

# How to Buy a House with Low Income

Here's what you need to know.

Meg Stefanac

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As available, affordable rental housing has become harder and harder to find since the housing market fallout of 2009, many low- to moderate-income earners are finding their lease has less value than it once did.

Meanwhile, the credit crunch has put many more demands on low-income earners before they can qualify for a home loan or mortgage. It may be harder for modest earners to become homeowners, but not impossible. Help is still available for those who qualify. Just make sure you're covered with an affordable home insurance policy.

## 1. Weigh the Pros and Cons of Homeownership vs. Renting

In some areas, renting may still make fiscal sense. According to real estate agent Daryl Bronniche, it's important to compare your costs of continuing to rent to the costs of homeownership in your area.

"If you can still find a two-bedroom apartment for less than a mortgage payment, you may want to stay put until the market shifts again," Bronniche said.

If location isn't a fixed factor, he advises low-income earners to be flexible on where they may start looking for homes to buy. The town or city just across the county line may have better home values and prices from which to choose.

## 2. Consider Looking at HUD Homes

Bronniche, who has participated in the sale of many HUD (U.S. Department of Housing and Urban Development) homes, said these properties often sell for thousands less than bank-owned or privately-owned homes. He does caution potential buyers about one aspect of HUD homes, however.

"You definitely want any HUD home to be professionally inspected, as the government agency does not make any repairs to these properties," he said.

HUD does not warrant the condition of its properties and will not pay for the correction of defects or repairs.

If you are financing your home purchase with a VA loan, the Department of Veterans Affairs will not underwrite loans on HUD homes for this very reason. However, if you are interested in acquiring a HUD home that is in need of repair, you may be interested in applying for an FHA 203(k) Rehabilitation Loan. This is money that will need to be paid back, but at a far lower interest rate than traditional home loans.

### 3. Apply for An FHA Loan

FHA loans are government-insured loans backed by the Federal Housing Authority. To apply, you would need to visit a bank or mortgage broker that offers FHA loans. The lender funds the loan, but the government insures it against default. Since the government covers losses if you foreclose, lenders have minimum standards for qualification.

Though some lenders will impose tougher standards, such as minimum credit scores or reserve guidelines (amount of "rainy day" savings) for FHA loans, most honor the minimum guidelines set out by the FHA. These guidelines offer the best hope for many borrowers to qualify for home loans on good terms they can afford.

FHA loans offer lower down payments, as little as 3 percent of the total loan amount, versus traditional loans that often require as much as 10 to 20 percent down.

"Often times the seller is asked to pick up most, if not all, of the closing costs as well if they buyer has an FHA loan," Bronniche said.

These government-backed mortgages also feature lower mortgage insurance and interest rates, resulting in lower monthly payments. FHA loans are also much less concerned about poor or low credit scores than mortgages underwritten by financial institutions, allowing modest-income earners to qualify.

When you search for homeowners insurance, a requirement for most federally-backed home loans, be sure to enlist the help of an independent agent who can find you the most affordable quotes. Independent insurance agents are able to locate a number of homeowners insurance quotes with the best coverage options at the most affordable rates.

### 4. Check for State and Local Housing Programs

Many states and local municipalities have a public housing department. It's a good idea to contact your local agency and inquire about any home-buying assistance programs they offer. Some agencies will assist low- to moderate-income earners with down payments, rehabilitation costs and inspections, and other closing expenses.

"It never hurts to find out what may be available in your area," said county public housing agent Beth VanderPlaats.

Your bank or lender may also know of government incentives for first-time home buyers, and programs available for people in certain fields such as education, law enforcement, and military personnel or veterans.

## 5. Look into Any Private Sector Assistance

Habitat For Humanity is just one example of a private, non-profit organization that helps low- to moderate-income earners transition into homeownership. Through volunteer labor and donations, and with the future homeowner's investment of hundreds of hours of their own labor into building their Habitat house, this organization has helped millions of people into affordable homes.

Habitat houses are sold to partner families at no profit and are financed with affordable loans. The homeowners' monthly mortgage payments are used to build still more Habitat houses. Other organizations and non-profits may be available in your area as well. You may be surprised to learn of the assistance available through the private sector.

Another way to save on owning your own home is to shop around for homeowners insurance policies, just one of the additional expenses property owners must pay. Insurance rates can vary greatly from company to company, so it is important to compare a number of quotes from a variety of insurance providers.

You may also want to consider enlisting the help of an independent insurance agent, such as those in our network, who can help you identify ways to save on your homeowners insurance premium and help you locate a number of quotes to compare coverage options and rates.

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