

Free Finance Class for Tenant Buyers
April 2008 Class

Heading Home; A Seminar For HomeBuyers

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Why Buy Instead of Rent?

- Buying a home can be a wise investment. One of the first steps to building wealth is home ownership.
- You can build ownership interest- this is known as equity. This allows you to leverage the money you have invested in your home.
- Interest paid on a home mortgage is typically a tax deduction (*Consult with Your Tax Advisor regarding deductibility of Interest*).

How Much Home Can I Afford?

- To determine your maximum mortgage amount this is what lenders look at:
 - ❖ Your credit history- this is your history of making your payments
 - ❖ Available cash for down payment and closing costs (that is why option payments are 3% so that this is already taken care of....some lenders are requiring 5% down payment, in that case, sometimes extra funds would be required)
 - ❖ Your income- keep in mind you need a 2 year history of income to use it for a home loan. That means if you have a job with commissions, you need to have 2 years of the commissions to be considered reliable monthly income. Also, tips or cash payments are not counted unless you have a paper trail. Overtime- need a 2 year history as well before it can be used. Things like child support, disability, SSI can be used if you will be receiving the benefit for at least 3 more years.
 - ❖ Your existing Debt and Financial Obligations- this is your debt to income ratio and your credit history. How much of your money coming in is being used up. The goal is for you to be making more than your debts and there is a calculation each lender uses. Most fluctuate around a 40% debt to income ratio.
- Your maximum mortgage amount, plus your planned down payment, equals your home-purchase price range.

What Can I Expect at Application?

- You will be asked to provide 2 year history for your employment/income source and residence history.
- You will be asked to provide documents for any income you want to use for loan qualification. This can include pay check stubs, W2's, tax returns, 1099's, and sometimes you will need to provide other documents like a divorce decree if income comes from this source.
- Confirm down payment and closing cost amounts in the bank or other asset accounts- this means bank statements, rent credits if doing a rent to own, 401K or other savings.
- Clarify any incorrect items on your credit report (this is why seeing your finance/mortgage specialist early on can help you straighten out any errors or clean up judgements and collections that you may not be aware of).
- Verify if you have debts that are not listed on your credit report- you always want to keep any documents of your debts or obligations you need to pay or have paid regularly. This is to ensure you do not go over your debt to income ratios.

How Important is My Credit?

- A history of paying monthly payments on time indicates that you are likely to make your mortgage payments on time. Specifically you want a history of 12 months paying bills on time (that is why we have you do automatic payments and have them reported to the credit bureaus as well as make copies of each of your payments.) Late payments can lower your credit scores.
- Your credit score can be a factor in the kind of mortgage program for which you qualify.
- Your credit history can also affect
 - ❖ The amount required for a down payment. The better history the less down payment is required.
 - ❖ The amount of money you can borrow in relation to your income- the better history you have the more money you are eligible to qualify for.
 - ❖ The interest rate you are offered- the past 2 months credit history plays a big role in what kind of interest rate you will get. The better history the lower interest rate.
- If you haven't already, you need to obtain a copy of your credit report (your mortgage specialist will give you a copy when you go in for your first meeting)

Tips to Establish or Improve Your Credit Rating:

1. Use credit to purchase low price items. Make a few prompt minimum payments then pay off the balance.
2. Collect alternative credit records such as paid receipts and cancelled checks for rent, utility bills, phone bills, car insurance (Things that are not typically on your credit report unless you are in default). These can help establish your credit rating.
3. Try to pay off outstanding loans or credit card debts.

4. Go to your bank and get a secured credit card- you purchase a card and you can only spend what is there- do not spend it all, you want the running balance to be less than 30%. Make small purchases and pay on it each month. This helps establish credit history.

Cash for Closing and Reserves

The goal is that after closing costs and reserves have been accounted for you want to have a two month cushion. Even if it is a 401K or some type of savings account. Two months reserves is a great starting point.

Start saving the difference between your current rent payment and your estimated new house/mortgage payment. Prepare ahead for the increase to avoid "payment shock".

It is a good idea to have at least 2 months of reserves left your bank account after down payment and closing costs.

You also want to be aware of your checking account transactions. You only want to spend what you can afford. You want the transactions to reflect a prudent spender. Not overdrafts and always catching up. It is important to know what money you have and what you are spending. That is why electronic banking is great, you can check daily to ensure you are on top of your finances.

Government Loans

Government loans are backed by the federal or state agencies. In general, they answer the needs of first-time homebuyers by offering:

- ❖ More flexible credit guidelines- it is not just about the numbers
- ❖ Allowances for smaller or no down payments

Types of government loans include FHA and VA.

FHA loans typically require 3% down payments, VA loans 0% and Conventional loans 5%.

First time home buyers (that maybe first home you buy or you have not bought a home in the last 3 years) you may be eligible for down payment assistance. Often this requires you to take a class or online course, but can help with your down payment.

Offered By:
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