

A Companion to the Homebuyer Handbook

Mortgage and Savings Strategies

for Artists and Independent Workers

We work independently
and we're ready to buy
a home.



What do we need to
qualify for a mortgage?

We're checking nymc.org
for resources as we
start the process of
becoming homebuyers.



A home mortgage is just a loan. Your lender provides cash for your purchase, and you agree to pay that cash back, with interest, over time.

But a home is likely the most expensive thing you'll ever buy. So the process of getting a loan for that purchase is more involved than buying a car or applying for a credit card.

Qualifying for a loan can also be more complicated if you are an independent or freelance worker with low to moderate income.

But the steps are straightforward, and we'll walk you through them. We'll also show you how to get in touch with homeownership counselors who can help you navigate the system.

Step 1: Contact a homeownership counselor

The counselor you select can assist you as you:

- check your credit
- develop a plan to fix your credit and/or maintain a strong credit score
- document your income
- discuss your financial reality by looking at your credit history, income, and assets
- make your homebuying plan
- create a budget and determine how much you can afford.

Financial Assistance

A qualified homeownership counselor will share up-to-date information on current programs and affordable-housing initiatives, explain your lending options, and determine your eligibility for programs that can make owning a home easier, particularly if you are a first-time homebuyer. If you qualify as a first-time homebuyer (meaning that you have not owned a principal residence over the last three years) you may be eligible for a lower down payment, closing cost assistance, and/or a more competitive interest rate.

I contacted the New York Mortgage Coalition at nymc.org to find a homeownership counselor based in New York.



Great! Outside of New York, you could locate a counselor from HUD at hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

Step 2: Start saving

You'll need to save for your:

- down payment
- home inspection
- title search
- legal fees
- closing costs
- mortgage recording tax and recording fees
- emergency reserves

Lenders like to see that you are responsible with money.

Indicate to lenders that you are responsible with money and credit:

- Pay bills on time
- Maintain a strong credit score
- Generate savings

These are the strongest indicators that you're able to use money and credit responsibly—which means you're likely to successfully repay a loan.

Document your savings:

Keep records of each deposit. Remember, lenders are looking for evidence that you can maintain financial discipline—a strong, well-documented track record of voluntary savings is the best way to achieve this.



Independent workers may need to make larger down payments (20% or more) than workers with more conventional income. This larger down payment balances out the additional risk of lending to someone whose income fluctuates.

It's a safe bet that to qualify for conventional loans, you will need to make at least a 20% down payment.

There are other mortgage insurance options available through private mortgage insurance companies (PMI). For example, FHA and VA loans can require much less than

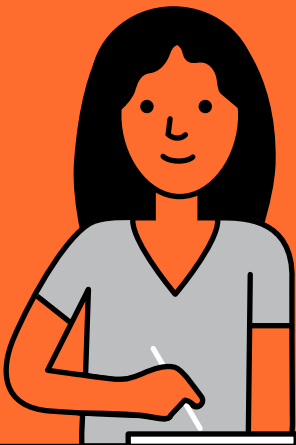
20% down, but your monthly income will need to support the cost of the added PMI insurance.

Fees and closing costs can add still more to the cash reserves you'll need to complete your home purchase.

If homeownership is your goal, you need to develop a realistic strategy for saving money. The sooner you start saving, the better.

As a self-employed borrower, a lender will use your net income – not your gross income – when determining what you can afford.

Hmmm, what can I cut from my budget?



Well, let's look at what you've been spending money on.

Saving strategies

Your counselor can help you formulate successful savings strategies for your specific needs. These are general tips to get you started.

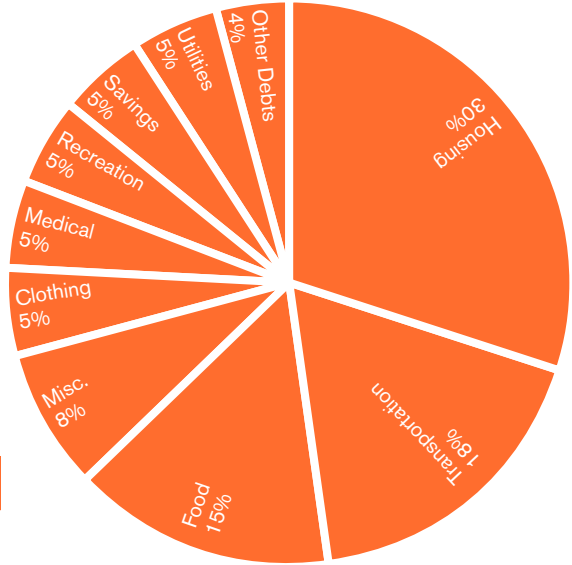
Identify and eliminate wasteful spending

- Set your savings goals
- Rework your spending plan until your income, expenses, and savings goals balance

- If you don't already have a savings account, open one
- Determine your monthly net income
- Calculate your monthly expenses
- Subtract your regular expenses from your income
- Subtract any extra expenses
- Build in an emergency cushion for unexpected expenses

Create a savings plan

Sample spending plan



Set a realistic goal for an amount you can deposit in your savings account, every month, come rain or shine.

Whether it's \$50 or \$500, it has to be money you can keep separate from day-to-day needs. Treat the money you put in your savings account as sacred—the only time you'll make a withdrawal from this account is when you are ready to purchase your home.

Realistically assess wants vs. needs

- **Needs**
Items you must have for basic survival
- **Wants**
Things you desire but can live without

Some efficient savings tricks are:

A “Homeownership Tax”

Every time you get paid impose a “tax” and put 5% or 10% of that money into your homebuyer savings.

The “Imaginary Rent Increase”

Each month, when you pay your rent, add 5% or 10% to your actual rent (or add the difference of your projected future house payments to prove that you can afford them). Then write a check or make a transfer for the additional amount to your savings account.

Step 3: Get your credit in order

Get current on credit card and other debt payments.

Work to pay down any existing debt.

Keep your balance below 30% of your credit limit on each credit line—the lower the better.

Get your credit report (you're entitled to a free one every year) from www.annualcreditreport.com. If you disagree with any of the information in your report, your counselor can help you file a credit dispute with the agency—removing incorrect information improves your credit score. Better scores mean lower borrowing rates. And certain loan options are only available if you meet credit score thresholds.



Paying my bills.
No points off my credit
score this month!

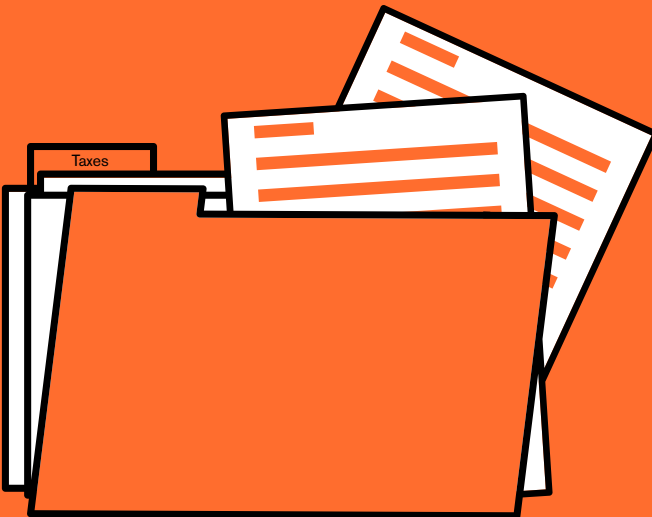
Step 4:

Document your income

In order to qualify for a loan you will need to demonstrate your income. A lender will review this information, a process called income verification.

Document Your Income

For workers with variable income (income that fluctuates weekly, monthly or annually)—lenders need to have confidence in your income sources. One of the ways you can build confidence is to show ongoing proof of income through income verification.



Step 4: Document your income (cont'd)

Separate your business expenses/income

Make a clear separation between personal and business transactions. Where possible maintain separate business and personal accounts. Keep clear records and clear separation.

Distinctly documenting business credit transactions (e.g. car payments) is especially important, since they might otherwise impact a lender's view of your personal credit.

Can you help me create a profit and loss statement for my lender?

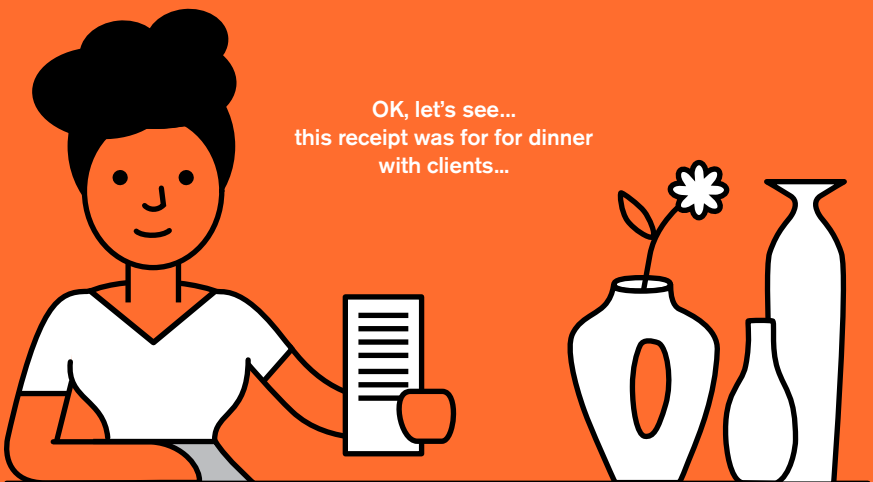
Sure. Let's start by taking a look at your business expenses for the year.



Prepare a Profit and Loss Statement

A profit-and-loss (P&L) statement is an easy way to demonstrate business income and expenses. Some lenders may want to see your finances documented this way, especially if your tax return for the current year has not yet been filed.

A P&L statement is a very simple document that your accountant can easily help you prepare if your lender requests it. A P&L is also a valuable tool for you! Analyzing your income and business expenses can also help you plan for that business going forward and make sure you are making correct choices based on the numbers.



Documentation strategies



Lenders make decisions largely on the basis of information from your tax returns. You will need to show a prospective lender at least your last 2 years of Federal IRS tax returns.

**Tip 1:
Think ahead**

**Tip 2:
If you don't declare it, it can't be counted as income**

As independent workers, we're used to trying to keep declared income low. The less we pay in taxes, the more we have left to cover necessities. But to a lender, the income you report to the IRS is your income.

If it's not on your tax return, it doesn't count. And that can make a huge difference in what loan (if any) you can qualify for.

Your returns should show your lender that:

- you have over 2 years of experience managing variable income and self employment
- you have an income level that qualifies you to purchase a home in your desired price range.

Other documentation tips

In the year or two leading up to your purchase:

- **Separate your income deposits** from other deposits.
- **Make each income deposit individually** to clearly document multiple sources. Do this even if you are depositing on the same day/same time. Five minutes at the bank can save five hours trying to decipher your deposits at tax time.

- **Explain to your accountant that you want to purchase a home** as far ahead as you can (remembering that you need 2 years of proof of income)
- **Work with your accountant** to strike a balance between lowering tax payments and showing maximum income for loan qualification.
- **Declaring more income doesn't always mean paying more taxes**—a good accountant can help you claim all applicable deductions, and still show enough income to look good to a lender. This will help you qualify for the best loans.

Maximizing your declared income in the years leading up to your home purchase will show your lender that you have historically made (and are likely to keep making) enough money to cover your housing expenses and other financial obligations.

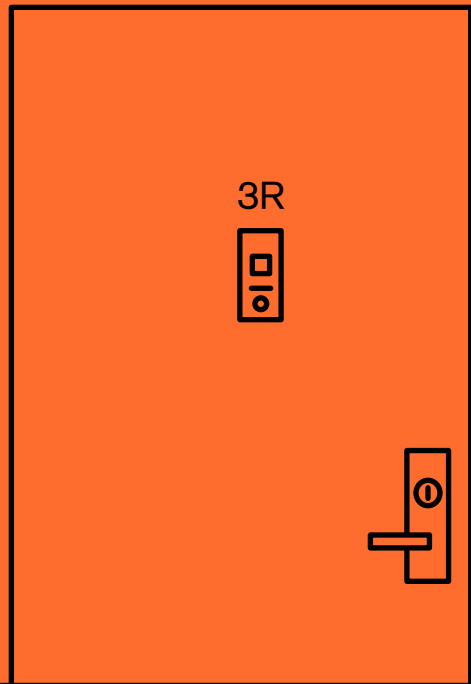
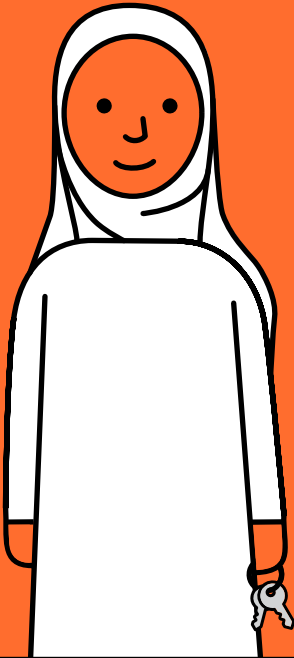


Step 5: Prequalify

When prequalifying you for a loan, a lender will consider your credit, income, expenses, and debts to calculate a potential loan amount with an estimate of your borrowing power and what you can afford in terms of monthly mortgage payments.

Step 6: Get your loan

Your counselor will work with you to provide guidance on finding the right loan and refer you to several potential lenders.



Get organized!

The back of this page is a checklist. Be sure to bring it to your meeting with your counselor so that you can go over what you have and what you are still gathering.



Documentation checklist

Here is the information that you will need to meet with your housing counselor:

General Documents

- Driver's license, passport, or other picture ID

Documents to Support Income

- Contact information for your current employer and the last months' paystubs for any other employers that you have had in the current year that you are no longer with. Start and end dates for all of your employers for the last 2 years.
- Most recent two months' pay stubs
- Income tax returns for the last two years, including W-2s, 1099s and all attached schedules

Evidence of All Other Income, Including

- Child support payments – copy of court orders if child support is collected through the child support collection unit and printed receipts of payments received.
- Pension payments
- Seasonal employment income
- Government assistance
- Disability benefits
- Social Security benefits
- Statements of stock dividends

Documents to Support Consistent Payment of Housing Expenses

- Letters from landlords stating where you lived for the last two years, dates you lived there, rent per month and how many times you were late with your rent payment. If you cannot get a letter from the landlord, you should provide your monthly rent payments and rent receipts or canceled checks for the past two years.

Documents to Support Savings and Recent Bank Activity

Last two months of:

- savings account statement(s)
- checking account statement(s)
- brokerage statement(s)

Documents to Support Current Debt

- The lender will run your credit report. Understand your debt and be able to review it with your counselors, including balances, type of accounts, interest rates, minimum payments, etc.

Documents to Explain Irregularities

- Letter of explanation for any negative credit items
- Letter of explanation for any gap in employment
- Chapter 7 or Chapter 13 bankruptcy discharge papers and list of creditors

Other

- Veteran's certificate of eligibility
- Certified copies of divorce decree/separation agreement

Contact your local homeownership counselor to get started.

If you are based in the greater New York City area, you can contact the New York Mortgage Coalition to connect with a homeownership counselor at nymc.org.

If you are outside of New York City, you can locate a HUD-certified homeownership counselor at hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

Thank you! The pace of the training was very easy to follow along, and they made me feel comfortable with the process.



ArtBuilt and the New York Mortgage Coalition have partnered since 2009 to bring home-ownership resources to artists and independent workers. This handbook was funded by the NYC Community Trust.



ARTBUILT—

These classes made me realize that I am truly ready to be a homeowner.

