

AUTO AND HOME LOANS

GENERAL INFO

Pulling your own credit report will not harm your credit score.

For more information on what a good FICO score is and how it can save you money when borrowing, see page 12.



Some states offer special home buying programs that can help reduce down payment and closing costs. Check out the Department of Housing and Urban Development's web site at www.hud.gov for a state-by-state list of home buying programs, as well as information about housing counselors who can give advice on issues, including buying a home and credit issues.

These programs can also help with closing costs, which, like the down payment, have to be paid in cash upfront. Closing costs may include fees for the real estate brokers, attorneys, banks and a whole range of other costs, which can vary widely from purchase to purchase. Generally you should budget that closing costs will add up to between 1% and 5% of the purchase price.

Homes and cars are usually the biggest purchases you'll make in your life. The key to buying smart is: Prepare, Prepare, Prepare.

Step 1: Check your credit

How much you eventually spend on your home or car will depend on your credit report and score. Is your report accurate? Is your score where you want it to be?

Remember, it takes at least 60 days for a correction to come through on a credit report, and even longer to improve a very low credit score—so it's best to order your credit report and score as soon as possible to give yourself time to make these changes.

Step 2: Save for the down payment

Home mortgages and many car loans will require a down payment of between 10% and 20% of the total purchase price. If you don't have the savings for it now, go back to the sections on savings and budgeting to see where you can begin setting aside money.

Step 3: Figure out how much you can afford

What you pay for a house or car will depend on the interest rate, the down payment, and your income. You'll need extra money for maintenance, service, fuel, insurance, taxes (in some states) etc. So, before you buy, make sure you can afford all the costs that come with a car or the house. For a house, you should set aside 5% of the home value for emergency maintenance, and keep this money in a savings account you can access quickly.

Step 4: Shop smart for a loan

You wouldn't buy the first car or house someone offers you, and you don't have to settle for the first loan you're offered either!

Car loans: Many people finance their car through the dealer. This can be convenient, but it doesn't necessarily give you the best deal. Check your local bank and credit union and online lenders for rates. You can even get pre-approved, so you can walk into the car dealership with the loan already in hand.

- If you decide to use the auto dealer's financing, make sure you arrive with a recent copy of your credit score and have checked interest rates online.
- Note the length of the loan. Your monthly payments may be low with a longer-term loan, but if you're making them off for a longer time, the total cost of the car may be higher.
- Few people actually qualify for those low APR rates advertised by car dealers. Even if you do qualify for an advertised rate, make sure you compare it with other offers, including rebates, since sometimes the cash-back can work out to be a better deal in the long run.
- If you do get a high interest rate at the dealer, consider re-financing. Many of the same companies that offer auto loans will also offer re-financing options after you have already bought the car.
- Remember: the car dealer is also selling you the loan! You can haggle with him about everything—the APR, the down payment, the length of the contract. Don't let yourself be bullied into paying more than you should. You deserve a fair deal. Come armed with the facts.

Sites like www.kbb.com and www.edmunds.com can provide more information about new and used auto pricing and purchase incentives.

Home loans, or mortgages: Check with a number of banks and credit unions, as well as online, and also consider using a mortgage broker—brokers check with a number of different banks for the best deals. Make sure you find out upfront what sort of commission or fee they charge for the service (usually the banks pay this fee, but you'll want to find out).

You can also negotiate for a better deal on the home loan—the interest rate, the length of the mortgage, and if the interest rate stays the same or changes. There are special programs offered by the federal government and states for first-time and low-income buyers, as well as seniors. Check out www.hud.gov for more information.

Step 5: Shop smart for insurance

You can shop around for insurance too! Check the internet and a few different insurance agencies. Make sure you use someone reputable—ask your family and friends for recommendations—because you don't want to have problems if you ever need them to pay out on the policy.

The Insurance Information Institute provides the following tips for saving money:

For homeowners insurance:

- Improve your home security. You can get discounts of around 5% by installing smoke and burglar alarms or dead-bolt locks.
- Make your home more resistant to disasters by installing storm shutters, reinforcing your roof or modernizing the heating, plumbing and electrical systems.
- Buy your home and auto policies from the same insurer.

For auto insurance:

- Compare insurance costs BEFORE buying the car. The cost of insurance will vary based on the age, price and safety features of the car, so make sure you add these costs into your monthly budget when figuring out how much car you can afford.
- Ask for higher deductibles if you can afford to pay them. Raising the deductible from \$200 to \$500 can save between 15% and 30% on collision and comprehensive coverage.
- Ask about discounts for things like good grades for children, defensive driving course certificates or other programs.

Step 6: Make those payments on time!

Now that you have your great new house or car, you have to make sure you make the payments for it on time and in full. These loans are secured—which means that if you don't make the payments, the lender can take the home or car away. Foreclosure or repossession can be a terrible ordeal. If you do run into trouble, talk to your lenders as soon as possible to explain your situation and try to come up with a way to keep paying.



Some banks may require a large down payment, while others will charge you a higher fee or interest rate for a smaller down payment.

There are a few basic types of mortgages.

Fixed Rate: The interest rate you pay remains the same for as long as you have the loan (the “term”). Terms are usually 15 or 30 years. Another type is an “adjustable rate” mortgage.

Adjustable Rate: Usually have lower interest rates, but the interest rates can rise during the term of your mortgage.

Interest Only: At first you pay only the interest charges, so your payments are lower. Eventually, you have to start paying higher payments to repay the principal. This option is probably not a good idea unless you can afford the higher payments.

Before you decide on a loan, you need to talk to a banker who can explain which of these loans could work best for you. Or go to your local library or bookstore to pick up *Home Buying for Dummies*, a great book that can tell you all about the home buying process.