

Homeownership Guide

A Resource for People with Developmental Disabilities

**FOR SAN DIEGO
AND IMPERIAL COUNTIES**

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Preface

Homeownership is truly the American Dream. It transcends racial and economic differences to unite two of the most significant elements of our national identity—the yearning for independence and self-determination and the bonds of community and mutual responsibility.

Jim Johnson
Chairman, Fannie Mae

Community Interface Services has long been committed to the ideal that all persons, including those with developmental disabilities, have the right to make the important decisions that affect their lives. One fundamental decision involves how and where to live—in an apartment or a house, alone or with others, in the city or in the country.

Homeownership is one living option that is often overlooked by persons with developmental disabilities or by those that help to support them in the community. Cost, responsibility, maintenance, and loss of benefits are all cited as reasons why homeownership would be unrealistic for persons with developmental disabilities. While these issues are legitimate concerns for many, a national movement has been growing since the mid-1990's which addresses these concerns and shows that, indeed, homeownership often is not only a realistic option, but in many situations is, in fact, the best option.

Certainly, homeownership is not a realistic choice for all persons with developmental disabilities; in reality, there may only be a small percentage that has the resources, commitment, and support to complete the lengthy process of becoming a homeowner. Since the late-1990's, especially in "hot" housing markets such as the San Diego region, homeownership has become almost impossible for lower income families. In fact, several surveys have ranked the San Diego region among the least affordable housing markets in the country. For persons with severe disabilities in the lowest income categories, homeownership in Southern California may be all but impossible without tremendous outside financial resources and assistance from family members.

However, given the benefits of ownership, it is an option that is worthy of consideration, and should be one of the living options considered along with renting, shared housing, congregate living facilities, etc. There is no reason that persons with developmental disabilities should be automatically excluded from the living option that most persons in America consider to be the ultimate ideal—to own a home of their own.

The purpose of this Guide is to present an introductory review of the ownership option to persons with developmental disabilities and to those who work with and support them. Obviously, there are many issues to consider, for ownership is not something to be entered into lightly. The Internet is a tremendous resource, and is an ideal way to get the most recent, in-depth information on specific homeownership topics. Throughout this Guide, the reader will be referred to various web sites that have proven useful, but keep in mind that Internet addresses may change frequently.

This Guide is not meant to provide comprehensive answers for every scenario an individual may encounter as she or he works to become a homeowner. Individuals and families are urged to seek advice from qualified real estate and legal professionals on complex questions relevant to their unique circumstances. There are so many variables that no one source can provide all the answers. However, we hope this Guide will serve as a starting point to help individuals determine whether homeownership is something they wish to pursue, and if so, how to make informed decisions during the process.

Glossary

Buying a home is a complex and intimidating process for most people. The concepts and terms may be unfamiliar and difficult for many persons to understand. The following glossary provides some definitions of common terms encountered while researching homeownership.

Appraisal—Determines the fair market value of a property, usually done by an unbiased third party to determine a fair price for a property in a real estate transaction.

Bylaws—The operating rules for a condo association. Bylaws authorize the board of directors to create a budget, assess fees, hire professional management staff and perform other operating duties.

Closing Costs—Costs the buyer must pay at the time of closing in addition to the down payment, including points, mortgage insurance premium, homeowner's insurance, tax prepayments, etc. Costs average about 2%–7% of the loan amount. In some cases, a buyer may be able to negotiate for a seller to pay some of the closing costs.

Covenants, Conditions, and Restrictions (CCR's)—In a condo association, private restrictions on the use of project property; usually created by the developer.

Down Payment—An initial amount of money given as partial payment at the time of purchase. When buying a home, most lenders require a down payment from the buyer, usually 2% to 10% of the purchase price of the property.

Escrow—A procedure in which a third party acts a stakeholder for both the buyer and seller, carrying out both parties' instructions and assuming responsibility for handling all of the paperwork and distribution of funds. Escrow is the last step before a buyer actually takes possession of the home, and the escrow process can take 30–45 days or more.

Impound Account—A separate account held by a mortgage company and paid into by the homeowner through the regular monthly payment. If an impound account is established, a portion of the owner's monthly payment goes into the account, which then is used by the mortgage company to pay taxes and insurance on the property. This relieves the homeowner from the burden of making separate payments for taxes and insurance.

Interest Rate—An ongoing fee charged for borrowing money, paid over the length of the loan. A bank makes a mortgage loan at a certain interest rate, which may be fixed or variable. For the borrower, generally a lower interest rate is better since the borrower will pay less to borrow the money.

Lien—A legal hold or claim on property as security for a debt or charge. When a bank makes a mortgage loan to a homebuyer, the bank has a lien on the property until the mortgage is paid off. In effect, the bank “owns”, or has an ownership interest in, the property until the loan is repaid in full and the lien is removed.

Loan-To-Value Ratio (LTV)—The relationship between the amount of the mortgage and the appraised value of the property, expressed as a percentage of the appraised value. For example, on a property appraised at \$100,000, a \$90,000 mortgage would be 90% LTV.

Mortgage—A loan provided for the purpose of buying a property, repaid with interest over a set period of time.

PITI—Principal, interest, taxes, and insurance. This abbreviation refers to the total monthly house payment.

PMI—Private mortgage insurance. Insurance written by a private company protecting the lender against loss if the borrower defaults on the mortgage. PMI is generally required by the bank on loans of 80% LTV or greater, and is an added monthly expense that should be calculated in by the homebuyer.

Point—A fee charged by a mortgage lender equal to 1% of the amount being borrowed; on a loan of \$100,000, one point equals \$1,000. The lender may charge the borrower several points in order to make the loan, or the borrower may choose to pay several points in order to lower the interest rate of the loan.

Pre-approval—Begins the loan application process; a screening has been performed to check a buyer’s credit files, and the lender believes that a buyer can qualify for a given loan amount with one or more specific mortgage programs.

Property Taxes—Taxes (based on the assessed value of the home) paid by the homeowner for community services such as schools, roads, police, etc. Generally paid into an impound account as a part of the monthly mortgage payment.

Purchase Agreement—A written document in which the purchaser agrees to buy and the seller agrees to sell certain real estate under stated terms and conditions. Also called a sales contract, earnest money contract, or agreement for sale. It should include financing and inspection contingencies.

Principle—The loan amount, not including lender fees, interest, insurance, etc.

Realtor—A person who helps a buyer to find an appropriate property to buy, and/or helps a seller find a buyer. Realtors are paid a fee or commission, usually a percentage of the purchase price, which is included in closing costs.

Title—Legal document specifying who owns or has an ownership interest in a property. When a person buys a home, the bank that provided the mortgage will be named on the title as a lien holder, along with the homebuyer.



Section | Background

A few short decades ago, the majority of individuals with a developmental disability lived either in state facilities or with family members where they generally had little or no control over their living environments. This situation began to change in the 1960's with deinstitutionalization, when large numbers of individuals moved from institutional settings such as state hospitals and developmental centers into smaller group homes located in residential communities. In these settings, individuals still had limited control over their surroundings, but had the opportunity to become more involved in the community and participate to a greater extent than before.

Group homes, while ideal for many individuals and a big improvement over past living options, still left much to be desired for individuals wanting more control over their lives. In the 1980's and 1990's, many individuals began to take advantage of independent or supported living options, which helped them increase their independence considerably. Individuals were able to move into apartments or houses that they rented alone or with others, with their own names on the leases, and receive needed supports in those settings. In this way, individuals experienced new degrees of freedom, choice, and control over their surroundings.

Despite advances in independence and inclusion, individuals and support staff involved in considering living options usually stopped short of the next logical option—homeownership. The idea that a person with a developmental disability, on a low and/or fixed income, could actually buy a home was so extraordinary that it did not even occur to many people. Most adults in America strive to own their own home as the ultimate expression of independence, a way to “put down roots” and control their environment while becoming an integral part of the larger community in which they live. But can people with developmental disabilities share this goal, and if so, can they realistically hope to attain it? For some, the answer is yes.

If one is willing to “think outside the box”, the idea of ownership can make a lot of sense—for the individual as well as for the community. Ownership provides a sense of control and belonging that cannot be found in the living arrangements that have generally been available to persons with developmental disabilities. By owning their homes, individuals truly have control over their homes—how they are decorated and furnished, who comes and who goes. Additionally, when people become homeowners, they become “vested” in their communities in a way that is impossible when renting—they contribute to the economy as borrowers, taxpayers, and consumers of many goods and services.

Given the benefits of homeownership for the individual and for the community, it does both a disservice to not seriously consider homeownership as an option. Even an individual who is clearly not yet ready for homeownership can consider it as an option to work toward for the future.



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Modifications to the Home

SSI Considerations



Individuals should take as much time as needed to consider homeownership as an option. The last thing anyone should do is rush into homeownership. There are advantages and disadvantages to both owning and renting. This section outlines some of the issues to consider, and should help a person determine their readiness for homeownership. For those who may not be ready at this time, but would eventually like to become homeowners, it may be helpful to begin considering these issues early on.

A great way for anyone to get started, disabled or not, is to take a homebuyer education class. These classes are generally offered for free by various agencies throughout the community, and are basically quick crash courses in homeownership for persons with little or no prior knowledge about owning a home. The classes are usually only about six to ten hours long, and give a basic overview of how the process works, what different terms mean, and how to best prepare for homeownership. It is highly recommended that all individuals start with completing this education. In fact, many lenders require proof of homebuyer education before approving a loan, as a way of ensuring that borrowers really understand the responsibility they are taking on.

The Relative Benefits of Owning Versus Renting

The following was adapted from the California Department of Developmental Services' Affordable Housing Guide.

Control of Exterior and Interior Design

Advantage: owner

Owners generally have total control over the exterior and interior design of their homes. They can make modifications to the home to make it more accessible or enjoyable for them. They can determine what color to paint the walls, how to landscape, what to hang on the walls, etc. However, condo owners and certain homeowners will have to abide by the rules of a governing association, which may have certain policies regarding decorations, landscaping, and exterior appearances.

Renters generally are not allowed to make modifications to their apartments. The landlord imposes limits on changes and a renter could end up wasting money on changes or adaptations that cannot easily be moved to another home at the end of the lease period.

Control of Activities

Advantage: owner

Owners have control over activities in their homes (within limits of the law and the rules of any homeowner's or condo association). They can generally have people over to visit, rent out a spare room to a roommate, have a pet, etc.

Renters must abide by the rules of the apartment lease, which may specify no pets, no waterbeds, no additional people living in the unit, etc.

Stability of Residence

Advantage: owner

Owners have a home for as long as they choose to remain in it and are able to continue making mortgage and tax payments.

Renters may remain in an apartment as long as the lease is renewed and they can continue to make rent payments. The lease may not be renewed, at the landlord's discretion, in which case the renter would need to find a new place to live and move.

Stability of Payments

Advantage: owner

Owners (with a fixed rate mortgage) have relatively stable housing payments over the life of the mortgage, which may vary only occasionally due to tax or insurance changes, or maintenance costs.

Renters (especially in very competitive and high cost markets such as Southern California) can expect their housing costs to increase steadily with rental increases.

Equity

Advantage: owner

Owners, over time, establish cash value in their homes that can be used as collateral to borrow money for other items, cashed out at the sale of the house, or transferred to the purchase of a new home. After the mortgage is paid off (generally 30 years), the owner's housing expense drops dramatically, as she or he then owns the home free and clear and is only responsible for continued maintenance, taxes, and insurance.

Renters do not build equity in their homes. Their rent payments go to the landlord to help pay off the landlord's mortgage on the property. After 30 years of making rent payments, a renter would still have nothing permanent to show for it.



Taxes

Advantage: owner

Owners have the ability to deduct the interest on a home loan from personal taxable income. Many states also offer a tax deduction for homeowners. This deduction is available for taxpayers who itemize their deductions. Property taxes, some closing costs such as home inspections, appraisal, or loan application fees, and loan points during the year that you pay them are also deductible.

Renters cannot deduct any portion of the cost of their rent payment from their taxes.

Unexpected Costs

Advantage: renter

Owners may be confronted with significant, sudden, and unexpected costs for repair or replacement of major appliances, systems, or structures in the house. For example, if the roof needs replacement, the water heater explodes, or there is termite damage, the owner could have to deal with tremendous added expense that may be difficult to handle.

Renters generally are not responsible for major unexpected costs of repairs and replacements. If the refrigerator breaks or the roof needs replacement as a result of normal wear and tear, the landlord is responsible for those expenses. However, in some cases, the costs of repairs may be passed on to the renter in the form of a rent increase.

Entry Costs for Housing

Advantage: renter

Owners face significant costs in securing a home loan, including down payment, closing costs, and loan fees. These costs will vary depending on the purchase price and other factors, but generally will be at least several thousand dollars.

Renters also have significant costs associated with securing housing, but they are generally far less than for a homeowner. Landlords may require first month's rent plus a security deposit equal to one month's rent before an individual can move in to an apartment.

Flexibility to Move

Advantage: renter

Owners, once they enter into a mortgage, are limited in their flexibility to move. While an owner always has the option of selling the home, if she or he does so in the first five to ten years, there may be a large financial loss as most of the mortgage payments in the first years of the loan goes to the interest on the loan, not toward the actual cost of the home.

Renters have much more flexibility to move than do owners. Although they may be locked into a lease, lease terms are generally no more than one year, and many leases will allow a renter to rent month to month after the first year.

Property Upkeep

Advantage: renter

Owners are responsible for maintaining the exterior of their house and the land around it, including yards, shrubbery, and sidewalks. This may involve significant work or large costs if someone else is paid to do the work.

Renters generally are not responsible for maintaining the exterior of their home and surrounding property

While the previous list outlines some major considerations, it is really up to the individual to weigh each of the areas and determine which means the most to him or her personally, and which is truly an advantage or a disadvantage.

Another important point to consider when thinking about homeownership is the long-term commitment involved. Many people, especially younger people who do not have a lot of experience living on their own, have a difficult time conceiving of the commitment homeownership requires. It is not unusual for a person who is renting to move around frequently, sometimes every few years, as jobs or preferences change. However, buying a home requires that a person be able to confidently make what may be a lifetime commitment to a home and the neighborhood that surrounds it. This is not something to be taken at all lightly. Certainly, it is possible to get out of a home if a person decides she or he must, but doing so can involve tremendous financial and personal hardship, and the costs may be prohibitive. Therefore, any home buying decision should really be entered into as a permanent commitment. This means finding a home and neighborhood about which a person can confidently say, "Yes, this is what I want for the rest of my life. This works for me."



Those who are not ready to make the commitment at this time in their lives should not proceed with buying a home. They may always keep the option open and even save money for the day when they are ready. The decision not to proceed at this point is not necessarily a bad thing. If, after careful consideration, homeownership is not the right choice at the time, then the individual is much better off for having realized this early in the process, rather than a year or two into a 30 year mortgage.

Financing

Once the decision has been made to pursue homeownership, the next question usually is “How can homeownership be afforded?” Well, there are whole books written on this topic alone, and it is beyond the scope of this Guide to address all possible financing scenarios. However, before getting into any details, readers should be aware that many individuals will not be able to get past the financing hurdle, or at least not right away. For many low-income persons with developmental disabilities, there is simply not enough income and additional financing to purchase a home, especially in a high-priced market like Southern California. No one should get their hopes up too much in the early stages, because it may just not work out.

That said, many low-income individuals that never would have thought they could be homeowners have, in fact, been able to purchase homes through some very creative and original financing. Here, we’ll outline the general structure of a typical deal to provide some idea of what future homebuyers can look (or hope!) for.

Assuming the potential buyer has not just won the lottery and does not have a rich uncle that is eager to buy him or her a new home, the first step, or piece of the puzzle, is arranging a mortgage loan. Even very low-income persons (assuming they have good credit and stable income) can usually qualify for a mortgage. The problem is that the mortgage will be based on the income - the lower the income, the less the borrower will qualify for. For most low-income persons in high-priced markets, that mortgage amount is nowhere near the actual cost of even a very affordable home. For example, someone with just SSI income of \$800 per month might qualify for a \$30,000 mortgage.

The next step is to start “layering” additional funds on top of that mortgage amount to try to “fill the gap” between the loan amount and the price of a home. These funds can come from many different sources, but will depend on the individual situation and what he or she qualifies for. There may be some money from the individual’s savings, some money from a family member, some money from a housing agency first-time homebuyer program, some money from the lender (in addition to the loan), some

money from a nonprofit agency, some money from an additional grant ...It may get very complicated, but it is not uncommon for there to be four or five sources of funding in addition to the individual's mortgage

Obviously, the financing for any individual's deal will be very unique, but it is a good idea early on to start thinking about what financing sources are available that might help with a home purchase.

Down Payment and Closing Costs

A down payment is cash that a homebuyer must have to make up the difference between the loan amount and the actual purchase price of the home. There are many advantages to a buyer making as large a down payment as possible. With a larger down payment, less money will need to be borrowed. This can result in significant savings over the life of the loan. Some lenders will offer a lower interest rate and/or savings in loan costs to buyers able to make a larger down payment. Many lenders these days offer well-qualified borrowers loans that require no downpayment. While that may sound like a great deal initially and does make it easier to get into a home by reducing the upfront costs, it also means that a larger amount is financed over the life of the mortgage. With a "zero down" loan, the borrower will ultimately pay much more than if he or she put in a down payment.

The down payment amount required by the lender will vary depending on the home and the loan, but generally at least 2% or 3% of the purchase price will be required for the down payment. Along with the down payment, a buyer will need money for the closing costs. Closing costs are the fees associated with actually processing the loan, and these also will vary depending on the transaction. For the combined down payment and closing costs, a buyer should plan on needing at least 4% to 5% of the purchase price in cash. On a home with a price of \$200,000, down payment and closing costs could come to \$8,000 to \$10,000. Down payment and closing costs are often the biggest hurdle potential homebuyers face. They may have good credit and be able to handle the monthly payments, but cannot save up enough money to cover these upfront costs.

Assistance with Down Payment and Closing Costs

Fortunately, there are some good options for individuals who are having a difficult time saving the down payment and closing costs. The best option might be assistance through a local or state housing agency "first-time homebuyer" program. Most housing agencies offer these programs, which are set up to encourage homeownership



among low and moderate income citizens as a way of redeveloping neighborhoods and increasing property values. In these programs, the housing agency makes a grant (typically a zero interest, no payment loan) to be used for down payment and/or closing cost assistance.

These grants are often called “silent seconds”, which means the housing agency is named as a lien holder on the title, and can demand payment if the house is sold or rented within a specified time period. Most housing agencies in San Diego County, including Oceanside, Carlsbad, San Diego County, San Diego City, Santee, Escondido, National City, and Vista, and the Imperial County housing agency offer some form of homebuyer assistance. The specifics of these programs vary from area to area and depend on the current availability of funds; the local housing agency should be contacted directly for the most current information.

Another option is assistance from family members or friends. Often, parents may have been able to put aside money to be used for their adult child, and this money can be gifted to the individual to assist with buying a home.

Type of Home

The type of home an individual would like to buy should also be considered. Each type of home has certain advantages and disadvantages that should be carefully weighed. Of course, the type of home a person actually purchases may be greatly affected by what is affordable and how much of a mortgage the individual qualifies for. It is worth considering these factors early on, as they may influence the planning process.

A single-family detached house is probably the most common housing style, and it is what most people think of when they think of a home. This type of home has the advantage of not sharing walls with a neighbor, more flexibility with decorating and modifications, and usually has at least a small yard. However, single-family detached housing can be more expensive, and has added maintenance and upkeep responsibilities.

A manufactured home is another choice. Manufactured homes are what people often call “mobile homes”, but many newer manufactured homes are virtually indistinguishable from conventional homes. Manufactured homes are actually houses built in sections at a factory, transported to a site, and assembled. Manufactured homes also have the advantage of no shared walls, generally have some yard depending on the site, and can be a more affordable option. However, the lower

purchase price of manufactured housing may be offset by the difficulty and added expense of financing. Many lenders do not offer loans for manufactured housing, because manufactured housing can depreciate quicker and may therefore be considered less secure as collateral for the loan. Those lenders that do offer financing generally charge a higher interest rate, require a shorter repayment term (perhaps ten years as opposed to a traditional 30 year mortgage), and may only make loans on homes less than 10–15 years old.

A condominium, or condo, is another common option that has a lot of benefits. A condominium is in many ways like an apartment that is bought rather than rented. Condos are single units located in developments with other condos, and generally share walls with neighbors on at least one or two sides, so there may be some loss of privacy. There are usually “common areas” which the condo owners share, and these can include pools, parks, and recreation facilities. Condo owners must join and pay monthly fees to the condo association, which then is responsible for most of the upkeep and maintenance to the grounds and facilities. Condominiums are governed by a board of directors elected by residents, and must observe bylaws, covenants, conditions and restrictions adopted by the board. The biggest advantage to buying a condo is that they are among the most affordable homes on the market. However, when considering the cost of a condo, a buyer must keep in mind the association fees, which can add hundreds of dollars onto the monthly housing expense.

Another form of attached housing is a townhouse, which is a two-floor unit that shares a common wall with at least one other townhouse, formed in clusters known as rowhouses. The homeowner has the title to the unit and the land under the unit and shares the title to common areas, if there are any. Homeowners’ associations are also a part of owning a townhouse, and dues must also be paid quarterly or annually to the association for landscaping and other purposes.

When contemplating the purchase of a condominium or townhouse, it is important to inspect a copy of the master deed, which is the document that governs the homeowners association. It should be available for inspection before purchase, as well as a copy of the bylaws and current operating budget of the homeowners’ association. If more than 60 percent of the units in an association are occupied by non-owners, a lender may not make a loan on a unit. Other areas to investigate include the association’s reserve fund, which would need to cover a potential emergency repair, whether or not the members of the board of directors have a good relationship, and any pending litigation against the association. It is also within a homebuyer’s right to have the whole complex inspected by a building inspector after inspecting the unit. This may alert the buyer to potential problems in the future.



Location, Location, Location

Along with the type of home, a potential homebuyer should begin considering where she or he wants to live—in the city or the country, near the beach or inland, near the mall and shopping or away from it all. It is very important to take into account how close to work a home is—a long commute to and from work can really detract from a person's enjoyment of a home. Does the home need to be close to freeways or bus routes? Will friends and family have a difficult time getting to the home to visit?

Of course, most homebuyers will be limited in the locations they can realistically consider based on what they can afford to buy. There are Internet sites (such as www.realtor.com and www.houseandhome.msn.com) which allow users to type in zip codes or cities to check recent selling prices of other homes within the same area. This research can give homebuyers some insight into the affordability of preferred locations.

An individual may wish to live in the neighborhood, even if only renting an apartment for six months, before seriously considering buying a home there. That is the best way to truly determine if a particular neighborhood is the right place for an individual—if the neighbors are friendly, what the traffic and noise levels are like, etc. Asking the seller questions about the neighborhood is also a good way to find out if the area is a good place to live. Has the seller lived there a long time? Why is she or he relocating?

Modifications to the Home

With any home a person considers, she or he must keep in mind how accessible the home is. If a person uses a wheelchair, she or he will need a home that is wheelchair accessible or can be easily modified. Even those persons who do not currently have a physical disability would do well to keep accessibility in mind. As a person ages or if she or he has an accident, unanticipated accessibility issues may present themselves.

If an individual has accessibility issues and may need to make modifications to a home to make it accessible, the possible modifications should be outlined at this point to help with the house hunt and in locating possible sources of financing. Modifications to the home and/or any home improvements are not tax-deductible.

SSI Considerations

Many people have concerns about how homeownership will affect any public benefits they are receiving. In some cases these concerns are valid, and may complicate the home buying process or make it impractical. However, in most cases, homeownership does not have to affect benefits, and homeownership and public benefits may be perfectly compatible if handled correctly. The review of the topic in this Guide is a general discussion of the current situation only, and should not be taken as legal advice or the final word on the topic. Social Security regulations, and the interpretation of the regulations, can change over time. If there is any question that buying a home may jeopardize a person's benefits, it is strongly recommended that a lawyer or expert familiar with Social Security be consulted.

A widespread misconception exists that a person receiving public benefits, such as SSI or Medi-Cal, cannot own a home without losing those benefits. Actually, an individual can own or have an ownership interest in a home of any value and not have it effect eligibility for benefits as long as that home is the primary place of residence. Therefore, owning a home is not the problem; the challenge is to buy the home without jeopardizing benefits.

Trusts and Special Needs Trusts

An individual or family may wish to consider forming a trust or participating in a special needs trust to either provide a home or to pay for regular maintenance and upkeep associated with homeownership. There are many ways a trust can be set up, but in general, a trust will allow for the needs of an individual with a disability to be met without an effect on SSI, since all resources go into the trust rather than directly to the individual. The trust then provides for the needs of the individual.

Trusts have been available in the past, but generally required substantial sums of money beyond the capabilities of most families. In San Diego, the Special Needs Trust Foundation has been formed to allow families to pool smaller amounts of money, as little as \$5,000, and share the benefits of a larger trust. The trust option may be worth considering for many families. Interested families should contact the Special Needs Trust Foundation at (619) 338-4477 or an attorney specializing in trusts for more information.

Also, a home can actually be owned by a trust rather than an individual. Depending on individual circumstances, it may be wise for a trust to maintain ownership of a home rather than the individual. Again, an attorney specializing in trusts should be contacted to advise individuals and families on this option.



Down Payment and Closing Costs

As mentioned earlier, a homebuyer will need to have considerable funds available for down payment and closing costs. For most people this is a problem, but it is even more of an issue for someone receiving SSI. Even assuming someone's income is sufficient to save this much money, SSI prohibits accumulating more than \$2,000. Saving money past the \$2,000 resource limit will affect benefits.

A gift of cash or resources that can be used for food, clothing, or shelter will be counted as a resource and could affect the individual's benefits—if not spent within the month in which the gift is received. If any gift received is spent during the same month, it can't be counted as a resource. Also, a grant made to a party other than the individual cannot be counted as resources for that individual and should not affect his or her benefits. So for the purposes of buying a home, family, housing agencies, foundations, or coalitions can assist by depositing a grant directly into the escrow account once the home has been chosen.

Monthly Payments

The SSI recipient must pay his/her own "shelter costs", inclusive of mortgage payments, real estate property taxes, heat, electricity, water, etc. Others can help with expenses such as telephone and cable bills, cleaning, landscaping, and maintenance costs, plumbing and repair bills, and the purchase of furniture and equipment (up to the resource limit). So, for example, a parent can pay for incidentals such as cable, phone, maintenance and major purchases, or hire a gardener or housekeeper, without affecting the adult child's benefits. It must be remembered, however, that the individual must pay the primary shelter costs.

One way to share some of the primary shelter costs is to rent part of the home. Part of the home can be rented without a major (or any) effect on SSI. Only profit from renting is considered income. As long as the renter is paying only his/her fair share of the mortgage, interest, taxes, utilities, and maintenance costs, there is no profit.

So, owning a home is acceptable for an SSI recipient, but how can it all come together so an individual can actually get to the point of owning a home without losing benefits? For clarification, let's take a look at a hypothetical homebuyer named Joe and walk through a very simplified homebuying scenario to see how it can work. Joe receives SSI, works part-time, and is interested in buying a small house or condo, and he has parents who are able to help. His parents have put aside approximately \$10,000 to help Joe. Joe has a good solid credit history and has saved \$1,000 himself. He is pre-approved for a mortgage, with the lender factoring in his SSI and work income, plus assistance from Joe's parents (which is still in the parent's bank

account, thus not affecting Joe's SSI) and assistance from a housing agency in terms of a "silent-second" mortgage for \$10,000.

Once pre-approved, Joe adds these resources onto his pre-approved loan amount to arrive at a total amount he can afford to spend for a home. Working with a Realtor, he finds a condo to make an offer on. A price is agreed upon, and escrow is opened. At this point, Joe's parents deposit the money they have saved into the escrow account, and the housing agency funds its \$10,000 silent-second mortgage (this is a loan, not a gift, so it won't affect Joe's benefits). Escrow closes, and Joe moves into his new home. The funds that were used to assist with downpayment and closing costs went directly into escrow, or, in the case of the housing agency funds, are technically a loan (even though the loan may be forgiven in the future). There is no loss of benefits, and Joe is now in his own home.

Obviously, the above example is overly simplified for illustration, and assumes everything has been well thought out and goes smoothly. Careful planning and preparation is really the key to putting together the situation. In any home purchase, there are many different parties involved, and many different steps and processes that all need to work together. It is very important to look at all the different possibilities, figure out what will work best, and lay out a timeline so everything comes together favorably at the end. Some steps may take longer than expected, which may throw off the carefully planned timeline and cause great anxiety for those involved in the purchase. If this happens, it may be helpful to keep in mind the end result: actually owning a home.



Section The Process

Determining Who is Really Ready

Finding the Right Lender

Pre-Qualification and Pre-Approval

Home Shopping and Working with a Real Estate Agent

Purchasing the Home

Insurance



This section outlines the road to homeownership. The process to get from potential homebuyer to actual homeowner is a complex one, and will vary depending on the individual situation. Just how long the process will be depends in large part on how well prepared the homebuyer is, but it is not uncommon for persons to work toward the goal of homeownership for several years before actually purchasing a home.

For an individual with a disability who has a support team working with him or her, the best place to start may be at a team meeting. The support an individual receives will be critical to making it through the process successfully, so all team members will need to weigh the pros and cons, decide who is in the best position to assist with each stage, and basically make sure they are all “on the same page.” Many individuals have found it very helpful to pick a “coach”, a single person who can be the central point of contact and help coordinate the team’s efforts at assisting the individual to reach his/her goal.

The following process is a general outline, and the actual steps may look different or happen in different order depending on an individual’s situation. Individuals should be aware that this section gives only a simplified overview of the home buying process to serve as an introduction.

Determining Who is Really Ready

Homebuyer Education and Credit History

For anyone who is considering homeownership, the first step, as mentioned in the previous section, should be completing a homebuyer education class. Homebuyer education is a course of instruction on what is involved in homeownership, the differences between renting and owning, what is required in order to qualify to purchase a home, and what to expect as one travels the road toward homeownership. The class is an ideal way for a person to determine if buying a home is a practical or realistic option at the present time, before she or he gets too far along in the process.

One important component of the education involves a budget analysis. In the budget analysis, the individual and the educator take a detailed look at the individual’s monthly budget—how much income the individual has and exactly where it all goes. After the budget analysis, the individual will have a much better idea if she or he can realistically afford to take on a mortgage payment.

The education may include checking credit history. It is a good idea for individuals to always monitor their own credit reports, especially if they are considering a major

purchase such as a home. In California, a new law took effect in December 2004, allowing individuals to receive a free credit report each year. The report can be requested online at www.annualcreditreport.com; tollfree by calling 1-877-322-8228; or by writing a letter to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

After reviewing their credit reports, many individuals realize that they are not quite ready to move forward. They may have “repairs” to make to their credit reports or excessive bills to pay off. In some instances, an individual may have no credit history showing on the credit report. In this case, the individual would need to document a “nontraditional” credit history (rent, utility, phone, cable bills, etc.).

After the education, an individual should be able to come to one of the three following conclusions:

1. Homeownership is not right for him or her.
2. Homeownership is right for him or her, but she or he is not financially ready to proceed at the present time.
3. Homeownership is right for him or her, and she or he is financially ready to proceed.

Individuals in the first category now know that homeownership is not something they need to worry about, at least not at the present time, and they can comfortably go ahead and renew a one-year apartment lease, or pursue other life goals.

Most individuals who have gotten to this point will probably fall into the second category—they now know that they do want to pursue homeownership, but they are not quite ready. However, they are now also aware of the steps they need to take in order to get in shape for the difficult task. In these cases, the credit counselor will help to prepare a plan for addressing the problems.

Although resolving these issues may take anywhere from a few months to a few years, an individual should not be discouraged. Rather, this discovery should be a positive experience—she or he now knows what is needed and how to accomplish it. Once the potential buyer is again ready to move forward with homeownership, she or he will be wiser and more prepared, and may find that lenders are favorably impressed by the steps taken to prepare for homeownership.

Individuals in the third category now know that they do want to become homeowners, and are in a good position financially to continue on in the process. The next step is to actually meet with a lender and find out just how much home they can afford, and how much the lender will agree to loan for that home.



Finding the Right Lender

Lenders differ greatly in the types of loans they offer and how much they charge for loans. The internet site www.bankrate.com provides current information on mortgage rates and fees, and is a good place to start searching for a lender. A borrower can also get recommendations of lenders simply by asking around; people who have recently bought a home are in the best position to recommend or not recommend a particular lender.

When talking to a lender, an individual should get details on the loan options available—the interest rate, adjustable or fixed rates, the points charged, other fees, etc. Also, borrowers should ask about what other special programs the lender offers for first-time and/or low-income borrowers. For example, many of the “silent second” mortgage programs offered by local or state housing agencies are only available through certain lenders who are specifically trained and approved for the programs.

Pre-Qualification and Pre-Approval

Once a borrower has selected a lender that she or he is comfortable working with, the next step is pre-qualification/pre-approval. During this process, potential buyers find out how much of a loan they can qualify for based on their financial situations. Regardless of how much a person wants to be a homeowner, a lender will need to look at other factors before making the loan. When making a loan, lenders generally look mostly at the three C’s—cash, credit, and collateral. Cash is the amount of funds the borrower has available for down payment and closing costs. Credit is the borrower’s credit history, either traditional or nontraditional. Collateral is the item that is guaranteeing the loan, or what the money is being loaned for—in this case, the home.

Pre-qualification and pre-approval are similar but there is an important difference. A pre-qualification is not a commitment from the lender to lend the money; in fact a pre-qualification is often done by a real estate agent or educator just to get a very rough idea of what an individual should qualify to borrow if the information provided is correct. It is obviously useful for an individual to have an idea of how much home she or he can afford at this point in the process.

Conversely, pre-approval is done by the lender, and involves actually completing the loan application and verifying the information the borrower provides for accuracy. With a pre-approval, the lender has made a commitment to the borrower to loan the money (assuming all information provided is accurate and any conditions are met.) A

pre-approval is usually good for 30 to 60 days, and with it a borrower is in a much better position to go out and bargain for a house. A pre-approval is almost like “cash in hand”, and a seller will know that the buyer is serious and the deal should go through. A pre-approval is important when negotiating with a seller because they do not want to accept an offer that may fail because financing could not be obtained. A real estate agent will also have more power to negotiate with sellers if the client has obtained a pre-approval.

The lender will need many documents from the borrower in order to complete the pre-approval. The lender should provide a list of the needed documents to the borrower. Specific documents that a potential homebuyer should have generally include recent pay stubs, tax returns, bank statements, and credit reference letters (if needed). Once an individual has received pre-approval from the lender, it is time to actually start home shopping.

Home Shopping and Working with a Real Estate Agent

Home seekers typically work closely with a real estate agent, or Realtor, for quite some time, so it is important for individuals to find someone they trust to look out for their best interests. Armed with a pre-approval and a list of the buyer’s wishes (e.g., location, number of bedrooms, fireplace, yard, garage, etc.), a real estate agent can help individuals begin looking for the right home.

Fortunately, the buyer typically pays nothing for the Realtor’s services. In standard transactions, Realtor’s fees are paid on a commission basis by the seller from the proceeds of the sale. A standard commission is six percent of the sales price, and if there are two Realtors involved (the seller’s agent and the buyer’s agent) the six percent commission is split between the two Realtors.

When looking at various properties, the potential buyer may wish to use a checklist (see Appendix) when looking at properties. This checklist will help to do a thorough inspection of the property and keep track of the pros and cons of each property. While the checklist includes many details, and not all are applicable, it helps to take all aspects of the home into consideration.



Purchasing the Home

When the best affordable home for an individual has been located, the real estate agent will help the person make an offer, complete all the steps involved in negotiating the sale, completing the escrow process, and closing the deal. When making the offer, the real estate agent should include “contingencies.” Contingencies are a way to protect the buyer and allow he or she to get out of the deal if anything goes wrong. Typical contingencies are for financing (the deal is cancelled if the buyer, for any reason, is unable to obtain final loan approval), and for a home inspection (the buyer has a right to conduct a professional home inspection to uncover any defects, and then to revise or cancel the offer if defects are found.)

There are many steps involved in this process, and it must be handled very carefully to make sure nothing goes wrong. A seller will either accept or reject the buyer’s offer, or counteroffer, in which case the buyer may accept or reject the seller’s proposed changes. It is possible that an offer may be reviewed and revised several times by both sides before being accepted by both parties.

Lenders are required to give good faith estimates of closing costs within three days of a loan application. They can also provide an itemized list of closing costs, which typically range from two to seven percent of the purchase price of the home.

A final walk-through of the house should be scheduled with the seller to make sure that any repairs that were specified in the inspection and purchase contract have been completed, and that the buyer is satisfied with the condition of the house.

Individuals may need to plan very carefully to give appropriate notice at their current residence to coordinate with the move into their new home. Plans for the move itself will also need to be made.

Insurance

Once an agreement is made to purchase a home, the buyer must obtain insurance for the home, to take effect at the close of the purchase. The type of insurance that a person chooses (or is required by the lender) is an instrumental factor in calculating the total cost of the home. Carefully chosen insurance will provide for the protection of the investment and long-term peace of mind for the buyer. A comprehensive homeowner's insurance policy provides coverage for fire damage, water damage (not by flooding, which is covered by separate flood insurance), personal possessions, personal liability, vandalism, theft, and loss of the use of the house.

The most comprehensive insurance policy is guaranteed replacement cost coverage, which will pay to rebuild your home even if the cost to rebuild exceeds your policy limit. This kind of coverage costs from \$400 to \$1000 per year or more. Some insurance companies have started to limit the amount they will pay on a claim to up to 120 percent of the policy's face value. Straight replacement cost coverage, or cash value coverage, is a less expensive option, costing approximately \$300 to \$750 per year. This type of policy will pay to rebuild your house if it is destroyed, but coverage is limited to the policy amount.

Special coverage may be necessary for hazards such as earthquakes or floods. California is targeted for earthquake coverage. Coverage is relatively expensive at \$2 to \$15 per \$1000 of coverage; however, it should be considered if the home is more than 50 years old and/or built on a slope, or landfill. Homes in flood-prone areas may also need flood insurance, since damage from floods is not included in the standard homeowner's policies. Flood insurance is available through the federal National Flood Insurance Program, with an average policy cost of \$300 per year.

Before an insurance agent will write a policy, a homebuyer will need to provide the following information: Social Security number, the age and location of the prospective home, special features of the home (such as alarm system, sprinkler system, pool, fireplace, etc.), the proximity of fire stations to the home, and the age and condition of plumbing and electrical systems. An insurance company will also check an individual's credit to verify that the individual is a good risk. If there is a history of late payment of bills, the insurance company may deny coverage, or require a full year's payment upfront.



Section **IV** After the Purchase

Making the Mortgage Payment

Maintenance and Repairs

Beware...



Move in the furniture! Celebrate! Throw a housewarming party! (And be sure to invite everybody that helped with the move!)

Once in a new home, individuals may need extra assistance planning and budgeting for their new lifestyles. Support persons play a critical role here, and it is important that planning and assistance is for the long-term. Anybody who has just bought a home has worked very long and hard to get to that point, but the work is far from over. Now, the focus needs to be on making the mortgage payments and keeping the home in safe, sanitary, and comfortable condition. For an individual to buy a home and end up losing it due to falling behind in the payments or not being able to keep up with the maintenance, could be more of a disaster than not being able to buy the home in the first place.

This section looks at some ways that an individual and support persons can make arrangements to ensure that things go smoothly as long as the individual has the home.

Making the Mortgage Payment

It is safe to assume that the buyer has the financial resources to make the mortgage payment; if the buyer did not, the lender would not have made the mortgage loan in the first place. So now the critical task is making absolutely sure that the payment gets made each month... for the next thirty years. Fortunately, in most cases, the monthly payment will include all the major home expenses—principal, interest, taxes, and insurance—so there will be just one critical payment to worry about.

The best method to ensure a timely payment may be for the individual to set up automatic payment of the mortgage from a bank account. Most lenders can arrange this, and in fact may require that payments be made automatically, or offer a slight reduction in interest rate for automatic payment. Besides being a more foolproof way of making the payment, an automatic payment saves the individual the trouble of dealing with postage and mailing the payment each month. Even with an automatic payment, an individual should make a habit of checking each month to make sure that the payment has actually been transferred from the bank account.

Some individuals prefer to write their own checks for the mortgage payment. In this case, it may be wise to set up some kind of monthly reminder for the homeowner and/or support people to make sure that the check does in fact get sent.

If a homeowner should happen to miss a mortgage payment, a prompt “reminder” notification will come in the mail from the bank. An individual may be able to arrange

with the bank to have a second party, perhaps a family member or support person, sent a reminder as well. This additional notification will enable the support person to assist the individual in making sure the payment is made. Anytime a payment is made late, it will be recorded on an individual's credit record and could harm one's chances of getting a loan in the future.

A nightmare for every homeowner is not being able to make the mortgage payment. A homeowner may be laid off or fired from a job, or may have sudden medical expenses or emergencies—there are many factors that may lead to being unable to make the mortgage payment. The first things to remember in these cases are do not panic and do not ignore the problem in hopes that it will somehow, magically go away.

If an individual falls too far behind in the payments, the bank will begin foreclosure proceedings and the individual may lose the home. This is the worst-case scenario, but it doesn't have to come to that. Buying a home is really a partnership between the lender and the borrower, which works out to the mutual benefit of both parties as long as it lasts. The lender, as well as the borrower, is hurt by a foreclosure.

The lender makes a great deal of money from the interest included in each monthly payment, and foreclosing on a property is a complicated, time-consuming, and expensive process for the lender. Although the lender may end up with the home at the end of the foreclosure, there may be a long period of no payments at all while the foreclosure is being settled. Then the lender must go through the hassle of finding a new buyer for the property (which may be "distressed" or in very poor repair by now), and may even have to sell the property at a loss. The lender would much rather continue the mortgage and keep those nice monthly payments rolling in.

The lender wants to work with the borrower to insure that the payment is made each month, so if there are any problems that come up which might effect the mortgage payment, it is in the borrower's best interest to immediately let the lender know of the situation. Think of stopping a foreclosure like stopping a disease, such as cancer—the sooner it is caught, the better the chance for recovery. Call the lender and explain the situation fully, and see what arrangements can be worked out.

Often, the lender can arrange alternative treatment for the loan, such as a repayment plan or loan modification. As late or missed payments drag on, the costs to the lender increase, and legal and administrative expenses are added onto the loan. The borrower will be held responsible for these additional costs, as well as the original loan amount. If the payment problems appear to be long-term, such as a borrower not being able to return to work, the lender may be able to work with the borrower to arrange a pre-foreclosure sale of the home.



Maintenance and Repairs

Almost anyone who has bought a home can testify that there are always other expenses associated with owning a home, above and beyond the regular mortgage payment. All homes will require maintenance and occasional repairs—from cutting the grass to replacing a broken window to fixing a leaking toilet to replacing a leaky roof. Some homes will require much more than others, but there will always be something to keep the homeowner on his/her toes.

The best defense in this area is to begin (on move in day or sooner) to set money aside for repairs and maintenance. Preferably, this money should be automatically deducted from the monthly income in whatever amount an individual can afford—\$50, \$75, \$100—and deposited into a separate “invisible” account (remember to keep SSI resource limit in mind if applicable). This way there will be less of a temptation to spend the money, and hopefully it will be there when the proverbial “rainy day” comes, as it surely will.

Another good idea is for the individual to become as handy as possible at basic “do-it-yourself” type maintenance and repairs. Obviously for some individuals this will be easier than for others, but many people should be able to take on basic tasks such as cleaning the gutters, unclogging a toilet, tightening a hinge, etc. There are home maintenance classes offered in the community that can help an individual to learn many of the tasks that may have seemed overwhelming. By learning to do basic tasks themselves, individuals can save money and reduce the need for more expensive repairs down the road. A “do-it-yourself” book may be a practical gift for a new homeowner.

Beware ...

In addition to making the monthly payments on time and keeping up with maintenance expenses, new homeowners have another thing to be careful about. People who have recently purchased homes somehow, mysteriously, are quickly targeted for countless marketing pitches—some of which can be very persuasive and expensive. For the first few weeks and months of homeownership, almost every day will bring a variety of catchy-sounding advertisements in the mailbox. Carpet cleaners, window blinds makers, appliance repair services, insurance salespeople, landscaping services, plumbers, dentists, home alarm companies—somehow they have all found out there is a new homeowner in the neighborhood that may be a potential customer. Many of these folks may call repeatedly, and some may even stop by in person to try and convince the new homeowner to sign up for a service or buy a product.

Most of these mailings and solicitations are innocent enough, and there may actually be some good deals to be had. A letter from a local plumber, for example, may contain a coupon for a discount on the first service call. Something like this may be worth hanging onto for that day when it is necessary to call a plumber. Or the newspaper may offer a move-in special with a good discount off the daily rate.

However, it is important to carefully consider the offers and weigh the priorities. Are the great-sounding deals for things that the new homeowner *really* needs? Often, a new homeowner can get caught up in the excitement of having a new home, and may get in over his or her head with expensive improvements on the home. After moving in, one may think "Gosh, these carpets and blinds really don't look too good. And I just got this letter with 10% off coupons for new carpets and blinds that sounds like a really good deal". Suddenly, he or she is taking on thousands of dollars more in debt, before even making the first mortgage payment.

Some of these mailings can be particularly dangerous and misleading. For example, a letter may arrive in a very official and important-looking envelope. It may contain phrases like "Don't lose your home! To protect your expensive investment, pay the amount below within the next thirty days", or "Keep your home and family safe! Pay the amount below". At the bottom of the letter, there may be a tear-off payment coupon with an amount (usually several hundred dollars) printed in bold, and an address to send the payment to. A new home owner, still recovering from the whirlwind of closing escrow and moving, can easily mistake a letter like this for a legitimate bill to be paid, when in fact it is just an advertisement for insurance coverage or a home security system with a rate quote. Any letters like this should be carefully reviewed, and all the fine print read with the assistance of the people that are supporting the new homeowner.

It is a good idea for any new homeowner to not make any more big purchases or take on any additional expenses for at least the first few months after moving into the new home. After six months or so, the home owner has adjusted to making the mortgage payment (which may be quite a bit higher than the previous housing payment), and he or she will have a better idea of what can be afforded and what the home might need.



Section V For Those Who Are Not Quite Ready



This section gives some guidance to individuals who would like to pursue homeownership, but who are not quite ready. This position can actually be good. Homeownership is not something to rush into, and an individual can take as long as necessary to get ready. In fact, the longer one has prepared for homeownership, the better off she or he will be when it is time to “take the plunge”.

As discussed earlier, any individual may benefit from taking a homebuyer education course, whether she or he is thinking of buying next month or five years from now. The course will help to clarify how to reach an individual’s specific goals for homeownership. Also, for an individual with a disability, the support team should be involved in weighing the pros and cons and determining a course of action, and possibly setting up specific goals and a timeline to help the individual prepare.

In general though, anybody can begin to prepare himself or herself by again considering the major factors a lender looks at to determine if an individual qualifies for a loan. These are called the three C’s—cash, credit, and collateral. Since collateral is the property the loan is made for, it can’t really be considered at this early stage. Cash and credit, however are very relevant.

Cash, from the lender’s perspective, is the money that an individual has available for the purchase—the more the better. Obviously, SSI recipients have a bit of a dilemma here in that they are not allowed to accumulate more than \$2,000 without their benefits being reduced. This should not hold an SSI recipient back, though. An SSI recipient should still strive to save that \$2,000—in some cases, by using other creative sources of funding, \$2,000 or even less of an individual’s own money may be enough for him/her to purchase a home.

Depending on family resources and involvement, family members may be able to begin putting aside money to be used for an individual’s home purchase—again, the more the better. Money can be granted at the time of purchase without being counted against the individual’s benefits if done carefully.

For those individuals who are employed and do not receive SSI—save, save, save. Even low-income individuals have been able to save thousands of dollars toward the purchase of a home. Granted, many individuals will not be able to save a large amount, but by forming a long-term saving plan and sticking to it, anyone can help to make the actual home buying process go much more smoothly. In this stage, it helps to look at an existing budget and to cut costs that may not really be necessary in order to help the potential homebuyer reach his or her goal.

The other factor, credit, is something that anyone can work on and strengthen regardless of SSI status. The lender will be looking for a credit record that can verify

the ability to make regular monthly payments—to show that a borrower can be relied upon to make a monthly mortgage payment for thirty years. This can be traditional credit, such as credit cards, car loans, or student loans, or nontraditional credit, such as utility bills and rent payments.

So, if an individual has credit, every effort should be made to ensure that it is in good shape. This means credit cards paid off, no late payments, etc. If an individual does not have credit, ways to start establishing a credit history should be considered. Perhaps she or he could qualify for a credit card, and use it not to run up a debt but to make simple regular purchases that can be paid off in full every month. An individual should be sure that the utility bills are in his/her name, so they can be used to establish a credit history.

A copy of an individual's credit report can be obtained for free online at www.annualcreditreport.com; tollfree by calling 1-877-322-8228; or by writing a letter to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. Once the credit report is received, an individual will be able to see what, if anything, has been reported. It is recommended that any informed consumer, not just someone interested in purchasing a home, request a current credit report once a year. All information on the credit report should be checked for accuracy. It is not uncommon for inaccurate information to appear on a credit report—an individual who has never had a credit card might have delinquent credit card debt listed on the credit report due to an error.

Or, there may be accurate information on the credit report that shows just how far in debt an individual is. Maybe she or he has been late with credit card payments, “forgot” about a few old bills, or bounced a few checks. A credit report with this kind of information will make it much more difficult, if not impossible, to get a home loan. If you have been denied credit for any reason, you may obtain a copy of your credit report for free if requested within 30 days of the date that credit was denied. Additionally, any information that is outdated cannot be reported. The statute of limitations in the state of California is seven years. Any negative item cannot be reported if it is more than seven years old. However, bankruptcies may be reported for up to ten years from the date of filing.

A credit report contains the following items: name, and any alias' the individual may have been known as, including a maiden name; address; social security number; trade lines (revolving or installment loans); collection accounts; bankruptcies or other public records; and any inquiries from potential creditors. This provides a guideline to beginning research on your credit report; however, for assistance in interpreting everything on a potential homebuyer's credit file, an appointment with a credit



counselor or homebuyer educator is recommended. With a credit report in-hand, the counselor will be able to inform the individual about what a lender will be looking for. Now, before an individual applies for a loan, is the time to fix any errors on the credit report or come up with a plan for addressing any problems.

Another area lenders will consider is job history—has the individual had stable regular employment for at least the past two years? If not, an individual should strive to establish a solid job history—this will help to demonstrate reliability and stability, as well as increasing income.

If an individual prepares the cash and credit areas, the lender will be able to look much more favorably upon the application when it does come time to actually apply for the loan. Again, an individual cannot begin preparing for this process too soon, and there is really nothing to lose by strengthening the cash and credit areas. If an individual changes his/her mind down the road and decides not to pursue homeownership, she or he will be in much better financial shape for whatever she or he does choose to do.

Appendix

Home Buyer's Checklist

Instructions

Use this form to keep track of the pros and cons of each property you inspect. Complete all applicable areas, noting general condition, any obvious repairs that will be necessary, accessibility issues, etc.

General Information

Street _____

City _____

State _____

Zip _____

Contact _____

Phone () _____

Realtor _____

Phone () _____

Asking Price \$ _____

Estimated annual property taxes \$ _____

Type of Home

Single Family Detached

Split Level

Multi Family

Mobile/Manufactured Home

Condominium

With No Steps

One Floor

Two Floors

Material

Brick

Stone

Stucco

Vinyl Siding

Other _____

Style

Ranch

Spanish

Contemporary

Chalet

Victorian

Colonial

Other _____

Garage

Attached

Detached

Carport

Overall personal rating for this property:

1 2 3 4 5 6 7 8 9 10

-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|

Awful!
I could never live here!

It's ok—
I guess I could live here.

I love it!
I want to spend the rest
of my life here!

APPENDICES

Features	
Bedrooms	How many?
Bathrooms	How many?
Family room	
Formal dining room	
Laundry/Utility room	
Office or workshop	
Storage	
Yard	
Fireplace	
Jacuzzi/Spa	
Pool	
Expandable	
View	
Additional comments	

Exterior (note condition)	
Paint	
Walls	
Trim	
Windows	
Roof	
Gutters/Downspouts	
Chimney	
Porch	
Entrances/Locks/Alarms	
Electrical outlets	
Water spigots and hoses	
Additional comments	

Landscaping (note condition)

Walks

Patio/Gazebo

Driveway

Lawn

Trees

Plants and bushes

Fencing

Retaining walls

Additional comments

Interior (note condition)

Walls

Woodwork

Wall covering

Paint

Ceiling

Floor covering

Doors

Windows

Window treatments

Lighting

Electrical outlets

Water heater (age and condition)

Oven/Cooktop (age and condition)

Other appliances

Additional comments

Plumbing

Materials used in pipes and drains

Age and general condition

Do toilets work? Gallons per flush

Do faucets work?

Dishwasher (age and condition)

Garbage disposal (age and condition)

Signs of leaks or drips

Estimated cost to repair or replace

Additional comments

Water Supply

Source (public, well, cistern)

Is it adequate and safe?

Adequate water pressure

Is water softener necessary? (type, age)

Pump for well (type, age)

Additional comments

Waste Disposal

Sewer

Septic tank

Aerator

Cesspool

Other

Is system adequate and sanitary?

Cost to repair or replace

Additional comments

Heating System

Energy source (oil, gas, etc.)

Type (hot water, forced air, etc.)

Special energy savings features

Warranty

Maintenance requirements

Monthly heating costs

Cost to repair or replace

Additional comments

Air Conditioning

Energy source

Type (central or window units)

Age of unit(s)

Special energy savings features

Warranty

Maintenance requirements

Monthly heating costs

Cost to repair or replace

Additional comments

Insulation

Walls

Floors

Attic

Water heater/pipes

Type of insulation

R-factor

Cost to insulate or upgrade insulation

Additional comments

Wiring

Type (copper, aluminum, other)

Adequate amperage

Number and placement of outlets

Cost to upgrade or rewire system

Additional comments

Special Features

Fireplace/Woodstove

Skylights

Backyard

Parking

Front yard

Security

Additional comments

Personal

Are there churches in the area?

Are the neighbors likely to be compatible with your tastes/lifestyle?

Are there suitable recreational facilities in the area?

Additional comments

Schools

Do the schools provide the quality of education that suits you?

Are there a variety of schools?

Are they conveniently located?

Additional comments

Community Services

Is the municipality well-planned?

Are there zoning or other restrictions?

How close is the nearest hospital?

How close is the nearest fire station?

How close is the nearest police station?

Is there a bus line nearby?

Is there shopping nearby?

Is there banking nearby?

Is there a library/community center nearby?

Additional comments

Neighborhood

What condition are neighboring houses in?

Does neighborhood feel safe? (graffiti, cleanliness)

Are property values stable or rising?

Are property values comparable with this home?

Any covenants, homeowner association fees, or building restrictions?

Additional Comments