

Purpose of this Guide

This guide aims to help persons of low income gain an understanding of the options available when it comes to finding affordable housing and getting a mortgage. By the end of this guide the reader should have a better grasp of the following:

- The advantages and disadvantages of home ownership for low income earners.
- How to determine whether the home you are interested in, is really is affordable.
- The process for finding, getting a contract on, and closing on your new home.
- The responsibility for budgeting for incidentals.
- Considerations regarding homelessness and home ownership.
- Programs that may help you achieve your dream of home ownership.

Part 1: Advantages of Mortgages for Low Income Earners

Home ownership is often referred to as the American Dream, and in many cases, it is. Sometimes, however, the achievement of owning a home may seem out of reach, particularly for low income earners and for those who have experienced homelessness. If you are living paycheck-to-paycheck, you may find it difficult to save money and plan for owning a home. There are however advantages to getting on the property ladder. They include:

Equity

A mortgage allows you to purchase a home on credit. Since, over time, most properties increase in value, every dollar you pay into your home has the potential to grow. By the time you are done paying off a 30-year loan, your property's value may grow by 50 to 100 percent, or even more. This is not a guarantee; sometimes property values decrease, and there is no way to predict whether the homes in your area will increase or decrease in value. It is the general trend, however, for homes to increase in value over many years.

Independence

When you own a home, you are no longer subject to the rules and regulations of a landlord. While you do have to follow all applicable laws, and also conform to the rules of your homeowners' association, if any, you are free to have pets, lease out part of your home, remodel, and do anything else to or within your home that you choose. Owning your own home might allow you to save money by planting a garden, earn money by renting rooms

to college students or replace an old furnace with a new, energy- and cost-efficient one.

Increased Self-Esteem

If you are buying your home after living in substandard rental housing or transitioning from homelessness, home ownership can give your self-esteem a large boost. Home ownership, particularly when it follows tough times, such as unemployment or homelessness, is something that you can take pride in.

Part 2: Disadvantages of Mortgages for Low Income Earners

Difficult Relocation

One of the main disadvantages of home ownership for low income earners is that you may not be able to easily relocate, should the need arise. If, for example, you receive a job offer in another city or state, you might not be able to simply sell your home, particularly if housing prices have dropped since you first took out your mortgage. Whether or not you are living in your home, you still must make your mortgage payments or risk losing your home, your equity and your hard-earned money.

Decreasing Property Values

It is possible that your home's value will decrease over time. This is particularly true if you buy your home in what is called a "seller's market," which occurs when property values are high. If the trends change and you must sell your home during a "buyer's market," which means property values are low, then you might lose the equity that you have paid into your home. While this is frustrating for everyone, it may mean financial disaster for low income earners or those who have previously struggled with homelessness. If you plan on and are able to live in your house for many years, then this is less of a problem than if you need to or want to sell the house within a few years of purchase.

Upkeep and Maintenance Costs

When considering the cost of owning a home, it is important to be aware of the need for maintaining your property. If your monthly mortgage payment, including your insurance and property taxes, takes up all of your housing budget, you may find it difficult to cope with problems such as a leaky roof, a broken hot water heater or flooring that needs to be

replaced. Some maintenance issues are cosmetic and do not affect the function of the house, but others must be dealt with immediately. It is important to have savings in place to pay for repairs, since home ownership, by definition, means that you are responsible for the upkeep of the property.

Talking to a financial advisor can help you decide whether pursuing a mortgage and looking into home ownership as an affordable housing option makes sense for your particular circumstances.

Part 3: Finding Affordable Housing

Depending on your current income and situation, affordable housing may mean something different to you than it does to your neighbor, co-workers or siblings. Of course you will look into what different types of properties in your area cost. Determining whether a home that you wish to buy is affordable means more than noting what the asking price is, however. The price that you pay each month is determined by the asking price plus the cost of homeowners' insurance, property taxes and mortgage interest. Whether or not you are a low income earner, you must buy a home that is within your means to avoid losing your home, and possibly dealing with homelessness, in the future.

Considerations

When you look at homes, ask your real estate agent for a list of houses in your area which meet your specifications in terms of size, number of bedrooms, year built and any other criteria that is important to you. This is called a comparative market analysis, or a CMA. Keep in mind that houses that cost less than comparable homes may seem like a bargain, but might be more expensive to maintain. They may have structural issues that need to be addressed before you can move in, or that will require attention within a year or two. Depending on the age, condition and location of the home, you may also find that homeowners' insurance is higher than for other homes that carry higher price tags. Also, the location and size of the house may cause the property taxes to be high. All of these are issues that you must look into in considering the affordability of the house. Ask your real estate agent for an insurance broker recommendation, and call the broker for an insurance estimate when you have found a house that you would like to bid on. Property tax records are available at your local tax collector's office, or your real estate agent may have this information.

Budgeting

If you are a low income earner, housing may take up a substantial part of your monthly budget. Be sure that you can allocate enough funds to covering incidentals, including property tax or insurance rate increases. Over time, a property tax that rises even \$50 or \$100 per year can make a big difference on your monthly mortgage payment. Also, some maintenance projects need to be completed regularly. This means that you will either need to do them yourself or hire someone to do them. You may need to purchase a lawn mower, for example, or budget for a lawn care service. If the house has a fireplace with a chimney, you must budget for regular chimney cleanings. Plan to save some money each month for these types of projects. If you know that a repair is necessary in your home, call local business owners for general estimates, and look into how much necessary appliances and home repair materials cost.

Part 4: Understanding the Process

The costs involved with buying a home can vary greatly. Your real estate agent, real estate attorney, housing counselor or financial advisor can help you navigate the process of home-buying, especially if money is tight. These professionals can advise you of any special programs that you may qualify for, such as down payment assistance, government-subsidized programs or a mortgage **loan** at a lower interest rate than what is normally available. Your lender, either a mortgage broker or someone at your bank, can also advise you.

Pre-Qualification

The first step is to sit down with your lender and go through the pre-qualification process. This is when your lender will gather information about how much money you make, how much money you have saved, your credit history, your employment history and other factors which will determine how large of a mortgage you prequalify for. Call ahead and ask what documentation you need to bring with you. You will probably have to bring bank statements, pay stubs, tax forms and a letter from your landlord indicating that you have made your rent payments on time. The dollar amount that you receive as a pre-qualification is a ballpark figure only, and not to be taken as a guaranteed amount that the bank will actually give you for your home purchase. In some cases, your lender will be able to give you a pre-approval letter, which is a more accurate representation of what you should be able to borrow. Either way, remember that just because you are pre-qualified or pre-approved for a certain amount, does not mean that you should or need to look for houses that are priced that high. It may be more reasonable for your financial situation to look at homes priced well below your pre-qualification amount. Your financial counselor will be able to help you to determine if this is the case.

Home Showings

Once you have received your pre-qualification or pre-approval letter, your real estate agent will begin taking you to look at homes in your desired price range. Consider all factors, including the extra costs of taxes, insurance and maintenance, before making an offer on a home. When you have found affordable housing that appeals to you and fits your needs, it is time to make an offer. Again, your real estate professional will help you through this process. Don't be discouraged if your first offer is declined; often, a home-buying contract is the result of several negotiations between the buyer and the seller. On the other hand, don't allow yourself to be pushed into offering more money than you can actually afford, regardless of what your pre-qualification letter says. If necessary, decline a counteroffer which is too high and keep looking.

Home Inspection

After you have signed a purchase agreement on a home, you will apply for the actual mortgage. During the time that you are waiting for your loan papers, which may take several weeks to a couple of months to become finalized, you should have the home inspected. Ask your real estate professional for a recommendation on a good company to use. This inspection can cost upwards of several hundred dollars, but it will uncover any issues with the home that you might not have noticed during your showings. Your inspector will look at the structure of the home, as well as the appliances, windows, roof and electrical and plumbing systems. You also have the option to have the home tested for mold, radon, lead-based paint and other potential health issues. If anything major is found, you will have the opportunity to re-negotiate your contract, or, in some cases, to back out of the contract altogether, if necessary. The seller may offer to fix some of the problems, or you might be offered a lower purchase price if you agree to have the issues taken care of yourself. Your lender also may need to inspect the home, and an appraisal will be ordered if one was not recently done. This is so the lending company knows that the house is worth what you are paying for it, and that it is a good investment for the company, as well as for you.

Paperwork

Your bank or lending broker may ask you to assemble paperwork, including updated paystubs or proof that debts have been paid off. If you receive a list of conditions that you must satisfy before you can close on your loan and buy the house, bring it to your real estate attorney or financial advisor for assistance. Some of these conditions may include paying off outstanding debts, becoming current on any late payments and proving that you have a certain amount of money in the bank. If you have a low income in relation to the house that you want to buy, you may need more money set aside or less debt than you would if you had chosen a less expensive house.

Talk to your broker about your options, and remember that you do not have to accept a mortgage until the closing paperwork is signed.

Closing on Your Mortgage

Finally the day that you are ready to become a homeowner will come, and you will have your closing. This is the day that you sign all of the final paperwork promising to re-pay the mortgage, and also the day that you will receive the keys to your new house and may begin the moving-in process. Before your closing, you will have received a document detailing your closing costs, but the actual costs may vary slightly from what you were originally told. This is where a real estate attorney comes in. He or she can sit with you during the closing and check each document for accuracy before you sign it. In some cases, your attorney will have gone over all of the paperwork before you arrive at the closing. Take your time and read everything carefully. Do not be afraid to ask questions at any time during the closing.

Part 5: Considerations Regarding Homelessness

Reasons for Homelessness

People may struggle with homelessness for a variety of reasons. In some cases, homelessness is caused by the local economy. If someone loses his job and has no way to pay for his home, he may be evicted if he is renting, or foreclosed on if he owns his home. Finding an apartment to rent is difficult at this point, both because it is often a problem for the homeless to find employment, and because a history of foreclosure or eviction can make apartment management companies turn away families and individuals interested in renting.

Other reasons for homelessness include domestic violence, substance abuse, mental illness, a cycle of poverty and under-employment in a family and a general lack of affordable housing. Homelessness has devastating effects -- physical, emotional and financial -- on those experiencing it. Once the problem causing homelessness is under control, either through social programs, medication, rehabilitation services or education, someone who has struggled with homelessness may find it difficult to get back on his feet, but it is possible. A housing counselor or a company that provides free financial counseling is often a vital part of this process.

Mortgages after Homelessness

One consideration to keep in mind when looking for a mortgage after homelessness is the mortgage rate. Your credit score is likely to be low due to late payments, non-payments, a

lack of employment and foreclosure or bankruptcy. A low credit score causes lenders to offer you only high interest rates, because the risk that they are taking in lending to you is higher than the risk they take with those who do not have black marks on their credit histories. In some cases, a lender may not want to work with you at all after you have experienced homelessness.

The good news is that several programs exist that can help you achieve your dream of home ownership even if you have a low income or have experienced homelessness. You may not be able to go directly from homeless to home ownership, but you may be able to live in low income housing with government vouchers, and gradually take the steps necessary toward getting a mortgage and buying affordable housing. Remember that homelessness takes time to overcome, but that home ownership after losing your home is possible.

Part 6: Special Local and National Programs

Both the Federal government and local agencies have put in place programs to help both low income earners and the homeless pursue home ownership. Your housing or financial counselor can help you determine which of these and others you qualify for.

HUD

The U.S. Department of Housing and Urban Development, also called HUD, helps people to find affordable housing. HUD offers several programs for people, generally those who earn a low income, to become homeowners. HUD also offers programs for those who need rental assistance. These programs help people who are not ready for home ownership to find affordable housing through subsidized or low-cost rental options.

If you are currently renting your home through public housing, HUD may make it possible for you to own your current apartment or house. Your local public housing agency has more information on whether that is a feasible option for you. You also may qualify for HUD-sponsored vouchers to buy a home other than the one in which you live currently, particularly if you live in Section 8, or public, housing.

If you are homeless because your own home was destroyed by a hurricane, you might be eligible for a special HUD program that allows you to purchase a HUD rental home for less than its market value. This is something to speak to your housing counselor about.

HUD also offers many other programs, including ones that sell foreclosed or abandoned homes at very low prices to those who qualify. Speak to your financial advisor or go to the HUD website: <https://www.hud.gov>.

Habitat for Humanity

Habitat for Humanity is a non-profit organization that builds homes for those in various areas of the world, including the United States. Volunteers do most of the work in building a home, and many of the supplies are donated, so the houses that are built are done so at a low cost. While Habitat for Humanity is a charitable organization, they do not give away the homes for free; recipients are required to work on their homes, and they also have down payment and monthly mortgage requirements.

Habitat for Humanity houses are built to be simple, decent and affordable. This means that while they are large enough to meet the needs of a family, they are modestly sized. For example, a three-bedroom house encompasses approximately 1,000 square feet. The building materials used are usually obtained locally and while sturdy and in good condition, are not extravagant. The goal of Habitat for Humanity is to offer these houses to low income earners through no-profit loans. One interesting note is that the mortgage payments made by the recipients of Habitat for Humanity homes go on to fund the building of more homes for other needy families, both in America and in other countries.

The process for buying a Habitat for Humanity home begins with an application. You must prove that you are in need, that you will work on the home, and that you have the means to repay the mortgage loan. You can read more about the process at Habitat for Humanity's website: <https://www.habitat.org>.

Other Programs

Particularly for those transitioning out of homelessness, several state and local agencies have programs to make it easier to achieve independent living, which can lead to home ownership. Most of these are a step between living on the streets or in a shelter and living independently in one's own home.

Young mothers in certain states can live in Second Chance Homes while they work toward a high school diploma or GED. While living in one of these homes, they receive help with childcare as well as medical treatment and counseling. After completing the program, the social workers affiliated with these programs can help young moms pursue rental or home ownership options.

The Self-Help Homeownership Opportunity Program, or SHOP, allows low income earners who are at risk of becoming homeless to help build and care for affordable housing units that they otherwise would not be able to afford.

The Homeownership Zones Program and Choice Neighborhoods are both programs which allow those in danger of experiencing homelessness to rebuild and revitalize their communities. As properties in economically depressed areas are built or improved upon, educational and job opportunities naturally improve. These programs help entire communities and poverty-stricken areas, while allowing those who earn low incomes to achieve home ownership.

If you are a low income earner or experiencing homelessness and also disabled, there are several options that may be available to you. Talk to your financial counselor or someone at your local social service agency to see if you qualify for these programs. Organizations which offer programs for the disabled include the Social Security Administration, the National Disability Institute and the American Association for People with Disabilities.

Part 7: Conclusion

While it may be more difficult to obtain a mortgage after you have gone through homelessness or if you earn a low income, it is not impossible. With hard work as well as the help of real estate and financial professionals, your dream of one day buying your own piece of property can become a reality. Educate yourself on the issues pertaining to finding and purchasing affordable housing to be sure that you are an informed consumer.

*Mortgageloans.com was the source used for this document-3/19/18