



UNIT 4 – 2

Myths, Misconceptions, and Strategy

Spending sunny afternoons and long weekends looking for the just the right home may be the easy part. When it comes right down to it though, borrowing the money from your bank, savings and loan, or credit union turns out to be a bit more complicated than it looks. Coming to grips with the reality of financing may be the real challenge.

You already know that you have to make your credit history look as good as possible and that you may have to postpone some purchases like the new car or long summer vacation that are near and dear to your heart, but now you have to familiarize yourself with the world of lending so that you aren't one of the ones joining the multitude of borrowers who litter the forfeiture and sub-prime mortgage landscape.

While we've covered a lot of ground in the previous section, we probably haven't covered everything. So just to be sure that we haven't left anything out, we thought we'd start with a review some common myths about homeownership. After all, there's bound to be a lot of things on your mind as you both look for a home and think about sharing your financial situation with a potential lender, so there's no sense being burdened with any of the misconceptions that so many people have. Finally, we'll wrap up with a recommendation that will help you decide the price range you can afford.

Case Study Application:

We'll start as usual with our case study, then we'll move on to some of the misconceptions that can get in the way of getting a home. The situation in the case study may not be typical of your situation, but they do trouble our potential homeowners, and if they don't understand the homeownership situation fully, they may never own one.



CASE STUDY: BILL AND RHONDA'S DILEMMA

Bill and Rhonda have long thought about getting their own home and living the American dream. Several things, however, cloud their thinking and make them wonder if they will ever own a home.

First, while Bill is an American citizen, Rhonda is not. She instead holds a green card, and citizenship is in her future – but they wonder if her lack of citizenship will hold them back.

Secondly, they have always been worried about how easy it would be to get into debt if they had too many credit cards. To avoid this possibility they simply decided to pay all of their bills and do all of their shopping with cash or checks. They have stuck with their strategy, and for the time being they have no credit cards and therefore no credit card debt – but they wonder if this will be a problem when they try to prove that they have a good credit standing.

Finally, and potentially the most worrisome of all, is that fact that Bill has had several jobs in the past few years. It's not that he can't hold a job; it's just that several of the jobs were temporary and he really hasn't found a permanent job yet.

Collectively, Bill and Rhonda wonder if these three factors will keep them from ever getting their dream home.

Some Myths of Homeownership

Some of the concerns in the case study above seem quite plausible, and we can certainly understand how they might prevent some people from even attempting to buy a home. According to Freddie Mac, however, they aren't alone as there are a number of myths and misconceptions that many people hold:¹

“Myth: You need great credit to become a homeowner.

Fact: You may still be able to buy a home if you have less-than-perfect credit. And remember, you can improve your credit over time. But if you are buying a home and you have less-than-perfect credit, talk to a housing counselor who can help you avoid a mortgage you can't afford. It is important to comparison shop. Be wary of a lender who tells you, "Your less-than-perfect credit means that no one but I will work with you to find you a loan."

¹ http://www.freddie.mac.com/corporate/buyown/english/preparing/right_for_you/myths.html



Myth: You need to put 20% down to buy a home.

Fact: There are many types of mortgage products and programs that allow low and no down payments. But remember that your interest rate may be higher for a low or no down payment loan. Also, be sure to factor in other costs such as closing costs, property taxes, moving expenses, and repairs.

Myth: You can't buy a home in the U.S. if you're not a citizen.

Fact: If you're a permanent or non-permanent resident alien, you can purchase a home in the U.S.

Myth: If you don't have a bank account or credit cards, you can't qualify for a mortgage.

Fact: Having a bank account is always a good idea and helps you establish credit. However, lenders can approve you for a mortgage even if you don't have a bank account or credit cards. You'll likely need to keep records showing a history of payments you've made for items such as rent, utilities, and car payments.

Myth: Lenders share your personal financial information with other companies.

Fact: By law, banks and other financial institutions are restricted in their uses and disclosures of information about you. In some situations, you may choose to restrict the disclosure of your information if you don't want it to be shared. If you are unsure how your information will be used, don't be afraid to ask—It's your right to know.

Myth: If you're late on your monthly mortgage payments, you'll lose your house.

Fact: If you have a financial hardship, like the death of your spouse or a medical emergency, and fall behind, it's possible to keep your home and get back on track if you contact your lender early. Even if it is not possible to keep your home, you can sell your home and possibly buy a less expensive one rather than face foreclosure.

Myth: You can't get a mortgage if you've changed jobs several times in the last few years.

Fact: Not true. You can change jobs several times and still get a loan to buy a home. Lenders understand that people change jobs. The important thing is to show that you've had a stable income.

Revisiting the Case Study

If you read Freddie Mac's list of myths carefully, you'll see that each of the three concerns in the case study are common misconceptions. For example, the first concern was that you needed to be an American citizen. While one was a



citizen and the other was not, it would have been possible for them to get the loan even if both were not citizens.

The second concern was that by avoiding credit cards altogether, they had passed up on an opportunity to build a credit history. However, a credit history can also be created in other ways; in their case by presenting a series of cancelled checks to show that their regular bills for gas, water, electricity, and even their car payments were made in full and on time. Of course it's a lot easier to show a good payment history with a credit card summary, but it's not impossible if you do not have one.

Finally there was the issue of Bill holding a series of jobs in the years leading up to the loan application as opposed to having a single, permanent one. However, the key thing the lender is concerned about is that the borrower has a history of steady income, not a history of steady employment at the same job.

The information in the case study doesn't tell us about a number of other things that would be relevant to getting a loan, things such as the total amount of debt that they have, or other assets like property or money in the bank. But until we know more about them, they don't appear to be ineligible for a home loan.

- Can you add to the list of myths provided by Freddie Mac?
- Can you think of other ways to build your credit history?

Getting Your Mortgage Preapproved

Rather than looking for a house you like and then having to scramble to see if you can borrow enough money to buy it, why not turn the process around? In other words, work with a lender first to see how much your financial situation will allow you to borrow, and then go look for the home that will fit that profile.

You may have to pay a small fee for the preapproval, but there are several advantages worth considering:

- You'll know how much you can borrow, and you'll know the price range for your house when you look.
- You'll be better able to discover any unforeseen credit problems that might hinder you later on. Hopefully, there won't be any, but if there are it's always better to know about them sooner rather than later.
- You'll be in a stronger bargaining position when you do decide to make an offer on a home. At a minimum, the seller will realize that he or she is dealing with someone who is making a serious offer.



However, don't make the mistake of confusing a "pre-qualification" with a mortgage "preapproval." The former involves little more than a quick estimate, and therefore only a *rough* estimate, of your borrowing capacity. The preapproval involves a much more thorough check and it will have to be done anyway before the lender is going to accept your mortgage.

Finally, a drawback with the preapproval is that it is only good at the institution that grants it. So, if you were to get preapproved at your credit union, but then later decided to borrow from a local bank, the bank would probably not accept the competitor's preapproval. Because of this, it's always a good idea to look around first to get an idea of where you will try to get the loan before you do the preapproval.

- Do a survey of lenders in your area to see how much it would cost to get a mortgage pre-approved. What were the results?

