Dispelling Homebuying Myths

Affording a Home

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Myths

Myth 1: You need to put 20 percent down to purchase a home.

Myth 2: I have to come up with a down payment and closing costs by myself.

Myth 3: It’s cheaper to rent than to buy.

Myth 4: For fixer-uppers, lenders want all repairs completed before I can close on the loan.

MYTH 1

You need to put 20 percent down to purchase a home.

MYTH 1: You Need to Put 20 Percent Down to Purchase a Home

Fact: No.

With the Federal Housing Administration (FHA), the minimum down payment is 3.5 percent.

MYTH 1: You Need to Put 20 Percent Down to Purchase a Home (cont.)

FHA:

- Has low down payment requirements;
- Allows flexible qualifying and debt-to-income ratios;
- Offers more leniency toward past credit issues;
- Allows you to use a co-borrower to help you qualify; and
- Allows the use of gift funds for down payment and closing costs.

MYTH 1: You Need to Put 20 Percent Down to Buy a Home (cont.)

Do you need to put 20 percent down to purchase a home?

No. FHA-insured loans require 3.5% minimum down payment for borrowers with credit scores of 580 and above.

Your Door to FHA HOMEOWNERSHIP

MYTH 2

I have to come up with a down payment and closing costs by myself.

MYTH 2: I Have to Come Up with a Down Payment and Closing Costs by Myself

Fact: No

FHA allows you to use your own savings funds or receive gift funds from acceptable sources.

MYTH 2: I Have to Come Up with a Down Payment and Closing Costs by Myself (cont.)

Gifts Used for Down Payments

Acceptable Sources

- You
- Family member
- Employer or labor union
- Close friend
- Charitable organization
- Government agency (i.e., down payment assistance programs)

Unacceptable Sources

- The seller
- Person who benefits financially from the transaction
- Anyone who is reimbursed by the person who benefits from the transaction

MYTH 2: I Have to Come Up with a Down Payment and Closing Costs by Myself (cont.)

Money for down payments and closing costs can come from many acceptable sources. Check out down payment assistance programs in your state.

MYTH 3

It's cheaper to rent than to buy.

MYTH 3: It's Cheaper to Rent Than to Buy

Fact: Maybe.

Rents tend to rise over time, while purchasing allows the payments and house price appreciation to be used to gain home equity, making the cost of renting not as cost effective.

MYTH 3: It's Cheaper to Rent Than to Buy (cont.)

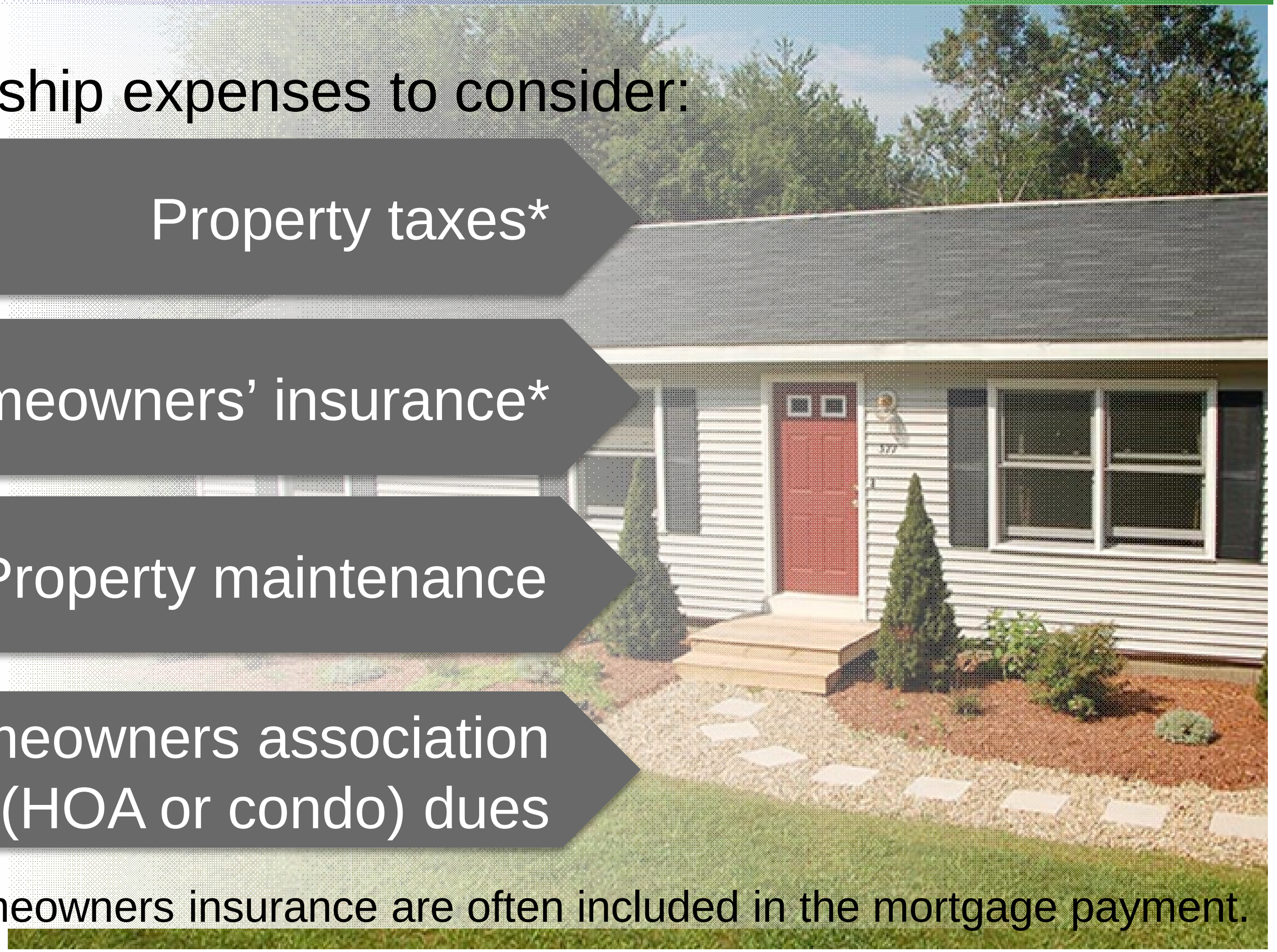
Benefits of homeownership generally begin to outweigh renting if you remain in the home for four to five years.

4 to 5 years

MYTH 3: It's Cheaper to Rent Than to Buy (cont.)

Other homeownership expenses to consider:

- Property taxes*
- Homeowners' insurance*
- Property maintenance
- Homeowners association (HOA or condo) dues



*Property taxes and homeowners insurance are often included in the mortgage payment.

MYTH 3: It's Cheaper to Rent Than to Buy (cont.)

EXAMPLE: Rent vs. Buy

Rent
Monthly rent: $1,600
• Taxes: $0 • Renter's Insurance: $15
Maintenance expenses: $0
Equity: $0

Buy
Total mortgage payment: $1,400
• Principal: $230 • Interest: $770 • Taxes: $300 • Homeowner's Insurance: $100
Maintenance expenses: $200/month
Appreciation: $5700 (3% of a $190,000 home)
Equity: $8,460 ($2760 principal+ $5700 appreciation)

After one year

MYTH 3: It's Cheaper to Rent Than to Buy (cont.)

EXAMPLE: Rent vs. Buy

Rent – 5 years
Total rent paid: $96,000
• Taxes: $0
• Renter's Insurance: $900
Maintenance expenses: $0
Equity: $0

Buy – 5 Years
Total mortgage payment: $84,000
• Principal: $15,000 • Interest: $45,000 • Taxes: $18,000 • Homeowner's Insurance: $6,000
Total Maintenance expenses: $12,000
Appreciation: $30,000 (3% annually of a $190,000 home)
Equity: $45,000 ($15,000 principal + $30,000 appreciation)

After five years

MYTH 3: It's Cheaper to Rent Than to Buy (cont.)

The decision to rent or buy is a personal one. Be sure to consider all expenses, including closing costs for buying and selling, compared to the equity gained through homeownership.

MYTH 4

For fixer-uppers, lenders want all repairs completed before I can close the loan.

MYTH 4: For Fixer-Uppers, Lenders Want All Repairs Completed Before I Can Close the Loan

Fact: No.

FHA offers special loan programs that allow you to buy a fixer-upper and rehab it after closing.

MYTH 4: For Fixer-Uppers, Lenders Want All Repairs Completed Before I Can Close the Loan (cont.)

FHA programs dedicated to rehabilitating a home:

- FHA Standard 203(k)
- FHA Limited 203(k)

MYTH 4: For Fixer-Uppers, Lenders Want All Repairs Completed Before I Can Close the Loan (cont.)

FHA programs dedicated to rehabilitating a home:

FHA Standard 203(k)

- Major construction
- Must be a minimum of $5,000
- Must use a 203(k) Consultant

FHA Limited 203(k)

MYTH 4: For Fixer-Uppers, Lenders Want All Repairs Completed Before I Can Close the Loan (cont.)

FHA programs dedicated to rehabilitating a home:

FHA Standard 203(k)

FHA Limited 203(k)

- Minor repairs
- Maximum of $75,000
- 203(k) Consultant is not required, but one can be used

MYTH 4: For Fixer-Uppers, Lenders Want All Repairs Completed Before I Can Close the Loan (cont.)

FHA offers programs dedicated to rehabilitating homes. Check them out with a HUD-approved counselor.

Your Door to FHA HOMEOWNERSHIP

Resources

FHA Frequently Asked Questions (FHA FAQ)

Information on buying a home

Find a HUD-approved Counseling Agency

Find HUD-approved lenders in your area

HUD Info

Consumer Financial Protection Bureau (CFPB)

Home Loan Toolkit

US Department of Housing & Urban Development (HUD)

First-Time Homebuyers #1

General Info

Thank you
for joining us today!