. As rates stand currently, the average homeowner with a typical mortgage will pay nearly \$165 toward the principal of his/her mortgage every month. This is a kind of forced savings that will accrue year after year. And with each passing year, more of the monthly mortgage payment goes toward the principal of the loan, building equity faster and faster over time. And while \$165 out of a \$1,500 mortgage payment might not sound great, it is. Historically, much less of a homeowner's house payment would go toward the principal. 30 years ago, the same hypothetical homeowner would be paying 13.88% in interest, and only \$45 of his/her monthly payment would be applied to the principal during the first year.

# 3 Make Sure You're Ready

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When you're sure you want to become a homeowner, and you're doing it for the right reasons, you need to start saving. Typically, you will want to save up 20% of the mortgage value before you borrow. Being able to come up with that amount signifies that you are financially ready for homeownership.

20% is the magic number because that's when Private Mortgage Insurance (PMI) stops being a requirement. This insurance is paid for by the borrower, but only protects the lender. It's simply a bad deal for the homeowner, and it should be avoided if at all possible. Saving up 20% is the key to avoiding this extra monthly charge.

We aren't crazy about paying PMI (nobody is), but in truth it can be a good thing, because it allows people to buy a home even if they don't have 20% to put down. They have to sacrifice by paying extra every month, but being a homeowner is better than not, so for many buyers, PMI can be seen as a beneficial thing.

Since a lot of first-time homebuyers have trouble meeting the 20% down payment goal, there are FHA programs that can help people buy a home with as little as 3.5% down. The Department of Agriculture even has an option for purchasing property with 0 down. There are even conventional loan programs from private lenders offered through Freddie Mac and Fannie Mae.

For FHA loans, you have to meet certain requirements to be eligible:

- No delinquent debt owed to the federal government.
- No foreclosures in the past 3 years.
- No bankruptcy filing in the past 2 years.
- No late mortgage payments in the past year.
- No disputed public records on your credit report.

There are also state and local programs that can help people with less than 20% to put down on a mortgage.

Before getting any new loan, take a First-Time Homebuyer Course from a HUD-certified housing counseling agency. That way you will have a much better idea if you're ready for homeownership. And by going to a local counseling agency, you can get an idea of what state and municipal programs are available to you.

Besides finding the best loan for you, you want to ensure that your credit looks as good as possible and reflects positively on you. Besides ensuring your credit is in good order and your credit report is accurate, you may want to pay down outstanding debt to improve your debt-to-income ratio.



# 4 Only Buy What You Can Afford

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Don't stretch yourself too far—aim for a house with a mortgage payment you can handle. You've heard a lot about homeowners displaced during the recent financial crisis, but millions more weathered the crisis with their homeownership intact, because they were not stuck in houses they couldn't afford when the economy took a downward turn.

Not everyone needs a house that backs up to a golf course. Too many people think they need to stretch and get the nicest house they can possibly afford, in the most exclusive area. But if times get tough and the house needs to be sold, it will sit on the market a lot longer. People shopping for homes in higher price ranges can afford to be pickier, and that leaves the seller holding an expensive property. Staying well within your means makes it possible to sell your home quickly should the need arise.

One way to ensure you are not living beyond your means is to start making your mortgage payment now, before you even go shopping for a house. Figure out what kind of mortgage you're planning to have, and make sure you're setting aside the full amount. For example, if your rent is currently \$1200, and your planned mortgage payment will be \$1500, set aside an extra \$300 after paying your rent. If you can continue to manage your finances comfortably after setting aside this extra amount, then you're ready for the new mortgage payment. And as a bonus, the extra money you'll be putting aside will be available for closing costs, moving expenses, and other unexpected costs that might be involved in the home buying process.

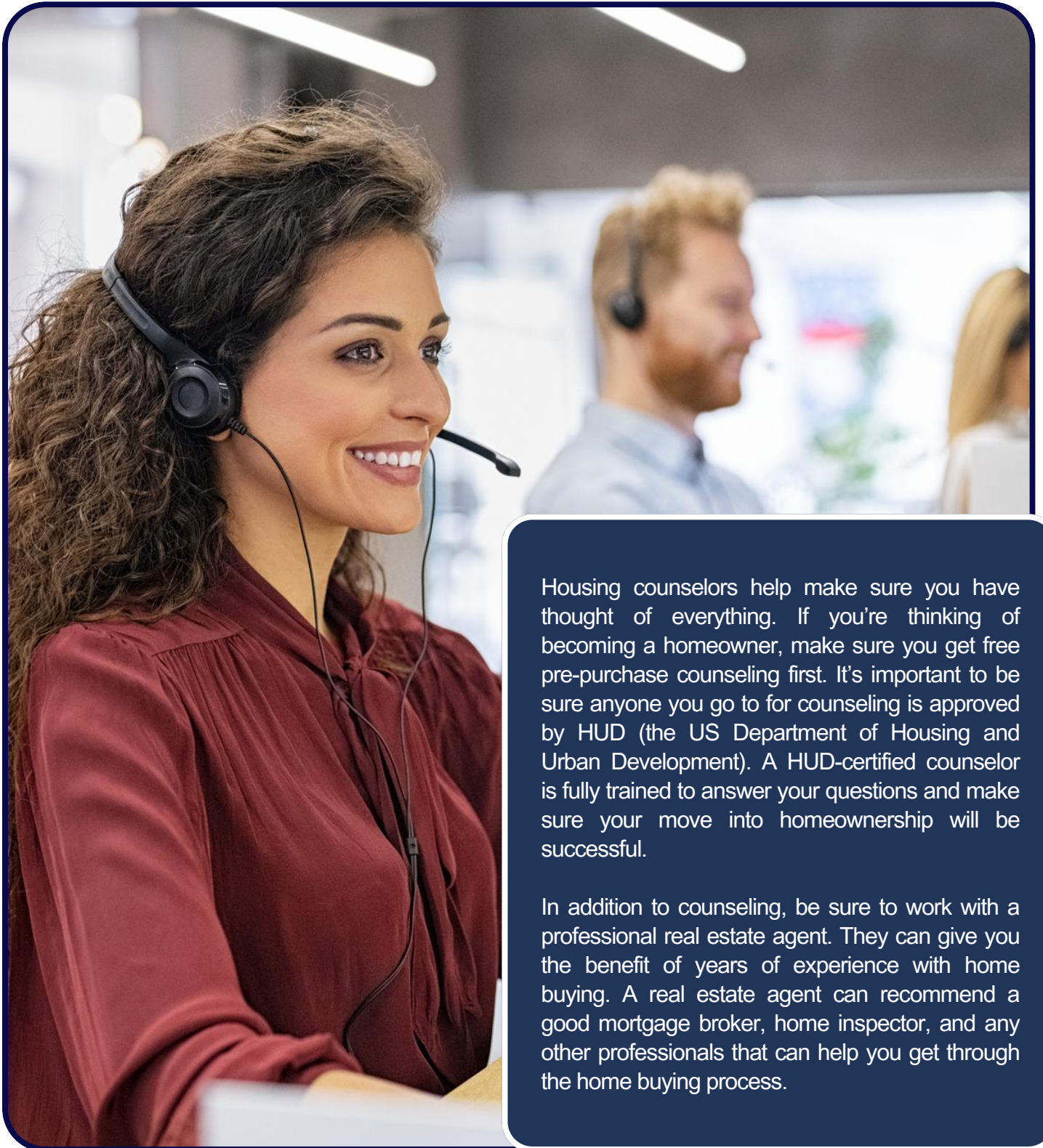
Being able to afford the mortgage payment is only part of the equation, though. Think about the cost of utilities in the area and the size of the home you're buying. If you're upgrading from an apartment, you can expect to pay more in heating and cooling, for example. You'll also be responsible for your own maintenance.

First, make sure you can afford to maintain an emergency savings fund, so if you have a roof leak or bad hot water heater, you're not forced to pay for the repairs with a credit card. But you can also do everything you can to avoid needing to cover such an expense by getting a good home inspection. If you buy a home with everything in good working order, you're going to face fewer unexpected maintenance and repair costs.

The key lesson here is to think of everything ahead of time. Is your new home going to be farther from where you work? Think of the added cost of gas for your new commute. Will you have HOA dues? Lawn care obligations? Moving from a rental to ownership will bring lots of new little obligations that you need to be prepared for.

# 5 Get Help From Professionals

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Housing counselors help make sure you have thought of everything. If you're thinking of becoming a homeowner, make sure you get free pre-purchase counseling first. It's important to be sure anyone you go to for counseling is approved by HUD (the US Department of Housing and Urban Development). A HUD-certified counselor is fully trained to answer your questions and make sure your move into homeownership will be successful.

In addition to counseling, be sure to work with a professional real estate agent. They can give you the benefit of years of experience with home buying. A real estate agent can recommend a good mortgage broker, home inspector, and any other professionals that can help you get through the home buying process.

# 6 Use Smart Saving Strategies

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- Have your paychecks direct deposited into your account, and have a portion automatically diverted into savings.
- Use your refund wisely. If you have a tax refund coming, use that to kick-start your savings fund, or pay down debt that might be holding you back.
- Speaking of debt, focus on paying it down. If you don't know how much interest you're paying toward credit card debt every month, get a free credit counseling session so you'll have a better idea what that debt is really costing you.
- Follow the 24-hour rule. For any significant purchase, force yourself to wait a full day before going through with it. Cutting out impulse shopping and giving yourself time to find a better price for the item will add up to big savings.
- Track your spending. Save receipts, keep a journal, use a spreadsheet... whatever it takes to have a written record of where all of your money is going.
- Use your tracking to create a written budget; check out our free courses in the FIT Academy ([www.credit.org/courses/](http://www.credit.org/courses/)) to learn how to start budgeting, plan your paycheck, and more.
- Take care of your health—eating healthy and exercising will save you money on doctor visits, and good oral hygiene will help you avoid expensive dental work.
- If you have prescriptions, talk to your doctor about getting generics that will be cheaper. Do you take over-the-counter pain relievers like Ibuprofen or Naproxen? If your doctor prescribes them for you, you'll be able to get \$4 generics from the pharmacy rather than paying up to \$20 a bottle for the brand name version.
- Use discounts that are available to you. Your employer may have discounts you can get on gym memberships, affinity programs, etc. And if your employer matches your 401(k) contribution, you should definitely contribute the maximum amount.
- Keep small amounts in mind. Little expenses that are under \$5 really add up. Whether it's coffee shop lattes, ATM fees, paper statement fees from your utility companies, or impulse buys at the vending machine, small expenditures are worth keeping track of.

# 6 Use Smart Saving Strategies

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## (cont.)

- Evaluate your insurance. You can probably get a better offer on auto and home coverage if you shop around, and some kinds of insurance (like credit card payment insurance) aren't worth having at all.
- Listen to boring advice. You've probably heard a million times to keep your tires inflated, winterize your home, and keep an eye on your thermostat. These bits of advice might sound like clichés, but they really can help you improve your finances.
- Plan ahead for the holidays by creating a gift-giving plan. We've got a Consumer Guide to Holidays on a Budget that can help.
- Break your bad habits: quit smoking, dine out less often, avoid overdraft fees, cut out junk food... most of these are bad for you in more ways than one. Consider setting aside every dollar you save from giving up a bad habit so you can see what a difference it makes!
- Start small. Don't completely re-invent your lifestyle overnight. Take time to get used to living on a budget, and with practice saving money will be effortless for you.
- Be careful if you refinance. Many people cash out home equity to pay off credit card debt, but that doesn't fix any underlying problems; most of these borrowers find themselves back in debt and without another refi option to bail them out. Only refinance to get a better rate, lower mortgage payment, and to get closer to your goal of homeownership. Don't cash out your home's value to pay off revolving debt without trying other options first (like credit counseling).
- Keep a positive attitude. Over the past 50 years, millions of consumers have taken steps to improve their personal finances by visiting [www.credit.org](http://www.credit.org). We've seen people with all levels of debt find their way to financial freedom, and we know you can, too.
- Pledge to save with America Saves. By going to our [www.InlandEmpireSaves.org](http://www.InlandEmpireSaves.org) site, you can sign up to save and get email reminders, newsletters, text messages, and more.

Becoming a homeowner is a big step, but one everyone should take if they want to have a truly secure and stable retirement. Credit.org is here to help you plan your savings for this important goal, prepare the paperwork for the home buying process, and do everything you can to keep your home if you run into financial trouble.

# Contacting Us

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**Contact us today for free, comprehensive counseling, education and support!**

**1-800-294-3896**

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## **Who is Credit.org?**

Credit.org recently celebrated our 50th Anniversary. Our mission is simple, yet vital: Our people improve the lives and financial well-being of individuals and families by providing access to high-quality financial education, counseling, assistance and affordable housing.

We undergo an extensive review process by an independent review group to be accredited by the COA. This ensures we provide the best possible nonprofit services to the community.

As a HUD-approved housing counseling agency, we keep meticulous records and undergo regular audits.

Since 1983, we've maintained our rating with the Better Business Bureau and take it seriously.

The National Foundation for Credit Counseling promotes the national agenda for financially responsible behavior, financial educations, and consumer credit counseling services.

The United Way raises funds for community partner agencies and local programs that make their region a better place to live.

We're a campaign partner with America Saves, sponsoring [SanDiegoSaves.org](http://SanDiegoSaves.org) and [InlandEmpireSaves.org](http://InlandEmpireSaves.org)



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