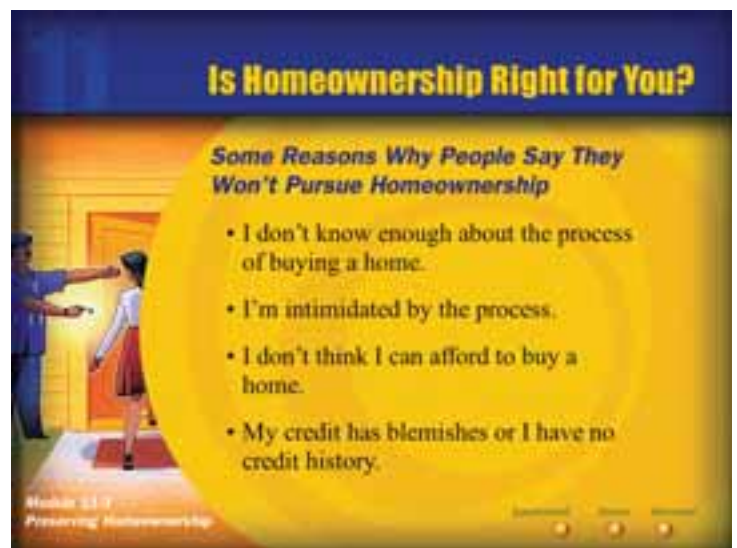
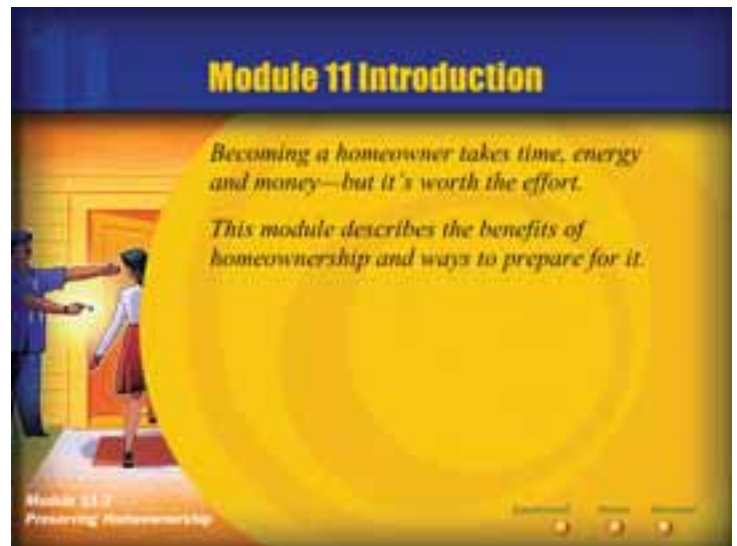
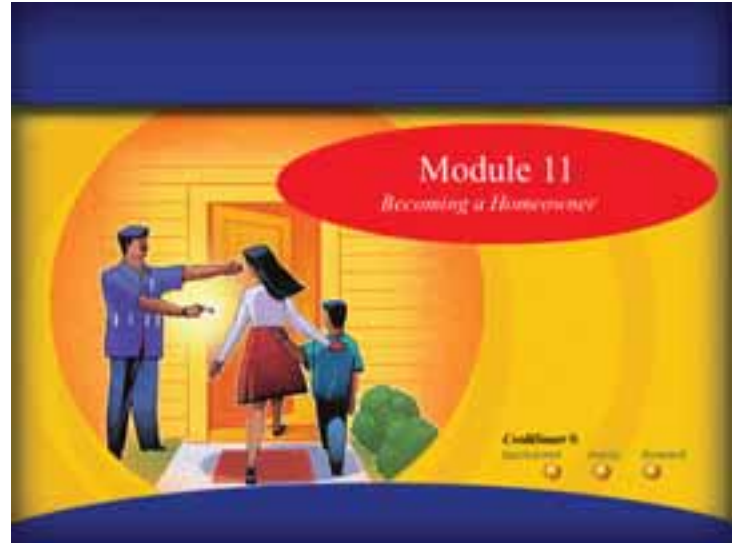
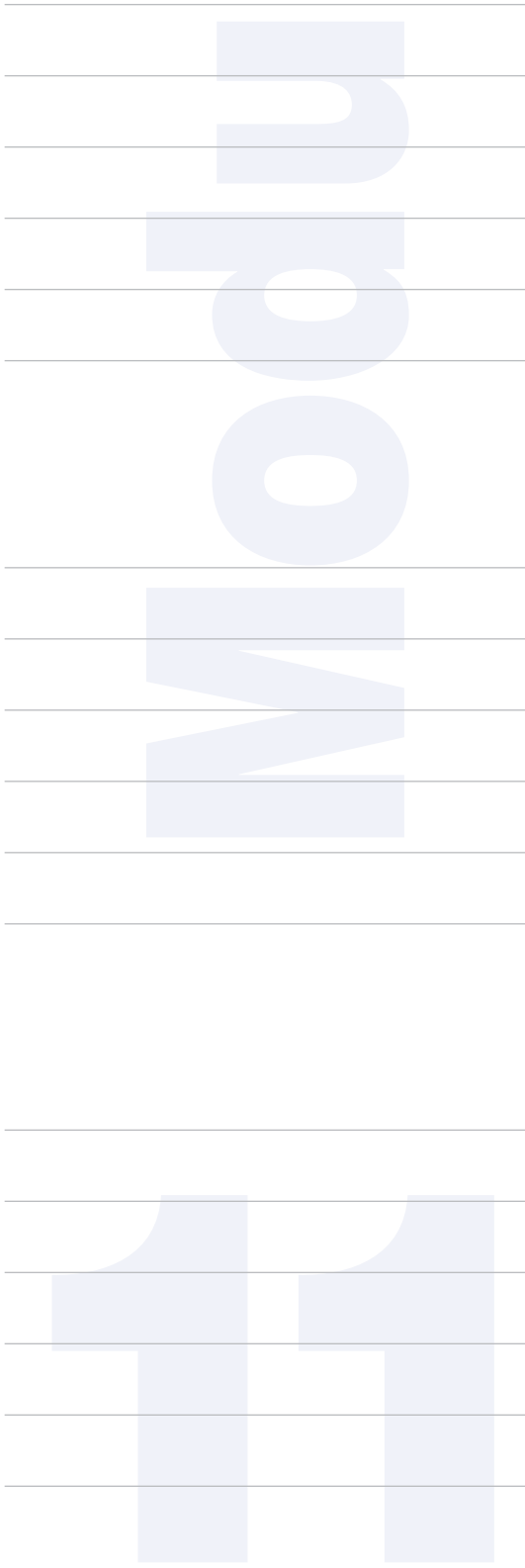
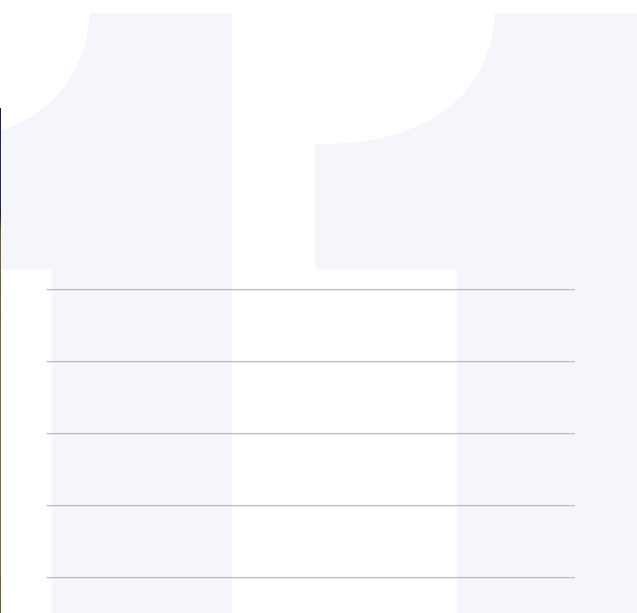


Module 11
Becoming a Homeowner



► **Presentation Slides**





Is Homeownership Right for You?

Some Reasons Why People Say They Won't Pursue Homeownership

- I'm not a U.S. citizen even though I reside here lawfully.
- I don't plan to live in the U.S. very long.
- I have difficulty speaking and understanding English.

Module 11.7
Preserving Homeownership

Did You Know?

- Most people buy a home by obtaining a mortgage.
- Homeownership is a worthwhile investment even in the short-term.
- It's easy to build credit by establishing a relationship with a financial institution or through a non-traditional credit history, if you keep good records.

Module 11.7
Preserving Homeownership

Are You Ready to Buy a Home?

Ask Yourself

- Do I have a continuous, steady, reliable source of income?
- Have I been employed continuously/steadily for the last 2 years even if it has not been in the same job, and is it likely to continue?
- Do I have a checking and/or savings account established with a financial institution, or do I keep accurate records of paying my bills regularly and on time if I do not?

Module 11.7
Preserving Homeownership

Are You Ready to Buy a Home?



Ask Yourself

- Do I file an income tax return with the Internal Revenue Service (IRS) each year?
- Do I pay my bills on time?
- Is my total debt manageable?
- Are all of my regular financial obligations accounted for in my total debt?
- Do I have some money saved for a down payment?
- Do I have some money saved for closing costs?

Module 11.7
Preserving Homeownership

Are You Ready to Buy a Home?



Ask Yourself

- Can I afford both the mortgage and other expenses?
- Do I have time to take care of a house?
- Do I have time to devote to buying a home right now?
- Do I have money to cover moving expenses?
- If I've experienced financial difficulties in the past, can I prove that it was due to events beyond my control?

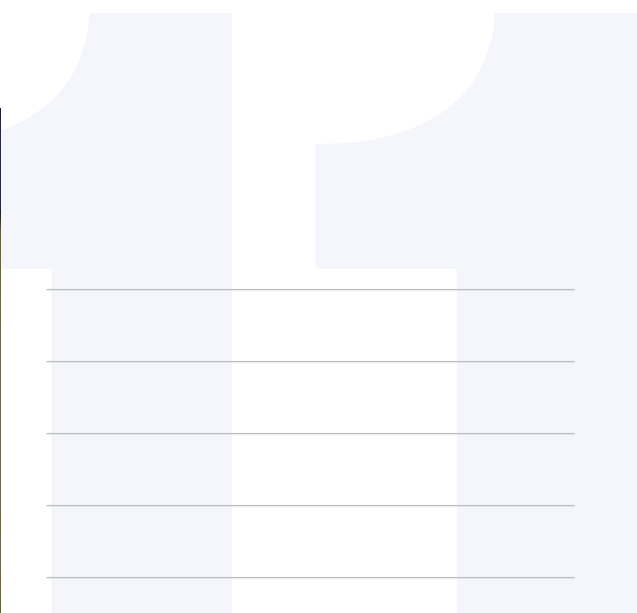
Module 11.8
Preserving Homeownership

Why Own a Home?



- Build **equity**.
- Gain tax advantages.
- Rely on monthly principal and interest payment stability.
- Home for family.
- Sense of community.

Module 11.9
Preserving Homeownership



Rent or Buy?

Advantages of Renting

- Free of maintenance obligations.
- Not committed to staying in a house or neighborhood.
- Can move quickly.
- Free of costs, such as homeowner's insurance and property taxes.

Module 11.20
Preserving Homeownership

Rent or Buy?

Advantages of Buying

- Build equity.
- Tax advantages.*
- Stable monthly payments.
- Strong sense of community.
- Place for family to live.

*Consult a tax advisor about potential tax advantages.

Module 11.21
Preserving Homeownership

Other Expenses and Considerations

- Monthly housing costs can increase.
- Maintenance and repair costs do arise.
- Mobility can be limited.
- Property values can depreciate.

Module 11.22
Preserving Homeownership

Types of Homes and Ownership

- Single Family
- Duplex, Triplex, Fourplex
- Planned Unit Developments
- Condominiums
- Cooperatives



Module 11.11
Preserving Homeownership

How Much Can You Afford to Spend on a Home?

Multiply your annual gross income by 2.5 to arrive at the cost of a home you might be able to afford.

Gross Income X 2.5 = House Price

\$50,000 X 2.5 = \$125,000



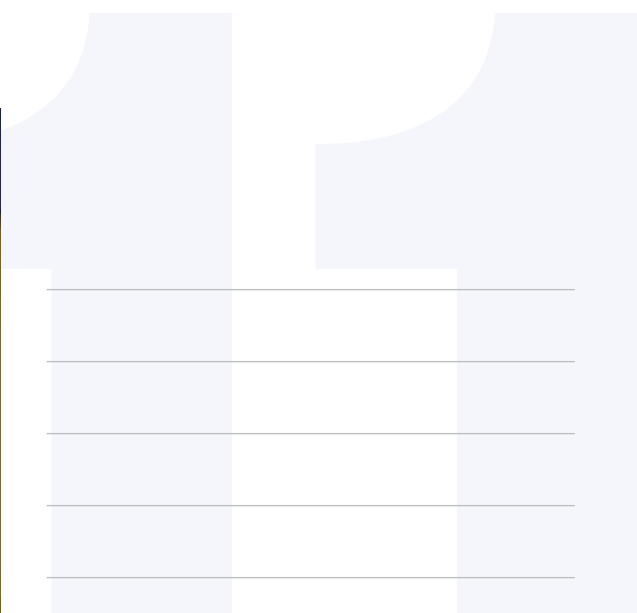
Module 11.11
Preserving Homeownership

Helpful Hints

- Create a spending plan with your estimated mortgage payment; include taxes and insurance.
- Include any financial support or obligations you send on a monthly basis to family members living in another country, if applicable.
- Include utility costs and future home maintenance and repair costs in the spending plan.
- Remember your other goals (having a baby, college tuition, retirement).
- Select a mortgage amount that allows you to meet your long-term goals and needs.



Module 11.11
Preserving Homeownership



How Much Money Do You Need to Buy a Home?

- *Down Payment*
- *Closing Costs*
- *Other Housing-Related Costs*

Module 11.11
Preserving Homeownership

Finding a Mortgage Lender

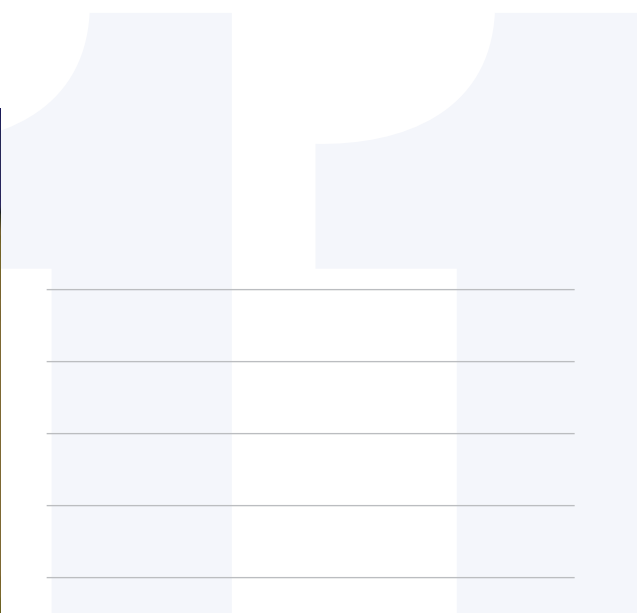
- Mortgage banking companies
- Commercial banks
- Community banks
- Credit unions
- Mortgage brokers
- Additional resources

Module 11.17
Preserving Homeownership

Choosing a Mortgage: Components of a Mortgage Payment

- P = *Principal*
- I = *Interest*
- T = *Taxes*
- I = *Insurance*

Module 11.22
Preserving Homeownership



Getting Help in Choosing a Mortgage: Other Options

- Local bank programs
- Bonds
- State, city and county housing finance agencies
- Community development corporations
- NeighborWorks® organizations

Module 11.02
Preserving Homeownership

Getting Help in Choosing a Mortgage: Shopping for Mortgage Rates

Shop around for mortgage rates.

Lenders and local municipalities may have programs that can help you lower your interest rate.

Module 11.02
Preserving Homeownership

Finding a Real Estate Professional

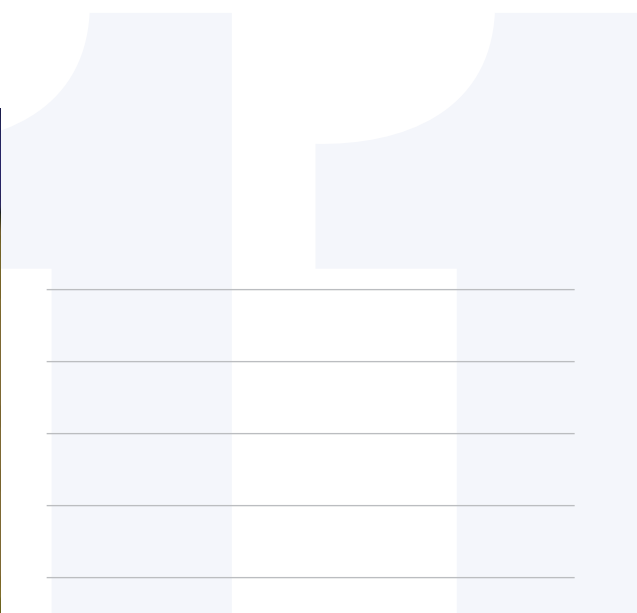
Real Estate Professional

- Helps determine how much you can afford.
- Provides information on property values and taxes.
- Saves time by pre-selecting homes based on your specifications.

Mortgage Lender

- Gives you pre-approval letter.
- Handles pre-qualification.
- Secures mortgage financing.

Module 11.02
Preserving Homeownership



Key Terms to Remember

- Equity*
- Down Payment*
- Closing Costs*
- Principal*
- Interest*
- Taxes*
- Insurance*

Module 11 22
Preserving Homeownership

Key Terms to Remember

- Fixed-Rate Mortgage*
- Adjustable-Rate Mortgage*
- Balloon/Reset Mortgage*
- Graduated Payment Mortgage*
- Interest-Only Mortgage*
- Option ARMs*
- Homeownership Education*
- Real Estate Professional*
- Credit Counseling*

Module 11 23
Preserving Homeownership

► Are You Ready to Buy a Home?

Use these questions to help you decide if you might be ready to buy a home.

- 1) **Do you have a continuous, reliable source of income?**
- 2) **Have you been employed continuously for the last 2 years even if it has not been in the same job, and is it likely to continue?**
- 3) **Do you have a checking and/or savings account established with a bank, credit union, or other financial institution? Or, if you don't, do you keep accurate records of paying your bills regularly and on time?**
- 4) **Do you file an income tax return with the IRS each year, even if you are not a U.S. citizen?**
- 5) **Do you pay your bills on time?**
- 6) **Is your total monthly debt (all credit cards, car loans, etc.) manageable? Can you afford those debts and a mortgage?**
- 7) **Are all of your routine financial obligations accounted for in your total debt?**
- 8) **Do you have some money saved for a down payment? (Some affordable mortgages require no money down but others require a small down payment.)**
- 9) **Do you have some money saved for closing costs?**
- 10) **On a monthly basis, can you afford the mortgage as well as other expenses, including electricity, water, repair, and maintenance costs, and any financial obligations you send each month to relatives who live in another country?**
- 11) **Do you have time to take care of a house—including responsibilities like mowing the lawn and making repairs?**
- 12) **Do you have time to devote to buying a home right now? Or are other commitments, like taking classes at night, a priority?**
- 13) **Do you have money to cover moving expenses?**
- 14) **If you've experienced financial difficulties in the past, can you prove that it was due to events beyond your control?**

If you answered “no” to any of these questions, concentrate on strengthening those areas. You can do so by following the steps described in the previous sections of this course and also taking a homebuyer education class in your area. These classes are a good source of information and will help you prepare for homeownership.

If you can answer “yes” to most of these questions, you are probably ready to think seriously about owning your own home.

► **Why Own a Home?**

You Build Equity!

In the early years of most mortgages, the majority of your monthly mortgage payments go towards paying the interest on your mortgage. Over time, an increasing amount of the monthly payment goes towards reducing the mortgage balance, or “principal.” This is called “amortization.”

As you make payments, you reduce the principal and increase your share, or “equity,” in your home’s value. If your home increases in value through “appreciation”—an increase in the market value of a home—your equity will build even faster.

Building equity in your home is important. For many people, it lets them plan for retirement, pay for college, and attain other future goals.



You Gain Tax Advantages!

When you own a home, you may be allowed to deduct mortgage interest and property taxes from your federal income taxes and from some states’ income taxes. These deductions may mean significant tax savings, especially in the early years of the mortgage when interest makes up most of the monthly payment. Consult a tax advisor for information about your individual circumstances.

After calculating your taxes, you may find that it’s cheaper for you to buy than to rent.

Keep in mind, however, that to gain these tax advantages, you must file an itemized annual income tax return with the U.S. government.

You Can Rely on Monthly Principal and Interest Payment Stability!

If you select a fixed-rate mortgage, you will pay the same monthly principal and interest for the term of your loan. (However, your monthly mortgage payment could increase slightly if taxes and insurance costs go up throughout the term of the loan.) Unlike renting, this type of payment will remain the same month after month, even when inflation leads to higher prices.

You Can Have a Place for Your Family to Live in and Gain a Sense of Community!

When you own a home, you can be secure in knowing that your family will have a place to live. When you rent, you might not always be able to renew your rental contract and then will have to find a new place to live.

Owning a home also allows you to get involved in the well-being of your community. You may feel a greater sense of belonging by owning your own home.

Once your mortgage is paid in full, the home is yours. You can also pass your home on to your children or other family members as an inheritance.

► Maintenance and Replacement Costs Worksheet

*If estimated remaining life is less than 3 years, divide replacement cost by remaining months to determine your spending plan. Average replacement costs are estimates only. You should do your own research to determine the type of replacement and corresponding costs. For example:

Household Item	Life Est. (in years)	Age (in years)	Ave. Replace. Cost*	Est. Remain. Life (in years)	Monthly Spending Plan*
Dishwasher	5–12	7	\$400–\$600	It's already 2 years past its low-end life span so you should begin budgeting for replacement now & expect	\$24 Plan for the high end (\$600) and divide by 24 (which will give you the monthly saving so you can purchase
<i>Example</i>					
Household Item	Life Est. (in years)	Age (in years)	Ave. Replace. Cost*	Est. Remain. Life (in years)	Monthly Spending Plan*
Dishwasher	5–12		\$400–\$600		
Garbage Disposal	5–12		\$125–\$200		
Washers/Dryers	8–12		\$400–\$600 each		
Water Heaters	8–12		\$425–\$800		
Refrigerators	15–20		\$800–\$2,000		
Stoves	15–20		\$600–\$1,400		
Gutters/Downspouts: • Galvanized • Copper	15–20 Life of home if well-maintained				
Heating & Air Conditioning: • Warm Air Furnace • Heat Pumps • Air Cond. Compressors • Air Cond. Condenser • Gas Chiller • Hot Water Boilers	8–12 8–12 8–15 8–15 15–30		\$1,500–\$3,800 \$2,200–\$3,600 (elec.) \$600–\$1,200 \$1,500–\$3,500		
Plumbing: • Gas Hot Water Heater • Electric Hot Water Heater • Private Disposal Sys. (Septic) • Galvanized Water Pipes • Well	8–12 10–15 15–25 30–50		\$300–\$650 \$300–\$650 \$350–\$725 (cleaning out) \$350–\$2,500		
Roofs: • Salvage or Asphalt Roll • Wood Shake & Shingle • Asphalt • Fiberglass • Asbestos Shingle • Slate			\$1–\$1.75 per square ft.		
TOTAL MONTHLY REPAIR/REPLACEMENT SPENDING PLAN					

► Finding a Mortgage Lender

Once you decide to proceed with homeownership, you'll need to prepare to get a mortgage. You can get a mortgage from many different sources, like mortgage banking companies, commercial banks, community banks, credit unions, and other financial institutions. Mortgage brokers may be a source of information about different mortgage products available from a variety of sources.

Some places to start getting information include:

- Your own financial institution. Sometimes financial institutions can offer better mortgage terms to current customers.
- Real estate professionals
- Relatives, friends, and co-workers who own a home
- Homeownership education providers
- Your local newspaper, telephone book, or the Internet
- Churches or places of worship
- Employers
- Freddie Mac's homebuyer education Web site, available in English and Spanish:
Your Route to Homeownership (www.FreddieMac.com/homeownership)
El Camino a su Propia Casa (www.FreddieMac.com/homeownership/espanol)
- National Association of Hispanic Real Estate Professionals (NAHREP)
Realestateespanol.com, available in English and Spanish.

Additional Resources

City and state housing agencies and nonprofit organizations can refer you to special programs in your area designed to help homebuyers including:

- NeighborWorks® America (www.nw.org)
- National Council of La Raza (NCLR) (www.nclr.org)
- National Puerto Rican Coalition (NPRC) (www.bateylink.org)
- Habitat for Humanity (www.habitat.org)
- ACORN (www.acorn.org)
- National Urban League (www.nul.org)
- The Enterprise Foundation (www.enterprisefoundation.org)
- National Foundation for Credit Counseling, which now includes Consumer Credit Counseling Services (CCCS) agencies (www.nfcc.org)
- Local Initiatives Support Corporation (LISC) (www.liscnet.org)
- U.S. Department of Housing and Urban Development (HUD) (www.hud.gov)
- Homeownership education providers
- Federal Deposit Insurance Corporation (FDIC), which includes Money Smart (www.fdic.gov)
- National Association of Real Estate Brokers (NAREB) (www.NAREB.com)
- Asian Real Estate Association of America (AREAA) (www.areaa.org)
- National Association of Realtors (NAR) (www.realtor.org)

► Types of Mortgages

There are many different types of mortgages. It's important to shop around to find the mortgage that's right for you. The mortgage rate and length, or term, as well as points are all factors in deciding which mortgage is right for you.

The type of mortgage is also an important part of the decision. Some of the most common mortgages available today include:

- **Fixed-rate mortgages:** Fixed-rate mortgages are stable and offer long-term savings. Because the interest rate never changes, the monthly principal and interest payment never changes either. Your payment could go up a little, however, if property taxes and insurance costs go up. A fixed-rate loan is the most common loan for first-time homebuyers.
- **Adjustable-rate mortgages:** Adjustable-rate mortgages (ARM) usually start with a lower interest rate, so your monthly payments are lower. This allows you to qualify for a larger mortgage than would be possible with a fixed-rate mortgage. The interest rate on an ARM is adjusted periodically based on an index that reflects changing market interest rates. It's important to understand all the aspects of ARMs before you make your decision. ARMs are a good choice if you like to take advantage of favorable market conditions and/or expect your income will increase over the life of the loan. However, if you decide to later refinance into a fixed-rate mortgage, you will incur closing cost expenses.
- **Balloon/reset mortgages:** Balloon/reset mortgages may be a good choice for homebuyers who don't expect to own their home past the maturity date of the balloon note: 5 or 7 years, for example. At the end of that time, you must sell your house or get a new loan, called a refinance. Expect to pay fees associated with a refinance.
- **Graduated payment mortgages:** With this mortgage, you can start out making lower monthly payments; then over a period of years, your payments go up slowly. When the payments reach a certain amount, they stay fixed at that amount for the rest of the loan. Graduated payment loans are good if you think your annual income will go up.
- **Interest-Only Mortgages:** Instead of paying part of the principal (the loan amount) each month plus interest charges, interest-only loans require that the borrower 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. 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:** Also called "flex" ARMs, these loans let the borrower decide how much to pay from one month to the next based on a few choices. The options range from making a full monthly payment (what you normally would pay in principal and interest for a traditional mortgage) 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 be defaulting on your loan.



Remember to shop around for the best mortgage rates. Contact lenders at banks and credit unions as well as mortgage brokers. Keep in mind that the lowest mortgage rate may not always be the best choice for you. Rates are important, but also consider the overall cost of the loan.

Look at other costs such as loan and origination fees, and discount and origination points. Be sure to ask the lender exactly what he or she is quoting to you. Ask what the annual percentage rate (APR) of the loan is. The APR takes into account the interest rate and fees.

Ask for a “good-faith estimate” (GFE) in writing from each lender that you work with so you understand all of the costs and you can compare lenders. Required by law to be given to you by the lender after you submit an application, a GFE is a written statement itemizing the approximate costs and fees for the mortgage.

► **Affordable, Low-Down-Payment Mortgages**

Saving enough money for a down payment can be hard and meeting lender underwriting requirements can be challenging. Sometimes this prevents people from buying a home.

However, many mortgage lenders offer low-down-payment mortgages and mortgages with more flexible underwriting to help people with these financial circumstances. Be sure to shop around and ask various lenders for all the specifics related to loans with these types of options.

Some mortgages need as little as 0% down payment (excluding closing costs). Others raise the maximum debt-to-income ratio, allowing you to qualify for a mortgage payment that is a larger percentage of your monthly income.

Ask your lender about fixed-rate mortgages with low-down-payment features like:

- Small down payments (0% to 5%).
- Additional sources of money for the down payment, like a federal, state, or local government agency, nonprofit organization, employers, private foundation, or family member.
- Expanded debt-to-income ratios up to 42%.
- Options for people with limited incomes in high-cost areas.
- Homeownership education programs.
- Lower mortgage insurance costs.
- Seller contributions to your closing costs.
- Options for people who buy in designated areas.

► **Other Flexibilities**

Many of our nation's immigrants come to the U.S. with a wide array of cultural beliefs and traditions which influence their homebuying and mortgage financing requirements. Many lenders have expanded their underwriting guidelines to accommodate diverse cultural practices and open more doors to homeownership for immigrant families.

If this is your situation, keep in mind that you can still qualify for a mortgage even if you:

- Do not have a bank account.
- Have a limited or no credit history.
- Are a foreigner and do not have permanent resident status.
- Have been employed in the U.S. for less than two years.
- Pool your funds with your extended family.

► **Other Options**

There are many public, nonprofit, and private organizations in your community that can provide you with information about the homebuying process. Federal, state, and local governments and private, public, and nonprofit companies across the U.S. are working hard to make homeownership affordable for low- and moderate-income homebuyers, especially those who have never owned a home before or have not owned a home in the past three years. Remember to check out the following:

- **Local bank programs:** All banks are required under the federal Community Reinvestment Act (CRA) to invest part of their earnings in programs to increase homeownership in certain neighborhoods. A CRA officer in your local bank can tell you what programs are currently available.
- **Bonds:** Mortgage revenue bonds for first-time homebuyers are a type of financing where bonds are sold by cities, counties, or states and the money is used to provide low-interest financing for first-time homebuyers. Your city housing office can give you information about any planned housing bond issues.
- **Housing finance agencies (HFAs):** HFAs work with state and local groups to revitalize neighborhoods and promote homeownership. They also provide financing for special uses, including rehabilitation of existing houses. Your state, city, or county HFA can tell you about loan programs it has funded or knows about.
- **Community development corporations (CDCs):** CDCs are nonprofit agencies whose goal is reviving communities. Many CDCs not only have housing programs and offer housing counseling, they also work in the community to encourage business investment, build parks, and provide other community facilities.
- **NeighborWorks® organizations:** These organizations provide many services to low and moderate-income homebuyers including homeownership education, debt counseling, foreclosure intervention, loans for rehabilitation, and repair of existing properties. There are hundreds of these local nonprofits nationwide. (www.nw.org)



► **Finding a Real Estate Professional**

Real estate professionals earn their living matching homebuyers with sellers. They are licensed by the state where they live and have taken classes in subjects such as real estate law and finance.

Working with a real estate professional to find a house can save you time and sometimes can save you money. They know what homes are worth and can tell you if a seller is asking too much money for the house being sold.

Real estate professionals can help you find the best home to meet your needs. They can also help with parts of the mortgage process but their role is different than a mortgage lender's role.

Ask your family and friends for the names of real estate professionals with whom they've worked. Or, review newspaper ads for a listing of open houses. Stop by and talk with the real estate professional showing the house.

You'll want to choose a professional that makes you feel comfortable and can provide knowledge and services you need. If you prefer to speak your own language, for example, be sure to find a real estate professional that also speaks your language.

Most real estate professionals' services are paid a commission by the seller of the house when the sale closes. The buyer does not pay the real estate professional unless they have contracted with the buyer's agent. A buyer's agent is a real estate professional who is paid for by the buyer and therefore, solely represents the interests of the buyer.

Questions to ask a Real Estate Professional

- How long have you been in real estate?
- Are you a full time real estate professional?
- Are you familiar with the community in which I want to look?
- Do you speak languages other than English?
- How many homes have you sold in the last year?
- What is the average sale price of the homes you sold last year?
- Do you usually work with sellers or buyers?
- How many buyers are you presently working with? Are you acting as the exclusive buyer's agent?
- How many sellers are you presently working with?
- What do you consider your strengths?
- Can you provide the names of three homebuyers as references?

► **Homeownership Education and Credit Counseling**

If you believe that you are not quite ready to begin the process of buying a home because of your personal circumstances, don't give up. Divorce, losing a job, emergency medical expenses, other circumstances, and simply not having the financial literacy skills to manage your money well can all result in credit difficulties.

There are other resources you can check out to help you build your credit and prepare to buy a home.

Homeownership education can help you become a successful homeowner. It can provide more information on:

- Preparing for the mortgage approval process.
- Understanding the issues involved in qualifying for a loan.
- Understanding the importance of establishing a strong credit reputation.
- Identifying the important elements of home selection.
- Selecting a home that is affordable over the long term.
- Learning about the financing and closing processes.
- Understanding how to avoid mortgage delinquencies, defaults, and foreclosures.

A credit counselor can provide:

- Credit education.
- Confidential spending plan and debt counseling.
- Debt repayment programs.
- Financial management education.

Look in your own community for these valuable nonprofit resources:

- **National Foundation for Credit Counseling**, a network of consumer counseling agencies. Check the yellow pages or visit www.nfcc.org for the office closest to you. You can also call NFCC directly for a referral in Spanish at 1-800-682-9832.
- **NeighborWorks® America** is a national network of nonprofit organizations who support affordable housing and homeownership initiatives in local communities. Check the yellow pages or visit www.nw.org for the office closest to you.
- **Other nonprofit homeownership education groups in your area.** Check your yellow pages under “credit counseling.” Or, on the Internet, search for topics such as “debt counseling,” “consumer credit counseling service,” or “homeownership education.”

► **Types of Counseling**

There are many different types of counseling available to you as a consumer to help you prepare for homeownership both before and after you buy a home:

- **Homeownership education** is usually taught in group classes over a period of four to eight hours.
- **Homeownership counseling** usually provides one-on-one assistance to help people prepare for homeownership.
- **Post-purchase counseling** typically provides assistance after the closing, either in group sessions or through one-on-one meetings.
- **Landlord/tenant counseling** provides information on owning and managing a property of two or more units when you are renting the remaining unit(s).