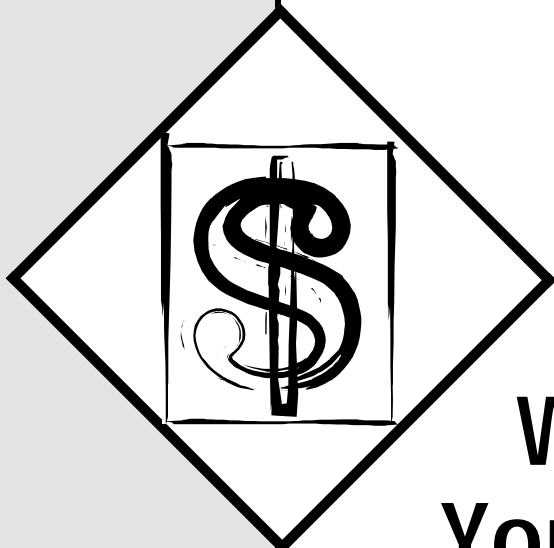


The Consumer's Guide to Financing Your Dream



When Building Your Future Every Moment Counts

*A must-read for those who own or
want to own their own home*

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"Consumer Advocacy in Action"

FINANCING YOUR DREAM

Buying a new home is a significant milestone. It is one most of us strive for with eager anticipation... yet a degree of uncertainty. Purchasing a home can be a traumatic experience but it need not be. It is most important, however, that you deal with someone who is knowledgeable about the market and thoroughly understands all the details necessary to make the transaction go as smoothly as possible.

Let's Go On An Adventure...

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Most people are not aware of the many time consuming factors that go into purchasing a home. They want to buy but they have no idea where to start. I recently had a new client say, "I'm a first-time home-buyer. I don't know anything." So I explained that I would help her with the "ENTIRE" process. Not just finding a house.

To purchase a home you must find the right bank with the right loan program. Perhaps you have credit issues that, together, the loan officer and REALTOR® can help address to move the mortgage process along. Getting pre-qualified so you know the approximate amount of loan you can qualify for is an important first step. There are many good mortgage companies and banks available with a variety of programs for first-time home-buyers. Call a banker of your choice, if you don't know a banker I suggest Trevor Meeks-Chambliss, National City Bank 267-7247.

Once you're pre-qualified, know a possible mortgage amount, then we can look for a home. Searching through the computer to find a house that meets your needs for space, area, and lifestyle. Staying within your budget and the area you want to live in must remain important in the search. It's important that the REATOR® help you keep in mind neighborhood factors, maintenance costs, potential re-sale and much more.

When you locate the house that feels like "home" then writing a good offer and working through the inevitable counter offer to reach an agreement that is fair to both parties should be your goal.

With an accepted offer you're on your way, but you're not home yet. You must pay for the appraisal so it can be done in a timely manner. Next, select a competent, ASHI certified inspector to do a complete home inspection of the property you've just agreed to buy. It is important to know that inspections must be done during the time frame stated on the purchase agreement. You must also respond during the stated time frame or YOU LOSE THE RIGHT TO RESPOND. Your REALTOR® should be aware of the repairs that the seller would be required to make under the law. It should also be stated that ALL repairs other than general handy man or maintenance be performed by a licensed service provider with you receiving receipts showing the work was completed and paid for. NEVER should you agree to have major items like electrical or plumbing problems be corrected by the seller or

a relative or friend. You will have no recourse if the work is not complete or later found to be less than satisfactory.

During this time the agent will also check on the progress of the mortgage process, helping to resolve any problems should they arise. The agent should also check the survey prior to closing and review the title work as soon as it is received for any potential problems.

The buyer must have a paid insurance policy to close on the home. A client will sometimes (especially first-time home-buyers) need help with recommendations for two to three insurance companies to get quotes from. Or additional explanation of the difference between guaranteed replacement coverage (what you need) and actual cash value coverage (will satisfy the bank but the coverage isn't adequate for you).

Many, many things your REALTOR® will be doing to help you get to a successful closing. At the end of my comments, my first-time home-buyer said, "I didn't know a REALTOR® did all that!" Most people don't know we "do all that." That's what a REALTOR® is paid for...service. Helping with all these aspects (and more when needed) are the work of a REALTOR® who genuinely cares about you as a person and will guide you through the maze of wonder to **HOME OWNERSHIP**.

GOOD LUCK!

Buyers: When Do You Need the Money?

The gentle answer is: when you start to look with the expectation that you're going to write an offer on a house. That's when you need the money. Most of the time when someone is confused it's their own fault. The truth is buyers are confused. VERY confused about how the money side of real estate works and USUALLY it is not their fault.

I feel the real estate industry as a whole has contributed greatly to the general confusion and the real estate professionals; the builders, REALTOR® and bankers have further complicated things so it's no wonder buyers are left unsure. In today's market 100% financing is gaining popularity (a dangerous trend) various loan programs will make the down payments and most buyers assume you can negotiate and get the seller to pay your closing costs. Advertising from all sectors entices buyers with an assortment of options to purchase a home, the home of your dreams, with all the costs paid by someone else. It's almost logical, based on the hype. I can buy a home with no money of my own. All I need is a decent job, reasonable credit and go find my house. It seems logical but you're not headed for a "regular" closing if you literally have NO MONEY.

We're in America and a lot of things have opened up in the housing industry. But we are not in Oz. Even a veteran who needs no down payment, who perhaps negotiates closing costs from the seller, still needs probably \$750.00 minimally to keep the process on track. Don't get all upset. They will ultimately spend maybe \$300-\$400 but everyone should be willing to spend SOMETHING to buy their home.

Let me explain. When you write the offer, it is customary to write an earnest money check to be submitted with the offer to show your sincerity about purchasing this home. Locally, roughly 10% of the purchase price is the norm but there is no set amount. The truth is that

earnest money is NOT mandatory but it's also true that almost no one would ever consider an offer without an earnest money check. If your offer is accepted, then the earnest money is held by the listing agent's company in an escrow account until closing. Within a few days, usually 5-7 days, you must make the mortgage application if you haven't already.

With an accepted offer you should pay for both the application fee and the appraisal, roughly \$325-\$350 total.

If you're savvy about home buying you know you have the right to have an independent inspector OF YOUR CHOICE to check the home for you. Typically, that is done within 10-14 days after acceptance at a cost of \$185 - \$265. Radon or well tests, if necessary, will increase the cost. Not having the money NOW will delay the entire process. But, you say, these are closing costs, more precisely known as pre-paid items. Pre-paid items mean you pay them before you go to closing but they are costs associated with and necessary to "close the loan."

Lastly, you'll need a homeowner's policy when you attend the closing. Some insurance agents will prepare the paperwork, submit an invoice directly to the title company to be paid at closing. If you don't make special arrangements, then you're expected to pay that in advance as well as a cost of roughly \$300-\$400.

So, even if you've negotiated a very good offer and the seller is paying your closing costs, plus your down payment will not be from YOUR FUNDS, you still need to be holding approximately \$750-\$1,000 to make the process work smoothly by initially paying the expenses I've discussed up front. You will receive credit for these at closing. You'll very likely receive a check at closing. I'm aware that there are ways to juggle things so the buyer spends less out-of-pocket during the process but I write this based on what's typical and I try to apply the "common sense" factor on a regular basis.

You need the money "NOW". It's still not too late to get into your new home by the end of the year.

Preparing for the Mortgage Process: How to Build or Rebuild Your Credit

1. Meet or talk with a bank officer to be "pre-qualified" and establish goals and an action plan. If you don't have a banker, call Trevor Meeks-Chambliss at National City Bank 267-7247.
2. Do not change your employment status unless you are staying in the same field and/or increasing your income.
3. Open a bank account if you do not currently have one. Establish a deposit/withdrawal pattern with your earnings and obligations. Any large deposits need to be explained, do

keep good records of any deposits that are not obvious earnings, such as tax refunds, lottery winnings, insurance settlements and business expense reimbursements.

4. Order a credit report. Write to TRW Complimentary Credit Report, P.O. Box 2350, Chatsworth, CA 91313. Include your social security number.
5. Devise a budget and live within it. Do not make any large purchases with that monthly debit until you know you will qualify for the home you want. Contact Consumer Credit Counseling Service to help you. Check the phone directory or call the CCC's referral line: 1-800-388-2227. The counseling service can negotiate with creditors and set up a debt-repayment plan.
6. Make sure your credit file is accurate. Write to the bureau (please see below) with any misreported information. The bureau must then contact the creditor. If the creditor does not verify within 30 days, then the bureau must remove the notation and send an updated copy of your report. However, the notation will most likely return on your credit report; therefore, the best way to correct and clean up the credit report is through direct contact with the creditor.
7. Negotiate with your creditors. Some creditors will remove debts from your file in exchange for a full or partial payment. Also, some creditors will "re-age" your account. This is done by making the current month the first repayment month and showing no late payments.
8. Work with local merchants.
9. Take out a secured credit card. Charge a little and pay off each month.
10. If you do not have any credit, start contacting utility companies or any institution such as health clubs, doctor, dentist, or attorney who will verify your credit worthiness. Also try suggestions #8 and #9.

If you know you have credit issues to resolve but you want to start working on them so you can purchase a home, do call Mildred to schedule an appointment to address your specific situation. Her background includes working as a credit collector as well as overcoming major credit issues in her personal life. She does "understand where you're coming from."

Everybody Asks...

What is Fannie Mae?

Fannie Mae is a private company chartered by Congress to make sure mortgage money is available for people in communities across America. We don't lend money directly to home buyers, but by investing in the mortgages made by lenders, Fannie Mae provides a constant source of mortgage funds. That's why we can give you objective information that will help you get on the path to homeownership.

What is a mortgage?

A mortgage loan is a pledge of your home as a lender's security that you will repay your debt. In other words, if you don't repay your mortgage, the lender has the right to take over the house. The lender agrees to hold a lien on the title to your property (or, in some state, to hold the title to your property) until you have paid back your loan plus interest.

What do lenders generally focus on when you apply for a loan?

Lenders look most closely at the “three C’s” of mortgage credit – cash, credit, and collateral. Cash means you have enough money for a down payment and closing costs. Good credit means you have borrowed money in the past and repaid your debts in full and on time. And collateral is a fancy term for the home you’re financing. Lenders want to make certain that the property you’re buying has enough value to support the amount of money you’re borrowing for the mortgage.

How can I find out what my credit history is like?

You can request a copy of your credit report from any of the credit bureaus that operate in the area where you live. They are listed in your phone book’s yellow pages under credit bureaus. Some charge a fee, but many will provide you with one free copy of your credit report each year. If you need help deciphering your credit report, you can contact a local credit counseling agency that can review it with you.

I’ve had late payments on a few bills. Does that mean I can’t get a mortgage?

Not necessarily. Lenders are concerned about the borrower’s overall credit history. If bills for the past two years usually have been paid on time, or if there is a good reason why a bill was late and you’re paying bills on time now, your credit history could be acceptable, and you could be eligible for a mortgage.

I have a good income, but no credit history because I don’t borrow money. Can I still get a mortgage?

Yes. Some home buyers may qualify for credit cards and small loans but don’t want to be in debt. When it comes time to buy a home, their credit report is blank. Mortgage lenders can develop credit histories from utility or telephone bills or rental payments. If payments have been made on a regular, timely basis, then a blank credit report won’t prevent you from getting a mortgage.

Who can I talk to if I’ve had credit problems and want to buy a home?

You can call Fannie Mae’s HomePath Specialists at 1-800-7FANNIE (1-800-732-6643) for guidance. They can refer you to a local credit counseling agency or provide you with free step-by-step assistance over the telephone.

Can sources of income other than traditional wages and salary be used to qualify for a mortgage?

Overtime pay, bonuses, income from part-time work, court-ordered child support payments and alimony, Social Security, veteran’s benefits, and unemployment compensation are all forms of income that most mortgage lenders will consider for qualifying a borrower for a mortgage. All of these usually are considered qualifying income if the income is regular, ongoing and documented.

I’m self-employed. Why do lenders need to see my tax returns to finance or refinance my home?

The only way to verify income of a self-employed borrower is through tax returns. Business tax returns are analyzed to determine the financial strength of your business and if you can reasonably expect to continue to generate that income.

Can I buy a home even if I am not a U.S. citizen?

Yes. Legal permanent residents go through the same approval and underwriting process as a U.S. citizen. To verify their status, permanent legal residents must have a so-called “green-card” or properly marked passport to prove they have the legal right to work and remain in the United States. Permanent residents may obtain a mortgage for as little as 5

percent down. If you are legal, but non-permanent resident, you still can buy a home, although lenders may ask for a larger down payment.

What does the lender mean by LTV.

LTV stands for loan-to-value ratio. This ratio compares the mortgage amount to the appraised value or the sales price of the property, whichever is less. This ratio also shows how much equity you have in the property. For example, if you are buying a house worth \$100,000, have 5 percent down payment, and are getting a mortgage for \$95,000, the LTV on your loan will be 95 percent. Lenders generally use this ratio to determine whether you will need mortgage insurance. You will hear this term more often when you are refinancing a loan.

Most banks require down payments of 10 to 20 percent to qualify for a mortgage. Is there a way to get a house without paying so much cash up front?

Yes, there are several low down payment mortgage loans available that only require a 5 percent down payment and, in one case, only 3 percent of your own funds is needed. These low down payment products – including our signature affordable housing mortgage, Fannie Mae's Community Home Buyer's Program – have many built-in flexibilities including a lower down payment requirement that helps you and others achieve the dream of homeownership. Call 1-800-7FANNIE for a list of lenders in your area who offer Fannie Mae's Community Home Buyer's Program and the Fannie 97 (the 3 percent down payment loan) in your area. Note that these low down payment mortgage products may be subject to income limitations.

How can I determine how much house I can afford?

Here's a quick and easy method to determine your buying power. Multiply your monthly income before taxes (gross income) by 28 percent (.28). This number represents how much lenders will allow for the monthly mortgage payment (principal and interest), taxes, and insurance (PITI). Next, multiply your gross monthly income (what you earn monthly before taxes) by 36 percent (.36). This is the most you can spend on all your bills (credit cards, auto loans, and other bills), including your new house payment, and still qualify for most mortgage loans. Keep in mind many lenders have special loan programs that allow you to stretch your buying power. Some allow as much as 38 percent of your monthly income (and sometimes more) to be used toward your total bills (including house payment) if you can show you've been paying that much for several years.

What are "closing" costs and how do I know how much money I'll need?

Closing, or the settlement process, is when the title (ownership) of a property is legally transferred from the seller to the buyer. Closing costs are expenses paid at the time you settle on your loan. Such costs include title insurance, recording fees, and escrow fees. The Real Estate Settlement Procedures Act (RESPA), a federal law, requires lenders to provide you with a "good faith estimate" of the expenses you can expect to pay at closing. RESPA also requires the lender to provide you with a special information booklet that explains how the settlement process works and an easy-to-follow form, so you can understand the entire transaction.

Is there a way to compare different interest rates on a home mortgage?

Competing lenders often advertise a wide range of interest rates. To determine which loan is the best deal, focus on the "annual percentage rate," or "APR". The APR shows the cost of financing the loan when mortgage interest rates and points are combined over the term of the mortgage. It is the true cost of the mortgage. Lenders are required to disclose APR under federal truth-in-lending guidelines.

What is an adjustable-rate mortgage?

An adjustable-rate mortgage, or ARM, has an interest rate and monthly payment that adjust at regular intervals (usually once or twice a year) based on changes in a specific financial index. Initial interest rates on ARM loans usually are lower than fixed-rate mortgages. As interest rates rise, however, the required monthly payments on ARM loans also increase. Of course, if interest rates go down, your payment will decrease. Some ARMs offer you're the chance to convert to a fixed-rate loan for a fee within a certain period of time.

What if I have a down payment, but not enough money for all the closing costs?

You may use a gift towards the closing costs or have the seller pay some of these costs. In some cases, you can add part of your closing costs to the mortgage payment.

What if I have enough money for a down payment, but not enough income for the loan?

You may be able to buy a home with a friend or relative who can be a co-signer for you. A co-signer guarantees to make the mortgage payments if you can't. A lender then can consider the co-signer's income and credit history in addition to yours. However, if you are buying a home with less than 10 percent down, the co-signer must live with you.

What can I do if my mortgage application has been rejected?

Of the thousands of mortgage applications processed by lenders each year, some can't be accepted because of inadequate income, poor credit, or too much debt. If your application is rejected, ask why. Check your credit report to make sure it's accurate. Many credit bureaus will provide you with one free credit report a year. If you have credit problems, consider working with a mortgage credit counselor. If you have good credit but too many bills, ask the lender if you can strengthen your application by paying off debt. Finally, if you don't have enough income to make the mortgage payments, find out whether you are eligible for a loan program that offers more flexible qualifying standards or consider a less expensive home.

Whatever the reason for the rejection, you may call Fannie Mae at 1-800-7FANNIE for home-buying guidance from a HomePath Specialist.

I have additional questions. Who can I talk to?

You may call Fannie Mae's Consumer Resource Center at 1-800-7FANNIE (1-800-732-6643) for step-by-step guidance on the entire home-buying process. Specialists can answer your questions and also provide you with more detailed information to prepare you for buying a home.

Questions are from the more than 350,000 consumer inquiries received annually by Fannie Mae, the nation's largest source of home mortgage funds.

4 Things to Avoid When Purchasing a Home

There are four things to avoid doing before applying for a loan and during the loan process itself. Any one of these four things can greatly impact your ability for a mortgage loan. It is critical to avoid doing any of the following until AFTER your loan has closed escrow:

DO NOT CHANGE JOBS

Changing jobs before or during the loan process can create a real problem in qualifying you for a loan, particularly if that job is in a different line of work or at a lower rate of pay. During the loan process, it can also create time delays, as the new job will need to be verified.

DO NOT CHANGE BANKS OR MOVE YOUR MONEY AROUND

Moving your money to a new bank or even into a new account can wreak havoc with the verification process. It is best to leave your money right where it is until your loan is closed; unless otherwise recommended by your loan officer.

DO NOT PAY OFF BILLS

Your loan officer will advise you if it is necessary to pay off bills to make sure we have the evidence we need to prove that bills have been paid.

DO NOT MAKE ANY MAJOR PURCHASES

Many borrowers make the mistake of buying a new car or making another major purchase without realizing the impact it can have on their ability to buy a home. A new, additional monthly payment can affect the amount of home you qualify for and, during the loan process itself, actually make it difficult to get your loan approved.

What Application Documents Will I Need?

Like most buyers, you'll want your loan approval process to go quickly and smoothly. The following check list shows the most commonly required items and will help you be prepared for the meeting with your lender.

- Legible sales contract signed by Buyers and Sellers.
- Social Security number of all applicants.
- Complete address for the last 7 years (including complete name and address of landlords for past 24 months).
- Name, address, and all income earned from employers for the past 24 months.
- Copies of previous two years W-2 forms.
- Copy of most recent year-to-date pay stub.
- Name, address, account number, monthly payment and current balance for: installment loans, revolving charge accounts, student loans, mortgage loans and auto loans.
- Name, address, account number and balance of all deposit accounts, including: checking accounts, savings accounts, stock, bonds, etc.
- Three months most recent statements for deposit accounts.

If you are applying for a VA loan:

- DD-214, Certificate of Eligibility, or statement from your Commanding Officer if you are on active duty.

If you are divorced or separated:

- Copies of complete Separation Agreement and/or Divorce Decree.
- If you choose to include Child Support/Alimony payments as income bring copies of court records or canceled checks showing receipt of payment.

If you are self-employed or paid by commission:

- Previous two years Federal Income Tax returns with all schedules and a year-to-date profit and loss statement.

If you own other properties:

- Address of properties and current market value.
- Any debt owned on properties, lender's name, address, account number, monthly payment and current balance.

If you have ever filed bankruptcy:

- Copy of petition and discharge, handwritten explanation of the reason for the bankruptcy, evidence of excellent credit since the bankruptcy.

What's a Good Faith Estimate?

A Good Faith Estimate is a very important document in the home-buying process yet many people either don't understand it or worse yet, they don't get one at all. Let's start with an explanation of the Good Faith Estimate.

A Good Faith Estimate is to be an estimate of the amount of or the range of charges for all costs the borrower is likely to incur in connection with getting and closing this loan. In other words, ALL COSTS (or a close estimate of all costs) starting from the time you meet with the loan officer until the day you sign for the mortgage should appear on this Good Faith. This should include all items we call up front or initial costs; pre-pays (paid before closing) and closing costs. NEVER should you find out a few days before closing that you need a significantly larger amount of money than you were told before. That's one purpose of the Good Faith, to prevent unpleasant surprises.

Another purpose of the Good Faith is to give you the information in written form which allows you an opportunity to review it at your leisure, to call your banker or REALTOR® with questions if there are items or costs you do not understand. I further recommend you also

talk with a second banker if you either don't understand the Good Faith or the figures seem out of line to you.

It is a federal regulation which requires that you be provided with a Good Faith. Except for a few specific transactions, the lender should provide all applicants for any federally regulated mortgage loan (FHA, VA, Insured Conventional, IHFA, other) with a Good Faith. It may surprise you to know that some lenders out there do not. They forget. The intent of the law is to give you the financial facts up front. At this point you have made no commitment. Any institution which did not provide that or discuss it with me freely or was hesitant to write down figures "because they couldn't really know what the charges would end up being" would scare me so bad I would probably grow five or six inches.

The lender is to deliver the Good Faith in a clear and concise form at the time of application or mail it to you not later than three business days after your application meeting. According to the FIC Real Estate Compliance Manual the estimates:

1. Must bear reasonable relationship to the borrowers' ultimate cost for each settlement charge;
2. Must be based upon experience in the locality or area in which the property involved is located. Although the estimate need not exactly match the actual charges, it should approximate them.

If you are using a mortgage broker (who will get the loan from some unnamed investor), then things change a little bit. If the broker represents only one investor as an exclusive broker, then either the broker or the investor should provide the Good Faith in the required three days. If the broker represents several investors, the broker must be certain that the specific investor he chooses gets it to you within three business days of the time THEY get your application. Obviously, that will be more than three business days after you meet with the mortgage broker. Usually there are additional charges associated with your using a broker. These must be disclosed on the Good Faith. They appear as a Broker Fee or a Point, or some other name. If your loan is denied within three business days, then the lender is not obligated to provide the Good Faith.

I meet people from time to time who receive a call maybe a week before closing telling them they need way more money than they'd been told earlier. Or someone who gets a phone call the day before closing that needed an outrageously high figure. Then you're stuck and they know it. Usually, these are people who never got a Good Faith Estimate.

QUESTION: Why would you deal with someone on something this important who didn't or wasn't willing to put it in writing? The law provides a great deal of protection for you. I write in effort to inform people so you can make better choices. But ultimately you must act to protect yourself. Get some information, ask some questions, and insist that you need

a Good Faith Estimate as a show of Good Faith. Please remember, you are partners with your REALTOR® and banker, but you're always the SENIOR partner.

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