



CreditSmart® Asian

Steps to Homeownership



We make home possible®

Introduction

- Steps to Homeownership
 - ✓ Learn the steps you will take to becoming a homeowner.
 - ✓ Gain an understanding of key terms used in the homebuying process.

A Home of Your Own

- Before you purchase your home, remember:
 - ✓ Don't rush into it.
 - ✓ It is one of the largest purchases you will make.
 - ✓ Prepare and do your research.
 - ✓ A home is a valuable asset that can appreciate over time.

A Home of Your Own

■ Pros of Renting a Home

✓ Pros

- No additional financial obligation other than rent and security deposit.
- No responsibilities on repairs and maintenance.
- Landlord pays the property insurance, taxes, and other utilities.
- Flexibility to move when lease is up.

A Home of Your Own

■ Cons of Renting a Home

✓ Cons

- No equity
- No control over rent increases
- No opportunity to make improvements
- Restrictions on decorations, children, or pets
- May not be able to renew lease

A Home of Your Own

■ Pros of Owning a Home

✓ Pros

- Equity
- Security
- Tax advantages*
- Stable mortgage payment on fixed rate mortgages
- Freedom to decorate and make improvements

** Consult your tax advisor*

A Home of Your Own

■ Cons of Owning a Home

✓ Cons

- Extra financial obligations (e.g. property tax, homeowner's insurance, homeowner association fees, utilities)
- Responsibility of repairs and maintenance
- Subject to foreclosure if you cannot pay the mortgage payments

Are You Ready?

- Members of your homebuying team
 - ✓ Real estate agent
 - Finds prospective properties
 - Makes an offer to the seller on your behalf
 - Assists you through the homebuying and closing process

Are You Ready?

- Members of your homebuying team
 - ✓ Mortgage lender
 - Provides funds for your mortgage
 - Manages the credit and financial review and the property and loan application through closing
 - ✓ Mortgage broker
 - Independent finance professional
 - Provides you with different products and services so you can compare different mortgage products from several lenders
 - Broker charges you a fee and may also be paid by the lender

Are You Ready?

- Members of your homebuying team
 - ✓ Your friends and family
 - Help weigh pros and cons of properties
 - Provide referrals

Are You Ready?

- Members of your homebuying team
 - ✓ Community-based organizations and housing counselors
 - Provide professional and unbiased advice
 - Offer homebuying education courses
 - Help avoid costly mistakes

Are You Ready?

- Members of your homebuying team
 - ✓ Other professionals
 - Home inspectors
 - Evaluate the condition of your home
 - Contractors
 - Handle necessary repairs you cannot do yourself
 - Closing agent
 - Handles the paperwork at your settlement

Are You Ready?

- Questions to ask yourself
 - ✓ How much can you afford to spend?
 - Estimate your purchasing power by multiplying your annual gross income by 3.5.
 - Work with your lender to get pre-qualified for a loan amount.
 - Only you can decide if the monthly payments fit your spending plan.

Are You Ready?

- Questions to ask yourself
 - ✓ Is your income steady?
 - Lenders prefer to offer mortgages to individuals with steady source of income.
 - Be prepared to give proof of your income.

Are You Ready?

- Questions to ask yourself
 - ✓ Do you have good credit?
 - Obtain a copy of your credit report to ensure all information is correct.

Are You Ready?

- Questions to ask yourself
 - ✓ Do you have enough money for a down payment and closing costs?
 - Ask your lender about your down payment options and closing costs.
 - Be sure to set aside money to pay your down payment and closing costs.

Your Own Home

- Mortgage insurance (MI)
 - ✓ Required if your down payment is less than 20%
 - ✓ Homeowner's Protection Act (HPA) of 1998
 - Borrowers can cancel coverage when they reach 20% equity in mortgage
 - Lender automatically cancels coverage when 78% loan to value is reached
 - Exceptions to cancellation:
 - Liens on property
 - Borrower is not keeping up with payments

Are You Ready?

- Questions to ask yourself
 - ✓ Do you have enough cash to move?
 - Movers / truck rental
 - Repairs to new and old home
 - New furnishings

Are You Ready?

- Questions to ask yourself
 - ✓ How much house can you afford?
 - Develop a savings and spending plan

Exercise: Coffee Bean Game

- You will receive 30 coffee beans and a board game.
- Select the specifications of the home
 - ✓ Use your family as a scenario.
 - ✓ Select specifications from all rows.
 - ✓ Choose “Optionals” only if you find you need it for your home.

Qualifying for a Mortgage

- The Four C's
 - ✓ Capacity
 - Your ability to repay a mortgage based on your income
 - ✓ Capital
 - Your wealth in terms of your assets or cash
 - ✓ Collateral
 - Any property you own that is acceptable as security for a loan or obligation
 - ✓ Credit
 - Your credit history

Qualifying for a Mortgage

- What is Credit?
 - ✓ Ability to borrow money to pay for something you get today with an agreement that you will pay it back
 - Two types of credit:
 - Revolving – credit cards, home equity lines of credit
 - Installment – car loans, mortgage loans
 - Interest rates – a charge you pay to borrow money
 - Good debt – money borrowed for assets that retain value

Qualifying for a Mortgage

- Your Credit Score
 - ✓ Determines the interest rate, terms, and fees associated with your loan
 - Credit reporting agencies use your credit history to determine your score
 - Better credit report = Higher credit score

Qualifying for a Mortgage

■ Credit Score Breakdown

✓ Payment history	35%
✓ Amounts owed	30%
✓ Length of credit history	15%
✓ New credit	10%
✓ Types of credit in use	10%

- For more information, visit www.myfico.com

Source: FairIsaac Co.

Sample Credit History

E C O A	W H O S E	Creditor Name	Date Opened	Date Reported	High Credit	Present Status		Historical Status				Current Status
		Account Number	Credit Limit	Last Activity	Terms	Balance Owing	Amount Past Due	Mos Rev	30-59 Days	60-89 Days	90-120 Days	
I	B	US Bank	04/03	01/04	\$3700	\$2700	\$0	9	0	0	0	I1
		101010			30M140							TU
		INSTALLMENT SALES CONTRACT										
		DLA: 12/03										
		Account with no adverse information										
		Account types can include installment loans, credit cards, mortgage loans, auto loans, retail accounts and finance company accounts										
I	B	ABC	09/00	05/01	\$500	\$500						O9*
		Collect			\$500							TU
		PLACED FOR COLLECTION										
		CREDITOR: FUNDING CORP.										
		AGENCY: ABC COLLECTION										
		Account with Adverse Action										
I	B	XYZ	11/00	02/00	\$300	\$300						O9*
		Collect			\$300							TU
		PLACED FOR COLLECTION										
		CREDITOR: FUNDING										
		AGENCY: XYZ COLLECTION										

Sample FICO Scoring Summary

CREDIT BUREAU CONSUMER RELATIONS CENTER

(TU) TU SETTLEMENT SOLUTIONS, PO 31423, INDEPENDENCE, OH 44131
(866) 871-0390

Date Ordered: 01/20/2008

Date Released: 01/20/2008

01/20/2008

The point scoring shown is derived from the original infile data compiled from each repository used, prior to the elimination of duplicate tradelines.

TransUnion

01-NEW EMPIRICAL **700**

TransUnion's personal credit score. The range is from 150-934, and scores are formulated based on the amount of credit information reported and the types (adverse or satisfactory) of information that is reported. High scores reflect a long and positive credit history.

The factors that most significantly affect the credit score

REASON 1:

Derogatory public record or collection filed

REASON 2:

Length of time accounts have been established

REASON 3:

Too many inquiries in last 12 months

REASON 4:

Proportion of balances to credit limits is too high on bank revolving or other revolving accounts

Qualifying for a Mortgage

- Get Pre-approved
 - ✓ Pre-approval is a service provided by banks or other lenders based on a preliminary review of your credit report and income documents.
 - ✓ Pre-approval letter shows a seller you have the capacity to purchase a home.

Finding Your Way Home

- Factors to consider when shopping for a home
 - ✓ Location
 - ✓ Amenities available nearby
 - ✓ Type of dwelling

Finding Your Way Home

■ Making an Offer

✓ Offer

- Down payment you propose to pay
- Price willing to pay
- Length of escrow

✓ Escrow

- Process during which a third party will hold all funds related to the sale of the home

✓ Earnest money deposit

- A “good faith” deposit that demonstrates that you are a serious buyer

Finding Your Way Home

- After the Offer
 - ✓ Start the mortgage application process in earnest within an agreed upon time frame.
 - ✓ Work with your lender to have your home appraised.
 - ✓ Hire a professional inspector to examine the house for you.

Finding a Mortgage That's Right for You

- Questions to ask your lender:
 - ✓ Do you offer any special loan programs to first-time homebuyers or for the purchase of a home in the neighborhood where I want to buy?
 - ✓ Is first-time homebuyer education required to be eligible for special loan programs?
 - ✓ What is the lowest interest rate you offer for a conventional, fixed-rate mortgage?
 - ✓ What fees are included? What is the APR?
 - ✓ How long will it take for a lender to process my loan?
 - ✓ Is there a prepayment penalty?
 - ✓ When can I lock in my rate?

Mortgage Types

- Fixed-Rate Mortgages
 - ✓ Lock in your interest rate for the length of your loan with a fixed-rate mortgage
 - 30-year, fixed-rate loan
 - 20-year, fixed-rate loan
 - 15-year, fixed-rate loan
 - Other terms – 40 of 50 years

Mortgage Types

- Adjustable-Rate Mortgages (ARMs)
 - ✓ Fluctuation of interest rates
 - ✓ Mortgage terms
 - ✓ Caps

Mortgage Types

■ Other Mortgages

✓ Balloon mortgages

- At the end of the term, the borrower must refinance the balance or pay the balance with a lump sum payment.

✓ Interest-only mortgages

- A borrower only pays interest for the first 5 or 10 years

✓ Option ARMs

- Allows a borrower to determine how much they will pay from month-to month

✓ Special mortgage products

- If you have difficulty qualifying for a standard loan product, find a lender who can offer special loans with flexible features.

Mortgage Types

- Government Programs
 - ✓ Federal Housing Administration (FHA) Loans
 - ✓ Department of Veterans Affairs (VA) Loans
 - ✓ Rural Housing Service (RHS) Loans

Mortgage Types

■ Interest Rates

✓ How low can you go?

- Interest rates vary by market conditions, credit rating, and terms of loan.
- Buying points can reduce your interest rate.
- Loan duration will impact your rates.
- Lock it in!

Borrower's Rights

- As a homebuyer, you have rights at every step of the process
 - ✓ Working with a real estate agent
 - ✓ Full property disclosure
 - ✓ Mortgage process
 - Equal Credit Opportunity Act
 - Fair Credit Reporting Act
 - Truth-in-Lending Act
 - ✓ Entering escrow

Borrower's Rights

- Home inspection
 - ✓ Make your offer contingent on a home inspection by a trained, licensed expert.
 - ✓ An inspection will tell you about the condition of the home and can help you avoid buying a home that needs major repairs.

Borrower's Rights

- Closing process
 - ✓ Setting the closing date
 - ✓ Attending the closing meeting
 - ✓ Reviewing the documents
 - ✓ Closing costs
 - HUD 1 Settlement Statement

Conclusion

- As you research your preferred neighborhood:
 - ✓ Assemble your real estate team.
 - ✓ Shop for a mortgage.
- Ask questions and remember your rights as a borrower.
- The day your escrow closes will be one of the most exciting days of your life.