Dispelling the Myths of Homebuying

Separating Fact From Fiction in the Homebuying Process

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These days, information about homeownership seems almost contradictory, causing many could-be homeowners to wonder, "Interest rates are low, but will I be able to get credit? Home prices are down, but could I end up in over my head?" For many, it's tough to determine whether now is a good time to buy a house. Take the time to get the facts and dispel the myths about homeownership. You could find that homeownership is much closer than you think.

Get the Facts and Dispel the Myths

1. Myth: It's a bad time to buy a house.

During these turbulent economic times, many home-buyers will take a more conservative — even cautious — approach to homebuying. But for those who are financially prepared, this is also a time of great opportunity.

Mortgage rates for fixed-rate mortgages are at near historic lows, creating stable payments and long-term savings for today's homebuyers. House prices have fallen at a record pace. In addition, because of the unfortunate and dramatic rise in foreclosures, there is a great deal of housing supply on the market with unequalled demand.

The combination of these factors generally results in greater affordability, making now a good time for many to consider homeownership.

2. Myth: Buying a house is just too risky; I'll end up in foreclosure.

The idea of foreclosure is understandably frightening. Certainly if you lose your job, go through a divorce, or suffer an illness, you could have real trouble paying your mortgage, or rent for that matter. In recent years, there has even been an increase in excessive debt as a reason for delinquency. While you can't always solve for the unexpected twists and turns of life, there are some things you can do to decrease the likelihood that you will ever need to face the unpleasant prospect of foreclosure:

- Buy only as much house as you can afford. Take a practical approach to home buying, and don't overdo it.
- Spend and save wisely. Take a look at your current spending plan, and consider ways you can reduce your monthly discretionary spending. Build an emergency fund for unexpected, but necessary, expenses, or in case you have an unexpected reduction in income.
- Communicate with your lender if you find yourself having difficulty making your payments. Your lender has access to a number of solutions to help get your payments back on track.

3. Myth: Homeownership is too expensive.

Whether you rent or own, there are many expenses to consider. When you rent, for example, you can expect to pay renter's insurance in addition to your monthly rent, which could increase annually. When you buy a house, in addition to your mortgage, you must be prepared to pay property taxes, homeowner's association fees, and maintenance costs.

Homeownership also includes some financial advantages, however, which — especially when combined with the social benefits of homeownership — can give it an edge over renting. For instance:

- With a fixed-rate mortgage, your payments will not increase over the life of the loan.
- There are certain tax benefits of homeownership that could save you some money.
- While recently we've seen home values decrease, homes have historically gained value over time.

With so many variables to consider, only you can decide if the price of homeownership is right for you. Work with a lender or other housing professional to get the facts.

4. Myth: I need perfect credit to buy a house, but I can't do anything to improve my credit rating.

Your credit history is one of the primary factors a lender uses to determine if you are a qualified borrower. They are not expecting you to have perfect credit, but you will need a good credit history that demonstrates you will repay your loan obligation as agreed. It is important that you maintain good credit and always strive to improve it.

Before you start house hunting, there are at least three basic things you should do:

- Check your credit report to ensure that the information is accurate and complete. Correct any errors you may find.
- Know your credit score. Having a good credit score will help you get better interest rates, saving you money in the long run. Visit www.myfico.com to see the typical annual percentage rate (APR) on a mortgage for someone with your credit score.
- Improve your score. Understanding how your score is calculated will help you determine where to begin. According to the Fair Isaac Corporation, your FICO score is made up of your payment history (35 percent), amounts owed (30 percent), length of credit history (15 percent), new credit (10 percent), and types of credit used (10 percent).

5. Myth: I need to put 20 percent down to buy a house.

While there are instances when a borrower may be required to put 20 percent down, that is not the golden rule, even by today's standards. You should know, however, that if you do need to finance more than 80 percent of your mortgage, you will be required to pay private mortgage insurance (PMI).

Generally, borrowers should expect to make a 5 or 10 percent down payment. FHA, however, does allow certain borrowers who meet a 31 percent housing cost-to-income ratio to put down 3.5 percent.

The fact is that many factors come in to play in determining the amount of down payment that will be required in your individual situation:

- The value of the property
- The amount you are financing
- Your credit rating
- Your debt-to-income ratios

Take the Next Step Toward Owning Your Own Home

There are many misconceptions about the homebuying process, so it's up to you to get the facts. It is important that you take the initiative to become familiar with the homebuying process to ensure that you are able to make knowledgeable decisions every step of the way. Educate yourself by doing your research and asking questions.

For More Information

- The Freddie Mac CreditSmart® curriculum is a consumer guide to better credit, money management, and responsible homeownership. Visit **FreddieMac.com/creditsmart** to download consumer resources, available in five languages.
- "About Homeownership" is the Freddie Mac online guide to the homebuying process and successful homeownership. Visit **FreddieMac.com/homeownership**.
- Avoid scam artists! Learn about common scams in your area, and get advice before you enter into your next loan agreement. Visit **DontBorrowTrouble.com** to find a Don't Borrow Trouble® campaign near you.
- To find a HUD-approved housing counseling agency near you, visit **www.hud.gov** or call 800-569-4287.
- For more information on down payment assistance through secondary financing providers, visit HUD's Web site at **www.hud.gov.**

Source

Content adapted from the following:

- Freddie Mac's award-winning CreditSmart®, a multilingual financial education curriculum designed to help consumers build and maintain better credit, make sound financial decisions, and understand the steps to sustainable homeownership
- "About Homeownership," Freddie Mac's online guide to the homebuying process and successful homeownership

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