



Introduction

Today, achieving the dream of homeownership is an affordable option for more young adults than ever before. Many first-time homebuyers with limited savings and little credit history become homeowners with the help of the Federal Housing Administration (FHA) home mortgage insurance programs. FHA is part of the U.S. Department of Housing and Urban Development (HUD).

Buying a home is a major purchase that requires financial planning and readiness. As a homebuyer and future homeowner, you want to maintain a good credit history and avoid foreclosure on your home. This brochure will help you understand the benefits of homeownership, how to prepare financially for homeownership, and how FHA home mortgage insurance may help you become a homeowner.

Benefits of Homeownership

In many markets across the United States, homebuyers can find a home that requires a monthly mortgage no higher than the cost of rent. Compared to renting, homeownership may be a better financial decision, offering two powerful benefits:

Increased Wealth. When you take out a mortgage loan to buy a home—whether it is a single family detached house, townhouse, condominium, or a co-op—your mortgage payments help you work toward owning your home while you build equity in your home. Each month, a portion of your mortgage payment goes toward paying the principal and some toward interest.

Equity is your financial interest in the property. It is the difference between the amount still owed on the mortgage loan and the fair market value of the property. Each mortgage payment you make not only helps pay down the principal and interest on your home, but also builds your wealth. Also, the market value of some homes increases over time, allowing their owners to sell them for a profit. In the United States, homeownership is the main path to wealth for individuals and families.

Tax Advantages. As a homeowner, you may be able to take deductions for mortgage interest and real property taxes on your federal income tax return and some state returns. The deductions may lower your taxes. For more information, contact the Internal Revenue Service or consult a tax advisor.

Becoming Financially Prepared

With proper financial preparation, you can enjoy the benefits of homeownership. Here are some ways you can prepare financially to own a home.

Understand Your Credit. Credit is money you borrow to pay for things. Credit is usually referred to as a loan because you make a promise to pay back the money you borrowed plus some interest, which is the cost of borrowing the money. Good credit means you make your loan payments on time and repay the money you owe. If you have a good credit record, it will be easier to borrow money in the future. A credit record that shows problems will make it harder, and

possibly more costly, for you to borrow money in the future. For information about credit and help with debt repayments, contact a HUD-approved housing counseling agency. To find one near you, call toll-free 1-800-569-4287 or search online at www.hud.gov.

Manage Your Credit. If possible, pay off your bills entirely each month. Pay them on time to avoid late fees and to protect your credit. Always check your monthly statement to verify transactions and report suspicious errors to the creditor.

Budget Your Income and Expenses. A budget is a step-by-step savings and spending plan for meeting expenses in a given period of time. Knowing what your income and expenses are every month will help you take control of your financial situation and plan for future expenses.

Understand Mortgage Loan Payments. A monthly mortgage payment is made up of four costs (PITI):

- **P** = Principal: The amount applied to the outstanding balance of the loan.
- **I** = Interest: The amount of the charge for borrowing money.
- **T** = Taxes: One-twelfth of the estimated annual real estate taxes on the home.
- **I** = Insurance: One-twelfth of the annual homeowner's insurance premium. This figure will include flood and mortgage insurance if required.

Your lender will use PITI to determine whether you can afford the mortgage. The tax and insurance amounts will be held in an escrow account on your behalf so the lender can pay them as they become due to ensure that they are paid in a timely manner.

Knowing You Are Ready

How do you know when the time is right for you to become a homeowner? Generally, if you can answer “yes” to the following questions, you are ready:

- Do I have a steady source of income (usually a job)? Have I been employed on a regular basis for the last two to three years? Is my current income reliable?
- Do I have a good record of paying my bills?
- Do I have few outstanding long-term debts?
- Do I have enough money saved for the downpayment and closing costs?
- Do I have the ability to pay a mortgage every month plus other homeownership costs, such as maintenance, repairs, and utilities?



FHA Home Mortgage Insurance

FHA helps individuals and families become homeowners by providing lenders with the security they need through mortgage insurance to lend to first-time buyers who might not be able to qualify for conventional loans.

Advantages of FHA-insured mortgages:

- **A lower downpayment.** With FHA-insured mortgages, your downpayment can be as low as 3 percent.
- **Flexibility.** Compared to conventional loans FHA-insured loans are often more flexible regarding income, debt, and credit requirements.
- **Cash gifts.** FHA allows you to use cash gifts from a relative, nonprofit group, or govern-

ment agency toward your downpayment and closing costs.

To find out if you qualify for an FHA-insured mortgage, visit a HUD-approved housing counseling agency or a HUD-approved lender.

Housing Counseling

HUD supports a network of approved housing counseling agencies that provide counseling services across the nation. Counselors offer advice on the homebuying process, improving your credit record, and budgeting for home expenses and a regular mortgage payment. For a complete list of HUD-approved agencies in your area, call the HUD housing counseling referral line toll-free at 1-800-569-4287 or visit the HUD website at www.hud.gov.

HUD-Approved Lenders

A searchable database of HUD-approved lenders, including banks, mortgage companies, and credit unions, is available on the HUD website at www.hud.gov.

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Achieving the Dream of Homeownership Early in Life

*An Affordable Option for More
Young Adults Than Ever Before*

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