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.
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

<table>
<thead>
<tr>
<th>Acceptable Sources</th>
<th>Unacceptable Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• You</td>
<td>• The seller</td>
</tr>
<tr>
<td>• Family member</td>
<td>• Person who benefits financially from the transaction</td>
</tr>
<tr>
<td>• Employer or labor union</td>
<td>• Anyone who is reimbursed by the person who benefits from</td>
</tr>
<tr>
<td>• Close friend</td>
<td>the transaction</td>
</tr>
<tr>
<td>• Charitable organization</td>
<td></td>
</tr>
<tr>
<td>• Government agency (i.e., down payment assistance programs)</td>
<td></td>
</tr>
</tbody>
</table>
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.
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.
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.
### EXAMPLE: Rent vs. Buy

<table>
<thead>
<tr>
<th>Rent</th>
<th>Buy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monthly rent:</strong> $1,600</td>
<td><strong>Total mortgage payment:</strong> $1,400</td>
</tr>
<tr>
<td><strong>Taxes:</strong> $0</td>
<td><strong>Principal:</strong> $230</td>
</tr>
<tr>
<td><strong>Renter’s Insurance:</strong> $15</td>
<td><strong>Interest:</strong> $770</td>
</tr>
<tr>
<td>Maintenance expenses: $0</td>
<td><strong>Taxes:</strong> $300</td>
</tr>
<tr>
<td>Equity: $0</td>
<td><strong>Homeowner’s Insurance:</strong> $100</td>
</tr>
<tr>
<td></td>
<td><strong>Maintenance expenses:</strong> $200/month</td>
</tr>
<tr>
<td></td>
<td><strong>Appreciation:</strong> $5,700 (3% of a $190,000 home)</td>
</tr>
<tr>
<td></td>
<td><strong>Equity:</strong> <strong>$8,460</strong> ($2,760 principal + $5,700 appreciation)</td>
</tr>
</tbody>
</table>

After one year
### EXAMPLE: Rent vs. Buy

<table>
<thead>
<tr>
<th>Rent – 5 years</th>
<th>Buy – 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total rent paid:</strong> $96,000</td>
<td><strong>Total mortgage payment:</strong> $84,000</td>
</tr>
<tr>
<td>• Taxes: $0</td>
<td>• Principal: $15,000</td>
</tr>
<tr>
<td>• Renter’s Insurance: $900</td>
<td>• Interest: $45,000</td>
</tr>
<tr>
<td><strong>Maintenance expenses:</strong> $0</td>
<td>• Taxes: $18,000</td>
</tr>
<tr>
<td><strong>Equity:</strong> $0</td>
<td>• Homeowner’s Insurance: $6,000</td>
</tr>
<tr>
<td><strong>Total Maintenance expenses:</strong> $0</td>
<td><strong>Total Maintenance expenses:</strong> $12,000</td>
</tr>
<tr>
<td><strong>Appreciation:</strong> $30,000 (3% annually of a $190,000 home)</td>
<td><strong>Equity:</strong> $45,000 ($15,000 principal + $30,000 appreciation)</td>
</tr>
<tr>
<td>After five years</td>
<td><strong>After five years</strong></td>
</tr>
</tbody>
</table>
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 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 203(k)**
  - Major construction
  - Must be a minimum of $5,000
  - Must use a HUD consultant

- **FHA Limited 203(k)**
FHA programs dedicated to rehabilitating a home:

- FHA 203(k)
  - Minor repairs
  - Maximum of $35,000
  - No HUD consultant required

- FHA Limited 203(k)

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

Office of Single Family Housing
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

Consumer Financial Protection Bureau (CFPB)
Home Loan Toolkit
US Department of Housing & Urban Development (HUD)
First-Time Homebuyers #1

HUD Info

General Info
Thank you for joining us today!