STYLECRAFT
LIVE UP

FINANCE GUIDE

INTRODUCTION

A guide for homebuyers

The prospect of buying a home can be intimidating, particularly given the many changes to mortgage rules and requirements over the past several years.

Many people interested in purchasing a first home believe they just won't qualify for a loan, and others think they'll need to come up with a huge down payment. The truth is that if you take the necessary steps to ensure that your **credit report** is strong (it doesn't have to be perfect) and you take advantage of the many programs open to first-time buyers, chances are great that you can qualify for *and* afford your home.

THE CREDIT REPORT

What it is

A credit report is summary of your credit history with details about the institutions you've borrowed from, how much you've borrowed and how successful you've been in repaying your debts. Generally the information goes back seven years and all of it is used to generate a credit score, known as the FICO score, that's used to determine your credit worthiness. The better your credit history, the lower the rate of interest you may be charged when you borrow money. Having a better credit score can save you hundreds of dollars monthly and tens of thousands of dollars over the course of a 30-year mortgage.

How to get it

Actually you have not one but three credit reports. Your credit history is tracked by three different national credit bureaus, TransUnion, Experian, and Equifax. By law these three bureaus must provide anyone with a credit history a free copy of his or her credit report once every 12 months.

To get a free copy of your credit reports from each of three major bureaus, go to **AnnualCreditReport.com**, which serves as a portal to the three bureaus. Beware of other websites that appear to offer free credit reports; most of these use the lure of a free credit report to get you to sign up for monthly "credit monitoring" or "credit alert" services, which are then billed to your credit card. Note, too, that the free credit reports from AnnualCreditReport.com do not include your FICO score. If you want to check your FICO score, you'll have to pay extra to obtain it from one of the credit bureaus or from **myFICO.com**.

What to do with it

Once you've obtained credit reports from each of the reporting agencies, review the information in each for errors or omissions. Check everything carefully: the names of the lending institutions, your payment history, alternate names and addresses appended to your file.

If you find any mistakes on any of your reports, you need to begin a dispute process with the bureau that has the faulty information. If the same error appears on all credit reports, you may have to dispute with each bureau individually. The Federal Trade Commission has more on how to successfully—and properly—dispute credit report items **here**.

Bankruptcy

FICTION: **You have to wait 7 years after bankruptcy**

FACT: **You may be able to apply after one year**

For some bankruptcies, you may only need to wait one year until you apply for a mortgage.
For some short sales, you may only need to wait two years until you apply for a mortgage.

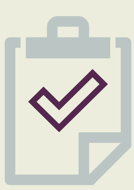
DOWN PAYMENTS

The first thing to consider is your savings and how much of it you might be able to use towards a down payment. When you put money down on a home, your long-term debt is reduced and so are your monthly payments. Down payments also mean instant equity in your home, since you will go into homeownership owing less on your home than it is worth.

Although there are many advantages to financing your home with a larger down payment, a large down payments isn't always necessary. There are a number of programs for buyers in Virginia that permit eligible borrowers to purchase a home with little or no money down.

PREQUALIFICATION VS. PREAPPROVAL

Prequalification means that you have spoken to a mortgage lender and have provided a summary of your financial situation, including salary, assets, and debts. The lender has reviewed the numbers and prequalified you for a loan based on the information you have provided. This prequalification is not a guarantee of funding, and you may or may not be able to secure funding once you submit your actual mortgage application. Preapproval means that you have processed an application with your lender.



MORTGAGE TYPES AND TERMS

Alphabet Soup

Here are three of the most common government-funded mortgage programs:

FHA The FHA (Federal Housing Administration) offers a whole host of financing options that include a low down payment (as low as 3.5%), lower closing costs, and easier qualification standards. This is the most popular type of loan for first-time homebuyers.

USDA The USDA (United States Department of Agriculture) has an active Rural Development agency that funds mortgages for homes in areas with relatively low populations. The USDA offers favorable rates and 100% financing as well as easier qualification, which means buyers can get their loans faster and move in with no money down. Despite their proximity to downtown, office parks, schools and shopping, many StyleCraft communities are located in areas eligible for USDA financing.

VA The VA (Veterans Affairs) loan program offers federally guaranteed loans to current and former members of the military as well as their surviving spouses. VA loans are generally available with favorable terms such as no down payment and low interest rates.

Fixed vs. Variable

Another important feature of your home loan is the type of interest rate associated with your mortgage.

The interest rate is important, because the higher the interest rate, the less of your monthly investment that will be going toward your principle, and ultimately toward the final pay-off of your home. There are two common rate options: fixed or variable.

Fixed-rate mortgages are mortgages on which the interest rate is fixed for the entire term of the loan.

Variable mortgages are pegged to general interest rate indexes and can go up or down over time. These loans are also called "adjustable rate mortgages" (ARMS). Typically, with these loans there is an initial period where the interest rate stays fixed and then the loan becomes eligible for readjustment in regular intervals after that. For example, a popular type of ARM is the 5-year ARM or the 5/1 ARM. This ARM stays at a fixed percentage for the first five years of repayment, after which the interest rate is adjusted once every year for the remaining life of the loan.

The dedicated loan officers at First Home Mortgage are available to help you navigate options and find a financing plan that fits your needs.

WHEN BUYING BEATS RENTING

Deciding whether to rent or buy isn't always easy and, yes, timing in everything.

But when interest rates are low, rents are high, and housing prices are rising as they are now, buying is a better deal than renting, particularly if you plan to stay in your new home at least three years.

RENTING JUST DOESN'T ADD UP FOR MOST PEOPLE

Renting costs more in the long run

If you're on the fence, check out this handy **calculator**, courtesy of leading economists and the New York Times. You can compare projected rental rates to projected home prices and interest rates to determine how long it will take for the cost of renting a home to exceed the cost of buying it. In most cases, the answer is three to five years.

Renting costs more every year

The cost of rental housing has been **increasing 4% a year** on average and will continue to rise, according Trulia, one of the nation's leading real estate data firms. So your rent will be 20% higher in five years, 40% in ten years, and more than double in 25 years. But if you buy a home with a fixed-rate mortgage loan, your monthly investment will stay about the same as long as you own the home, regardless of future inflation.

Renting means zero equity

When you own a home, you build equity over time and may enjoy a nice profit when you eventually decide to sell. When you rent, not only do you earn no equity but you may actually end up having to pay fees—for damage or cleaning—when you leave the property.

A HOME TO CALL YOUR OWN CAN BE BOTH PROFITABLE AND PRICELESS

Homeowners get a tax break

Owning a home buys you a number of tax deductions, including the mortgage interest rate deduction and the personal mortgage insurance (PMI) deduction, both of which can save a homeowner thousands of dollars a year. And the year you buy your home, there are additional deductions such as the break for mortgage interest points.

Homeowners call the aesthetic shots

When you rent, you're living in someone else's home. You might be able to paint the walls in "your" colors—at your own expense—but most landlords won't let you make many changes beyond that. When it's *your* home, you can do almost anything you want within the boundaries of local ordinances, your budget and your imagination.

FACTS VS. FICTION

FICTION: Buying ties you down

While it's most profitable to buy a home when you know you will be living in it for at least three years, **rental housing is now so scarce** that it's easy to lease your home should you choose to relocate. And rental prices are going up 4% a year, so you may be able to rent your home at a profit.

FICTION: Buying requires a larger down payment

Although mortgage rules have tightened over recent years and many lenders require a down payment, there are still great options available. In Virginia, there are programs —such as FHA, USDA Conventional and VA loans — that require no—or a very low—down payment.

New homes are tailor-made for tech

The average rental property in the US was **39 years old** in 2011, so it's unlikely that a rented home will offer state-of-the-art technology. Newly built homes are made for the way you live now—they're designed and often prewired for the latest home entertainment, communications and security equipment.

New homes are cheaper to cool and heat

Over the past 40 years, building codes have become stricter and construction materials have improved to make new homes much more energy efficient than used homes. In addition to the structural improvements in insulation, doors and windows, modern appliances and heating and cooling systems help make a new home less expensive to operate than a used home.

Homeowners have more privacy

A landlord can decide to cut down the beautiful tree outside your favorite window or paint the home or apartment building's exterior whenever he wants. When you own your home, you decide everything and choose when you do and don't want workers on your property.

FACT: If it's broken, you fix it

It's true that when you own your home, for better or for worse the days of calling on your landlord to make repairs are long gone. But the upside is that you won't have to fight with a landlord to make those repairs and, with a good home warranty, like the 2-year warranty offered by StyleCraft, you may not even have to pay for repairs. And if you just hate sacrificing your Saturdays to home maintenance, the StyleCraft maintenance plan was made for you.

FICTION: Homeowner's insurance is unaffordable

Homeowner's insurance is a cost many renters dread, but they may forget that their landlord's property insurance doesn't cover the renter's personal property. So the real cost a renter on the fence should consider is the difference between renter's insurance and homeowner's insurance. And for a recently constructed home, homeowner's insurance can cost up to 30% less than it costs for a used home.

FACT: The dollar's value decreases over time

Although inflation has been low in recent years, the value of money generally decreases over time and so it makes financial sense to invest in a home while interest rates and home prices are low. With rents on the rise year after year, a homebuyer can expect to save thousands of dollars annually over someone who chooses to rent.