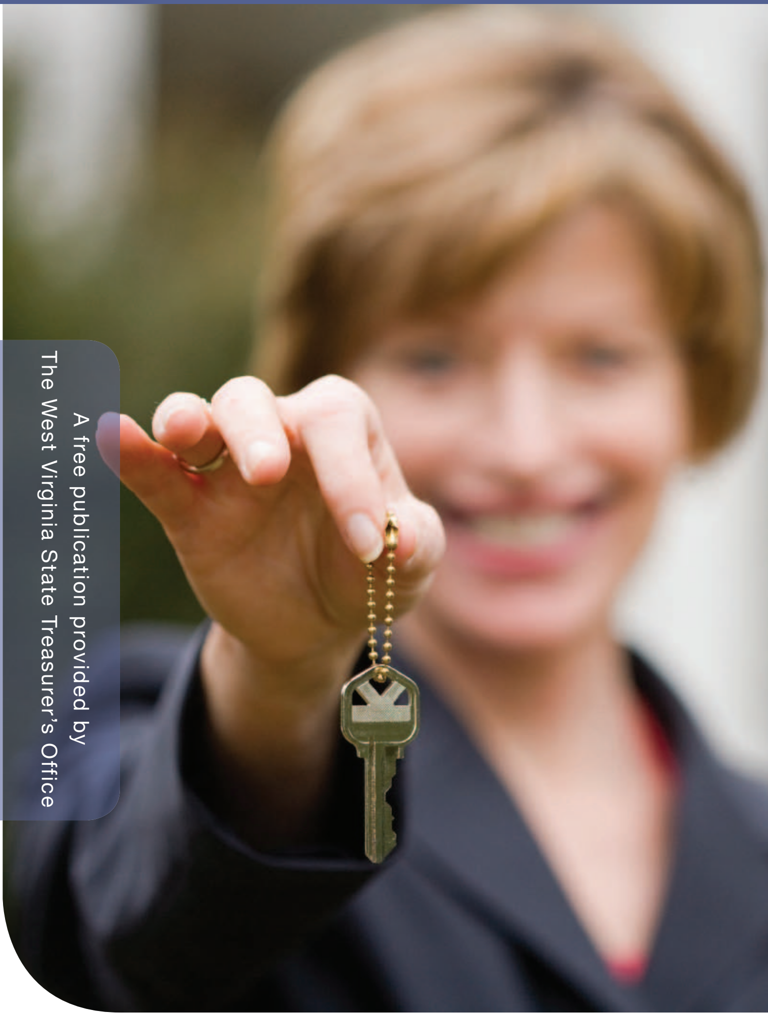
BUYING A HOME



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BUYING A HOME

With interest rates low, many renters would find that the monthly payment on a home would be similar to what they are now paying for rent – or even less. But many people still don't buy a home because they find the whole process intimidating. In this brochure, we answer three of the most common questions people ask when they are thinking about buying their first home:

1. What price home can I afford to buy?
2. How much will it cost?
3. Can I qualify for a loan?

Our goal is to help you feel more confident, and get you ready to buy a home if that's right for you.

HOW MUCH CAN I AFFORD?

The general rule of thumb is that you can afford a home that's about two to three times your annual income. So if you make $50,000 a year, you may be able to buy a home for $100,000-$150,000. But that's just a rough rule of thumb. The last thing you want to do when you buy is to stretch yourself so thin that you can't afford to do anything outside your home!

Lenders will look at your housing and debt ratios in determining how much they think you can afford.

HOW MUCH DO YOU REALLY EARN?

Before you can figure your housing and debt ratios, you must be clear about how much you earn, in terms of your gross monthly income. Gross monthly income is your income before taxes. If you are paid an annual salary then take that salary before taxes, health insurance premiums or retirement plans are taken out. Divide it by 12, and that will give you your monthly income.

If you are paid salary:

Your annual income	$ ______
Divide by	÷ 12
Equals your gross monthly income	= ______

If you are paid hourly:

Your hourly pay	$ ______
Multiply it by the number of base (or regular) hours you work each week	x ______
Then multiply your answer by 52 (the number of weeks in a year)	x 52
= Your annual salary	= ______
Divide that by 12	÷ 12
= Your monthly income	= ______

Let's say you earn $20/hour and you normally work 25 hours a week:

- You'll take 20 and multiply it by 25 = 500 to get a weekly figure
- You'll then multiply 500 x 52 = 26,000 to get an annual figure
- Then divide 26,000 by 12 to get a monthly income of $2166

In calculating your income, a lender must allow you to include:

- Child support or alimony, usually if it will continue for at least another three to five years
- Retirement income, including Social Security benefits or a pension as long as it will continue

If you have income from a side business or if you are self-employed, you'll need a lender that has programs for the self-employed. If you receive overtime or bonuses, the lender will generally need to document that pay is regular and likely to continue.

HOUSING RATIO

Now that you have your monthly income, you can calculate your housing ratio. The housing ratio is the amount of your monthly income that goes to pay your housing payment. A housing ratio of 28% or less is considered ideal.

Multiply your monthly income by .28 (or 28%). That's the amount a lender would generally say should go toward your total monthly housing expense.

Your monthly income: $ __________

x .28

= __________

In our example, the lender would want to see a total monthly payment of no more than $606.48. ($2166 in monthly income x .28 = $606.48).

Keep in mind that monthly housing expense doesn't just include the loan payment. It should also include taxes and insurance, and condo fees if there are any. You can ask a real estate agent to estimate those costs for you in your price range.

Summary of housing ratio:

Monthly income x .28 = monthly housing payment

Your monthly payment is ____________________

With most loans, the lender will escrow your taxes and insurance. That means they'll collect a portion of them with each monthly payment. That will result in a monthly payment often referred to as "PITI" – principal, interest, taxes, and insurance.

Principal – the amount that goes toward paying off the loan balance

Interest – interest on the balance

Real Estate Taxes – taxes required by local governments

Property Insurance – insurance required by the lender in case the property is damaged by fire, hurricanes, flooding, etc. Lenders will generally charge a slightly higher interest rate if you want to "waive" escrows, or pay them yourself.

DEBT RATIO

In addition to your housing ratio, lenders will look at your total debt ratio. Here, they want to see that your total debts, including your monthly housing ratio plus your payments on your other debts, don't exceed 36% of your monthly income.

To calculate your total debt ratio, you'll need to add up your monthly debt payments including:

Car payments	$__________
Minimum required payments on credit cards	$__________
Minimum payments on student loans	$__________
Child support or alimony you pay	$__________
Minimum payment on any other debt that appears on your credit report	$__________
Total	**$__________**

Add these to your monthly housing expense to get your total monthly debt payment and check that it doesn't take up more than 36% of your monthly income. If it does, you may need to pay down debts or aim for a less expensive home to reduce the housing portion of the ratio.

If your ratios are higher than 28%-36% that doesn't mean you can't buy a home. Some lenders will lend to borrowers with debt ratios of 55% or higher! It does mean that you will likely pay a higher interest rate because the loan is considered more risky.

A word to the wise: homeownership is always more expensive than people realize. When you rent, the landlord is responsible for most of the minor – and all of the major – repairs to your home. When you own a home, it's up to you to pay for any repairs. Whether it's a leaky toilet or roof, or a fridge that goes on the blink you'll have to take care of it yourself. That can get very expensive very quickly. It's a good idea to get your debt under control and buy a home that will remain affordable.

HOW MUCH WILL IT COST?

There are usually two major expenses when you buy a home: a down payment and closing costs. Let's look at each of these.

DOWN PAYMENT

Gone are the days when you needed to put down 20% on a house. Now there are lenders who will lend up to 107% of the sales price of a home (the extra is to cover closing costs)! Low down payment loans are considered more risky, however, so they may carry a higher interest rate and/or you may have to pay extra each month for Private Mortgage Insurance (PMI) which protects the lender in case you default. PMI can add $50 - $150 or more to the monthly payment, so make sure you figure that cost into your housing ratio if needed.

Another option is down payment assistance through a non-profit organization. These programs will provide a down payment of up to 5% if the seller of the home participates. The program doesn't cost the buyer anything, and the down payment never needs to be repaid.

Other down payment assistance programs may be available through local agencies. Contact your local housing authority or a real estate professional for more information.

CLOSING COSTS

You can expect to pay about 4-5% of the sales price in closing costs – sometimes more, sometimes less. If you are short on cash, your real estate agent may help you write an offer that includes the seller paying for some of your closing costs.

Ask the lender or broker about each closing cost or fee. Some may be negotiable, while others may not be.

Typical closing costs include:

- Application fee (find out what the refund policy is), processing fee, lender's underwriting fee, and/or a mortgage broker fee
- Appraisal, survey, and flood certification fee (to show whether your home is in a flood zone)
- Title charges including the title search, a title policy (lender's and/or owner's policies) as protection if there is a problem with the title, and in some states, attorney fees
- Two month's worth of homeowner's insurance and/or property taxes to be held by the lender, if they will be collecting your insurance and taxes with your monthly payment
- Miscellaneous charges such as courier or wire transfer fees

Within three business days of applying for your mortgage, you'll get a good faith estimate of closing costs. Go over it carefully and discuss it with your lender or broker. Take a copy with you to closing to check for any new surprises that show up when you close.

DO I NEED A MORTGAGE BROKER?

You can borrow directly from a bank or credit union that lends money for purchasing a home, or you can use a mortgage broker to do the shopping for you. A mortgage broker usually acts as a middleman between you and the lender, and works with numerous lenders to find the right program for the borrower. A mortgage broker is usually essential if you have past credit problems, are self-employed or aren't going to put much money down on your loan, or simply because of the wider range of programs available to him or her.

CAN I QUALIFY FOR A LOAN?

There's no doubt that getting your first mortgage can be intimidating. But keep in mind that there are literally thousands of lenders with many different programs available. If you can't qualify with one, you may with another! Lenders will consider the following to determine if you qualify for your loan.

YOUR INCOME

You'll need to provide copies of your two most recent paystubs and W-2s, or if you are self-employed, your tax returns (not always needed on loans for the self-employed) to verify your income. If you receive income from investments, rent, or other sources, you may have to provide documentation such as cancelled checks.

YOUR DEBTS

The lender will check your credit report with all three major credit reporting agencies – Equifax®, Experian®, and TransUnion® – to make sure it has a complete list of your debts. The minimum payments listed on your credit report will be used to calculate your debt ratio. Keep in mind that if you have a credit card that you use, but pay in full, your credit report may show a monthly payment that the lender will then include in calculating your debt ratio.

YOUR CREDIT HISTORY

The lender will usually also obtain a credit score from all three credit reporting agencies. They will then look at the middle of those three scores to determine which program you qualify for. For example, if your credit scores are 650, 675 and 700, they'll use the 675 credit score to decide the rates and fees you'll pay.

THE PROPERTY

The lender will require an independent appraisal of the property to make sure it is worth the sales price. (You'll pay for the appraisals but the lender will usually order it from a list of its approved appraisers). A survey will be conducted to make sure the property lines are correctly established and a title search will be conducted to make sure there are no liens on the property. If a flood certification shows you are in a flood zone, the lender will require you to purchase flood insurance.

Loans

WHAT IF I HAVE CREDIT PROBLEMS?

Bad credit doesn't have to prevent you from buying a home. There are many loan programs out there that may be able to help. In fact, you may even be able to buy a home if you've completed a Chapter 7 (straight) bankruptcy, or are still in a Chapter 13 (repayment plan) bankruptcy.

IF YOU HAVE HAD CREDIT PROBLEMS, CONSIDER THE FOLLOWING:

1. Order your credit report at **www.consolidatedcredit.org** to find out exactly where your credit stands now.

2. Talk with a mortgage broker who works with multiple lenders. If you have extenuating circumstances that led to your credit problems – such as a small business failure or large medical bills – the broker may be able to find a program that will allow you to get a mortgage with proper documentation of the problem.

3. Make sure you are actively rebuilding your credit with positive credit references.

4. Look for a "rent to own" home where some of your monthly rent will be credited toward your down payment or closing costs if you buy.

5. Look for "owner financing" where the qualifications may be more lenient. Keep in mind, though, that the owner who will be financing the home will want to see that you are able to make your monthly payments. He or she doesn't want to have to foreclose on a borrower!

HOME SHOPPING TIPS

- Ask a mortgage broker or lender to pre-approve you in writing for a loan before you start home shopping. A pre-approval letter may save you money since a seller usually prefers a buyer who has been pre-approved.

- Consider working with a real estate buyer's agent who will represent your interests. The real estate agent who sells a property usually represents the seller.

- Budget for furniture, window coverings, and renovations. It's very frustrating to buy a home and have it sit half empty. If you haven't set aside money for those items, however, you may find yourself running up additional debt to pay for them.

- Don't wait for the perfect home – it may not exist. But do choose a home that will be comfortable and affordable for at least the next five years.

- Pay for a professional home inspection from an inspector who is a member of the American Society of Home Inspectors (**www.ashi.com**). If possible, go along during the inspection. Not spending the money for an inspection can be far more costly later on!

- Shop around for your homeowner's insurance when you start shopping for your home. Don't just look at price, but also look at the stability of the insurance company. You want to make sure they can afford to pay claims promptly in the case of a disaster.

ADDITIONAL RESOURCES

West Virginia Housing Development Fund
www.wvhdf.com

BB&T
www.BBandT.com

United Bank
www.unitedbank-wv.com

Chase
www.chase.com

Fannie Mae
www.fanniemae.com or www.homepath.com

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