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

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<th>Date Opened</th>
<th>Date Reported</th>
<th>High Credit</th>
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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

Credit cards, mortgage loans, auto loans, retail accounts and finance company accounts
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

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 EMPIRICA 700

The factors that most significantly affect the credit score

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.

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.