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**Are You Ready to Own
Your Own Home?**



Why Not You?

More than two-thirds of people in the U.S. own their home today. And the number keeps growing. But some people still believe that they could never own a home.

Could this be you?

Maybe you're not sure you know enough. Or you worry you can't afford to buy a house or that your credit isn't strong enough.

Maybe you can't imagine saving enough for a down payment. Maybe you don't think you can make mortgage payments.

Think again. Why not you?

The dream of homeownership could be within your reach!

In this chapter, you'll be able to see if homeownership is right for you. You'll also find ways you can prepare to own your own home.

Is Homeownership Right For You?

Before you begin, think about whether owning a home is right for you. Becoming a homeowner takes time, energy and money – but it's worth the effort!

Ask Yourself...

1. Do I have a steady, reliable source of income?
2. Have I been employed regularly for the last 2 years?
3. Do I pay my bills on time?
4. Is my total debt (all credit cards, car loans, etc.) manageable? Can I afford those debts and a mortgage?
5. Do I have some money saved for a [down payment](#)?
6. Do I have some money saved for [closing costs](#)?
7. Can I afford both the mortgage and other expenses, such as electric, water, repair and maintenance costs?
8. Do I plan to live in the house for at least 2 years – long enough to build some equity?
9. Do I have time to take care of a house – including responsibilities like mowing the lawn and repairing my property each spring?
10. Do I have time to devote to buying a home right now? Or are other commitments, like night school, a priority?

If you can answer "yes" to most of these questions, you are probably on your way to owning your own home.

Begin With Your Credit

Your credit report is a history of how you have managed your finances and repaid debt.

When you apply for a mortgage, lenders will review your credit report. Your credit report is a history of how you have managed your finances and repaid debt. It provides information on money you have borrowed and a history of your payments.

Your credit history is pulled together into a credit report by three private companies: Equifax, Experian and Trans Union. These companies sell your credit report to banks and other creditors so they can review mortgage and loan applications.

Your credit report includes:

- A list of debts, such as credit cards and car loans, and a history of how you have paid them.
- Any bills that have been referred to a collection agency. This can include items like phone and medical bills.
- Public record information, such as tax liens or bankruptcies, even if these have happened several years ago.
- Inquiries made about your creditworthiness. An inquiry is made when you request credit. Many times your report will also show if you were given credit based on the inquiry.

Most of the information in your credit report is deleted after 7 years (a bankruptcy is deleted after 10 years) and is continuously updated to reflect the latest information.

It's important that you look at your credit reports from each of the three companies to make sure they are correct. Your credit report may vary from one company to the other.

Credit Reports

To obtain your credit reports, contact the three companies listed above. Under the Fair Credit Reporting Act (FCRA), you can get a free credit report once during any 12-month period if you certify in writing that:

- You are unemployed and intend to apply for employment within 60 days, or
- You are receiving public welfare, or
- You believe that your credit report contains inaccurate information due to fraud

You can also get a free copy of your credit report if you have been the subject of an adverse action – such as being denied credit – within the last 60 days.

What If My Credit Reports Contain Errors?

If you believe that any one of your credit reports contains mistakes and you wish to dispute or correct the mistake, contact the company that developed the report.

Under the Fair Credit Reporting Act (FCRA), the company must complete an investigation, usually within 30 days. Within 5 days of completion, the company must provide you written notice of the results, including a copy of your credit report if it has changed based upon the dispute.

[The Federal Trade Commission](#) (FTC) enforces the FCRA and publishes brochures about credit.

To contact the FTC, call or write:

Federal Trade Commission
Consumer Response Center
6th & Pennsylvania Avenue, N.W.
Washington, D.C. 20580
Phone: (877) FTC-HELP or (877) 382-4357
www.ftc.gov

Credit Scores

If you show a pattern of managing your credit wisely, your credit score will be positively affected.

When you apply for a mortgage, the lender may request a credit score as well as a credit report. A credit score is a computer-generated number that indicates your ability and willingness to repay a debt based on your credit record.

Your credit score is part of the mortgage information that will decide if your application is approved. Your credit score may also be used to determine the mortgage interest rate.

For example, if you charge up to the limit on your credit cards – even if combined they don't add up to a lot of money – this might hurt your credit score. Or, if you have recently applied for a number of credit cards – even if you haven't begun to use them yet – your credit score might be affected.

However, if you show a pattern of managing your credit wisely, keeping credit card balances low and paying your bills on time consistently; your credit score will be positively affected.

Get Your Credit Score!

The most commonly used credit score today is known as a FICO[®] score. Developed by Fair, Isaac & Co. Inc., FICO scores are ranked on a scale of approximately 400 to 900 points. Statistically, consumers with higher credit scores are more likely to repay their debts than consumers with lower credit scores.

You will soon be able to get your credit scores for a small fee by visiting www.fairisaac.com.

Credit Scores Don't Last Forever!

If your credit score is low, remember that no credit score lasts forever. A credit score is a snapshot based on current information in your credit report. There are things you can do today to improve your credit score in the future.

Paying one of your bills a few days late one time usually will not impact a credit score immediately or significantly. Credit scores reflect credit patterns over time. However, an adverse action, like a tax lien or bankruptcy filing, can immediately and significantly impact a credit score.

So manage your credit responsibly. A strong credit history will give you a strong credit score.

Other Factors Count

Lenders review other information besides your credit score and credit record before deciding whether to give you a mortgage. They also look at the following areas:

- Stability of your income
- Employment history
- Monthly debt payments (credit card bills, car loans, etc.) in relation to your income
- How you save money and how much you have saved
- The type of mortgage you are considering
- The type and value of the property you want to buy
- The amount of the down payment you plan to make
- On-time payment of rent and utilities

The key is to have a good balance between your capacity, credit and collateral, the three C's.

Build Good Credit

Building good credit doesn't have to be difficult. Follow these tips and you're on your way:

1. **Pay Your Bills on Time.** How you've paid your bills in the past can indicate how you'll pay in the future. Credit scores emphasize your most recent payment record so if you've been late, start paying on time!
2. **Pay at Least the Minimum Amount Required.** You can always pay more, but you should never pay less.
3. **Keep Credit Card Balances Low.** Don't "max out" your credit cards.
4. **Don't Apply for Too Many Loans or New Accounts.** Requesting a lot of credit in a short time span may concern lenders that you won't manage your debt well.
5. **Establish Credit if You Have None.** Apply for one or two credit cards. Use the cards carefully and pay them off each month.

Things to Remember About Credit:

1. [Get your credit report](#) a few months before you plan to buy a house so you have time to correct any errors before applying for a mortgage.
2. [Find out your credit score](#) and review the information that comes with it.
3. The last 2 years count most. Your credit score looks most closely at the last 2 years.
4. But the last 7 count too! Your credit tracks your payment history over the last 7 years.
5. Shop for a mortgage within a 2 or 3 week period. When you apply for a mortgage, the lender requests your credit report and an inquiry of that request shows up on the report. All inquiries during a 2-week period only show as one inquiry. A couple of inquiries on your credit report are okay, but more can lower your credit score.
6. Don't apply for new credit or make major purchases, such as a new car, right before you apply for a mortgage.
7. Don't be discouraged if you have credit problems. You don't need perfect credit to qualify for a mortgage. But people with perfect credit tend to get better interest rates than people with

less-than-perfect credit. Beware of [predatory lending](#) practices that take advantage of credit problems.

If you haven't been paying your bills on time, start today!

Get Your Financial Picture in Order

Now that you have reviewed your credit, focus on the rest of your financial picture before you buy a home.

Make a Budget and Live Within It!

A budget will help you meet your monthly bills, and therefore help your credit. It also can help increase your savings for things like a down payment on a house.

Demonstrating your ability to save and having funds on hand will help you in the mortgage approval process. Your personal savings should be sufficient to last several months should you lose your job or source of income.

How to Make a Budget:

1. Gather receipts and other records of your past spending.
2. Monitor your spending for a month to find out how much you spend and where you spend it.
3. Set your financial goals. You will be able to afford a home if you plan and save for it over time.
4. Make a plan and stick to it.
5. Make budgeting a part of your regular routine.

Once you get comfortable with a budget, you can be more flexible and make adjustments so you are spending money on things that are most important to you. Use your budget to help you stay within your means and make difficult choices. Set goals for what you can't afford today to ensure that you can afford it in the future.

Take Another Step

- Set a budget for yourself on your projected mortgage payment.
- Remember that your budget should include your utility costs and a set savings amount for future home maintenance and repair costs.

Organize Your Documents

When you're ready to meet with a mortgage lender to apply for a mortgage, you'll need to provide documentation of your income, taxes, bank accounts and other financial papers.

Begin to gather the following documents from your files:

- Your pay stubs for the past 30 days

- Your W-2 forms for the past 2 years
- Information on your long-term debts (car loans, student loans, etc.)
- Recent statements from all of your bank accounts and other savings accounts
- Tax returns for the past 2 years if self-employed
- Proof of any supplemental income
- Records of any past derogatory credit history that have since been paid off
- Records of child support or alimony (either going out or coming in)

Additional Advice

- Do not take money away from your down payment savings to pay off debts with less than 10 months – these debts don't count in underwriting.
- Do not incur any new debt. For example, don't buy a new car a week before you apply for a mortgage.
- Keep your spending in check. Save as much money as possible.