



## 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](http://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	I
		101010			30M140							TU
		<b>INSTALLMENT SALES CONTRACT</b> 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.