Becoming a homeowner is one of the most important decisions an individual or family can make. Though the homebuying and financing process can be challenging, there are also steps you can take to make the process smoother and ensure that after you close you can enjoy the rewards of successful homeownership. Learning about the home financing process in particular is especially important after October 3, 2015 when the loan disclosures and timelines will change.

GETTING STARTED

Once you have decided you are interested in becoming a homeowner, you should take several steps to achieve this goal. You should:

• Consider where you might want to live and what the costs of housing are in the area or areas that meet your needs.

• Begin to explore the costs of mortgage financing, recognizing that rates change and charges may vary until you decide on a particular home and loan. Consider the costs of taxes and insurance and other charges that you need to pay upfront and over the life of your loan. You can contact lenders for pre-loan estimates of rates and settlement charges and pre-approvals so you are prepared to move forward when you find a particular property.

• Consider how much you can put toward a down payment and how much you might need to save. The larger a down payment you make, the more equity you will have in your home and the smaller your mortgage payment. Moreover, a larger down payment (often at least 20 percent of the value of the home) will save you the cost of mortgage insurance and may result in a lower rate and monthly payment.

• Ensure that after you pay your down payment and other closing costs that your income and assets will allow you to be comfortable with your mortgage payments.

FIVE STEPS TO HOMEOWNERSHIP

Prepare for the Process

Becoming a homeowner is one of the most important decisions an individual or family can make. Though the homebuying and financing process can be challenging, there are also steps you can take to make the process smoother and ensure that after you close you can enjoy the rewards of successful homeownership. Learning about the home financing process in particular is especially important after October 3, 2015 when the loan disclosures and timelines will change.
payment and other housing expenses such as taxes and insurance.

- Ensure you have money available to cover any additional expenses like furniture and paint, or unexpected repairs.

Know What You Can Afford

It is critical that you be comfortable with the mortgage and monthly payments you ultimately select and that you have the ability to pay your mortgage each month. You will need to be honest with yourself and others and realistic about your income, assets, and lifestyle to determine how much you are comfortable repaying. You can use the “Your Home Loan Toolkit” published by the Consumer Financial Protection Bureau to help you assess your finances. You should also receive a copy of this toolkit from your lender or broker when you receive your Loan Estimate (discussed in #3: Five Steps to Homeownership — Shop for a Mortgage).

Gather Your Information

Once you have decided to consider homeownership, you can make the process of shopping for a home and a loan much easier by gathering some important information in advance.

Since mortgage lenders must determine if you are both willing and able to repay your mortgage, lenders will need information about who you are, where you work, your income, assets, and expenses and — if you have already found a home — information about that property. You may voluntarily provide this information for pre-approval or later in the process after you receive a Loan Estimate (LE) and proceed with a lender. You should be prepared to provide:

**Personal Information:** Lenders will require proof of identity, your social security number, your telephone number and current address. If you have lived elsewhere in the previous two years, be ready to provide those addresses as well.

**Employment and Income Information:** Lenders will also need documentation for the previous two years that details your employer information and your total income including salary, bonuses, and commissions. You should

Educate Yourself About the Process

As of October 3, 2015, the process of financing a home will change significantly. New laws and regulations have changed how and when lenders disclose home financing information to you. You should be aware that the process of finalizing your purchase could take a bit longer than usual at least initially as the market adjusts to these new rules. Educating yourself about the new documents, timeframes and your role will allow you to work efficiently through the process. These changes are discussed in greater detail in #3 of this series, Five Steps to Homeownership — Shop for a Mortgage.

**GOVERNMENT-BACKED FIXED RATE MORTGAGES**

Many mortgage lenders offer special mortgages backed by agencies of the U.S. government (and many state and local governments as well) that can make getting a first mortgage easier. While not all are open to everyone, they can provide significant benefits to those who qualify.

**Federal Housing Administration (FHA) Mortgages**

These are government-insured loans, primarily for first-time homebuyers. These loans may offer a lower down payment than a conventional mortgage. Each area of the country has a maximum loan amount that is set by the Department of Housing and Urban Development (HUD).

**Rural Housing and Community Development Service (RHCDs)**

If you are a farmer or live in a rural area, ask your mortgage lender if you qualify for this program, which is sponsored by the U.S. Department of Agriculture.

**Department of Veterans Affairs (VA) Mortgages**

These government-insured loans are available to veterans of the armed services, those currently on active duty or in the reserves, and widows or widowers of veterans. Some VA loans do not require a down payment. There are limits on the size of VA loans, but they are great enough to cover the purchase of moderately priced homes in most areas of the United States.

Other Federal, State and Local Programs Other loan programs managed by state or local housing administrations, other agencies or private organizations may be available in your area. Similar to FHA and VA loans, these programs can offer lower down payments and less stringent qualification guidelines.
also be ready to provide your W-2 forms for the past two years as well as your most recent pay stubs. If you are self-employed, be prepared to provide complete tax returns for the past two years, along with a profit-and-loss statement for the current year. Don’t forget proof of other sources of income such as rental income, social security or disability payments, alimony, child support, etc. Proof of these resources could be canceled checks, copies of leases, divorce decrees, certification of benefits or other documents.

**Other Information:** As the process moves forward, you are also likely to be asked to document your savings and the amount available for your down payment, as well as any other outstanding debts.

**Check Your Credit**

Lenders look to your credit report and score to gauge your ability and willingness to repay your mortgage debt. Specifically, lenders will use your credit score to help them determine:

- The type of loan you are eligible for
- Whether to approve your loan
- What your interest rate will be

Understanding your credit score and, if necessary, how to improve your credit score will be important to getting the best mortgage loan for you. For a more detailed discussion of credit scores and how to obtain yours, please review #2 in this series, Five Steps to Homeownership — Evaluate Your Credit.

**Consider Various Mortgage Products**

A variety of mortgage products are available. There are two basic categories: fixed rate mortgages and Adjustable Rate Mortgages (also known as ARMs) as well as different loan terms.

**FIXED RATE MORTGAGES**

With this type of mortgage, the interest rate is fixed for the entire term of the loan. Your monthly payments for interest and principal do not change, although your taxes, insurance and other components of your mortgage may change. These mortgages are most frequently available as 15-year or 30-year terms although other terms including 10- and 20-year mortgages are available.

**ADJUSTABLE RATE MORTGAGES (ARMS)**

With ARMs, the initial interest rate is usually lower than that of a fixed rate loan which can make the early payments easier. But be aware that the rate can go up or down based on a specific rate index (such as the U.S. Treasury Bill rate). The index and dates these adjustments will occur are written in the loan documents and increases in rate can result in significant payment increases. Rate caps at each adjustment date and over the life of the mortgage may offer some protection against steep increases. Because the interest rate can increase, you must have the resources available to keep up with possible increases in your mortgage payment in case you are unable to move or refinance. Keep in mind that if interest rates rise, or your house value, credit or financial situation decline, you may not be able to refinance your loan.

As you learn more about the mortgage products available, you should keep several factors in mind:

- Your current financial situation and resources
- How you expect your finances to change in the future
- How long you intend to keep the home you’re buying
- How comfortable you might be with the idea of your mortgage payment changing from time to time
- How rapidly you want to build equity in your home

You should shop and compare to determine which type of mortgage best suits your financial needs and goals.

**SHOP FOR A LENDER**

Getting a mortgage can be a complex process but your lender can and should help you. Lenders are experienced in explaining the ins and outs of home loans to buyers. For example, your lender can help you:

- Early in the process, determine the amount of money you are qualified to borrow
- Select the type of mortgage that best fits your financial needs
- Suggest ways to improve your credit profile if you are currently having difficulties reflected in your credit score

It is important that you shop and compare lenders. Not all lenders offer exactly the same rates or products and shopping for a lender will allow you to get a better understanding of loan costs and options.