

Homeownership: A Step-By-Step Guide to Buying a Home

1. Get educated

Attend a “First-Time Homebuyer Certificate Education” course near you. Make sure that like credit.org, they are approved by HUD, Freddie Mac and Fannie Mae. You’ll learn about all of the following steps, and about your rights as a homeowner. For more info, visit www.homeownership.org/first-time-home-buyer-programs/.

2. Work on your budget

Figure out how much house you can afford, and what your credit rating will mean for your mortgage loan. Save to build up a good downpayment and to establish that you can afford a new house payment.

3. Look into homebuying programs

Find out if you qualify for an FHA loan, and ask a HUD-approved housing counselor about any programs that might help you. Visit www.hud.gov/buying/loans.cfm for more information about HUD’s FHA program, and check local eligibility for down-payment and closing cost assistance.

4. Get a mortgage loan

Get pre-qualified first. Compare loans, and consider FHA loans if you qualify. Avoid predatory lenders who encourage you to make false statements on your loan application or try to talk you into borrowing more than you can afford; check with the Better Business Bureau and your state Attorney General’s office for complaints about mortgage lenders.

5. Shop for a home

Once you’ve chosen a real estate agent, work with them to compare houses based on the size and condition of the home, neighborhood quality, school districts, and convenience to hospitals, public transportation, shopping, work, etc. If you are handy, you might consider buying a “fixer-upper” and doing the repairs yourself, but be careful about unexpected expenses.

6. Make an offer

Don’t be afraid to make an offer that is less than the asking price; that’s part of the negotiation process. Typically, homes sell for 6% less than the seller’s initial price. Make sure your initial offer is contingent on the home passing an inspection and that your loan is approved. Expect a counter-offer from the seller.

7. Have the home inspected

Make sure your home inspector is qualified: licensed by state agencies, a member of professional organizations, and a member of the Better Business Bureau. Your real estate agent should be able to recommend several home inspectors to you. An inspection will cost you several hundred dollars at least, but this is worth the cost compared to what you’re going to pay for the home itself.

8. Get insurance

When shopping for insurance, start with the company you get auto insurance from to get a discount for getting all of your insurance in one place. Make sure you get “Replacement” coverage for your property, not “Actual Cash Value” coverage. If you live in an area prone to flooding or earthquakes, get coverage for these natural disasters. Improve your credit record to get the best insurance rates.

9. Attend the closing

The closing is the final meeting where you sign all of the paperwork related to your mortgage loan and the transfer of ownership. Make sure you read and understand everything you are signing. There may be settlement and/or closing costs that you will have to pay at this point; it is possible to negotiate to have the seller pay some or all of the closing costs.

Remember, a HUD-approved “First-Time Homebuyer Education” course will help you understand all of your rights and responsibilities as a homeowner, and a housing counselor from a HUD-approved agency can answer any of your questions at no charge. Buying a home is not a step to take lightly; take the time to do thorough homework before committing to any mortgage.

Preventing Foreclosure

The sooner you act, the more likely you are to be able to save your home. Reach out for help even before you are late if you think you might not be able to make your payments.

- **Do not be ashamed**

Many consumers are suffering financially in this tough economy. You are not alone, and no matter what the reason for your difficulties, a HUD-approved housing counselor is ready to help you, not pass judgment or assess blame. Visit credit.org's sister site at www.HomeOwnership.org for help.

- **Be self-aware**

Before you can take meaningful steps to save your mortgage, you have to admit you have a problem and be realistic about your ability and willingness to resolve it.

- **Assess your situation**

1. **Know your shortfall**—do some budgeting and determine how far you are from being able to make your mortgage payments.
2. **Explore budgetary changes**—cut expenses, increase income, seek extra employment... do whatever you can to close the deficit.
3. **Contact your lender**—if you cannot make your mortgage payment for any reason, contact your lender right away. Don't hesitate—the sooner you call, the more options you'll have.
4. **Be open**—your lender may propose many different potential solutions, or a HUD-approved housing counselor may be able to help you create a plan. Thoroughly weigh all of your different options before making a decision.
5. **Take action**—Don't wait. The longer you delay, the more damage you'll do to your finances and your credit. If you can't save your home, try to sell it quickly before foreclosure happens.

- **Never ignore your lender**

Talk to your lender's Loss Mitigation department. They are used to dealing with borrowers in your situation. Explain your situation to the lender fully and honestly.

- **Beware of scams**

Some scammers find out about your impending foreclosure from public records and swoop in to "rescue" you. They may offer to financial assistance when they're actually purchasing the home for the dilenquent amount, allowing them to flip the home for a quick profit.

- **How to not get ripped off**

Keep your lender in the loop, and don't sign anything under pressure. If you make any payments, make sure they are to your lender, and not to any third party. Read and understand any documents you sign, and never sign anything with blank lines or spaces. Learn more at www.loanscamalert.org.

- **Get foreclosure prevention counseling**

Counseling is free and gives you an action plan to save your home. A counselor can help negotiate between you and your lender. Make sure any housing counseling agency you use is HUD-approved.

- **Explore your options**

There are different ways to save your home, including a Loan Modification, Special Forebearance Plan, Repayment Plan, Partial Claim, or Reinstatement. Ask your housing counselor about these options and whether they might be a good fit for your situation.

- **Gather your documents**

You'll need to show your lender pay stubs, tax forms, debt paperwork and more to get their help. Prepare a hardship letter that explains your situation and what you intend to do to get out of it.

- **If foreclosure is inevitable**

A housing counselor can still help you in this situation. Talk with them about Short Sales, Deed-In-Lieu of Foreclosure, The "Cash for Keys" program, or filing Chapter 13 bankruptcy.

Credit.org does not provide legal or tax advice. If you need legal assistance, seek the services of a qualified attorney or licensed tax professional.