

# August, 2004 Newsletter

## Thinking of Buying a House?

With interest rates on the rise, many people are considering purchasing a new home. Before you make the big move, make sure you have your finances in order. Keep reading for tips to make the process easier...

### Review your credit report

- To get the best possible mortgage rate, make sure your credit history is healthy and accurate. Aim to raise your credit score above 650 in order to qualify for the best interest rates.
- If your credit score is not quite 650, focus your efforts on paying bills on time, reducing your debt balances, avoiding new inquiries and clearing negative inaccuracies from your credit report. It is possible to improve your credit score quite a bit over a few months.
- Make sure the information on your credit report is correct and fix any problems you discover. Give yourself 30-90 days for correcting inaccuracies.
- Not sure how to read your credit report? Consumer Credit can pull your credit report and explain it to you in a one on one counseling session. Our clients receive a reduced rate of \$10 for a single person or \$20 for a couple for this service.

### Determine how much you can afford

- The rule of thumb is that most borrowers can afford a home that runs about two-and-one-half times their annual salary. This means that if you make \$20,000 each year you can afford a \$50,000 house. It is important to evaluate your monthly expenses to determine what you feel you can afford. Remember, just because you can borrow that amount doesn't mean that you can afford that amount.

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### Important Dates

**Tuesday, August 31 6:30 pm** — Credit When Credit Is Due — Sioux City Office  
**Wednesday, August 25** — CCCS office will be **closed at 12:30 pm** for our Employee Appreciation Picnic.

## Attention: Bank of America Clients Very Important!!!!

CCCS recently received a letter from Bank of America regarding their clients who are on a DMP. Bank of America recently reviewed their DMP accounts and found that some of their clients were still charging on their Bank of America credit cards even though they were on a DMP. This activity results in them not being in compliance with the original terms of their DMP. As a result, those clients will soon be billed 7.9% fixed APR on their outstanding balances which may result in a higher minimum monthly payment. If you receive a letter from Bank of America stating that they are raising your monthly payment, please contact your counselor as soon as possible so that we can amend your contract and raise your monthly payment to CCCS.

## New CCCS Hours

Monday, Wednesday, Thursday, Friday\* 8-5  
 Tuesday 10-7  
 Third Saturday of the month 8-12\*

\*note: the Friday before this Saturday the CCCS office will close at noon.

Congratulations to this month's CCCS survey winners:

Client 5673

Client 6544

Stop in for your free CCCS coffee mug!

## Thinking of Buying a House? (Continued)

- Calculate your loan-to-value ratio to see how much you can afford to borrow by dividing the loan amount by the property's value. If your loan-to-value ratio is above 80 percent your rates may increase significantly. Find a less expensive home or save up for a down payment to lower this percentage. For example, you find a house and you would need to borrow \$45,000 but the value (sales price) of the house is \$50,000. Your loan (\$45,000) to value (\$50,000) ratio would be 90% (40,000 divided by 50,000).
- Calculate your debt-to-income ratio by adding up your monthly debts and dividing by your monthly income. A debt-to-income ratio under 20-39 percent is usually considered good and will help you be perceived as financially stable. For example, you earn \$1000/month and your expenses are \$300/month your debt to income ratio would be 30% (300 divided by 1000).

### Pick a mortgage to fit your finances

- Fixed rate mortgages have a set monthly payment that remains constant through the life of the loan. The interest rates tend to be a bit higher on fixed rate loans.
- Adjustable rate mortgages give you a lower initial interest rate with the risk of it rising in years to come. If interest rates decrease you will have an advantage over fixed rate borrowers. Setting a rate cap about 5-6 percent above your initial rate will protect you from extreme jumps in interest rates.
- Improving your finances before you start to shop can help you save thousands on your mortgage. Reducing your loan rate by just 1/2 a point you can potentially save a whopping \$5,500 over the life of a \$50,000 loan or approximately 11% of your loan.

### Budget the additional expenses

- If you have never owned a home before there are additional expenses that you want to consider. Does your new home have a lawn? If so you will need a lawn mower and most likely a hose and rake. Do you have a set of tools? If not, you will need them to fix items in your new home. Is the water heater or furnace old? If so, you may be faced with replacing them sooner than you anticipated. There are more costs to consider than the house payment, property taxes, and insurance. A general rule of thumb is to budget 1% of the price of your home for yearly maintenance.

### What to do if your finances change after your purchase your home

- You may find yourself unable to make your mortgage payment due to a change in your finances. If you are in this situation you can call the CCCS office and schedule an appointment for housing counseling. CCCS is a HUD certified housing counseling agency and we offer free housing counseling to those in need.

## Is Debt Consolidation Right for You?

Consolidating high interest credit card debts into your mortgage can seem like a good way to take charge of out of control debts. One downfall that no one talks about is the consolidation takes an unsecured debt (your credit card balances) and made them a secured debt (your home equity loan). This can turn into a bad situation if you are ever unable to make your home equity payment. Because the loan is secured by your home, you could potentially lose your home if you do not make the payments. Make sure that you weigh all of the options before signing on the dotted line.