

## DO YOU WANT TO BUY A HOME?

The single most expensive purchase you are likely to make is your home. Before making such a big investment, take the time to make sure your deal is as good as it appears to be. There are many traps awaiting the first-time homebuyer who is not careful. This brochure will help you (1) identify whether it is the right time to buy a home, (2) determine how much money a house is really worth, and (3) avoid unfair home loan or sales contracts designed to take your money and leave you homeless.

### PLAN AHEAD—DON'T RUSH IN

If you have steady **income**, excellent **credit**, and enough **savings** to pay for loan closing costs and your down payment, you can probably get a mortgage loan from a bank or conventional lender today. If not, you should think seriously about waiting. Plan ahead. With one to two years and the help of a housing or consumer credit counselor, you may be able to improve or rebuild your credit rating. You may also have the chance to put away money for your loan closing costs and down payment, so you won't have to pay interest on these costs over the next 15 to 30 years. If you rush to buy your home before you are financially ready, you risk paying too much for your loan and taking on payments higher than you can comfortably afford. Dishonest sellers or lenders will try to talk you into borrowing more than you should. *If you fall behind, they can take away your home and keep all the money you have spent on it.*

You may qualify for government or non-profit **programs** to help first-time homebuyers. If so, you should still be careful not to rush.

### DETERMINE YOUR *BUDGET*

Your best bet is to set your budget *before* you look at houses or shop for home loans. Reflect on your financial situation, and remember that a rule of thumb is to spend no more than 28% of your income on housing costs (mortgage, taxes, and insurance).

- Compute how much you can afford in monthly mortgage payments. You can do this by subtracting your current monthly expenses—such as car payments, grocery bills, laundry, and credit card payments—from the income you get each month.
- Be realistic! Plan for accidental or unexpected expenses, such as medical bills, car repairs, or repairs to your new home. Also keep in mind that property taxes and home insurance must be paid.
- Set up an appointment with a nonprofit housing counselor to review your budget and discuss your options. Enroll in a free homebuyer's workshop.

### SHOP FOR YOUR *LOAN*

This might sound backwards, but it's smart to apply for your loan *before* you begin house hunting. This is because loans themselves are expensive. You must pay *interest* on the money you borrow, and also pay large *fees* at the time you take out the loan.

- First, apply for a purchase mortgage loan through a bank or credit union to see if you qualify. These loans may have the best rates and lowest closing costs.
- If you don't qualify for a conventional loan, look into programs for first-time homebuyers.
- Remember: **do not make false statements** about your income on the application! You

only want the loan if you can truly afford it. *Carefully read* any loan application before you sign it, and keep a copy. Dishonest loan brokers may ask you to sign papers that show more income or assets than you really have. Lying on a loan application is a crime, and any loan you receive is likely to be beyond your means. Also, **do not sign papers unless all of the blanks are filled in**, because they could be changed later without your consent.

- Shop around! Check local newspapers and the Yellow Pages for possible lenders. Ask friends for referrals. Then compare mortgage offers from various lenders. Get 3 or 4 options before deciding.
- Contact a community housing counseling center. Whether or not you qualify for a conventional loan, a housing counselor may help you understand your options so that you can choose the most appropriate mortgage for you. Sometimes it is best to keep building your credit and savings.
- Ask your lender for an “*escrow*” or “*impound*” account. This lets you pay a bit towards your taxes and insurance every month, rather than paying all at one time.

### SHOP FOR YOUR *HOUSE*

After you have been pre-qualified for a home loan, you can shop for your house with confidence. You will know the maximum that you can borrow to stay within your budget.

- *Hire an inspector you trust* to check the condition and value of a house you may buy.
- Be sure to pay for a *title search* and *title insurance* to make sure the seller really owns all of the property you plan to buy.

### ARE YOU A TARGET FOR PREDATORY LENDING?

Predatory lenders make money by overcharging, misleading, or exploiting vulnerable borrowers.

Targets may include:

- Senior Citizens
- People of color
- Single Parents
- Poor Persons
- People who have less education or can't read well
- People with little past experience in using credit
- People with bad credit or no credit
- People who do not know what their credit rating is

### REJECT UNFAIR LOANS!

A loan is a kind of contract. Some loan contracts may contain rules or terms that are especially unfair or risky to borrowers. Try to avoid loans with combinations of the following terms:

- High closing costs, points, and fees
- High interest rates
- Monthly payments beyond your budget
- “Balloon” payments (final loan payment is extremely large)
- Rolling other payments into your home loan (cars, credit cards, medical bills, etc.)
- Credit-life or credit-disability insurance

Show the papers to a lawyer or someone you trust before you sign. Ask that person to answer your questions. Read every word and make sure the form is completely filled out.

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## AVOID HOME BUYING SCAMS

Be aware of common seller scam tactics.

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One scam is the **lease with an option to purchase**. The scam works like this: If you cannot qualify for a conventional mortgage loan, the “seller” will offer to rent you the home for a fixed period such as one year. You will need to make a large “down payment,” and you will have the right to buy the home if you can find financing within the year. Meanwhile, you will be paying overpriced rent. If you cannot find a mortgage loan by the end of the year, the seller will evict you, keeping the home and your down payment. Some “sellers” repeat this scam year after year.

Second is the **land contract** or **contract for deed**. This contract is similar to a rent-to-own agreement. Here, the “seller” or “owner” provides financing, thus making it appear as if you are buying under a mortgage loan. Instead, the contract states that the “buyer” will not get the title to the home until the last loan payment is made. The contract says it becomes a lease once a single payment is missed. This means that the seller could evict for non-payment of rent and keep the home, down payment, and all the payments you made over months or years.

**\*\* NOTE: Under Florida law, a contract for deed is really a mortgage. This protects you from eviction. Ask a lawyer about your rights.**

A third scam is the **seller-financed wrap-around mortgage**. Here again, the seller may offer to lend you the purchase money. The seller finances a new mortgage which “wraps around” the old one. You make your monthly payments to the seller, and the seller promises to make the monthly payments on the original

mortgage. One danger is that the seller might pocket your money instead of paying the original mortgage, and you might be evicted after a foreclosure. Also, the house may be overpriced and the payments may exceed your budget. If you miss a payment, the seller may foreclose your mortgage and evict you, keeping all your money and buying the home again at the foreclosure sale.

**\*\* NOTE: Ask a lawyer about your rights under Florida law.**

A fourth danger is **home builder fraud**. This is when a new house is built cheaply and contains defects you cannot see. Don't risk buying a house with hidden problems. Hire an **independent** inspector to make sure the house is well made and in good condition.

A fifth scam involves **“bait and switch”** sales. Here, the seller or loan broker quotes a low price to get you to agree to buy and to make a down payment. Later on, you are told that the deal won't go through unless you pay more. At this point, you risk losing your down payment unless you agree to pay more. The new price may be so high that you can't help but get behind before long.

A sixth scam is **repeated refinancing** or **“flipping.”** Here, the lender offers you a new loan after you get behind. The new loan sounds cheaper, but is actually more expensive. The monthly payments might look lower, for example, but they might not include taxes and insurance when the first loan did so. The new loan also includes a new set of high up-front closing costs.

## WATCH OUT FOR DISCRIMINATION!

The Equal Credit Opportunity Act and the Fair Housing Act make it illegal to discriminate in home sales, loans, or rentals. Beware that lenders may try to “steer” members of vulnerable groups to the worst loans.


It is illegal to discriminate based on :

- Race or color
- Religion
- National origin
- Sex (male or female)
- Familial status (whether you have children)
- Marital status
- Age
- Source of income  
(welfare/child support/etc.)
- Disability
- Past consumer complaints

### KNOW YOUR RIGHTS— DON'T BE A VICTIM!

If you have experienced a housing scam or discrimination, contact Three Rivers Legal Services, a private attorney, or a state or federal agency for help.



*The Florida Bar Foundation, with funds provided by Florida's Interest on Trust Accounts Program provides support for this program.* 

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