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“WHAT YOU NEED TO KNOW ABOUT HOME FINANCING”

1. GET PRE-QUALIFIED

Find out IF you will qualify

Find out HOW MUCH you will qualify for

You will need to know:

SS#, DOB, Addresses and workplaces for previous 2 years, current income, assets in bank accounts, how much you want your maximum monthly payment to be?

2. SELECT A REALTOR!

Sign a representation agreement! They are working on YOUR behalf and are your expert. They have resources, the forms you need, a sense of property values, access to properties, and know how to negotiate on YOUR behalf. They are also free to the buyer!

3. WHAT LENDERS REQUIRE

A. Minimum Credit scores (credit report) (depends on type of loan and lender)

B. Maximum debt-to-income ratios

House payment to income ratio 31-41%

Total debt to income ratio 41-51%

C. Steady job/income

Paystubs, W-2's, Tax Returns

Hourly or salaried – 1st payday/1 month on the job

Commission, production, mileage or self employed – 2 years tax returns

D. Proof of Funds to close (down payment and closing costs) – bank statements

E. Property Value – Appraisal

F. Clear Title – No Liens, Title paper trail of ownership – title company

G. Proof of homeowners insurance

H. If borrowing more than 80% of sales price then lender requires PMI (private mortgage insurance) It protects lender in case of default

4. TYPES OF LOANS

- A. VA – 100% loan up to \$417000 – no PMI – seller can pay up to 6% of buyer's closing costs – VA has a 2.0-3.35% fee
- B. USDA – 100% loan up to \$417000 – no PMI – seller can pay up to 6% of buyer's closing costs – USDA has a 2.0% fee
- C. FHA – 96.5% loan up to \$271050 – 1.75% up front PMI and .55% PMI monthly seller can pay up to 6% of buyer's closing costs
- D. CONVENTIONAL LOAN – 90% max up to \$417000 – if more than 80% financing then PMI monthly – Seller can pay up to 3% toward closing costs
- E. NON-CONVENTIONAL LOAN – Jumbo loans (above \$417000) 80% max financing

5. DOWN PAYMENT/CLOSING COSTS

A. DOWN PAYMENT

- 1. FHA – 3.5% down payment (can be a gift from blood relative)
- 2. CONVENTIONAL – 10% down payment (5% must be from borrower if borrowing more than 80%). If putting 20%+ down then can be a gift

B. CLOSING COSTS

Seller can pay closing costs if negotiated up front on the contract

Typical closing costs

\$100000 purchase - \$4500 closing costs

\$200000 purchase - \$6500 closing costs

\$300000 purchase - \$8000 closing costs

6. CREDIT – WHAT IS IT?

A. Credit is a record of all accounts that you have had with lenders turned into a score by the 3 credit agencies (Trans Union, Equifax, Experian)

- 1. How much your credit limit was
- 2. How much your balance is
- 3. How much your monthly payment is
- 4. Any 30, 60, 90 day late payments

B. SCORES – 300-850 range Most people fall between 600-700

Current Fannie Mae/Freddie Mac/FHA/VA minimum is 620+

- 1. FHA/VA 620+ gets best interest rate
- 2. Conventional loan – 740+ gets best interest rate. Then in increments of 20 points, the lower the credit score the higher the interest rate
- 3. Example: \$150000 purchase conventional 80% loan
740+ gets 4.5%, 720-739 gets 4.625, 700-719 gets 4.875%, 680-699 gets 5.125%, 660-679 gets 5.5%, 640-659 gets 5.75%, 620-639 gets 6.0%

B. HOW ARE SCORES DERIVED?

Each of the 3 credit agencies develops a score for you based on the following: Late Payments, Collections, Charge-offs, Mortgage Late Payments, Judgements, Tax Liens, Bankruptcy(3-4yrs before can purchase), Foreclosure(4-5 yrs before can purchase), Debt-to-high credit ratios, Types of credit (revolving, secured, mortgage), Timing (most recent activity counts most)

7. APPLYING FOR A LOAN

- A. Broker VS Bank**
 - 1. A Broker has multiple banks - wholesale interest rates – many options
 - 2. A Bank only has their products, rules, rates
- B. GET 2 QUOTES “in writing” on the same day and give them the same information – purchase price, loan amount, type of loan, property address, property taxes, day of closing, seller paid closing costs – in other words compare apples to apples**
- C. INTEREST RATE IS KEY – closing costs are secondary**
- D. LOCK YOUR RATE**
- E. GATHER YOUR DOCUMENTS NOW**

8. RIGHT NOW IS THE BEST TIME IN 50 YEARS TO BUY A HOME!!

- A. More homes on the market than ever**
- B. Home prices are the lowest in many years**
- C. Interest rates are at 50 year lows**
- D. \$8000 first time home buyer tax CREDIT**
- E. Save on federal taxes by deducting interest and property taxes**

WHY WOULD YOU NOT BUY A HOUSE RIGHT NOW?????????

Call me for a free pre-qualification and credit report

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1st Time Home Buyers \$ 8 0 0 0 Tax Credit

First time home buyers or those that have not owned any home for the last 3 years are eligible if they purchase a home between 1/1/2009—12/1/2009.

Only for the purchase of a primary residence

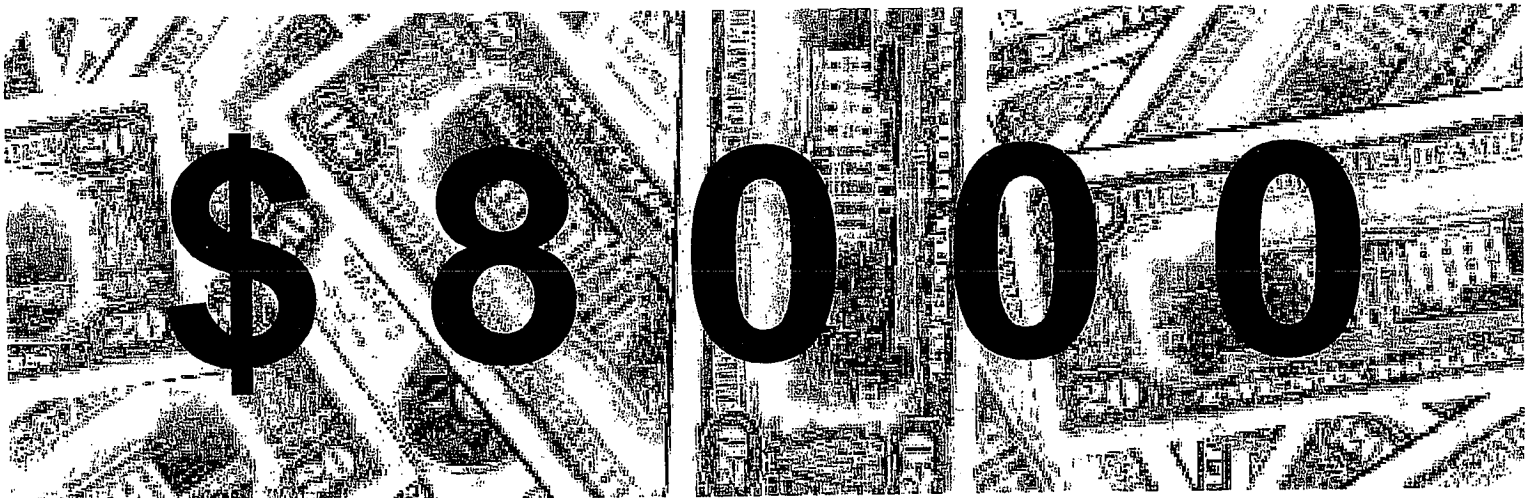
10% of the purchase price up to \$8000 maximum

This is a non-repayable tax credit (providing the buyer owns and lives in the home for 3 years from date of closing)

There is an income limit of \$70,000 / \$150,000 for single / married borrowers and phases out completely at \$90,000 / \$170,000.

If you have already filed your 2008 taxes and have already purchased a home in 2009 then you can file an amendment to your tax return and get your tax credit now.

Don't miss out on this opportunity!



Form **5405**
(Rev. February 2009)
Department of the Treasury
Internal Revenue Service

First-Time Homebuyer Credit

▶ Attach to Form 1040

OMB No. 1545-0074

2008
Attachment
Sequence No. **163**

Name(s) shown on return

Your social security number

Part I General Information

- A Address of home qualifying for the credit (if different from the address shown on return)

- B Date acquired (see instructions)

- C If you are choosing to claim the credit on your 2008 return for a main home bought after December 31, 2008, and before December 1, 2009, check here (see instructions)

Part II Credit

<p>1 Enter the smaller of:</p> <ul style="list-style-type: none"> • \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, or • 10% of the purchase price of the home. <p>If someone other than a spouse also held an interest in the home, enter only your share of this amount (see instructions)</p>	1	
<p>2 Enter your modified adjusted gross income (see instructions)</p>	2	
<p>3 Is line 2 more than \$75,000 (\$150,000 if married filing jointly)?</p> <p>No. Skip lines 3 through 5 and enter the amount from line 1 on line 6. Yes. Subtract \$75,000 (\$150,000 if married filing jointly) from the amount on line 2 and enter the result</p>	3	
<p>4 Divide line 3 by \$20,000 and enter the result as a decimal (rounded to at least three places). Do not enter more than 1.000</p>	4	X
<p>5 Multiply line 1 by line 4</p>	5	
<p>6 Subtract line 5 from line 1. This is your credit. Enter here and on Form 1040, line 69</p>	6	

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

Use Form 5405 to claim the first-time homebuyer credit. The credit may give you a refund even if you do not owe any tax.

For homes purchased in 2008, the credit operates much like an interest-free loan. You generally must repay it over a 15-year period. For homes purchased in 2009, you must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. See *Repayment of Credit* on page 2.

Who Can Claim the Credit

In general, you can claim the credit if you are a first-time homebuyer. You are considered a first-time homebuyer if:

- You purchased your main home located in the United States after April 8, 2008, and before December 1, 2009.
- You (and your spouse if married) did not own any other main home during the 3-year period ending on the date of purchase.

If you constructed your main home, you are treated as having purchased it on the date you first occupied it.

Main home. Your main home is the one you live in most of the time. It can be a house, houseboat, house trailer, cooperative apartment, condominium, or other type of residence.

Who Cannot Claim the Credit

You cannot claim the credit if any of the following apply.

1. Your modified adjusted gross income is \$95,000 or more (\$170,000 or more if married filing jointly). See the instructions for line 2.
2. You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any tax year. This rule does not apply for a home purchased in 2009.
3. Your home financing comes from tax-exempt mortgage revenue bonds. This rule does not apply for a home purchased in 2009.
4. You are a nonresident alien.
5. Your home is located outside the United States.
6. You sell the home, or it ceases to be your main home, before the end of 2008.
7. You acquired your home by gift or inheritance.
8. You acquired your home from a related person.

A related person includes:

- a. Your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.).
- b. A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation.
- c. A partnership in which you directly or indirectly own more than 50% of the capital interest or profits interest.

For more information about related persons, see *Nondeductible Loss* in Chapter 2 of Pub. 544, *Sales and Other Dispositions of Assets*. When determining whether you acquired your main home from a related person, family members in that discussion (except item 7) include only the people mentioned in 8a above.

Amount of the Credit

Generally, the credit is the smaller of:

- \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, or
- 10% of the purchase price of the home.

You are allowed the full amount of the credit if your modified adjusted gross income (MAGI) is \$75,000 or less (\$150,000 or less if married filing jointly). The phase-out of the credit begins when your MAGI exceeds \$75,000 (\$150,000 if married filing jointly). The credit is eliminated completely when your MAGI reaches \$95,000 (\$170,000 if married filing jointly).

Repayment of Credit

Homes purchased in 2008. You generally must repay the credit over a 15-year period in 15 equal installments. The repayment period begins in 2010 and you must include the first installment as additional tax on your 2010 tax return.

If your home ceases to be your main home before the 15-year period is up, you must include all remaining annual installments as additional tax on the return for the tax year that happens. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

Example 1. You claimed a \$7,500 credit on your 2008 tax return. You must include \$500 ($\$7,500 \div 15$) as additional tax on your 2010 tax return and on each tax return for the next 14 years.

Example 2. You claimed a \$7,500 credit on your 2008 tax return. In 2009, you sold the home to your son. You must include \$7,500 as additional tax on your 2009 tax return.

Exceptions. The following are exceptions to the repayment rule.

- If you sell the home to someone who is not related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit you did not repay.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you continue to pay the installments over the remainder of the 15-year repayment period.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for making all subsequent installment payments.

- If you die, any remaining annual installments are not due. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the remaining repayment amount.

Homes purchased in 2009. You must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation. You repay the credit by including it as additional tax on the return for the year the home ceases to be your main home. If the home continues to be your main home for at least 36 months beginning on the purchase date, you do not have to repay any of the credit.

If you and your spouse claim the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit.

Exceptions. The following are exceptions to the repayment rule.

- If you sell the home to someone who is not related to you, the repayment in the year of sale is limited to the amount of gain on the sale. (See item 8 under *Who Cannot Claim the Credit* for the definition of a related person.) When figuring the gain, reduce the adjusted basis of the home by the amount of the credit.
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and you acquire a new main home within 2 years of the event, you do not have to repay the credit.
- If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for repaying the credit.
- If you die, repayment of the credit is not required. If you filed a joint return and then you die, your surviving spouse would be required to repay his or her half of the credit.

Specific Instructions

Part I General Information

Line B. Enter the date you acquired the home. This is the date you purchased it (or the date you first occupied it if you constructed your main home).

Line C. You can choose to claim the credit on your 2008 Form 1040 for a main home purchased after December 31, 2008, and before December 1, 2009. If you make this choice, check the box.

Part II Credit

Line 1. If two or more unmarried individuals buy a main home, they can allocate the credit among the individual owners using any reasonable method. The total amount allocated cannot exceed the smaller of \$7,500 (\$8,000 if you purchased your home in 2009) or 10% of the purchase price. See *Purchase price* on page 3.

Note. A reasonable method is any method that does not allocate all or a part of the credit to a co-owner who is not eligible to claim that part of the credit.

Purchase price. The purchase price is the adjusted basis of your home on the date you purchased it. This includes certain settlement or closing costs (such as legal fees and recording fees) and your down payment and debt (such as a first or second mortgage or notes you gave the seller in payment for the home). If you build, or contract to build, a new home, your purchase price can include costs of construction. For more information about adjusted basis, see Pub. 551, Basis of Assets.

Line 2. Your modified adjusted gross income is the amount from Form 1040, line 38, increased by the total of any:

- Exclusion of income from Puerto Rico, and
- Amount from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.