Steps to Homeownership

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We make home possible®

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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.

Steps to Homeownership will guide you through the homebuying process. The topics included in this presentation are how to select a real estate professional, seek out a lender, determine a spending plan, find the best type of loan, make an offer, and finally -- what to expect at settlement.

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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.

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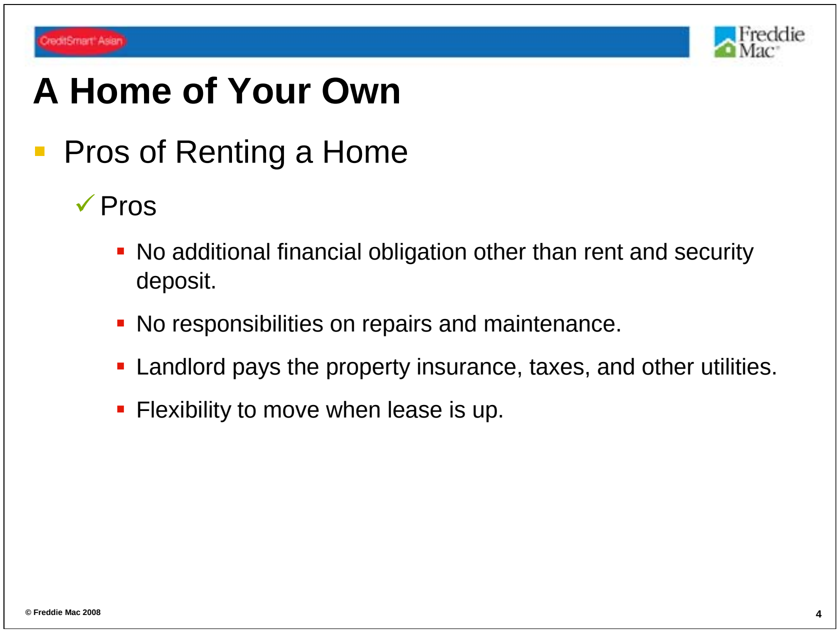
After years of hard work, saving money, and establishing a good credit history, you are now ready to give your family a valuable gift—a home. But, before you purchase your home, remember:

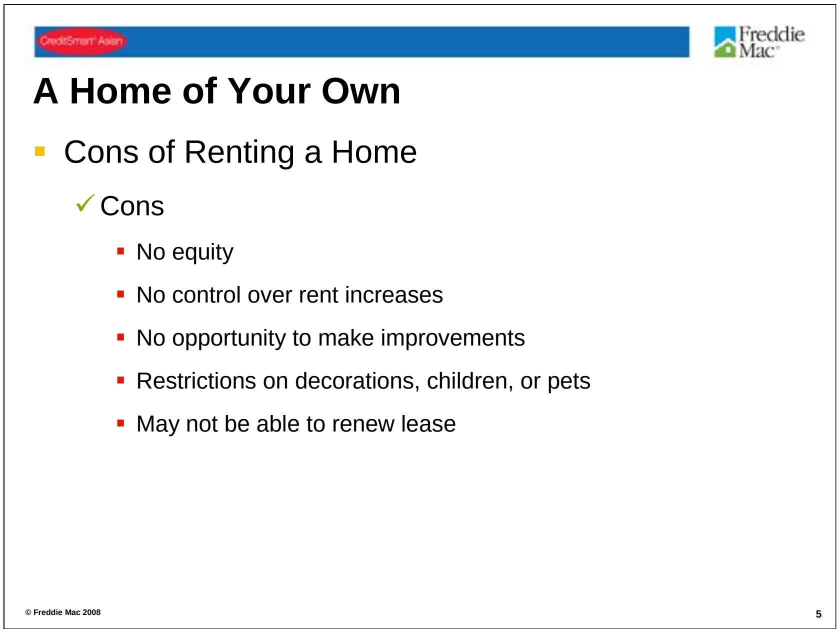
- Don’t rush into it.
- A home will be one of the largest purchases you will make in your lifetime.
- With preparation and research, you will achieve your dream of homeownership.
- Your first home is not only a place to live and grow together, but it also is a valuable asset for the future that can appreciate over time.



Whether you currently live with friends and family members or rent your own apartment, you need to analyze the pros and cons of owning your own home versus renting.
Some pros to renting are:

- You only have to worry about paying the rent and security deposit.
- Property owner handles the repairs and maintenance.
- The landlord pays the property insurance, taxes, and some utilities.
- You can move when you want without having to sell the home.

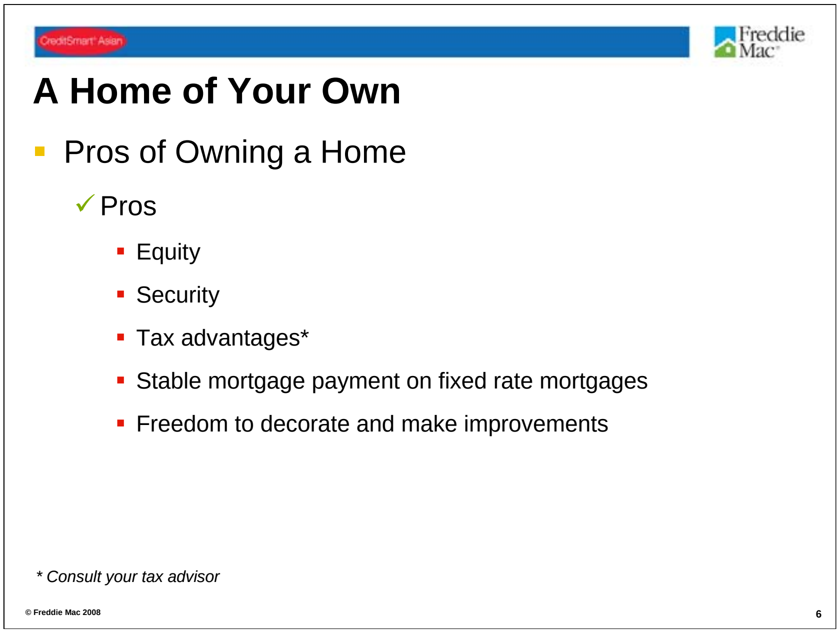
Instructor: ask your workshop participants, "Can you think of other advantages to not owning a home?"



Some cons to **not** owning your own home are:

- Your rent payments do not build equity for you because your money goes to your landlord.
- You do not have control over whether rent will increase.
- You cannot freely make improvements, such as upgrading your kitchen or bathroom, to your home.
- There may be restrictions regarding how you can decorate your home.
- There may be restrictions regarding children or pets.
- Landlord may decide to not renew lease because he or she may have made other decisions regarding the property (e.g. wants to sell or change use).

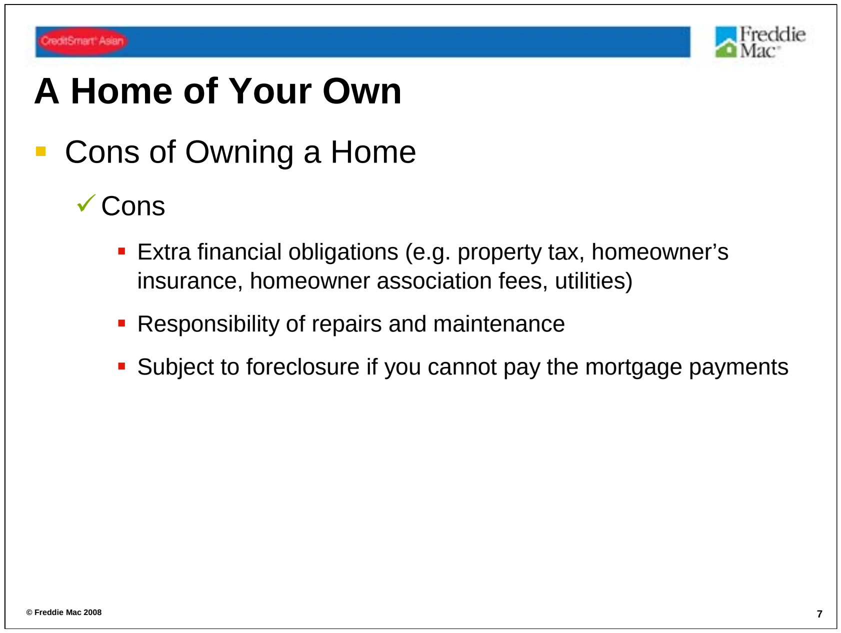
Instructor: ask your workshop participants, “Can you think of other disadvantages to not owning your home?”



Some pros to owning your own home are:

- You have an asset that you own that build equity over time, giving you a valuable wealth-building tool that you can use to buy a larger home, finance your business, or perhaps fund your child's education or even your own retirement.
- It provides security because you have a home of your own where you and your family can live and grow together.
- There are tax advantages. Be sure to consult your tax advisor for advantages that will meet the needs of you and your family.
- Your monthly mortgage payments will not change if you choose a fixed-rate mortgage.
- You have the freedom to choose the décor of your home and make improvements as you see fit.

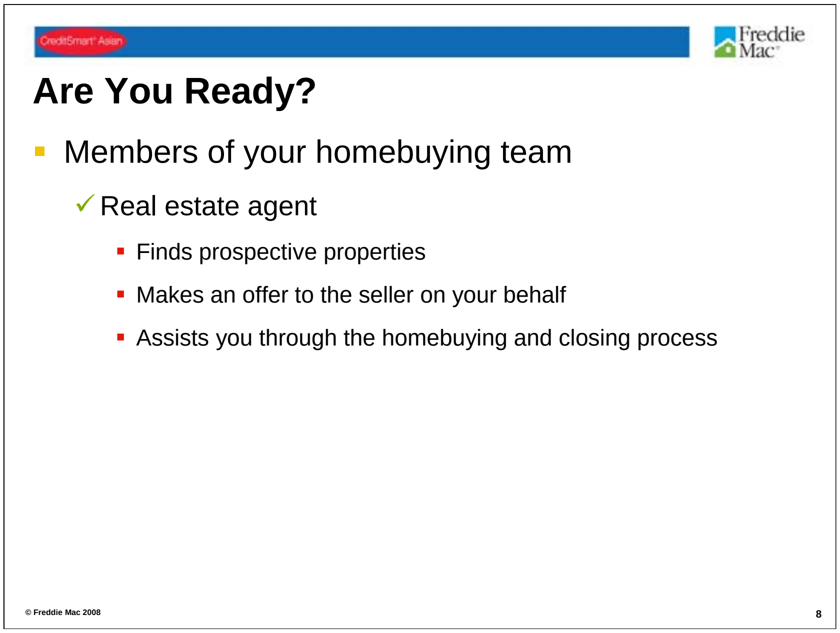
Instructors: ask your workshop participants, "Can you think of other advantages to owning a home?"



Some cons to owning your home are:

- You are responsible for paying for your property tax, homeowner's insurance, homeowner association fees, utilities, and other expenses in addition to your monthly mortgage.
- You must pay for repairs and maintenance, as well as renovations of your home and property.
- If you cannot pay your mortgage, your home may be subject to foreclosure.

Instructors: ask your workshop participants, "Can you think of other disadvantages to owning a home?"



As you begin your search for a home, you need a variety of professionals to help you along the way. Let's take a look at the members of your homebuying team who you will help make your transaction proceed smoothly.

Real Estate Agent

- Your real estate agent will help you find prospective properties, make your offer, and assist you through the homebuying and escrow (closing) process. The agent is paid a commission by the seller using proceeds from the sale of the house. Also, keep in mind that the real estate agent also may represent the interests of the seller.
- It is important that you find an agent that you feel comfortable working with and can trust. Ask your family and friends for referrals or contact a professional organization such as the National Association of Realtors (www.realtor.org) or Asian Real Estate Association of America (www.areaa.org).

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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

When you begin to apply for a home loan, you will work with either a mortgage lender or a mortgage broker to help you select the mortgage option that's best for you.

A mortgage lender provides your funds for the mortgage and manages the credit and financial review and the property and loan application process through closing.

A mortgage broker is an independent finance professional who provides a range of products and services, allowing a borrower to compare different mortgage products from several lenders. In addition to charging you a fee, the broker may be paid by the lender. Ask about fees that he/she receives for the service. Be sure to shop around for a mortgage broker who can best serve your needs. Consider asking family members and friends for referrals, too.

Whether you choose to work directly with a lender or a mortgage broker, you will want to have them help you determine how much of a loan you can afford before you begin shopping for a house.

Are You Ready?

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

Your family and friends

- Trusted friends and relatives can help you weigh the pros and cons of each property and provide referrals. Homebuying advice and knowledge of family and friends may not always be accurate or appropriate for you. Always verify the homebuying information you receive from multiple sources. Remember, you are responsible for your own purchase, so always trust your own instincts first.

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

Community-based organizations, housing counselors, local government housing agencies, and Web sites are important resources to consider when you begin your research for the best loan product or other programs for you and your family. In fact, there are many nonprofit organizations who offer homebuying education courses at no cost or for a nominal fee. Also, seeking a homebuying counselor can help you avoid costly mistakes.

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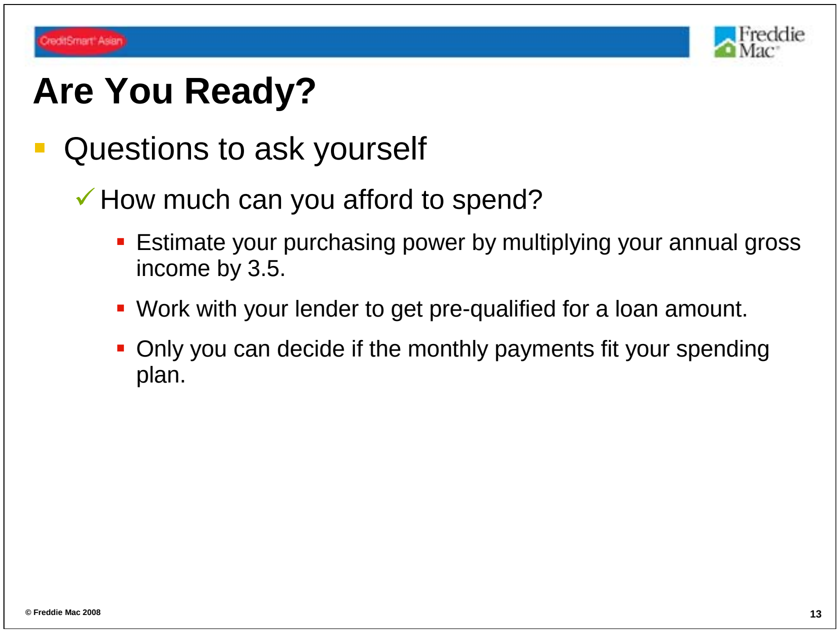
Are You Ready?

- 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

In addition to working with a real estate agent, mortgage lender or broker, and seeking advice from friends, families, and nonprofit organizations, you will also work with:

- Home inspectors will evaluate your home prior to your purchase. Working with a home inspector is highly recommended because they will let you know if there are major repairs needed before you move into your home. And, in cases where they find major problems with the home, it will provide you with the opportunity to re-evaluate purchasing it – especially if you do not want to cover the high cost of the repairs.
- Contractors will handle any necessary repairs you cannot do yourself.
- You will also work with a closing agent at an escrow company. He or she will manage the paperwork that you will sign on your closing day.



While it is tempting to look for your dream home right away, there are some steps to follow before you start shopping for one. It's best to begin by determining how much you can afford. Here are some questions to ask yourself before you begin your search in finding a home to buy:

How much can I afford to spend?

- For a general idea of your buying power, multiply for your annual gross income by 3.5. For example, if your annual gross income is $47,000 and you multiply it by 3.5, you can estimate your buying power is $164,500. Keep in mind, this is only an estimate and doesn't mean you can definitely afford the monthly payments associated with this mortgage. You will still need to work with a lender to determine how much you can pre-qualify to receive, and it is up to you to decide if the loan amount and monthly payments fit your spending plan.

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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.

Is your income steady?

- Lenders prefer to offer mortgages to individuals who can show a steady source of income. Be prepared to give proof of your income sources with tax forms or other documentation.

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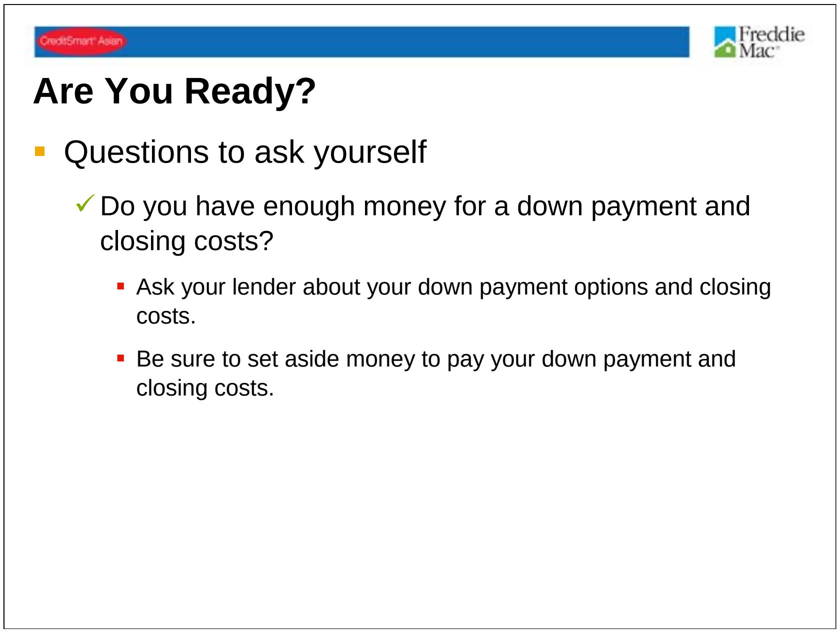
Are You Ready?

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

Do you have good credit?

- By now you should have established credit in your own name and maintained a history of timely payments. You should obtain a copy of your credit report to make sure all the information it contains is correct. If there are errors, report them to the credit reporting agencies immediately.



Do you have enough money for a down payment and closing costs?

- Today there are many mortgage products that allow prospective homeowners to buy with less than 20% of the purchase price as a down payment. However, if you pay less than 20% for your down payment, you will need to pay mortgage insurance – which we'll discuss in greater detail in a moment. Ask your lender about your options, and set aside enough money to pay your down payment and closing costs.

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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

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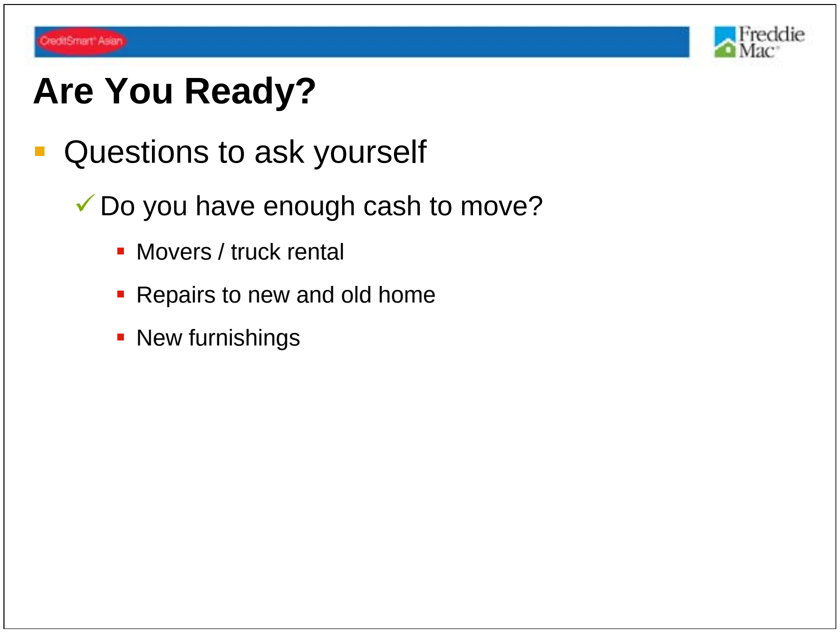
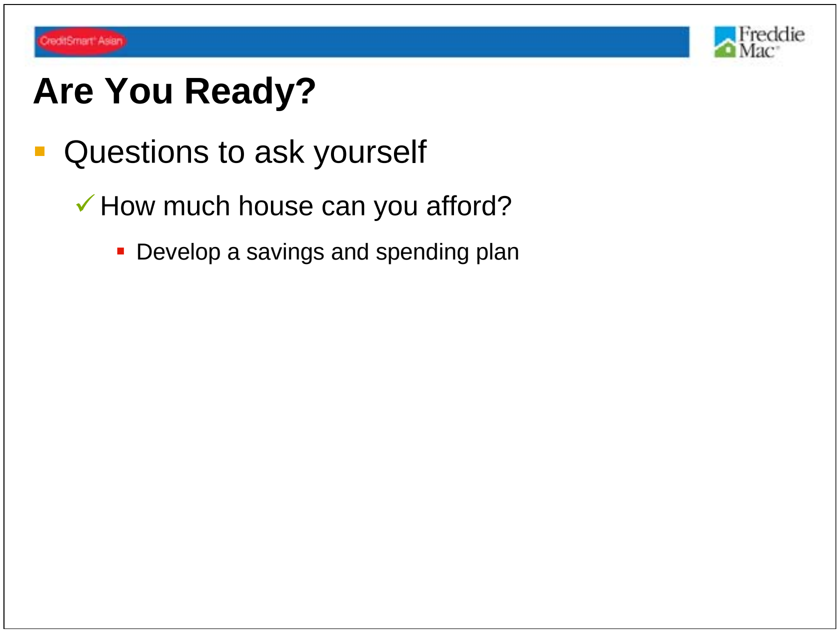
While it is no longer required to pay 20% of the purchase price as a down payment, you will have to pay a premium for mortgage insurance if pay less than 20%. Mortgage insurance helps protect lenders from losses in the event that a homeowner defaults on the mortgage and loses the home to foreclosure. This insurance offsets the losses in the case where a borrower is not able to repay the loan and the lender is not able to recover its costs after foreclosure and sale of the mortgaged property.

Under the Homeowner's Protection Act (HPA) of 1998, borrowers have the right to request private mortgage insurance cancellation when they reach a 20 percent equity in the mortgage. Lenders are required to automatically cancel MI coverage when a 78 percent loan to value ratio is reached. However the lender or borrower cannot cancel the insurance if there are liens on property or the borrower is not keeping up with payments, which may require further coverage.



Another question you need to ask yourself is “Do I have enough cash to move?”

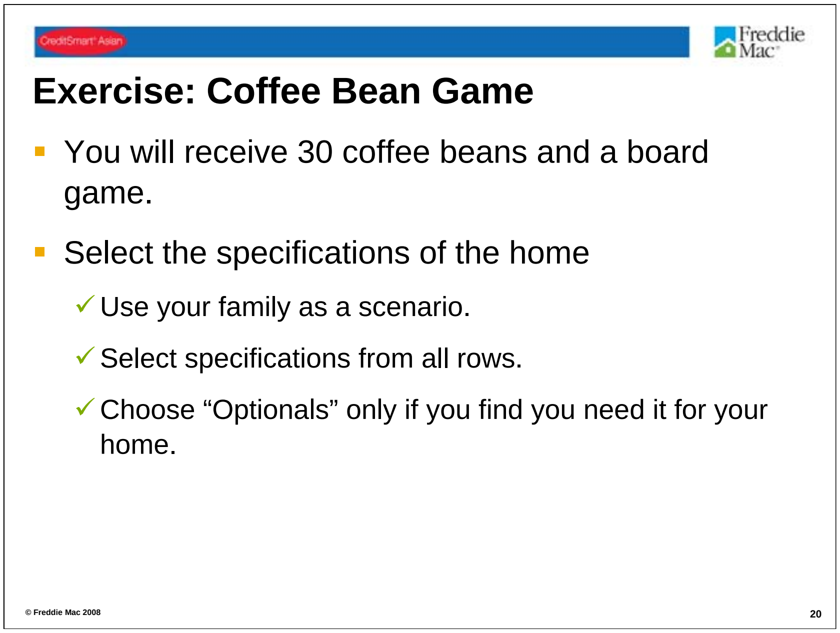
- You need to have money for moving expenses such as paying a moving company or renting a truck. In addition, you’ll need to be able to pay for any repairs required at your old or new home and any upgrades to your new home. Plus, you may need to add new furnishings, including appliances and furniture.



How much house can you afford?

- One of the best ways to calculate how much house you can afford is to create a spending and savings plan. of your monthly income and your expenses.

Instructor: Use spending plan document in guidebook, or download a copy from the CreditSmart Implementation and Promotional Online Guide.



Directions to Instructor:
Provide each participant with 30 coffee beans and a game board**.** Each participant should select the specifications of their home, using their personal family needs as a scenario. They must select one box from each row except for "Optionals," which they can select if desired. The number of objects in the square determines the number of coffee beans to allocate.

Download, print and copy the game board for your class from

http://www.freddiemac.com/creditsmart/guide/conduct_workshops.html

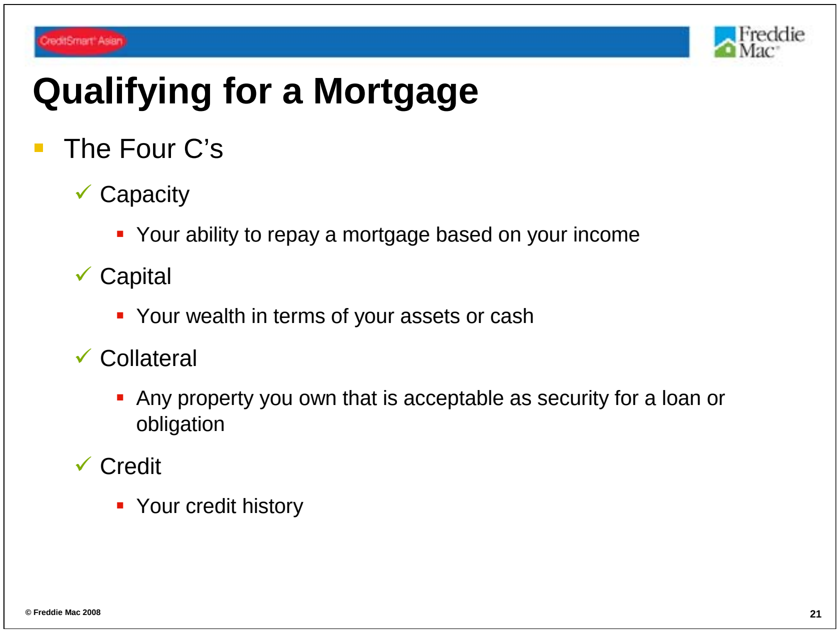
Workshop activities, exercises and games

When everyone is finished, give the following scenario:
Two months after you have moved into your new home, your basement pipes burst, ultimately flooding your lower level. To cover the cost of repairs, you will need to pay with five coffee beans.

Once you have given this scenario, walk around and ask for the coffee beans. If participants do not have left over coffee beans from their initial home purchase, ask them to adjust their home so they have five to give. Then give the next scenario:
After you narrowed down your potential contractors to one, you decided to inspect a previous project the contractor completed. On your way home, you had a fender bender with another vehicle at a stoplight. To cover your insurance deductible, it will cost you three coffee beans.

Once you have given this scenario, walk around and ask for the coffee beans. If participants do not have left over coffee beans from their initial home purchase, ask them to adjust their home so they have three to give.

After these two scenarios, the participants should be able to visualize the importance of "needs" versus "wants" and creating a spending and savings plan. Take this opportunity to open the floor for discussion on how participants felt about the exercise. Also, find out if the participants who initially left coffee beans in a "savings account" did so on purpose and why.



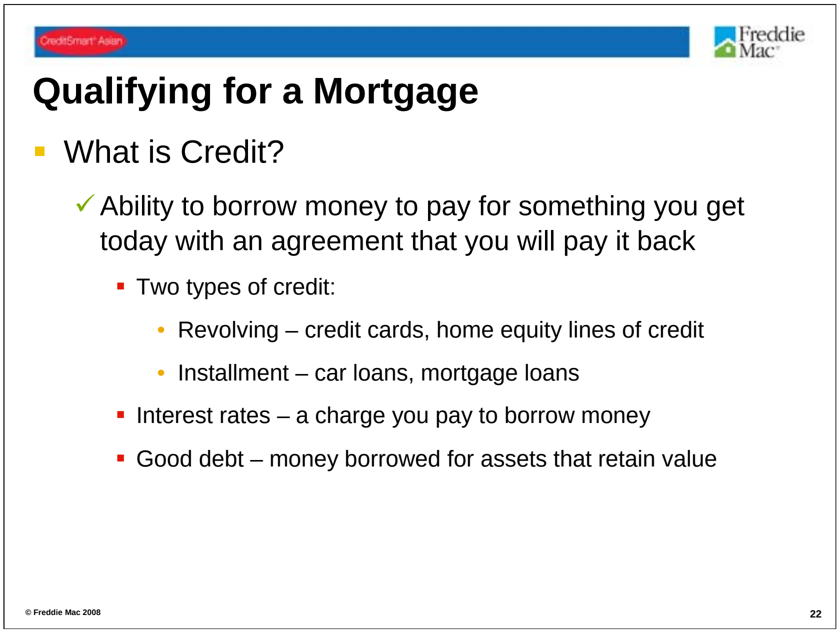
Once you have understood how much you can afford and the expenses of buying a home, you can now begin to think like a lender. Lenders conduct a four-part review of capacity, credit, capital, and collateral (known as the four C's) to determine if a borrower has the ability to repay a loan and, therefore, can qualify for a home mortgage.

Capacity
- Your ability to repay a mortgage based on your income and work history. They will want to consider if you have a steady income- income that is likely to continue. One of the ways that lenders verify your income is by reviewing your annual federal income tax returns.

Capital
- Capital is your wealth in terms of cash reserves and other possessions that can be liquidated. Your lender will look at your checking accounts, savings accounts, insurance policies, gifts, individual retirement accounts, and other assets. Cash reserves demonstrate to the lender that you have managed your money in a way to set aside extra funds and have resources other than your income to repay the debt.

Collateral
- Collateral is any property you own that is acceptable as security for a loan or obligation. For mortgage loans, the collateral is the property you are purchasing.

Credit
- One of the primary factors considered is your credit report. If the lender sees that the credit report contains several late payments or other negative factors—such as public record items, like a lien against your property or you have foreclosed on your previous home—your ability to secure a loan approval will be severely hindered. Further more, the lender will also review your credit report to see if you currently have "access" to too much credit. If you have too many open accounts, credit can be denied because you could become overextended. Let's take a closer look at credit and how it can impact your ability to purchase a home.



As you begin the process of buying your home, you will discover the importance of having good credit, especially when you try to get the best financing option. Today, lenders consider many factors when deciding whether to give you a mortgage and what the interest rate will be. Your credit history is one of the primary sources lenders use to determine your likelihood to pay back a loan.

But, what is credit? Credit is borrowing money to pay for something you get today with an agreement that you will pay it back. Credit may be extended through credit cards, personal loans, car loans, and home mortgages. There are two types:

- Revolving credit allows you to borrow up to a pre-established limit repeatedly, as long as you keep the account in good standing. Examples are credit cards and home equity lines of credit.
- Installment credit is a loan provided to a borrower by a lender to be repaid over a specified term like car loans and mortgage loans.

Credit has a large influence on interest rates offered by lenders. Interest rates is a charge you pay to borrow money from your lender. The annual percentage rate, or APR, is the total annual cost you pay (including the interest rate, points and fees) as the borrower on your loan. Often the rates that lenders advertise do not reflect the total annual cost. Always compare mortgage options based on the APR.

But, remember, although your credit is based on your debt, debt can be good. When it comes to establishing good credit, “good” debt will help you. Good debt is money borrowed for an asset that retains value, or even builds value (also called equity). For example, a home mortgage on your principal residence, a loan to help start or expand your business, or a car loan so you have a vehicle to get to and from work or school.

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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

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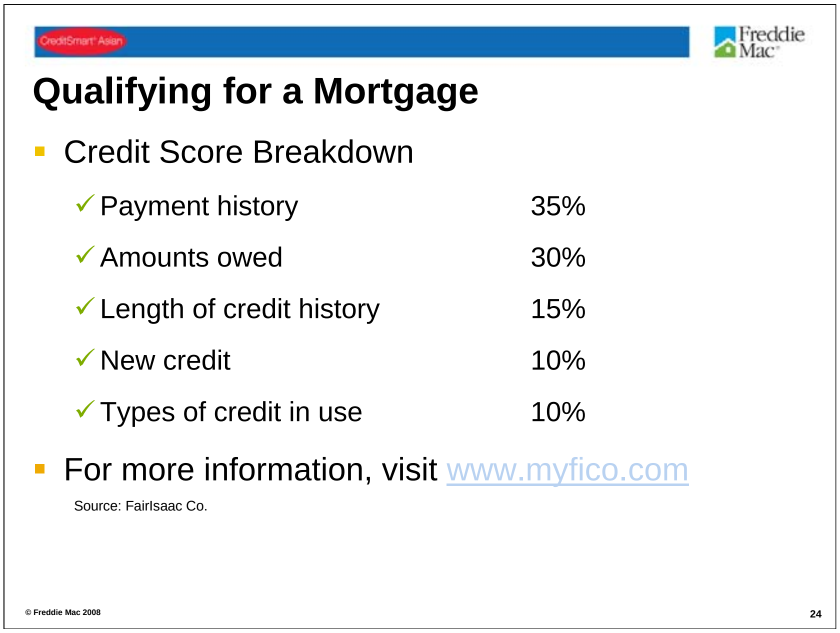
Knowing the Score

- Your credit score will determine the interest rate, terms, and fees associated with your loan. Credit reporting agencies use a credit score which uses statistical data to evaluate information contained in your credit report. The better the credit report, the higher your score you will be. The most common credit score used today is called a FICO score. When you apply for a loan, you should ask your lender to explain how your credit score was factored into the lending decision.



Credit Score Breakdown

The FICO credit score looks at five main characteristics of credit. Of those 5, your payment history and outstanding debt carry the most weight. In fact, those two characteristics comprise more than half of your total score. Your income is not a factor. In fact, someone with a high income may have a lower credit score than someone with a low level of income.

It is important to remember that your credit score is a snapshot of your situation at that moment and won't last forever. It is updated constantly to reflect the changes in your credit activity. For that reason, it's important to act in ways that will continue to increase your credit score over time. If you'd like to improve your credit score, please understand that it takes time. Credit scoring utilizes data contained in your credit report; therefore, the scoring system is actually analyzing your credit patterns over an extended period of time. Unfortunately, there is no quick fix. Only diligently managing your credit responsibly will help to ensure that your credit score will not be a barrier to future opportunities.

You can obtain a copy of your FICO credit score online for a small fee at www.myfico.com. The Web site provides additional information on credit scoring, factors, and credit tips.

Always ask your lender or creditor to explain what your credit score means in relation to the final credit decision. Never assume that your credit score is good or impaired until it's fully explained to you by a credit industry professional. The scoring systems and numerical ratings vary.

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Sample Credit History

ECOA	WHOSE	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										
I	B	ABC	09/00	05/01	$500	$500						O9*
		Collect			$500							TU
		PLACED FOR COLLECTION										
		CREDITOR: FUNDING CORP.										
		AGENCY: ABC COLLECTION										
I	B	XYZ	11/99	02/00	$300	$300						O9*
		Collect			$300							TU
		PLACED FOR COLLECTION										
		CREDITOR: FUNDING										
		AGENCY: XYZ COLLECTION										

Account with no adverse information

Account types can include installment loans, credit cards, mortgage loans, auto loans, retail accounts and finance company accounts

Account with Adverse Action

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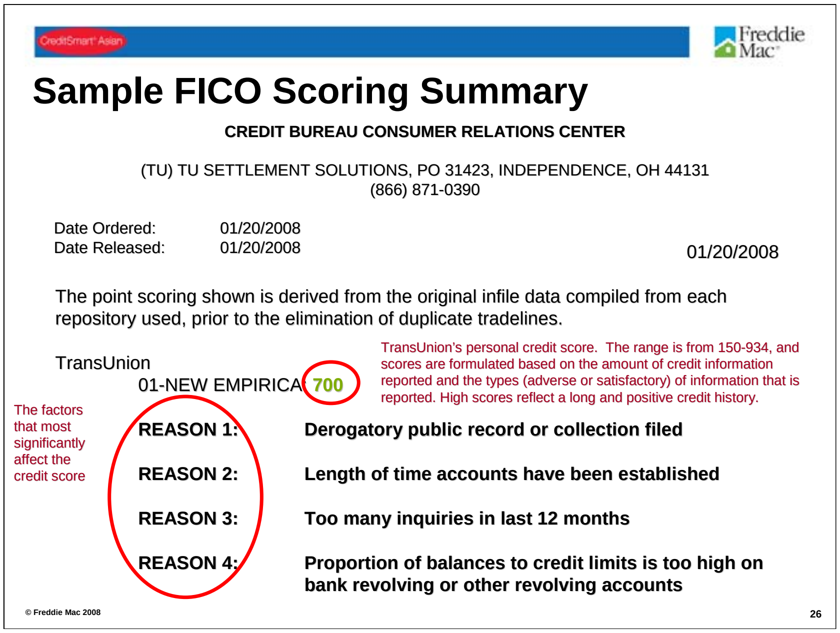
Once you apply for and establish your own credit, many lenders or creditors report your history of payments to one or more of the nation's three largest credit reporting agencies: Equifax, Experian, and Transunion.

In general, a credit report lists the following:

- Your name, address, Social Security number, and date of birth
- Your credit information — your creditor information, your payment history with each creditor, and how much debt you currently have with each creditor
- Information from public records such as bankruptcy or liens
- A list of recent inquiries into your credit



Every consumer has a credit history, however everyone may not have a credit score. Credit scores are generated when there's recent credit activity, e.g., payments made to your creditors, open active accounts and/or recent charges. Credit scores are used extensively by creditors, and if you're trying to obtain a mortgage, car loan, credit card, or auto insurance, the rate you receive is heavily influenced by your credit score. The higher the number, the better you look to lenders. Remember, those with high scores get the lower interest rates.

In addition to the credit score, you should also know what the factors are impacting the score. Under the FICO scoring model you will usually also be given four reason codes. The reason codes gives you the top four factors that have the greatest impact on your score. Knowing the reason codes related to your score is important when considering ways to improve your score. Understand that the reason codes will change as information in the credit file changes. The reason codes provide guidance to improving your score and direction on steps you should take when correcting errors.

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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.

Once you have narrowed down your price range for a home, and you are ready to buy, you should get pre-approved for a loan. Pre-approval is a service provided by banks or other lenders based on a preliminary review of your credit report and income documents.

A pre-approval letter shows a prospective seller that a lender has determined you have the capacity to be approved for a mortgage of a specified amount based on the information you provided.

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Finding Your Way Home

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

Once you know what you can afford and you are pre-approved for a mortgage, you can begin shopping for your home. One of your primary concerns should be location. For instance, is it important to be in a particular school district or within a certain distance from your job? When choosing a potential neighborhood, you also may want to consider what amenities are nearby—community centers, parks, access to public transportation. You also need to evaluate what type of dwelling you want—multifamily units such as a condo, townhouse, or a single-family housing unit.

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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

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Once you have found the property you like, you are ready to make a formal offer. Your real estate agent will assist you through the process. The offer will state the down payment you propose to pay, the price for which you want to buy the house, and how long your escrow will last. Escrow is the process during which a third party holds all fund related to the sale of the home before closing. It is also strongly advised that you include in the offer a contingency of home inspection. Sometimes, a counter-offer will be made by the seller until both parties come to an agreement on the selling price and other terms. At the time of your offer, you will be required to pay an earnest money deposit to show that you are a serious buyer.

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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.

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You should contact your preferred lender and start all the necessary paperwork to move forward to secure the mortgage. Once you begin to finalize the mortgage application process, hire a home inspector. Try and schedule the inspection at a time you can join the inspector. By walking through your home with an inspector, you will be able to learn more about your home.

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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?

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You are now ready to find a mortgage that is right for you.

Here are some 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?
- How does the term of the loan affect my interest rate?
- What fees are included in my loan?
- How long will it take for the lender to process my loan?
- Is there a prepayment penalty if I decide to pay my mortgage sooner than agreed upon?
- When can I lock in my rate?

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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

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When you shop for a mortgage, you have several choices. Fixed-rate mortgages lock in your interest rate for the length of your loan. This may be advantageous if you are wary of interest rates rising or just want a stable payment plan.

- 30-year, fixed-rate loan is the most common fixed-rate term. This loan gives you the best chance of keeping your payments predictable.
- 20-year, fixed-rate loan provides you with an opportunity to own your home debt-free sooner. However, you will have a slightly higher monthly payment than a 30-year.
- 15-year, fixed rate loan will save you a significant amount of money on interest. You will build equity quickly and own your home sooner. But, your monthly payments will be significantly higher than a 30-year.
- Other terms - mortgages that extend for 40 or 50 years allow you to have a lower monthly payment - making homes more affordable in high-cost areas.

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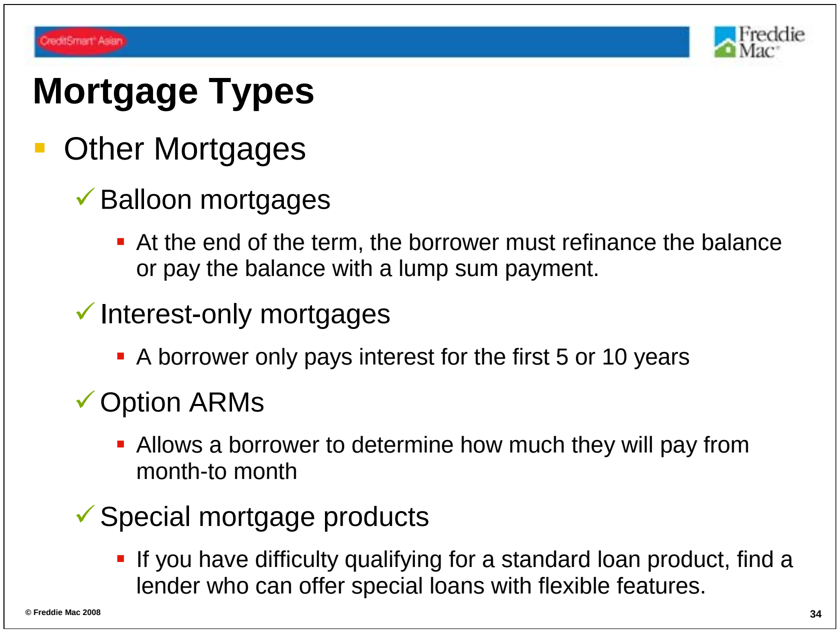
Mortgage Types

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

Like the name suggests, the interest rate on adjustable-rate mortgages, or ARMs, adjusts higher and lower as financial market conditions change. An ARM may be advantageous if you do not plan to live in your home for more than a few years. Here are some areas to consider you agree to an ARM:

- The interest rate on ARMs adjusts higher and lower as financial market conditions change.
- It is important to examine all the terms associated with an ARM carefully, especially in a changing real estate market.
- Ask your lender about its cap during each adjustment period and its lifetime cap.



Here are some additional mortgage types that are offered:

- **Balloon Mortgages** offers low interest rates for a short term. At the end of the term, the borrower must refinance the balance or pay the balance with a lump sum payment. However, if you consider this loan, you must ask about all of the conditions of the loan, since some lenders may not guarantee your loan past the balloon date. While this loan may be appropriate for you if you plan to sell your home within a few years, you should consider all of the terms beforehand, since the conditions may be strict.

- **Interest-only Mortgages** require the borrower to pay only the interest for the first 5 or 10 years. After that, the borrower must either pay the balance of the loan or start paying both principal and interest monthly for the remaining period, perhaps 20 to 25 years. The potential risks are significant for interest-only loans, especially if the interest rate on the loan increases, and the required payments of both principal and interest are well beyond your ability to pay each month. In fact, after the interest-only period ends, the monthly payment will be substantially higher than if you had used a traditional 30-year mortgage loan.

- **Option ARMs** let the borrower decide how much to pay from one month to the next. The options range from making a full monthly payment to a “minimum” payment that does not fully pay for the interest due, but the shortfall is added to your loan balance. If you do not have enough money for your regular monthly payment, you can send in a low payment and not default on your loan. However, if you defer too much interest, your total costs can go up because you will be paying interest on a higher loan amount. If you end up deferring a substantial amount, you may owe more on the loan than the value of your home. And, if you sell during a time of declining values, the sales price of the home may not pay for the loan balance.

- **Special Mortgage Products** are offered by some nonprofit organizations, government agencies, and lenders for first-time homebuyers. If you have difficulty qualifying for a standard loan product, you may want to 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

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The Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and the Rural Housing Service (RHS) offer special mortgage plans for borrowers or properties that meet certain restrictions. If you are a low-income borrower, a veteran or you wish to buy a home in a rural area, you should investigate these options.

- FHA Loans are home loans insured by the FHA so your lender can offer you a better loan package. FHA loans including down payments as low as 3% of the purchase price, low closing costs, and easier credit qualifying.
- VA Loans guarantees VA loans to making housing affordable to eligible U.S. veterans. You will need a certificate of eligibility from VA to prove to the lender that you are eligible for a VA loan.
- RHS Loans are used to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites.

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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!

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The interest rate for your mortgage will depend on the current market, your credit rating, and the terms of your loan. In general, the better the credit rating, the better the interest rate. If you want to reduce your interest rate further, you may be offered the chance to buy points on your loan. You will also see a difference in mortgage interest rates depending on the length of the loan. Ask your lender if you can lock-in your rate –- this can be beneficial if rates are rising, avoiding thousands of dollars in interest.

As a homebuyer, you have rights at every step of the home buying process. Your real estate agent should disclose any conflict of interest, such as representing the home seller in addition to representing you.

You also have the right to a full property disclosure about the house you want to buy.

Under the Equal Credit Opportunity Act, you cannot be declined credit or given a different rate because of your race, gender, marital status, religion, age, national origin, or the receipt of public assistance.

Under the Fair Credit Reporting Act, you have the right to know what information credit reporting agencies are distributing about you.

Under the Truth-in-Lending Act, lenders are required to provide you with written disclosures about the cost of credit and the terms of repayment before you enter into the transaction.

The escrow process is an exciting time. During this period, you will have many responsibilities, which may include scheduling a home inspection, conducting repairs, obtaining homeowner's insurance, and preparing for your move. It is important to be organized and remember the deadlines you must meet. Your real estate agent, real estate attorney, and escrow officers should communicate with you frequently to keep your escrow moving toward its closing date. If any problems arise during your escrow, you will need to inform your agent, lender, and escrow officer immediately.

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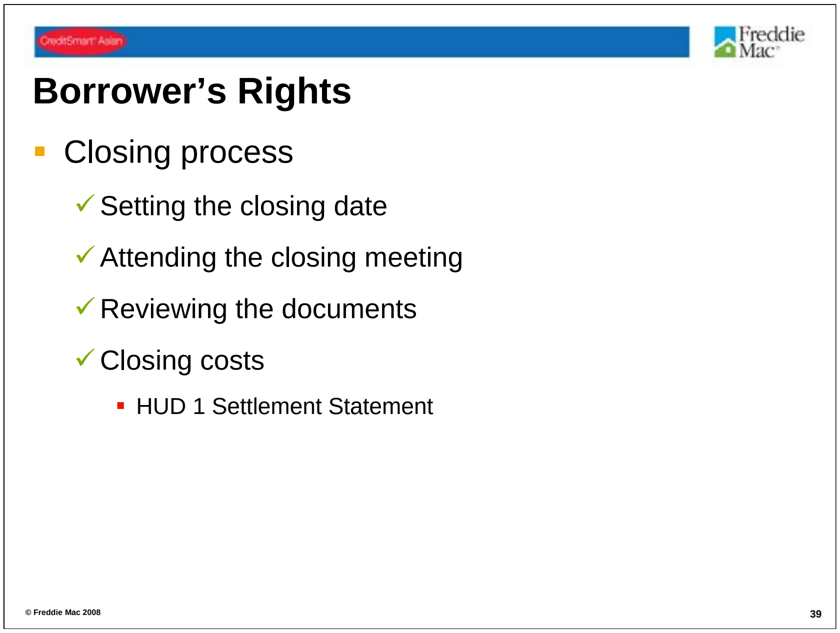
Borrower's Rights

- 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.

As a homebuyer, it is your responsibility to select the inspector and pay for the inspection. Ask friends, family, and your real estate agent for referrals. But, most importantly, always make your offer contingent on a home inspection by a trained, licensed expert.



You have almost completed the purchase of your own home. Closing meetings are standard in the homebuying process, although there are a few states where there are no closing meetings. You'll sign documents like the closing statement, mortgage note, and truth-in-lending statement.
Here are a few things to help you better understand the closing process:

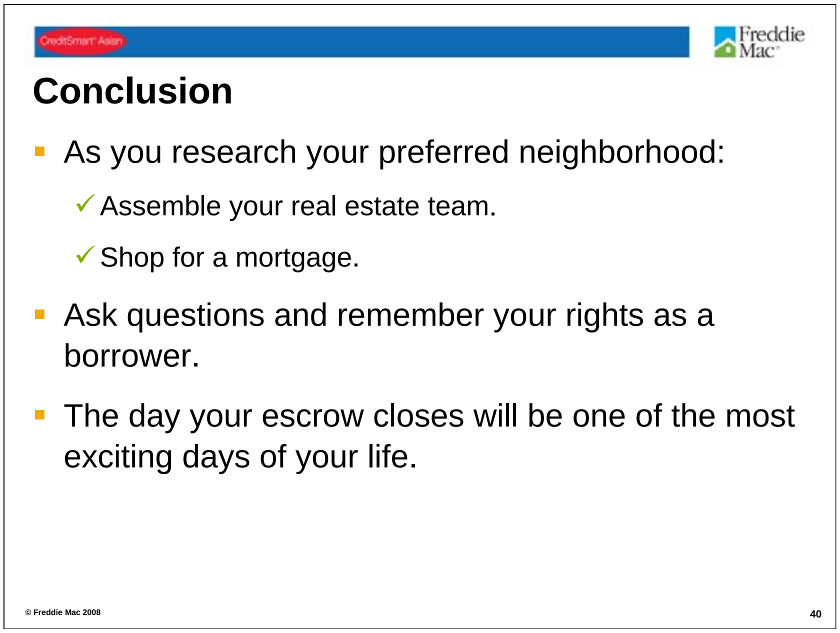
- The time between your offer being accepted and the actual closing meeting can take longer than you think. The closing date is set when your mortgage is approved and you sign a commitment letter with your lender. Make sure the closing date is before your lock-in rate expires.

- Many people attend the closing meeting. They usually include the homebuyer, the seller of the home, the closing agent, the title insurance representative, and the escrow agent. These can be several different people or one person handling all three issues. Closing agents coordinate the closing by recording closing documents, dispersing funds, etc.

- Ask for the closing documents before the actual closing and read them carefully. It may be a good idea to have a lawyer review them with you. It is important that you understand what you'll be asked to sign before the meeting.

- Closing costs can include many different things that can add up to a sizable amount of money. *Instructor:* Refer to HUD's Web site www.hud.gov/offices/hsg/sfh/res/sc3sectd.cfm to show a sample HUD 1 Settlement Statement.

- Proof of insurance and inspections, as well any money that is due, are required before you get the keys to your new home. The settlement agent or escrow agent should obtain this documentation on behalf of the lender. Check your state laws (your agent or the closing agent can help) – you may not be allowed to use a personal check for any payments due at the closing meeting. In that case, you'll need a certified or cashier's check.



You are well on your way to becoming a homeowner! Here are a few things to remember about today's presentation:

- As you research your preferred neighborhood, assemble your real estate team and shop around for a mortgage product that best meets your needs.
- Don't be afraid to ask questions and remember you have rights as a borrower.
- And most of all, the day your escrow closes will be one of the most exciting days of your life.