Buying a New Home
100 Questions and Answers

Provided by the Federal Housing Administration

GETTING STARTED

1. How do I know if I am ready to buy a home?

Ask yourself these questions:

- Do I have a steady source of income (usually a job)?
- Have I been employed on a regular basis for the last 2-3 years?
- Is my current income reliable?
- Do I have a good record of paying my bills?
- Do I have few outstanding long-term debts, like car payments?
- Do I have money saved for a downpayment?
- Do I have the ability to pay a mortgage every month, plus additional costs?

If you can answer "yes" to these questions, you are probably ready to buy your own home.

2. How do I begin the process of buying a home?

Start by thinking about your situation. Are you ready to buy a home? How much can you afford in a monthly mortgage payment (see Question 4 for help)? How much space do you need? What areas of town do you like? After you answer these questions, make a "To Do" list and start doing casual research. Talk to friends and family, drive through neighborhoods and look in the "Homes" section of the newspaper.

3. How does purchasing a home compare with renting?

The most significant advantage of renting is being generally free of most maintenance responsibilities. But by renting, you lose the chance to build equity, take advantage of tax benefits and protect yourself against rent increases. Also, you may not be free to decorate without permission and may be at the mercy of the landlord.

Owning a home has many benefits. When you make a mortgage payment, you are building equity which is an investment. Owning a home can also qualify you for tax breaks that actually lower your out of pocket costs. Given the freedom, stability and investment security of owning your own home, it is worth it.

4. How does the lender decide the maximum loan amount that I can afford?

The lender considers your debt-to-income ratio, which is a comparison of your gross (pre-tax) income to housing and non-housing expenses. Non-housing expenses include such long-term debts as car or student loan payments, alimony, or child support. According to the FHA, monthly mortgage payments should be no more than 31% of gross income while the mortgage payment combined with non-housing expenses should total no more than 43% of your income. The lender also considers cash available for downpayment, closing costs and credit history when determining your maximum loan amount.

5. How do I select the right real estate agent?

Start by asking family and friends if they can recommend an agent. Compile a list of several agents to talk with before selecting one. The ideal agent knows the local area well and has resources and contacts to help you in your search. Choose an agent who makes you feel comfortable, listens well and can provide all the services you need.

6. How can I determine my housing needs before I begin the search?

Your home should fit the way you live, with spaces and features that appeal to the whole family. Before you begin looking at homes, make a list of your priorities: things like lot location, house size and building style; proximity to schools, your job and public transportation. Finally, you should establish a set of minimum requirements and a "wish list”.

FINDING YOUR HOME

7. What should I look for when deciding on a community?

Select a community that will allow you to best live your daily life. People choose communities based on schools, access to shopping, public transportation and local facilities like libraries and museums. Others prefer the peace and quiet of a rural community. When you find places that you like, talk to people that live there. More than anything, you want to feel comfortable in your new neighborhood.

8. What should I do if I'm feeling excluded from certain neighborhoods?

Immediately contact the U.S. Department of Housing and Urban Development (HUD) if you ever feel excluded from a neighborhood or particular house. Also, contact HUD if you believe you are being discriminated against on the basis of race, color, religion, sex, nationality, familial status, or disability. HUD's Office of Fair Housing and Equal Opportunity has a hotline for reporting incidents of discrimination: 1-800-669-9777 (and 1-800-927-9275 for the hearing impaired).

9. How can I find out about local schools?

You can get information about area school systems by visiting the local schools, contacting the city/county school board, or asking your real estate agent.

Source: http://portal.hud.gov - October 1, 2009

10. How can I find out about community resources?

Contact the local chamber of commerce for promotional materials, welcome kits, and maps. Also, talk to your real estate agent or librarian for information on local events and resources.

11. How can I find out how much homes are selling for in certain communities and neighborhoods?

Your real estate agent can give you a ballpark figure by showing you comparable listings maintained on a database.

12. How can I find information on the property tax liability?

The total amount of the previous year's property taxes is usually included in the listing information. If it's not, ask the seller for a tax receipt or contact the local assessor's office. Tax rates can change from year to year, so these figures may be approximate.

13. What other tax issues should I take into consideration?

Keep in mind that your mortgage interest and real estate taxes will be deductible. A qualified real estate professional can give you more details on other tax benefits and liabilities.

14. Is an older home a better value than a new one?

Your taste will decide. Generally, older homes in more established neighborhoods have “character” and lower property tax rates. People who buy older homes, however, shouldn't mind maintaining their homes and making some repairs. Newer homes may be more energy-efficient, use more modern architecture and have systems that are easier to maintain.

15. What should I look for when walking through a home?

Compare the home to your minimum requirements and wish lists, then consider the following:

- Is there enough room for both the present and the future?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Do the mechanical systems and appliances work?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the space?
- Is there enough storage space? (Bring a tape measure to better answer these questions.)
- Does anything need to be repaired or replaced? Will the seller pay for the changes?
- Imagine the house throughout the year. Will you be happy there in each season?

Take your time and shop around for the best housing fit. Ask your real estate agent to point out the pros and cons of each home from a professional standpoint.

16. What questions should I ask when looking at homes?

Making a list ahead of time will help you organize your thoughts and arrange all of the information you receive. Ask the seller or real estate agent about the house and neighborhood, focusing on quality of life issues.

- Identify potential problems and strengths.
- Find out what needs to be repaired or replaced (and who will pay for the changes)..
- Determine what things require ongoing maintenance (e.g., paint, roof, HVAC, appliances, carpet).

Be sure the seller's or real estate agent's answers are clear and complete. Ask questions until you understand all of the information.

17. How can I keep track of all the homes I see?

If possible, take photographs of each house: the outside, the major rooms, the yard and extra features that you like or ones you see as potential problems. And don't hesitate to return for a second look. Use the HUD Home Scorecard to organize your photos and notes for each house.

18. How many homes should I consider before choosing one?

Visit as many as it takes to find the one you want. On average, homebuyers see 15 houses before choosing one. Communicate often with your real estate agent.

YOU'VE FOUND IT

19. What does a home inspector do and how does an inspection figure in the purchase of a home?

Home inspectors focus especially on the safety of your potential new home, the structure, construction and mechanical systems, and will make you aware of any repairs that are needed. The inspector does not evaluate whether or not you're getting good value for your money. Generally, an inspector checks (and gives prices for repairs on): the electrical system, plumbing and waste disposal, the water heater, insulation and ventilation, the HVAC system, water source and quality, the potential presence of pests, the foundation, doors, windows, ceilings, walls, floors and roof. Before you sign a written offer, hire a qualified home inspector. Make the offer contingent upon a satisfactory home inspection because an inspection clause gives you an "out" on buying the house if serious problems are found, or the ability to renegotiate the purchase price if repairs are needed. An inspection clause can also specify that the seller must fix the problem(s) before you purchase the house.

20. Do I need to be there for the inspection?

It is not required, but it is a good idea. Following the inspection, the home inspector will be able to objectively answer questions about the report and any general, maintenance problem areas.

21. Are other types of inspections required?

If your home inspector discovers a serious problem a more specific inspection may be recommended. It's a good idea to consider having your home inspected for the presence of a variety of health-related risks like radon gas, asbestos or problems with the water or waste disposal system.

22. How can I protect my family from lead in the home?

If the house you're considering was built before 1978 and you have children under the age of seven, you should have an inspection for lead-based paint in both the home and in the soil surrounding the house. Problems can be fixed temporarily by repairing damaged paint surfaces or planting grass over effected soil. Hiring a lead abatement contractor to remove paint chips and seal damaged areas will fix the problem permanently.

23. Are power lines a health hazard?

There are no definitive research findings that indicate exposure to power lines results in higher levels of disease or illness.

24. Do I need a lawyer to buy a home?

Some states require a lawyer to assist in several aspects of the homebuying process while other states do not, as long as a qualified real estate professional is involved. Even if your state doesn't require one, you may want to hire a lawyer to help with the complex paperwork, legal contracts and the closing process. Your real estate agent may be able to recommend an experienced lawyer. If not, shop around. Find out what services are provided for what fees.

25. Do I really need homeowner's insurance?

Yes. A paid homeowner's insurance policy (or a paid receipt for one) is required at closing. Plus, involving the insurance agent early in the home buying process can save you money. Insurance agents are a great resource for information on home safety and can give tips on how to keep insurance premiums low.

26. What steps could I take to lower my homeowner's insurance costs?

Be sure to shop around among several insurance companies. Also, consider the cost of insurance when you look at homes. Newer homes and homes constructed with materials like brick tend to have lower premiums. Avoid areas prone to natural disasters, like flooding. Choose a home with a fire hydrant or a fire department nearby.

27. Is the home located in a flood plain?

Ask your real estate agent or lender. If the home is located in a flood plain, the lender will require that you have flood insurance. But if the home is located near a flood plain, you may choose whether or not to get flood insurance coverage. Work with an Insurance agent to select a policy that fits your needs.

28. What other issues should I consider before I buy my home?

Check to see if the house is in a low-lying area, at high-risk for natural disasters (like earthquakes, hurricanes, tornadoes, etc.), or in a hazardous materials area. Be sure the house meets building codes. Also consider local zoning laws, which could affect remodeling or making an addition in the future. Your real estate agent should be able to help you with these questions.

29. How do I make an offer?

Your real estate agent will assist you in making an offer, which will include the:

- Complete legal description of the property.
- Amount of earnest money.
- Downpayment and financing details.
- Proposed move-in date.
- Price you are offering.
- Proposed closing date.
- Length of time the offer is valid.
- Details of the deal.

Success depends on negotiating a satisfactory contract with the seller, not just making an offer.

30. How do I determine the initial offer?

Unless you have a buyer's agent, remember that the agent works for the seller. Make a point of asking him or her to keep your discussions and information confidential. Listen to your real estate agent's advice, but follow your own instincts on deciding a fair price. When calculating your offer, find answers to the following questions:

- What do homes sell for in the area?
- What is the home's condition?
- How long has it been on the market?

- Are there favorable financing terms?
- What is the seller's situation?

By the time you're ready to make an offer, you should have a good idea of what the home is worth and what you can afford. Be prepared for give-and-take negotiation, which is very common when buying a home, until you both agree on a price.

31. What is earnest money? How much should I set aside?

Earnest money is money put down to demonstrate your seriousness about buying a home. It must be substantial enough to demonstrate good faith and is usually between 1-5% of the purchase price depending on local customs and conditions. If your offer is accepted, the earnest money becomes part of your downpayment or closing costs. If the offer is rejected, your money is returned to you. If you back out of a deal, you may forfeit the entire amount.

32. What are "home warranties" and should I consider them?

Home warranties offer you protection for a specific period of time (e.g., one year) against potentially costly problems, like unexpected repairs on appliances or home systems, which are not covered by homeowner's insurance. Warranties are becoming more popular because they offer protection at a time when many people find themselves cash-strapped following the purchase of a home.

GENERAL FINANCING QUESTIONS: THE BASICS

33. What is a mortgage?

Generally speaking, a mortgage is a loan obtained to purchase real estate. The "mortgage" itself is a lien (a legal claim) on the home or property that secures the promise to pay the debt. All mortgages have two features in common: principal and interest.

34. What is “loan to value” (LTV) and how does it determine the size of my loan?

The loan to value ratio is the amount of money you borrow compared with the price or appraised value of the home you are purchasing. Each loan has a specific LTV limit. For example: With a 95% LTV loan on a home priced at $200,000, you could borrow up to $194,000 (97% of $200,000); and would have to pay $6,000 as a downpayment.

The LTV ratio reflects the amount of equity borrowers have in their homes. The higher the LTV ratio the less cash homebuyers are required to pay out of their own funds. So, to protect lenders against potential loss in case of default, higher LTV loans (80% or more) usually require a mortgage insurance policy.

35. What types of loans are available and what are the advantages of each?

Fixed Rate Mortgages: Payments remain the same for the life of the loan.

Types:
- 15-year
- 30-year

Advantages:
- Predictable.
- Housing cost remains unaffected by interest rate changes and inflation.

Adjustable Rate Mortgages (ARMS): Payments increase or decrease on a regular schedule with specific index or margin changes in interest rates; increases subject to limits.
Types:
- Balloon Mortgage – Offers very low rates for an Initial period of time (usually 5, 7, or 10 years); when time has elapsed, the balance is due or refinanced (though not automatically).
- Two-Step Mortgage – Interest rate adjusts only once and remains the same for the life of the loan.
- ARMS linked to a specific index or margin.

Advantages:
- Generally offer lower initial interest rates.
- Monthly payments can be lower.
- May allow borrower to qualify for a larger loan amount.

36. When do ARMS make sense?

An ARM may make sense if:
- You are confident that your income will increase steadily over the years
- You anticipate a move in the near future and aren't concerned about potential increases in interest rates.

37. What are the advantages of 15- and 30-year loan terms?

30-Year:
- In the first 23 years of the loan, more interest is paid off than principal, meaning larger tax deductions.
- As inflation and costs of living increase, mortgage payments become a smaller part of overall expenses.

15-year:
- Loan is usually made at a slightly lower interest rate.
- Equity builds faster because early years' payments pay down more principal.

38. Can I pay off my loan ahead of schedule?

Yes. By sending more money each month or making an extra payment at the end of the year, you can accelerate the process of paying off the loan. When you send extra money, be sure to indicate that the excess payment is to be applied to the principal. Most lenders allow loan prepayment, though you may have to pay a prepayment penalty. Ask your lender for details.

39. Are there special mortgages for first-time homebuyers?

Yes. Lenders now offer several affordable mortgage options which can help first-time homebuyers overcome obstacles. Lenders may now be able to help borrowers who:

- Don't have a lot of money saved for the downpayment and closing costs,
- Have no (or a poor) credit history,
- Have quite a bit of long-term debt, or
- Have experienced income irregularities.

40. How large of a downpayment do I need?

There are mortgage options now available that require a downpayment of 3.5% or less of the purchase price. But the larger the downpayment, the less you have to borrow and the more equity you'll have. Mortgages with less than a 20% downpayment generally require a mortgage insurance policy to secure the loan. When considering the size of your downpayment, consider that you'll also need money for closing costs, moving expenses and repairs and decorating.

41. What is included in a monthly mortgage payment?

The monthly mortgage payment mainly pays off principal and interest. But most lenders also include local real estate taxes, homeowner's insurance and mortgage insurance (if applicable).

42. What factors affect mortgage payments?

The amount of the downpayment, the size of the mortgage loan, the interest rate, and the length of the repayment term and payment schedule will all affect the size of your mortgage payment.

43. How does the interest rate factor in securing a mortgage loan?

A lower interest rate allows you to borrow more money than a high rate with the same monthly payment. Interest rates can fluctuate as you shop for a loan, so ask lenders if they offer a rate "lock-in" which guarantees a specific interest rate for a certain period of time. Remember that a lender must disclose the Annual Percentage Rate (APR) of a loan to you. The APR shows the cost of a mortgage loan by expressing it in terms of a yearly interest rate. The APR is generally higher than the note rate because it also includes the cost of points, mortgage insurance and other fees included in the loan, but mortgage payments are calculated on the note rate.

44. What happens if interest rates decrease and I have a fixed-rate loan?

If interest rates drop significantly, you may want to refinance. Most experts agree that if you plan to be in your house for at least 18 months and you can get a rate 2% less than your current one, refinancing may be a good option. Refinancing may however, involve paying many of the same fees paid at the original closing, plus origination and application fees.

45. What are discount points?

Discount points allow you to lower your interest rate. They are essentially prepaid interest, with each point equaling 1% of the total loan amount. Generally, for each point paid on a 30-year mortgage, the interest rate is reduced by 1/8 (or.125) of a percentage point. When shopping for loans ask lenders for an interest rate with zero points and then see how much the rate decreases with each point paid. Discount points are smart if you plan to stay in a home for some time since they can lower the monthly loan payment. Points are tax deductible when you purchase a home and you may be able to negotiate for the seller to pay for a portion.

46. What is an escrow account? Do I need one?

Established by your lender, an escrow account is a place to set aside a portion of your monthly mortgage payment to cover annual charges for homeowner's insurance, mortgage insurance (if applicable) and property taxes. Escrow accounts are a good idea because they assure money will always be available for these payments. If you use an escrow account to pay property tax or homeowner's insurance, make sure you are not penalized for late payments since it is the lender's responsibility to make those payments.

FIRST STEPS

47. What steps need to be taken to secure a loan?

The first step in securing a loan is to complete a loan application. To do so, you'll need the following information or documents:

- Pay stubs for the past 2-3 months.
- W-2 forms for the past 2 years.
- Information on debts.
- Recent bank statements.
- Tax returns for the past 2 years.
- Proof of any other income.
- Address and description of the property you wish to buy.
- Sales contract.

During the application process, the lender will order a report on your credit history and a professional appraisal of the property you want to purchase. The application process typically takes 1-6 weeks.

48. How do I choose the right lender for me?

Choose your lender carefully. Look for financial stability and a reputation for customer satisfaction. Be sure to choose a company that gives helpful advice and that makes you feel comfortable. A lender that has the authority to approve and process your loan locally is preferable, since it will be easier for you to monitor the status of your application and ask questions. It is also beneficial when the lender knows home values and conditions in the local area. Do research and ask family, friends and your real estate agent for recommendations.

49. How are pre-qualifying and pre-approval different?

Pre-qualification is an informal way to see how much you may be able to borrow. You can be "pre-qualified" over the phone with no paperwork by telling a lender your income, your long-term debts and how large a downpayment you can afford. Without any obligation, this helps you arrive at a ballpark figure of the amount you may have available to spend on a house.

Pre-approval is a lender's actual commitment. It involves assembling the financial records mentioned in Question 47 (Without the property description and sales contract) and going through a preliminary approval process. Pre-approval gives you a definite idea of what you can afford and shows sellers that you are serious about buying.

50. How can I find out information about my credit history?

The Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies — Equifax, Experian, and TransUnion — to provide you with a free copy of your credit report, at your request, once every 12 months. The Federal Trade Commission (FTC), the nation's consumer protection agency, has prepared a brochure, Your Access to Free Credit Reports, explaining your rights under the FCRA and how to order a free annual credit report. You can order your free annual credit report online at annualcreditreport.com, by calling 1-877-322-8228, or by completing the Annual Credit Report Request Form and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. Once you receive the report, it's important to verify its accuracy. Double check the "high credit limit", "total loan", and "past due" columns.

It's a good idea to get copies from all three companies to assure there are no mistakes since any of the three could be providing a report to your lender.
Contact the reporting companies at the numbers listed below for more information.

CREDIT REPORTING COMPANIES

- Experian: 1-888-397-3742
- Equifax: 1-800-997-2493
- Trans Union: 1-800-888-4213

51. What if I find a mistake in my credit history?

Simple mistakes are easily corrected by writing to the reporting company, pointing out the error and providing proof of the mistake. You can also request to have your own comments added to explain problems. For example, if you made a payment late due to illness, explain that for the record. Lenders are usually understanding about legitimate problems.

52. What is a credit bureau score and how do lenders use them?

A credit bureau score is a number, based upon your credit history that represents the possibility that you will be unable to repay a loan. Lenders use it to determine your ability to qualify for a mortgage loan. The better the score, the better your chances are of getting a loan. Ask your lender for details.

53. How can I improve my score?

There are no easy ways to improve your credit score, but you can work to keep it acceptable by maintaining a good credit history. This means paying your bills on time and not overextending yourself by buying more than you can afford.

FINDING THE RIGHT LOAN FOR YOU

54. How do I choose the best loan program for me?

Your personal situation will determine the best kind of loan for you. By asking yourself a few questions, you can help narrow your search among the many options available and discover which loan suits you best.

- Do you expect your finances to change over the next few years?
- Are you planning to live in this home for a long period of time?
- Are you comfortable with the idea of a changing mortgage payment amount?
- Do you wish to be free of mortgage debt as your children approach college age or as you prepare for retirement?

Your lender can help you use your answers to questions such as these to decide which loan best fits your needs.

55. What is the best way to compare loan terms between lenders?

First, devise a checklist for the information from each lending institution. You should include the company's name and basic information, the type of mortgage, minimum downpayment required, interest rate and points, closing costs, loan processing time and whether prepayment is allowed. Speak with companies by phone or in person. Be sure to call every lender on the list the same day, as interest rates can fluctuate daily. In addition to doing your own research, your real estate agent may have access to a database of lender and mortgage options. Though your agent may primarily be affiliated with a particular lending institution, he or she may also be able to suggest a variety of different lender options to you.

56. Are there any costs or fees associated with the loan origination process?

When you turn in your application, you may be required to pay a loan application fee to cover the costs of underwriting the loan. This fee pays for the home appraisal, a copy of your credit report and any additional charges that may be necessary. The application fee is generally non-refundable.

57. What is RESPA?

RESPA stands for Real Estate Settlement Procedures Act. It requires lenders to disclose information to potential customers throughout the mortgage process, by doing so it protects borrowers from abuses by lending institutions. RESPA mandates that lenders fully inform borrowers about all closing costs, lender servicing and escrow account practices and business relationships between closing service providers and other parties to the transaction.
Click the following for more information on RESPA or get a local counseling referral at 1-(800) CALL- FHA.

58. What is a good faith estimate and how does it help me?

It is an estimate that lists all fees paid before closing, all closing costs and any escrow costs you will encounter when purchasing a home. The lender must supply it within three business days of your application so that you can make accurate judgments when shopping for a loan.

59. Besides RESPA, does the lender have any additional responsibilities?

Lenders are not allowed to discriminate in any way against potential borrowers. If you believe a lender is refusing to provide his or her services to you on the basis of race, color, nationality, religion, sex, familial status, or disability, contact HUD's Office of Fair Housing at 1-800-669-9777 (or 1-800-927-9275 for the hearing impaired).

60. What responsibilities do I have during the lending process?

To ensure you won't fall victim to loan fraud, be sure to follow all of these steps as you apply for a loan:

- Be sure to read and understand everything before you sign.
- Refuse to sign any blank documents.
- Do not buy property for someone else.
- Do not overstate your income.
- Do not overstate how long you have been employed.
- Do not overstate your assets.
- Accurately report your debts.
- Do not change your income tax returns for any reason.
- Tell the whole truth about gifts.
- Do not list fake co-borrowers on your loan application.
- Be truthful about your credit problems, past and present.
- Be honest about your intention to occupy the house.
- Do not provide false supporting documents.

CLOSING

61. What happens after I've applied for my loan?

It usually takes a lender between 1-6 weeks to complete the evaluation of your application. Often a lender will ask for more information once the application has been submitted. The sooner you can provide the information the faster your application will be processed. Once all the information has been verified the lender will call you to let you know the outcome of your application. If the loan is approved, a closing date is set up and the lender will review the closing with you. And after closing, you'll be able to move into your new home.

62. What should I look out for during the final walk-through?

The walk-through prior to settlement will likely be the first opportunity to examine the house without furniture, giving you a clear view of everything. Check the walls and ceilings carefully, as well as any work the seller agreed to do in response to the inspection. Any problems discovered previously that you find uncorrected should be brought up prior to closing. It is the seller's responsibility to fix them.

63. What are pre-paid expenses and closing costs?

There may be closing costs customary or unique to a certain locality, but closing costs are usually made up of the following:

- Attorney's or escrow fees (Yours and your lender's if applicable).
- Property taxes (to cover tax period to date).
- Interest (paid from date of closing to 30 days before first monthly payment).
- Loan Origination fee (covers lenders administrative cost).
- Recording fees.
- Survey fee.
- First premium of mortgage insurance (if applicable).
- Title Insurance (yours and lender's).
- Loan discount points.
- First payment to escrow account for future real estate taxes and insurance.
- Paid receipt for homeowner's insurance policy (and fire and flood insurance if applicable).
- Any documentation preparation fees.
- Appraisal fee.
- Credit Report.

64. What can I expect to happen on closing day?

You will present your paid homeowner's insurance policy or a binder and receipt showing that the premium has been paid. The closing agent will then list the money you owe the seller (remainder of downpayment, prepaid taxes, etc.) and the money the seller owes you (unpaid taxes and prepaid rent, if applicable). The seller will provide proofs of any inspection, warranties, etc.

Once you're sure you understand all of the documentation, you'll sign the mortgage, agreeing that if you do not make payments the lender is entitled to sell your property and apply the sale price against the amount you owe plus expenses. You'll also sign a mortgage note, promising to repay the loan. The seller will give you the title to the house in the form of a signed deed.
You'll pay the lender's agent all closing costs and, in turn, he or she will provide you with a settlement statement of all the items for which you have paid. The deed and mortgage will then be recorded in the state Registry of Deeds and you will be a homeowner.

65. What do I get at closing?

Settlement Statement, HUD-1 Form is given at or before closing if live closing and within 48 hours after closing in an escrow state. If you want a copy prior to closing for review, you must request it from the closing agent.

- Copy of Truth-in-Lending Statement.
- Copy of Mortgage Note.

- Copy of Mortgage or Deed of Trust.
- Binding Sales Contract (prepared by the seller; your lawyer should review it)
- Keys to your new home.

HOW CAN HUD AND THE FHA HELP ME BECOME A HOMEOWNER?

66. What is the U.S. Department of Housing and Urban Development?

Established in 1965, the U.S. Department of Housing and Urban Development (HUD) develops national policies and programs to address housing needs in the United States. One of HUD's primary missions is to create a suitable living environment for all eligible individuals by developing and improving the country's communities and enforcing fair housing laws.

67. How does HUD help homebuyers and homeowners?

HUD helps people by administering a variety of programs that develop and support affordable housing. Specifically, HUD plays a large role in homeownership by making loans available for lower and moderate-income families through its FHA mortgage insurance program and its HUD Homes program. HUD owns homes in many communities throughout the United States and offers them for sale at attractive prices and economical terms. HUD also seeks to protect consumers through education, Fair Housing Laws and housing rehabilitation initiatives.

68. What is the Federal Housing Administration (FHA)?

An agency within HUD, the Federal Housing Administration (FHA) was established in 1934 to advance opportunities for eligible individuals to own homes. By providing private lenders with mortgage insurance, the FHA gives them the security they need to lend to first-time buyers who might not be able to qualify for conventional loans. The FHA has helped more than 35 million Americans buy a home.

69. How can the FHA assist me in buying a home?

The FHA works to make homeownership a possibility for more eligible individuals. With the FHA, you don't need perfect credit or a high-paying job to qualify for a loan. In fact, the FHA downpayment could be as little as a few months' rent and your monthly payments may not be much more than your monthly rent.

70. How is the FHA funded?

Lender claims paid by the FHA mortgage insurance program are drawn from the Mutual Mortgage Insurance fund. This fund is made up of premiums paid by FHA-insured loan borrowers. No tax dollars are used to fund the program.

71. Who can qualify for FHA-insured loans?

Anyone who meets the credit requirements can afford the mortgage payments and cash investment, and who plans to use the mortgaged property as a primary residence, may apply for an FHA-insured loan.

SCHOENHALS
Real Estate Services

72. What is the FHA-insured loan limit?

Loan limits determine the maximum amount you can borrow to purchase a home. HUD will temporarily increase the loan limits of mortgages insured by the Federal Housing Administration (FHA) up to $729,750. This will keep credit flowing to millions of families whose options are limited by the current crisis. Previously, FHA's loan limits in very high-cost areas were capped at $625,500. FHA's reverse mortgage product known as the Home Equity Conversion Mortgage (HECM) will have a new national mortgage limit of $625,500, up from the previous limit of high of $417,000. These increased loan limits are applicable to all FHA-insured mortgage loans endorsed until December 31, 2009.

The Act says that the new FHA loan limits will be set at 115 percent of the median house price in a given area, as determined by HUD, but can not be lower than 65 percent of the conforming loan limit (the national floor). Also, the FHA mortgage limit cannot exceed 150 percent of the national conforming loan limit (the national ceiling). The loan maximums for multi-unit homes are higher than those for single-units and also vary by area.

Because these maximums are linked to the conforming loan limit and average area home prices, FHA-insured loan limits are periodically subject to change. Ask your lender for details and confirmation of current limits.

73. What are the steps involved in the FHA-insured loan process?

With the exception of a few additional forms, the FHA-insured loan application process is similar to that of a conventional loan (see Question 47). With new automation measures, FHA-insured loans may be originated more quickly than before. You can apply for an FHA-insured loan face-to-face or via mail, telephone, the Internet, or video conference.

74. How much income do I need to have to qualify for an FHA-insured loan?

There is no minimum income requirement. But you must prove steady income for at least two years and demonstrate that you've consistently paid your bills on time.

75. What qualifies as an income source for the FHA?

Income type is not as important as income steadiness with the FHA. The following may qualify as income sources:

- Seasonal pay.
- Child support.
- Retirement pension payments.
- Unemployment compensation.
- VA benefits, military pay.
- Social Security income.
- Alimony Rent paid by family.
- Steady full-time, part-time, overtime and bonus work pay.
- Special savings plans such as those set up by a church or community associations.

76. Can I carry debt and still qualify for FHA-insured loans?

Yes. Short-term debt doesn't count as long as it can be paid off within 10 months. And some regular expenses, like child care costs, are not considered debt. Talk to your lender or real estate agent about meeting the FHA debt-to-income ratio.

77. What is the debt-to-income ratio for FHA-insured loans?

The FHA allows you to use 31% of your income towards housing costs and 43% towards housing expenses and other long-term debt. Should your ratios exceed this, please consult a lender in your area.

78. Can I exceed this ratio?

You may qualify to exceed if you have:

- A large downpayment.
- A demonstrated ability to pay more toward your housing expenses.
- Substantial cash reserves.
- Net worth enough to repay the mortgage regardless of income.
- Evidence of acceptable credit history or limited credit use.
- Less-than-maximum mortgage terms.
- Funds provided by an organization.
- A decrease in monthly housing expenses.

79. How large a downpayment do I need with an FHA-insured loan?

You must have a downpayment of at least 3.5% of the purchase price of the home. If you are purchasing a HUD Home, HUD may pay up to 3% of the sales price for closing costs that are reasonable and customary for the area.

80. What can I use to pay the downpayment and closing costs of an FHA-insured loan?

Besides your own funds, you may use cash gifts or money from a private savings club. If you are doing a lease purchase, paying extra rent to the seller may also be considered the same as accumulating cash.

81. How does my credit history impact my ability to qualify?

The FHA is generally more flexible than conventional lenders in its qualifying guidelines. In fact, the FHA allows you to re-establish credit if:

- Two years have passed since a bankruptcy has been discharged.
- All judgments have been or will be paid.
- Any existing tax liens have been or will be satisfied or appropriate arrangements have been made to establish a repayment plan with the IRS or state Department of Revenue
- There is a history of tax lien payments being made.
- Three years have passed since a foreclosure or a deed-in-lieu has been resolved.

82. Can I qualify for an FHA-insured loan without a credit history?

Yes. If you prefer to pay debts in cash or are too young to have established credit, there are other ways to prove your eligibility. Talk to your lender for details.

83. What types of closing costs are associated with FHA-insured loans?

Except for the addition of an FHA mortgage insurance premium, FHA closing costs are similar to those of a conventional loan outlined in Question 63. The FHA requires a single, upfront mortgage insurance premium equal to 1.50% or current rate in effect at time of closing. After closing, you will then be responsible for an annual premium which is paid monthly for a minimum of 5 years.

84. Can I roll closing costs into my FHA-insured loan?

It may be possible to finance a portion of the closing cost. Ask your lender for details.

85. Are FHA-insured loans assumable?

Yes. You can assume an existing FHA-insured loan, or, if you are the one deciding to sell, allow a buyer to assume yours. Assuming a loan can be very beneficial, since the process is streamlined and less expensive (often resulting in a better interest rate) compared to that for a new loan. The application process consists basically of a credit check. Although you must demonstrate that you have enough income to support the mortgage loan, no property appraisal is required to assume a loan.

86. What should I do if I can't make a payment on my loan?

Call or write to your lender as soon as possible. Clearly explain the situation and be prepared to provide him or her with financial information.

87. Are there any options if I fall behind on my loan payments?

Yes. Talk to your lender or a HUD-approved counseling agency for details. Listed below are a few options that may help you get back on track.
For FHA-insured loans:

- Keep living in your home to qualify for assistance.
- Contact a HUD-approved housing counseling agency at 1-800-569-4287 or TDD: 1-800-483-2209)
- Cooperate with the counselor or lender who is trying to help you.

HUD has a number of special loss mitigation programs available:

- Special Forbearance - Your lender will arrange for a revised repayment plan which may include temporary reduction or suspension of payments; you can qualify by having an involuntary reduction in your income or increase in living expenses.
- Mortgage Modification - Allows you to refinance debt and/or extend the term of the mortgage loan which may reduce your monthly payments; you can qualify if you have recovered from financial problems, but your net income is less than before.
- Partial Claim - Your lender maybe able to help you obtain an interest-free loan from HUD to bring your mortgage current.

- Pre-foreclosure Sale - Allows you to sell your property and pay off your mortgage loan to avoid foreclosure.
- Deed-in lieu of Foreclosure - Lets you voluntarily "give back" your property to the lender; it won't save your house but will help you avoid the costs, time and effort of the foreclosure process.

If you are having difficulty with an uncooperative lender or feel your loan servicer is not providing you with the most effective loss mitigation options, call the FHA Loss Mitigation Center at 1-888-297-8685 for additional help.

For Conventional Loans:
Talk to your lender about specific loss mitigation options to request a "workout packet." A secondary lender, like Fannie Mae or Freddie Mac, may have purchased your loan. Your lender can follow the appropriate guidelines set by Fannie or Freddie to determine the best option for your situation.

Fannie Mae and Freddie Mac will usually only work with the loan servicer, not the borrower. They work with the lender to determine the loss mitigation program that best fits your needs. However, if you encounter problems with your lender during the loss mitigation process, you can call customer service for help at 1-800-FREDDIE (1-800-373-3343).
In any loss mitigation situation it is important to explore every reasonable alternative and to **"Be aware of scams"**. Never sign anything you don't understand and watch out for:

- Equity skimming: a buyer offers to repay the mortgage or sell the property if you sign over the deed and move out.
- Phony counseling agencies: offer counseling for a fee when it is often given at no charge.

MORTGAGE INSURANCE

88. What is mortgage insurance (MIP)?

Mortgage insurance is a policy that protects lenders against some or most of the losses that result from defaults on home mortgages. It is required primarily for borrowers making a downpayment of less than 20%.

89. How does mortgage insurance work? Is it like home or auto insurance?

Like home or auto insurance, mortgage insurance requires payment of a premium; it is for protection against loss and is used in the event of mortgage loan default. If a borrower can't repay an insured mortgage loan as agreed, the lender may foreclose on the property and file a claim with the mortgage insurer for some or most of the total losses.

90. What is PMI?

PMI stands for Private Mortgage Insurance or Insurer. These are privately-owned companies that provide mortgage insurance. They offer both standard and special affordable programs for borrowers. These companies provide guidelines to lenders that detail the types of loans they will insure. Lenders use these guidelines to determine borrower eligibility. PMI's usually have stricter qualifying ratios and larger downpayment requirements than the FHA, but their premiums are often lower and they insure loans that exceed the FHA limit.

FHA PRODUCTS

91. What is a 203(b) loan?

This is the most commonly used FHA program. It offers a low downpayment, flexible qualifying guidelines and a maximum loan amount.

92. What is a 203(k) rehabilitation loan?

A 203(k) loan enables the homebuyer to finance both the purchase and rehabilitation of a home through a single mortgage. A portion of the loan is used to pay off the seller's existing mortgage and the remainder is placed in an escrow account and released as rehabilitation is completed. Basic guidelines for 203(k) loans are as follows:

- The home must be at least one year old.
- The total property value including the cost of repairs must fall within the FHA mortgage limit.
- The 203(k) loan must follow most of the 203(b) eligibility requirements.
- Talk to your lender about specific improvement, energy efficiency, and structural guidelines.
- Streamline 203(k) is available for simple repairs.

93. What is an Energy Efficient Mortgage (EEM)?

The Energy Efficient Mortgage allows a homebuyer to save future money on utility bills. This is done by financing the cost of energy efficient improvements to a new or existing home as part of an FHA-insured home purchase. The EEM can be used with both 203(b) and 203(k) loans. Basic guidelines for EEM's are as follows:

- The cost of energy saving improvements must be determined by a Home Energy Rating System or by an energy consultant. This cost must be less than the anticipated savings from the improvements.
- One- and two-unit new or existing homes are eligible; condos are not.
- The improvements financed may be up to 5% of property value or $4,000, whichever is greater. The total must fall within the FHA loan limit.

94. What other loan products or programs does the FHA offer?

The FHA also insures loans for the purchase or rehabilitation of manufactured housing, condominiums and cooperatives. Insurance for Adjustable Rate Mortgages (ARMS) are also available from the FHA. In addition, FHA has special programs for disaster victims along with reverse mortgages for seniors. Ask your lender for details.

95. What is a Title I loan?

Given by a lender and insured by the FHA, a Title I loan is used to make non-luxury renovations and repairs to a home. It offers a market interest rate and repayment schedule. Loans are limited to between $5,000 and $20,000. If the loan amount is under $7,500, no lien is required against your home. Ask your lender for details.

96. Can I purchase a mobile home with an FHA program?

Title I loans may be used to finance manufactured homes that are placed on a rental site in a manufactured home park, or on an individual home site owned or leased by the borrower.

97. What is a HUD Home?

A HUD Home is a 1- to 4-unit residential property acquired by HUD as a result of a foreclosure action on an FHA-insured mortgage. HUD becomes the property owner and offers it for sale to recover the loss on the foreclosure claim. For more information on purchasing a HUD Home, consult with your real estate broker.

98. How can I obtain an FHA-insured loan?

Contact an FHA-approved lender such as a participating mortgage company, bank, savings and loan association or thrift. For more information on the FHA and how you can obtain an FHA-insured loan, call the FHA Resource Center at (800) CALL - FHA (800-225-5342).

99. How can I contact the FHA?

Visit the web site at www.fha.gov or the FHA Resource Center at (800) CALL - FHA (800-225-5342)

100. How can I contact HUD?

Visit the website at www.hud.gov.