Step 1 - Is homeownership right for you?

You may think you would like to own your own home, but have you carefully weighed the advantages of homeownership against its disadvantages? Below are some of the things to consider when thinking about owning a home versus paying rent:

HOMEOWNERSHIP	RENTING
Building Equity	
Equity is the portion of your home's value that you own "free and clear." Equity is calculated by subtracting the amount you owe on the home from the home's actual value. Home equity can help secure future loans for college, major home improvements, or business needs.	For many, paying rent is a transitional phase until the renter can afford his or her own house. Renters do not build up the financial security that comes with home equity.
Tax Benefits	
Homeowners can deduct their mortgage interest every year from their taxes. Borrowers should consult a qualified tax advisor to determine their specific tax benefits.	Renters do not receive tax advantages.
Home Maintenance	
Homeowners are responsible for any and all repairs to the home. A homeowner should be able to make a house payment and still have money left over for minor repairs. Savings to cover major repairs—such as plumbing and electrical work—is also a must. This increased responsibility gives homeowners the freedom to make changes to their homes, provided that they follow building codes, local zoning and neighborhood covenants.	Renters have fewer financial responsibilities for maintaining appliances, repairing their homes, or keeping up the condition of the exterior and interior of the residence. However, renters are also limited in their ability to alter their housing to their needs or desires.
Amenities	
Often, first-time homebuyers have to wait quite a while before they can afford to purchase amenities for their homes.	Renters sometimes enjoy greater amenities, such as swimming pools, exercise rooms, cable television, party rooms, kitchen appliances, etc.

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HOMEOWNERSHIP	RENTING
Up-Front Costs	
Homeowners should be prepared to pay 3.5 to 5.0 percent of the home price on closing costs and down payment. If homeowners want to break even from these costs, they should plan to stay in the home at least three to five years. In addition, the first year or two of a person's mortgage are usually the toughest. Often, it is during this time that the majority of a new homeowner's cash is tied up paying for rehabilitation, repairs, or furnishings.	Renters do not need as much money as homeowners to move into a home. A typical rental deposit does not exceed one month's rent, and is therefore considerably less than the 3.5 percent of the sales price on a house that is often required as a down payment.
Monthly Housing Costs	
Housing costs for homeowners with fixed-rate mortgages will remain stable over time, providing stability and predictability.	Through amended or renewed lease agreements, landlords can increase the rent on a regular basis. This can be an issue in real estate markets where rental costs are high or rapidly increasing.
Market Risks	
Homeowners experience greater financial risk due to real estate market fluctuations, increases in property taxes, etc.	Renters are less impacted by fluctuating real estate markets. The market may result in increased rent, but landlords cannot increase rent before negotiating another lease. In comparison, a homeowner can lose thousands of dollars if the real estate market fluctuates greatly.
Mobility	
Finding a home in a neighborhood that is right for the buyer can result in a sense of fulfillment, belonging and community. However, if a homeowner resells the home in less than three to five years, he or she will likely not recover their closing and down payment costs.	If renters do not like the neighborhood, the city, or their neighbors, they can easily fix the situation by moving. While renters must follow the terms of their leases, providing a 30-day notice can make moving possible.

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Step 2 – Can you afford homeownership?

In order to be able to buy a home, you must either have money saved, or you must be able to borrow money to purchase your house. In order to do this, however, you must be "mortgage eligible," which means that you qualify to borrow enough money to purchase a home. How you answer the following questions will help you determine whether or not you are mortgage eligible:

DO YOU HAVE A STEADY INCOME?

Documented income from a minimum of two years of employment is required for a mortgage loan. If you receive assistance such as social security, it must have a documented two-year history and projected two-year future, similar to a job.

Income may include:

- Salary or wage from a job
- Social security benefits
- Survivor benefits for children under 18
- Money from a trust account
- Documented child support
- Net profits from a business, self-employment

Income does not include reimbursable items such as:

- Food stamps
- Unemployment benefits
- Cash labor (undocumented)

Lenders will sometimes consider "compensating factors" that may offset certain aspects of your situation that may be weaker than what is typically preferred. Compensating factors can include:

- Amount of time at current place of employment and projected duration of employment with current employer
- Part-time job that cannot be used as qualifying income
- Child support income
- Large down payment
- Current housing cost is more than projected mortgage payment

DO YOU HAVE SAVINGS FOR A DOWN PAYMENT AND CLOSING COSTS?

Typically, it is necessary to have a minimum of 3.5-5.0 percent of the home price available for down payment and closing costs. Making regular deposits to a savings account is a good way to save for these costs.

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EXAMINING YOUR DEBT

While you may have determined that you are financially stable, you must examine your debt before you can take on the financial burden of owning a home. Can you truly afford a home, or will your debt prevent you from being able to comfortably make monthly mortgage payments? In this case, debt refers to those bills or outstanding balances that accrue interest. This includes items such as:

- Car payments
- Student loans
- Credit card bills
- Other installment loans such as a title loans
- Personal loans

Debt does not include expense items such as rent, utility bills, telephone, etc.

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Step 3 – How is your credit?

Credit scores are one of the most important factors in qualifying for a mortgage loan. The higher your credit score, the more likely you are to qualify for a mortgage and the more favorable your interest and insurance rates will be. A borrower with good credit has:

- No unpaid judgments or liens
- No foreclosures within 10 years
- No bankruptcies within the last two years
- No unpaid bills
- No slow or late bill payments within twelve months prior to applying for a mortgage
- No delinquent child support obligations

It is preferable for a homebuyer to have at least four good credit references when qualifying for a loan. Traditional credit references include:

- Car loans
- Credit cards
- Student loans
- Personal loans

Sometimes, for those who have limited established credit, non-traditional credit references can be used, depending upon lender requirements. Non-traditional credit references can include:

- Rent payments
- Utility payments
- Phone payments
- Storage payments
- Title loans
- Car insurance payments

CREDIT SCORES

In general, when people talk about "your score," they are talking about your current **FICO®** score. The term **FICO** refers to a credit scoring system developed by **Fair Isaac & Company**. The **FICO®** score was developed in the 1950's as a tool lenders can use in determining the creditworthiness of the prospective borrower. It calculates the statistical likelihood that a borrower will or will not pay a debt. **FICO®** scores range from 300 to 850. The higher the score, the more attractive the interest rate the homebuyer will receive.

FICO® scores are believed to provide the best guide to future risk based solely on credit report data. The higher the **FICO®** score, the lower the risk of default. At the same time, no score can predict whether a specific individual will be a "good" or "bad" customer. And while many lenders use **FICO®** scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product.

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There is no single “cutoff score” used by all lenders and there are many additional factors that lenders use to determine your actual creditworthiness and interest rate.
When you apply for a loan, you authorize your lender to ask for a copy of your credit report. This is how inquiries appear on your credit report. The inquiries section contains a list of everyone who has accessed your credit report within the last two years. The report you see lists both “voluntary” inquiries, spurred by your own requests for credit, and “involuntary” inquires, such as when lenders order your report so as to make you a pre-approved credit offer in the mail.

Three major credit reporting agencies, Equifax, Experian, and TransUnion, provide FICO® scores to lenders. **FICO®** scores have different names at each of the three credit reporting agencies. Credit reporting agencies also collect public record information from state and county courts and information on overdue debt from collection agencies. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens, and judgments.

CHECKING YOUR CREDIT REPORT

Potential homeowners should request a copy of their credit report before applying for a mortgage loan. You are entitled to a free copy of your credit report each year from all three credit reporting agencies. If there are inaccuracies or errors in your credit report, you can request that the credit reporting agencies review your credit report and make corrections. Your free credit report does not include your credit score. You can obtain a copy of your credit score separately, but you will have to pay a small fee.

Federal law requires each of the three nationwide consumer credit reporting companies - Equifax, Experian and TransUnion to give you a free credit report every 12 months if you ask for it. They also make it easy to accomplish many credit-related tasks right from your computer. You can access your free credit report at https://www.annualcreditreport.com.

You should make sure the information in your credit report is correct. Not only is your credit score based on this information, but lenders also review this information in making credit decisions. If you find an error, the credit reporting agency must investigate and respond to you within 30 days. If you are in the process of applying for a loan, immediately notify your lender of any incorrect information in your report. Your lender will need to reorder your credit report and score once any changes have been made to your credit file. Small errors may have little or no effect on your score. If there are significant errors, however, the lender may disregard the score.

IMPROVING YOUR CREDIT SCORE

Raising your credit score takes time and there is no quick fix. In fact, quick fix efforts can often backfire. The best advice is to manage credit responsibly over a period of time. Following are tips that will help you maintain good credit history:

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- Pay your bills on time. Delinquent payments and collections will have a negative impact on your score.
- If you have missed payments, get current and stay current. The longer and more consistently you pay your bills on time, the higher your score will be.
- Be aware that paying off a collection account will not remove it from your credit report. Your history will stay on your report for seven years. However, most lenders require that collection accounts be paid in order to proceed with your mortgage approval process.
- If you are having trouble making ends meet, contact your creditors or see a legitimate non-profit credit counselor. This will not improve your score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time.

If you have accounts on which you carry a balance, the following tips will assist you:

- Keep balances low on credit cards and other revolving credit accounts. High outstanding debt can affect your score.
- Pay off debt rather than move it around. The most effective way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- Don't close unused credit cards as a short-term strategy to raise your score.
- Don't open new credit card accounts that you don't need just to increase your available credit. This approach could backfire and actually lower your score.
- If you have been managing credit for only a short time, don't open several new accounts too quickly. New accounts will lower your average account age. This will adversely affect your score, particularly if your file contains limited credit information. Additionally, rapid account buildup can look risky, especially if you are a new credit user.

If you are trying to establish or re-establish credit history, the following tips will help you:

- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- Apply for and open new credit accounts only as needed. Don't open accounts just to have a better credit mix. It probably won't raise your score.
- Manage credit cards responsibly. In general, credit cards and installment loans (and making timely payments) will raise your score. Someone with no credit cards tends to be higher risk than someone who has managed credit cards responsibly.
- Be aware that closing an account doesn't make it go away. A closed account will still show up on your credit report, and it may be included in your score. Although each credit reporting agency formats and reports this information differently, all credit reports contain basically the same categories of information. Your social security number, date of birth, and employment information are used to identify you. These factors are not used in scoring. Updates to this information come from information you supply to lenders.
- Do your rate shopping for a given loan within a limited period of time. **FICO®** scores distinguish between a search for a single loan and a search for many new credit lines in part by the length of time over which inquiries occur.

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Step 4 – Getting pre-qualified

If you have decided that homeownership is for you, the next step is approaching a lender to become pre-qualified. A mortgage loan officer takes many variables into account when they pre-qualify a prospective homebuyer. Credit score, current salary, employment history, and current debt are major factors in the approval process. Below are basics to understand and questions to ask as you go through the process.

As you go through the process, it is important to note that lenders often pre-qualify a homebuyer for a loan amount that exceeds the comfort level of the borrower. It is the homebuyers' responsibility to tell both the lender and the real estate agent if they wish to spend less than that amount.

UNDERSTANDING HOME BUYING RATIOS

Your home buying ratios, in combination with your credit or **FICO®** score, are the most important factors lenders consider when you apply for a home mortgage loan. Lenders use two common ratios to determine the maximum home mortgage loan amount they will allow you.

The first ratio lenders use compares your **total monthly housing costs** with your **total monthly gross income**. Your expected monthly housing costs, including mortgage **principal, interest, taxes and insurance** (PITI) should not exceed **28 percent** of your income. PITI includes property taxes, hazard insurance and mortgage insurance payments. Keep in the mind that taxes and insurance vary from county to county.

The second ratio lenders use is your **debt-to-income ratio** (DTI). Your total monthly debt, including your expected PITI, credit card, and other loan payments, should not exceed **41%** of your gross monthly income. The actual percentages vary by lender and home mortgage loan program, but keep in mind that your goal is to arrange a mortgage that best suits your needs without creating a financial burden.

UNDERSTANDING PRIVATE MORTGAGE INSURANCE (PMI)

Private Mortgage Insurance (PMI) protects the lender from the expense of foreclosing on the property if you default. If you buy a house with a conventional mortgage, and you make a down payment of less than 20 percent, in most cases you will be required to pay for PMI. The insurance benefits the lender, but the borrower pays for it. The premiums for PMI are added into the borrower's total monthly mortgage payment. The cost of PMI varies, depending upon the size of the mortgage and the percentage of the down payment.

UNDERSTANDING MORTGAGE LOANS

There are a number of loan products available to low- and moderate-income buyers. The majority of loans that these homebuyers use come from the following sources:

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- FHA (insured by Federal Housing Administration, a department of HUD)
- VA (guaranteed by Veterans Administration)
- Rural Development
- Conventional
- New Mexico Mortgage Finance Authority (MFA)

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FHA LOANS

FHA loans are originated by an FHA-approved mortgage lender and are guaranteed by the Federal Housing Administration, a division of HUD. Borrowers often have easier access to FHA mortgage loans because historically FHA credit requirements have been more flexible. Borrowers never have direct contact with HUD or FHA, as neither HUD nor FHA loan money. Instead, an FHA loan means that in the event that you were to default on your mortgage loan, FHA would pay off the lender and take possession of the house.

FHA loans typically:

- Have more flexible credit requirements
- Require mortgage insurance, which involves an up-front premium charge as well as ongoing monthly premium payments. The exact charges are based on a percentage of your loan amount. The up-front premium may be financed in the loan, and the monthly premium is usually included in your total payment (PITI). The Federal Housing Administration also insures other types of specific loans, such as loans to Native Americans on trust land or the 203(k) rehabilitation loan for any owner- occupied residence.

VA LOANS

VA loans are loans guaranteed by the Veterans Administration for qualified veterans. To determine if you are qualified for a VA loan, contact your local VA office for an eligibility certificate. VA loans do not require the borrower to make a down payment. Not unlike FHA and HUD, the Veterans Administration does not loan money. Instead, they guarantee the loan. The guarantee means the lender is protected against loss if the borrower fails to repay the loan. When you are shopping for a VA loan, it is extremely important to choose a lender that knows how to originate VA loans.

VA loans typically:

- Require no down payment
- Require a funding fee that can range from 1.25% to 3% of the loan amount, depending on whether the borrower is a first-time or subsequent user of benefits
- Require no mortgage insurance premium

RURAL DEVELOPMENT LOANS

Rural Development (formerly Farmers Home Administration) is another government entity. In contrast to FHA and VA, however, Rural Development does loan money directly to borrowers, in addition to guaranteeing loans made by eligible mortgage lenders. Their loans are available in communities with populations of 20,000 or fewer people. Rural Development has a variety of different loan types including rehabilitation loans, leverage loans, and guaranteed loans.

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Rural Development loans typically:

- Target low- to very low-income families
- Subsidize interest rates to in order to qualify these families for mortgages

CONVENTIONAL LOANS

Conventional loans are loans that are not guaranteed or insured by a government entity. Private investors that provide capital for these loans take the risk. Mortgage loans that are not targeted toward first-time homebuyers are often conventional.

Conventional loans typically:

- Qualify borrowers for a home loan using lower front-end and debt-to-income ratios
- Require the borrower to pay a monthly private mortgage insurance premium for loans with less than 20 percent down. This premium may be gradually reduced as the principal balance of the loan is paid down, and once the principal balance is 80 percent or less, the premium may be cancelled.

INTEREST RATES

Another factor that affects the amount you can borrow is interest rate. The lower the interest rate, the higher the amount you can borrow. The higher the interest rate, the lower the amount you can borrow.

BUYER BEWARE! RECOGNIZIING PREDATORY LENDING PRACTICES

Predatory lenders take advantage of consumers with credit problems and those who fail to safeguard their own financial transactions. These lenders charge extremely high fees and interest rates. A loan from a predatory lender will cost you much more throughout the life of the loan and—in extreme cases—could lead to foreclosure on your home. Predatory lenders take advantage of those borrowers who are not able to secure lending from traditional financial institutions.

Remember that you are responsible for protecting your own financial well-being. Do not transact any business with a lender who pressures you sign documents you haven't read or don't thoroughly understand.

Predatory lenders often employ very aggressive, and sometimes deceptive, marketing campaigns. Their goal is to reach those individuals who, for any number of reasons, would be more likely to agree to apply for a loan. Once they have identified a potential customer, they try to reach them by mailing, phoning, and even visiting them in their homes to encourage them to take out a loan.

This initial loan is sometimes just an entry point into the financial life of the homeowner. The loan has an artificially high interest rate and monthly payment, so that the predatory lender can offer an opportunity to refinance it, along with other debts, with another loan. The predatory lender's ultimate goal is to get the homeowner to refinance their first mortgage with them.

QUESTIONS TO ASK YOUR MORTGAGE LENDER

Buying a home for the first time can be overwhelming. Real estate agents, builders, and mortgage lenders may use terms with which you may not be familiar, and you will be asked to provide a significant amount of personal financial information in order for a mortgage lender to determine which loan is right for you. Knowing the right questions to ask your mortgage lender will ease the stress, and it may also save you time and money.

- **What is the interest rate and annual percentage rate (APR) on this mortgage?**
  To know exactly what you will be paying in interest over the life of the loan, you need to know these rates. These are two of the important figures to obtain.

- **Will I have to pay origination fees (‘points”) to get the loan at this rate?**
  A “point” is equal to 1 percent of the original loan amount. For example, a one point charge on a $100,000 loan equals $1,000. Lenders can charge discount points that act to lower, or “buy down” your interest rate and origination points that serve as compensation to the lender for making you a loan, or “originating” your loan. Find out how many points you will be expected to pay for the loan, which kind of points they will be, and whether they’ll be included in your loan amount or if you’ll be expected to pay cash up front.

- **What closing costs will be charged on this loan, and how will I know the total amount of closing costs I will pay?**
  Mortgages come with legitimate fees for various services that lenders and other parties involved in the transaction provide. Early on in the process, you will need to find out what you will be charged. The federal laws governing real estate loan transactions require that you are given certain cost estimates in writing at the time of loan application (“Good Faith Estimate”). If your lender doesn’t volunteer the information, be sure to ask. If your lender is reluctant to provide information or clear answers to your questions, you may be better off shopping for a different lender.

- **When can I “lock in” the interest rate, and what will it cost me to do so?**
  Because mortgage interest rates can fluctuate daily, you may want to ask your lender about “locking” a quoted rate for your mortgage. Quite often, the time period between when you first apply for a mortgage and the time you actually close can be several weeks. You may not want to risk letting the rate “float” until the closing date, because it could increase. Be sure to ask the lender if there is any fee for locking in the rate. An advantage to locking in your interest rate is that you’ll know exactly what interest rate you’ll receive at closing. The main disadvantage to locking in a rate is that if market rates decrease, then you will be “locked” at a higher rate than you might have been had you allowed the rate to “float”. Ask your lender to clearly explain your options to you.

- **What is the minimum down payment required for this loan?**
  Depending on the amount of your down payment and its relation to the price of your home, you might be charged different interest rates or quoted different loan terms. Loans made at high loan-to-value, or “LTV” ratios (meaning the borrower has made a small down payment) can cost more than loans with larger down payments. Nevertheless, borrowers with good credit who are willing and able to pay private mortgage insurance (PMI) can get conventional loans with down payments that are much lower than 20 percent.

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- **What are the qualifying guidelines for this particular loan?**
  The qualifying guidelines can relate to your income, employment, assets, liabilities, and credit history. Some first-time homebuyer programs and government-sponsored loans have easier qualifying guidelines.

- **What documents do I have to provide?**
  You will need to provide proof of income and assets to get a mortgage loan. Find out what documents will be required in your particular situation by asking your lender. It's a good idea to gather and organize your personal financial documents prior to beginning the loan application process. By doing so, you may prevent delays in the process later on.

- **How long will it take to process my application?**
  This varies from lender to lender. It often depends on how much business your particular lender is doing and how busy the mortgage loan industry is overall. During periods of peak activity, underwriting departments may back up, appraisals may take longer to obtain, and other bottlenecks may develop. Get a realistic estimate, and use that to figure out if it makes sense to pursue a rate lock and how long it should be.

- **What might delay the approval of my loan?**
  If you provide the lender with complete, accurate information, everything should go smoothly. However, there could be a delay if the lender discovers credit problems or if other unforeseen circumstances develop. This is why it is critical to get your credit in order.

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Step 5 – Shopping for your home

After applying for a mortgage loan and receiving a commitment letter from the lender for a maximum loan amount, the next step is to shop for your home. There are a variety of ways to find a home that is right for you. The most common is to use a licensed real estate agent or real estate broker. The real estate agent should be a homebuyer's agent, a licensed real estate professional that works on your behalf in the home buying process. If the agent is not a homebuyer's agent, you must be aware that s/he works on behalf of the seller. Real estate professionals should disclose the exact nature of their relationship with you up front. You can utilize the following resources to aid in your search for a real estate professional:

- Referral from a friend or relative
- Web searches
- Real estate web pages
- Real estate advertisements in newspapers
- Open houses
- State, county, or city housing departments
- Nonprofit housing agencies

Real estate agents will probably ask that you begin working with a lender in order to get pre-qualified. If a buyer is pre-qualified, then the real estate agent knows that they're serious about making a purchase.

DECIDING WHICH HOME TO BUY

You should make a list of the practical requirements of your home such as number of bedrooms, number of bathrooms, size of yard, desired neighborhood, etc. If you are using a real estate agent to help you purchase a home, they will likely search on the Multiple Listing Service (MLS) for homes that match these criteria and fit within your approved mortgage loan amount. The printout of this MLS will also show other useful information such as available financing, average annual cost of utilities, etc. Remember to communicate clearly to your real estate agent the amount you wish to spend, especially if it is less than the amount for which you've been pre-approved. It is important that you stay in control of this process.

When you decide to look at the house, you should consider many things:

- **Neighborhood and community:** Is this the type of neighborhood in which you and your family desire to live? How well will the area fit with your lifestyle? Factors affecting this decision include school districts, zoning, restrictive covenants in planned communities, amenities, access to public services, character, and future economic well-being of the community.

- **Neighbors:** Do the neighbors seem agreeable and cooperative? Do they keep their own property in good repair? Do they throw loud parties on Friday nights? Are the surrounding homes occupied by renters or homeowners? Rental units sometimes change hands frequently, and could result in less overall stability for the neighborhood. Be sure to drive by the property on several different occasions to see what the neighborhood is like on the weekends, at night, or during morning rush-hour, for example. You're trying to get a feel for whether you could live there on a long-term basis.

- **Proximity to work and school:** Is commuting a long distance undesirable to you? Would you like your children to be able to walk to school? Make a note of the distance and time it takes you to get to your usual daily destinations from the home. Is the major arterial street to the home congested at most hours? Is it dangerous? How accessible is it?

- **Maintenance requirements:** Is the home going to require major repairs? Does it need cosmetic repairs? Can you afford these repairs? Industry professionals strongly recommend that prospective buyers order a home inspection and make their purchases contingent on a satisfactory inspection.

- **Practical versus unrealistic requirements:** Does the home have what you need for you and your family, such as an adequate number of bedrooms and bathrooms, the right size back yard, etc.? How does this house compare to other houses you've looked at? Perhaps you and your family members should think about rating each house on a scale of one to 10. This method may help you narrow your focus and get closer to a final decision.

Step 6 – Understanding manufactured housing

Manufactured housing has come a long way since trailer homes. Prospective home buyers have a variety of options from which to choose, including square footage, floor plan, color scheme of the décor, and finishing materials. Each manufactured home is built to conform to a federally regulated HUD code rather than to local building codes which are enforced at the home destination site. Manufactured homes are usually less expensive than a "stick built" home. This is due to the fact that manufactured homes are pre-built and then moved to the homeowner's land or a manufactured housing subdivision or mobile home park. Prospective buyers should consider a number of factors before investing in a manufactured home.

PURCHASING A MANUFACTURED HOME

If you are considering the purchase of a manufactured home, you should give special attention to the following:

- **Where to purchase your home:** If possible, buy your manufactured home directly from a manufacturer's retail outlet. Shop around to find a manufactured home that you like. Negotiate your price. You may want to check with the Better Business Bureau to ensure the manufacturer is reputable and reliable.

- **Roof:** A shingled roof can be better than a metal roof, as it can prevent leakage problems and improper ventilation.

- **Walls:** Vinyl siding is best for manufactured homes, as it can eliminate some of the common leakage problems that may occur with metal or hardboard siding. Exterior wall studs should be 16 inches apart, and walls should be at least 7 feet high.

- **Plumbing:** Plumbing systems tend to cause the most problems in manufactured homes. It is worth the upgrade to have the best quality plumbing fixtures for each faucet and sink and to be sure there are shutoff valves at each plumbing fixture. Nearly one out of three manufactured home owners report plumbing problems.

- **Windows:** To prevent water damage, windows should have welded vinyl frames and be insulated with double panes. The frame corners should be fused together instead of screwed or glued.

- **Floors:** Floors should have 2x8 joints spaced 16 inches apart. They should also have plywood sub-floors. Particle sub-floors do not provide adequate water resistance.

- **Climate control:** For the cool climate of northern New Mexico, it is advisable to choose a home with heating and cooling outlets around the edges of the room, preferably along the exterior walls. A manufactured home in northern New Mexico should meet Wind Zone 2 and Thermal Zone 3 governmental standards. Southern New Mexico residents should choose a home with air outlets in the ceiling. A manufactured home in southern New Mexico should meet Thermal Zone 2 standards.

- **The underside and foundation:** The bottom of your home should be well ventilated and have a protective skirting placed around it. A solid foundation is essential to protect your manufactured home from structural damage. Be sure supports rest on deep concrete pads or footings not directly on the soil. Certain loan programs, such as VA and FHA, have some very specific requirements as to how the home should be attached to the foundation. Be sure to ask about the exact requirements that will apply to your situation. Also, make certain that the person doing the work is qualified, licensed, and approved by the lender.

- **Warranties:** Choose a manufacturer that provides a long-term warranty with few exclusions.

COSTS TO CONSIDER WHEN PURCHASING A MANUFACTURED HOME

Manufactured homes may offer low initial maintenance costs. It is important to remember that the price does not include a site for the home. The site must be rented or purchased separately. In order to provide a mortgage loan for a manufactured home, lenders require that it be secured to a permanent foundation. Also remember that a manufactured home is more likely to appreciate in value if you own the land to which it is attached.

Proper transportation of your home is critical. Every manufacturer must provide instructions explaining how to prepare the home site and install your home. Get a copy of this guide and read it before your home is installed. If possible, be present when it is being installed. Bring the installation guide and follow what the installer is doing. Make certain that your installer is qualified and appropriately licensed.

Sometimes the seller will combine all related costs into the sales price. Be certain to ask for an itemized statement which shows you the breakdown of what you're paying. Ask questions until you have a good understanding of the overall price structure. Remember to negotiate the price and always ask the following questions:

- What is the cost of the home itself?
- What is the cost of a site for the home?
- What are the costs for utility hook-ups and other infrastructure needs?
- Is there a transportation fee to move the home to the site?
- Is hazard insurance affordable and easily available?

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Step 7 – Buying your home

Once you've found a home you want to buy, you will be ready to make an offer. Your real estate agent will help you prepare a purchase agreement and submit it to the seller. The seller, and you as the buyer, can make counter offers until a final price and conditions of sale are agreed upon. During these negotiations, you and the seller will also decide upon a period in which to close the sale. During the closing period, typically 30-90 days, you and the seller will have time to complete home inspections and make agreed upon repairs to the home. Your closing date is the day you and the seller will sign final documents transferring ownership. At that time, you'll receive the keys to your new home!

NEGOTIATING A PURCHASE AGREEMENT

Buying a home requires solid negotiation. Successful negotiation is more than luck or natural talent. It requires the learned ability to use certain skills and techniques to bring about win-win results for the homebuyer and seller. Here are suggestions for turning negotiation into agreement:

- **Start with a fair price and a fair offer:** When sellers significantly overprice their homes, it turns off potential buyers. Likewise, making an offer that is far lower than the asking price is practically guaranteed to alienate the sellers. Asking and offering prices should be based on recent sales prices of comparable homes. The condition of the home is also a point that can be used in negotiations. If the buyer will be forced to replace old, worn carpeting, for example, the seller should take that into consideration when considering an offer that is below the asking price.

- **Respect the other side's priorities:** Knowing what is most important to the person on the other side of the negotiating table can help you avoid pushing too hard on hot or sensitive issues. For example, a seller who won't budge on the sales price might be willing to pay more of the transaction costs, or to make more repairs to the home. On the other hand, a buyer with an urgent move-in date might be willing to pay a higher portion of the transaction costs or forego some major repairs.

- **Be prepared to compromise:** "Win-win" doesn't mean both the buyer and the seller will get everything they want. It means both sides will win some and compromise a little. Rather than approach negotiations from an adversarial winner-take-all perspective, focus on your top priorities and don't let your emotions get in the way of your better judgment.

- **Meet in the middle:** Having trouble deciding who will pay the recording fee? Do you disagree on a close-of- escrow date? Are you arguing over cosmetic repairs? Split the difference. Splitting the difference is a time-honored and often successful negotiation strategy. Pay half the fee. Count off half the days. Fix half the blemishes. Both sides will come out ahead.

- **Leave it aside:** Politicians and corporate executives are famous for their "for future discussion" agreements. If you have a major sticking point that isn't a major factor in the overall contract, finish the main agreement, and then resolve the other difficulties in a side agreement or amendment. This technique allows both sides to recognize and solidify basic areas of agreement. They can then come

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up with a fair compromise on other terms and conditions. Summarizing the points of agreement in writing is another helpful strategy.

- **Ask for advice:** Successful real estate agents tend to be experienced negotiators. In countless real estate transactions, they have seen what does and doesn't work. They have also established a track record of bringing buyers and sellers together. Consult your agent about negotiating strategies, win-win compromises, and creative alternatives.

UNDERSTANDING HOME INSPECTIONS

It is recommended that you pay for a home inspection before you buy the home. You should make the purchase contingent on a satisfactory inspection. Home inspectors will evaluate the structural aspects and certain mechanical systems of the home. They primarily inspect the foundation, roof, plumbing, electrical, and heating and cooling systems. But, services vary widely, so be sure to communicate just how thorough an inspection you want. The more detailed the inspection, the more costly the service. Always seek out a qualified and licensed home inspector with a solid reputation for standing behind his or her work. Any warranties offered should be given to you in writing. Also ask about having the home inspected for termites, radon, or other potential environmental hazards.

Keep in mind that if you do make the purchase of the home contingent on a satisfactory inspection, you need to specify a dollar amount of liability. For example, the seller may agree to a contingency clause with a liability limit of $500, meaning that the seller will make repairs or replacements only up to that dollar amount. The inspection report will recommend certain repairs, if needed, with an estimated cost for these repairs. If the estimated cost of repairs is beyond the agreed upon cap of liability, the seller is not obligated to meet those repairs and the purchase agreement is void. The buyer usually pays the cost of inspections.

UNDERSTANDING HOMEOWNER'S INSURANCE

You will be required to secure homeowner's insurance before closing on your mortgage loan. It is important to purchase a homeowner's insurance policy that fits your particular needs. When you shop around, you'll want to ask for replacement cost coverage insurance. This insures your home's replacement cost, not its market value. The market value may be higher or lower than the cost to rebuild your home. With replacement cost coverage, you can rebuild your home on the same lot at current local construction costs if it is destroyed.

Companies use various methods to determine the estimated replacement cost of your home. Be prepared to answer questions about your home's square footage, number of bedrooms, and number of bathrooms. Inform your insurance agent of any custom features that are part of the dwelling.
When considering replacement cost coverage, be sure to deduct the value of the land, foundations that are below the surface of the ground, and other items such as landscaping and lawn sprinkler systems. If a loss does occur, the insurance will cover the cost to replace the actual structures on your property.

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Household contents are only covered for their actual cash value. Actual cash value is the replacement cost minus depreciation. You can buy replacement cost coverage for your possessions as a policy add-on, or endorsement. A homeowner's policy also offers very limited coverage for valuables like jewelry, furs, cash, and stamp or coin collections. You can buy separate endorsements to cover these items, but doing so will significantly increase your premium. You may also be required to have such items professionally appraised, at your expense.

Be sure to review your policy on an annual basis. If you make major improvements or additions to your home, you'll want to contact your insurance carrier to arrange additional coverage.

CLOSING ON YOUR LOAN AND GOOD FAITH ESTIMATE

Within three days of receiving your completed mortgage loan application, your mortgage lender is required by federal law to provide you with a Good Faith Estimate of the fees and other costs associated with the mortgage loan. These costs, known as Settlement Costs, cover every expense associated with your transaction. Items such as inspections, title insurance, taxes, credit report, etc., will all be disclosed to you in writing. Closing costs can vary, but usually range anywhere from 3 to 5 percent of the sales price. Make sure you understand and agree to any costs disclosed to you. Always ask questions if a fee seems unnecessary or excessive.

In addition to your down payment, which is your investment in the house, you will be required to pay certain closing costs on the transaction. Following is a list of these costs:

- **Loan Origination Fee:** This is a fee charged by the lender to originate the loan, or reserve funds for your loan in the pool of mortgage money. It is usually one “point,” or one percent of your base loan amount.

- **Points (also called Discount Points):** This term refers to the cost of “buying down” your interest rate. One point is equal to one percent of your loan amount. For example, if a loan is for $100,000, one point is $1,000.

- **Credit Report:** At the time you make your loan application, your mortgage lender will order a Residential Mortgage Credit Report. This report is a detailed history combining information from two or three credit bureaus, and covers the last several years of your credit history. The cost of a credit report can vary, but usually ranges from $35 to $65.

- **Appraisal Fee:** A professional appraiser will provide a written report that estimates the value of the home. As discussed earlier in this workbook, the appraised value of the home is one part of the equation used to figure your “loan-to-value” ratio (LTV). Currently, the cost of a residential appraisal ranges from $400 to $500.

- **First Year’s Mortgage Insurance Premium:** When your down payment is less than 20 percent of the home’s value, you will be required to buy mortgage insurance that protects the lender against loss due to foreclosure. This insurance premium is usually added into your monthly mortgage payment.

- **Hazard Insurance Premium:** You will need to prepay the hazard insurance premium for specified number of months.

- **Commitment Fee:** This is the cost of reserving your loan with a lender at a certain rate and amount, provided that the loan is closed within a specified period of time.

- **Lender’s Title Insurance Policy:** This is insurance for the mortgage lender against any defects in the title that may jeopardize ownership (e.g. forged documents, undisclosed heirs, etc.). The liability is limited to the outstanding loan balance at the time of any claim. Rather than a monthly premium, title insurance is paid for in advance as a one-time fee. It becomes void when the loan reaches a zero balance.

- **Owner's Title Insurance Policy:** This is the owner's insurance against any defects in title that may jeopardize ownership (e.g. forged documents, undisclosed heirs, etc.).
- **Property Taxes:** Property taxes are customarily paid in arrears. Therefore, they are prorated at the time of closing in order to make sure both the seller and buyer each pay only their fair share.

- **Recording Fee:** This is the fee charged by the county clerk to record your deed or mortgage in the official records.

- **Survey Fee:** A professional surveyor will determine boundaries and land area of the property you wish to purchase. Lenders generally require a survey of the property before they approve your loan. Survey fees typically rage from $250 to $400.

- **Inspection Fee:** This is the cost of hiring a professional inspector to inspect the structural and major mechanical systems of the home. In most cases, the buyer pays for the inspection. Although an inspection is usually not required, it is strongly encouraged as it helps the buyer make a more informed purchasing decision.

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Step 8 – Becoming a homeowner

Congratulations! Now that you have closed on your home, you are officially a homeowner. But the hard work does not stop here. As a homeowner, you will have a new set of responsibilities and costs that are important to prepare for:

- **Moving Expenses**: These include renting a van or truck, plus packing material, etc. You can negotiate the best price of a rental by calling different companies. You should retain all receipts related to your moving expenses, as they may be tax deductible. Be sure to check with a qualified tax advisor for details.

- **Utility Connection**: Gas, electric, water, and telephone services all require hook-up fees in addition to any actual deposits required. You may have to pay a deposit if you have never had a utility account in your name, or if you're moving from another city or state. If you are currently paying utilities, but the account is in someone else's name, (e.g. landlord, parents, etc.) you should inquire as to whether your name can be added to the account. This may allow you to avoid additional deposits by establishing yourself with the utility provider prior to moving. For example, if you are living with your parents, and everything is under their name, you can request that your name be added to the utility bill. Both names should then show up on the bill. Each utility company has its own requirements, and in some cases, there's no way around a deposit requirement.

- **Appliances**: Your purchase agreement will clearly spell out which, if any, of the major appliances will be transferred with the home. Make sure that you're prepared to buy whatever you'll need to establish your new household. You won't want to wait until moving day to find out you don't have a refrigerator!

- **Furnishings**: Typically, homes do not come furnished. You may be able to negotiate curtains, blinds, etc. as part of the sale, but any such agreement must be made a part of the purchase agreement. It's a good idea to wait until after the closing to purchase any furnishings for your new home.

- **Landscaping**: Depending on whether you buy a new or existing home, landscaping can be another costly item. Make certain that you have a clear understanding of how much, if any, landscaping is included with your new home. Because landscaping is not usually considered an immediate necessity, you can wait until after closing to address the issue. However, you should keep in mind that part of being a good neighbor is keeping your front landscaping attractive and neat. Also, check to see if your area has covenants regarding landscaping requirements.

- **Maintenance and Repairs:** Your pre-purchase inspection report should have given you an idea of what, if any, repairs might be needed once you move in. It is a good idea to keep a separate household account to be used for maintenance costs and repairs. Even if your home doesn't require any immediate repairs, it will at some point. At the very least, you should always set aside enough money to cover the deductible on your hazard insurance in the event of robbery or fire.

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