

Is your financial house in order? Savings, steady employment, good credit - and possibly some outside help - can make it possible for you to turn your dream of homeownership into a reality sooner than you might think.

Upon completing this chapter, you will have information about the types of assistance available to low and moderate-income homebuyers. You'll also get a sense for how much money you need to save before buying a home.

*“In any great undertaking it is not enough for a man to depend simply upon himself.”
-Native American Proverb*

What kind of help is available for a new homebuyer?

Whether this is your first home or your fourth, you may not have to wait until you can save the traditional 20% down payment to qualify for a mortgage loan. There are many public and private organizations that will assist you in buying a home, even if you don't have a lot of cash on hand for a big down payment and closing costs.

With insurance and participation in a “low down payment” mortgage program, you may be able to purchase a home with less than 5% down. Federal, state and local government agencies, and non-profit organizations now offer advice, counseling, insurance and financial incentives. Support is available for first-time homebuyers, women, low- and moderate-income individuals and workers in certain professions.

If you can show your income is high enough to make the monthly payments, you may qualify for a low down payment loan. Take a look at the following descriptions to see which of these programs can help you lower the initial cost of purchasing a home.

U.S. Department of Housing and Urban Development (HUD)

The HUD website offers tools and information to help you understand how much home you can afford, compare buying and renting, understand homeownership costs, know your rights and much more. HUD certifies local agencies like InCharge Debt Solutions to offer counseling and education to home buyers and home owners. For more information on HUD-programs and services, visit:

www.hud.gov
Tel: (202) 708-1112

Home Investment Partnership Program (HOME) - This is a federal grant program enabling state and local government agencies to form partnerships with community housing groups. Together, they build, purchase, or renovate housing for sale to low-income residents--those families whose income is less than 60% of the area's median family income. HOME allows for converting rental units to owner-occupied homes and requires that these homes remain affordable for 5-15 years. For information on the availability of HOME-funded housing in your area and the qualifications for participation, look in your local white pages directory for the address and telephone number of your local HUD Field Office, or contact Community Connections by calling 1-800-998-9999.

HUD Homes - HUD sells homes “as is” at reduced prices. For more information and available listings, visit www.hud.gov and search “Home Store.”

Good Neighbor Next Door - Law enforcement officers, pre-Kindergarten through 12-th grade teachers and firefighters/emergency medical technicians can become homeowners through this HUD program. Incentives include home purchase price discounts up to 50%. The homes may be in need of repairs and are in neighborhoods targeted for economic development. If you qualify, you must agree to live in the home for at least three years. Details on this program are available at www.hud.gov (search Good Neighbor Next Door) or by phone at 1-800-225-5342.

Veterans Administration Home Loan Guaranty Services - The VA provides insurance to guarantee repayment of loans up to a certain purchase price, depending on the location of the home. The VA also insures home improvement loans, and loans to refinance an existing mortgage up to 90% of a home’s value. You may be eligible for a VA guaranteed loan if you are an Army, Navy, Air Force, Marine, or Coast Guard veteran who received any discharge other than a dishonorable discharge; an active military duty member; or a member of the Selected Reserve. For details on eligibility and loan guaranty terms, contact your lender, visit the VA Website at www.benefits.va.gov or look in your local white pages directory for the address and telephone number of the nearest VA office.

Fannie Mae Homepath - Fannie Mae offers special financing for some of the HomePath® properties it offers for sale. The benefits include:

- Low down payment and flexible mortgage terms (fixed-rate, adjustable-rate, or interest-only)
- Availability for both owner occupiers and investors
- Down payment (at least 3%) can be funded by the borrower’s own savings; a gift; a grant; or a loan from a nonprofit organization, state or local government, or employer
- No mortgage insurance
- No appraisal fees
- Eligible for HomePath Renovation Mortgage
- Available from a variety of lenders - both local and national

For more information, visit www.fanniemae.com or call 1-800-732-6643.

U.S. Department of Agriculture - USDA provides homeownership opportunities to low- and moderate-income rural Americans through several loan, grant, and loan guarantee programs. The programs also make funding available to individuals to finance vital improvements necessary to make their homes decent, safe, and sanitary. USDA Multi-Family Housing Programs offer Rural Rental Housing Loans to provide affordable multi-family rental housing for very low-, low-, and moderate-income families; the elderly; and persons with disabilities. In addition, rental assistance is available to eligible families. For information, check out www.usda.gov or call (202) 720-2791.

Other Federal Agencies - Many other federal agencies acquire residential properties as part of their normal activities. These agencies include the Internal Revenue Service, the U.S. Army Corps of Engineers, the Federal Deposit Insurance Corporation, the U.S. Small Business Administration, and the U.S. General Services Administration. The agencies allow the public to inspect the homes and then sell them on an “as is” basis to the highest bidder. If you’re interested, go online and search for a list of links to other government sites, or consult a local real estate agency for information on the sale of government-owned homes in your area.

State and local programs - Assistance from your state or local government may take the form of advice and counseling, loan or loan guaranty, direct financial assistance, or income tax credits. Funding for these programs can come from the federal government.

For information on state housing assistance programs, contact your state’s housing authority. For information on county or municipal housing programs, contact your local housing office.

Lease-Purchase - It might happen that you find the perfect house, but you can’t, or don’t want to purchase it immediately. You may not qualify for a government sponsored homebuyer assistance program. You may need extra time to improve your credit history. Or, you may not be sure that you can handle the responsibility of homeownership. Here’s an alternative:

A lease-purchase, also known as a lease option, or rent-with-option-to buy, may be the answer. This is an agreement between you and the seller that allows you to move in and pay monthly rent plus an additional sum to the seller for a specified period of time - usually one to two years. When the lease ends, you can buy the home for the price set in the lease option contract.

Your real estate broker can help you locate lease-purchase option homes. Or, you may be able to convince the owner of a rental home to accept a lease-purchase agreement. Just be aware that there are advantages and disadvantages to consider before you sign a lease-purchase contract. The following chart outlines the advantages and the disadvantages.

Table 5-1: Lease-Purchase Advantages/Disadvantages Chart

Lease-Purchase Advantages	Lease-Purchase Disadvantages
<ul style="list-style-type: none"> • You don’t need to move in; you’re already in the home. • You’ll have time to save the money you’ll need to qualify for a loan. • You’ll have time to clean up blots on your credit report. • A portion of your monthly rent (plus any additional option payments you make to the seller) may be counted as part of your down payment. • You’ll have the home’s sale price locked in, even if local housing prices rise. 	<ul style="list-style-type: none"> • If you don’t buy the home, the seller keeps any additional money you’ve paid toward the purchase. • The home’s sale price is locked in, even if the local housing prices fall. • Lease options may be hard to find in an active housing market. • You’ll get no tax advantages until you actually buy the home. • During the lease, you’ll have to live with any restrictions the seller sets (e.g., pets, noise, etc.).

As with any other home purchase, you should carefully negotiate the terms of a lease-purchase contract. You may want to hire an attorney or a real estate broker to write the contract. Include contingencies for a professional home inspection and a title search. Have the home appraised before agreeing on a sale price. Pre-qualify for the loan so you'll be ready to purchase the home when your lease period ends. Most importantly, if you're not entirely certain that you'll buy, be sure to make the option payments as small as possible.

How much do I need to have saved?

As much as possible, but less than you think. The amount of money you have saved for your down payment will reduce the amount you need to borrow. Reducing the amount you borrow may reduce the interest rate of your loan. It will lower the size of your monthly mortgage payments and the total amount of money you'll repay over the life of your mortgage loan.

In the past, 20% down payments were standard. Lenders viewed such large sums as a guarantee against loan default. Unfortunately, for many would-be borrowers, saving a 20% down payment was a major obstacle to buying a home. However, government and private mortgage insurance (PMI) programs now exist to assure lenders that loans will be repaid. This PMI allows you to buy a home with much less than a 20% down payment. Today, qualified borrowers who have excellent credit, but limited savings, can purchase homes with significantly less than 20% down.

Summary

There are several federal, state and local government programs available to assist first-time, as well as low or moderate-income individuals to buy a home.

- If you qualify for participation in any of these programs, you may not need a large down payment.
- You may be able to consider a lease-purchase agreement if you're not ready to buy a home immediately.
- Increasing the amount of money you have saved for a down payment will lower your monthly mortgage payments and reduce your total interest paid.

“Success won't just come to you. It has to be met at least halfway”

-Frank Tyger