



43% of First-Time Home Buyers put **NO MONEY DOWN!** Guess What!? It's OKAY!

By Amanda Brown & Lynn Marie Hopfensperger of Fox Communities Credit Union. www.foxcu.org.

Purchasing a home is likely the most expensive purchase most of us will ever make. There are many home loan programs and options to choose from no matter how much or how little of a down payment you have. It's easy to get confused, but you can take these steps to make this purchase easy and fun, and they will help you feel smart about your money!

Down Payments

As a first-time home buyer, a down payment is usually the biggest obstacle to overcome. For a long time, it was thought that a 20% down payment was required to buy a home. Times have changed! Most lenders offer home loans with a 5% down payment or less. Many also offer 100% home loan financing - meaning no down payment is needed. Keep in mind though, the less money you have for a down payment, the higher your interest rate and monthly payment will be.

Down payments can come as gifted money from family or friends, your savings or checking accounts, grants or even borrowed funds. You can also cash in on investments you may have, but you should take a serious look at this option to determine if it's right for your situation. It is advised that you do not use all of your available cash to come up with a down payment. Odds are, you'll need money for the closing costs (such as appraisal, title insurance, recording, etc.), home repairs or anything that may come up.

Private Mortgage Insurance - what is it?

Home loans with a down payment less than 20% generally require **Private Mortgage Insurance** - or PMI. This insurance protects the lender should you not be able to make your payments. Contrary to the beliefs of many, PMI does not stay on your home loan forever! Lenders are required to tell you the length of time it will take you to pay down your loan to have PMI removed and eliminated when your home loan reaches 78% of its value. For high-risk borrowers (low credit scores), the law does allow lenders to require Private Mortgage Insurance until loan balances reach 50% of the value of the home.

If the value of your home goes up for any number of reasons (market, improvements, etc.) or the balance of your loan goes down significantly, your PMI may be removed at an earlier date. At that time, you'll need to contact your lender to get the process started.

What can you afford?

Typically what you should be able to afford as a monthly home loan payment is 28% of your gross monthly income (the amount of your pay before taxes come out).

Example:

\$ 4,000.00 Your gross monthly income.

x 28%

\$ 1,120.00 The monthly payment you are "qualified" to afford (including taxes & insurance).

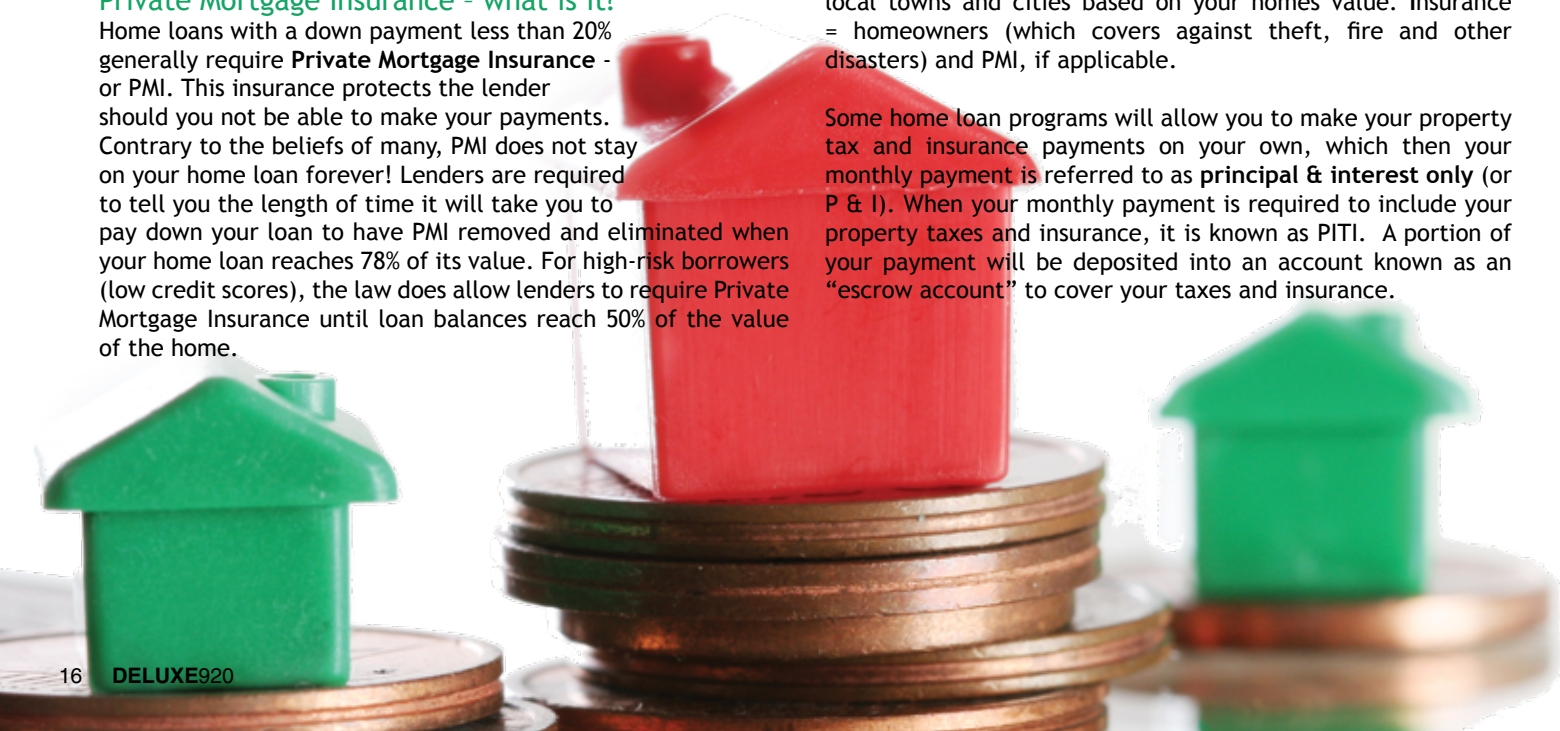
Just because you qualify for this amount, doesn't mean that you can actually afford it. As an example, if you are currently paying \$700 for rent, could you put an additional \$420 into your savings every month without dipping into it to cover expenses? Your lifestyle plays an important part in what you are able to afford or not. No one knows you better than you!

What's in a payment?

Home loan payments consist of four integral pieces:

Principal = the balance of the loan. **Interest** = the cost to borrow money for your home loan. **Taxes** = property taxes assessed by local towns and cities based on your homes value. **Insurance** = homeowners (which covers against theft, fire and other disasters) and PMI, if applicable.

Some home loan programs will allow you to make your property tax and insurance payments on your own, which then your monthly payment is referred to as **principal & interest only** (or P & I). When your monthly payment is required to include your property taxes and insurance, it is known as PITI. A portion of your payment will be deposited into an account known as an "escrow account" to cover your taxes and insurance.



Types of Loans

Fixed Rate Mortgages are the most common type of loan because of the stability of having the same rate and monthly payment for the life of the loan. Choosing a fixed rate mortgage may be a good choice if the rate environment is low or you plan on staying in the home for a long time. They feature monthly payments for terms of generally 15, 20 or 30 years. The term is the amount of time that your loan is locked into a specific rate. The difference between a 15 year and a 30 year fixed rate home loan for \$150,000 is shown here:

| Loan Term | Interest Rate | Monthly Payment | Total Interest |
|-----------|---------------|-----------------|----------------|
| 30 years | 6.64% | \$961 | \$196,304 |
| 15 years | 6.10% | \$1,274 | \$79,304 |

As you can see you would save \$117,000 by choosing the 15 year fixed rate term, and your payment would only be \$313 more!

Adjustable Rate Mortgages, a.k.a. ARM's, are home loans that do just that - adjust. The interest rate and monthly payments go up or down as market interest rates rise and fall. There is a beginning period of as little as one month or as long as 10 years that your rate is locked in and cannot adjust. This initial locked period is followed by rate adjustments set at intervals, most common being once a year. For your protection, there is a cap (limit) on the amount of fluctuation, up or down, that may happen either annually or for the life of the loan. Be sure to get specifics on these caps. This type of loan may be a good choice for you if you plan on staying in the home for just a few years as the payments and rates are more often lower than a fixed rate mortgage.

So, how do you choose the loan program that best fits your situation? In some unusual circumstances the choice may not be yours to make. There are many more loan programs to choose from than what we've talked about here. Talk with a lender

about other programs that may be available to you possibly because of your household income or the area in which you plan on buying your home.

Ask your lender about options to go with your home loan such as bi-weekly payments, where you divide your payment in half and pay that amount every two weeks. This results in making a full extra payment every year which allows you to pay off a 30 year loan in about 24 years. Another is the ability to pre-pay your loan, whether you just want to round your payment up to the nearest dollar or you have a windfall and are able to make a substantial extra payment. Both of these options benefit you by helping to pay off your home loan sooner. You may want to stay away from financial institutions that have a fee for making bi-weekly payments or that have pre-payment penalties.

Choose a lender

Now that you have the low down on a few of the types of loans you can choose from, you are ready to choose a lender to work with. How do you decide? Do your homework! Get recommendations from friends, family or even co-workers that have recently obtained a home loan. As a first time home buyer, a good choice would be to work with someone local you can trust. If you have any questions or concerns, you'll have an actual person to talk with, face to face. Always ask questions if something doesn't seem right or sounds too good to be true.

Now that you understand down payments, PMI, what you can afford and a few home loan options open up *Deluxe 920 Magazine's* next issue to continue with "Home Buying 102." We will begin with the pre-approval process and dive into other topics such as realtors, APR's, shopping, closing costs and more.

**According to a study released by the National Association of Realtors, January 2006.*

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