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Home Buyers' Toolkit

EQUAL HOUSING OPPORTUNITY

Mkt moveUP Home Buyers' Toolkit 4.22

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**The information contained in this guide is for educational and informational purposes only and should not be construed as financial or investment advice.*

Pros & Cons: Homeownership vs. Renting

Review these common advantages and disadvantages to renting and owning your home. Consider your personal situation and which path might be best for you (now or in the future).

	Homeownership	Renting
Pros	• You can build equity. *Equity* is the value of the home minus the amount you owe on it. • You can borrow against the equity for many purposes. • Homes generally increase in value over time and are a good long-term investment. • The home is yours once your mortgage is paid in full. • Homeownership may reduce the amount of income tax you pay (interest and taxes are tax deductible). • You can pass your home on to family members or your heirs.	• Property maintenance is usually the responsibility of the landlord. • You can move or change homes once you have met the terms of the rental contract. • You do not have the costs associated with owning a home (e.g., property taxes, homeowner's insurance). • NOTE: It is commonly recommended that you have Renter's Insurance, which protects you against the loss or destruction of your possessions (e.g., burglary or fire)

Cons	• Property maintenance and upkeep are your responsibility.
	• You are responsible for the additional costs of:
	    o Homeowner's insurance
	    o Other types of insurance if required by your lender (e.g., private mortgage insurance, flood or windstorm insurance)
	    o Real estate taxes
	    o Homeowner's association fees, if applicable, to pay for maintenance of the common areas and the exterior of the buildings and grounds
	• You may have to sell or rent your home before you can afford to buy or rent another one.
	• You can lose your home, and your investment in it, if you do not make timely mortgage payments.
		• You do not own your home or apartment or receive the benefits of being a homeowner.
		• Improvements and changes to the property are restricted because you do not own the home.
		• Your rent might increase or cost more than a mortgage payment.
		• You might be unable to renew your rental contract and then have to find a new place to live.

Assessing Homebuyer Readiness

Below are questions to ask yourself when deciding if you are ready to buy a home.

- ☐ Do I have a documented source of income?
- ☐ Is my income stable – have I received it on a regular basis for at least the last two years?
- ☐ What is my credit score?
- ☐ Do I have a good history of paying bills on time?
- ☐ Will I be able to pay my bills and other debts in addition to my monthly mortgage payment, taxes, insurance, and expected repairs?
- ☐ Do I expect to stay in the area for at least the next two or three years?
- ☐ Have I saved enough money for the down payment, closing costs, and the prepaids and reserves?

Follow-Up Actions

Based on your responses above, are there any actions you'd like to take to further investigate these questions? Write them in the space below.

Overview of the Home Buying Process

Review this high-level description of the steps involved in buying a home; your process may be different, but in general, these are common aspects.

Step 1: Evaluate Home Buying Readiness & Goals

- Assess your homebuyer readiness (you can use the checklist on the previous page) to figure out whether owning a home is right for you.
- Consider what kind of home you need or want. Make a list of "must-haves" and a list of "nice-to-haves."

Step 2: Evaluate Your Financials

- Request your credit report, and review for errors (according to the law, you are entitled to one free copy of your credit report per year – speak to your financial institution or visit https://www.annualcreditreport.com)
- Calculate what you can afford in terms of total home cost, mortgage, and related homeownership costs each month (you can use the worksheets in this guide or search for resources available online).
- Research mortgage lenders and work with them to get pre-approved for a loan.

Step 3: Shop for the Right Home

- You may choose to work with a real estate agent to help you find a home that meets your needs, wants, and budget.
- Look carefully at different properties. Consider factors such as condition, neighborhood, distance to work and other important places, rate of home appreciation, etc.

Step 4: Make an Offer

- Once you find a home that meets your needs and budget, make a written offer. If you're working with a real estate agent, they can advise you on an amount.
- The seller may counter your offer, so be prepared to negotiate.
- Once you have reached an agreement, you will likely have to make an earnest money deposit – this usually goes into escrow and is a sign of good faith that you intend to complete the sale.

Step 5: Secure the Right Mortgage

- Building on the initial research you did, identify the best mortgage option for you (you may use the Mortgage Comparison Guide in this packet to help gather information).
- Ask your lenders a lot of questions so you understand all the costs and details of your loan.
- Complete a formal application with the lender of your choice.
- Review the Loan Estimate outlining costs associated with your loan.

Step 6: Close on your Home

- While this is not usually required for a mortgage loan, we recommend requesting a home inspection to identify any potential problems with the property.
- Get a homeowner's insurance policy to protect against potential loss and damage.
- Compare your Closing Disclosure (provided by the lender at least three business days before your closing) to the Loan Estimate that was provided during the application process.
- At the loan closing, you'll sign all documents, pay closing costs, and get the keys to your new home!

Step 7: Move in and enjoy your new home!

Parts of a Mortgage

Review these common elements of mortgages; terms will vary by lender and are based on your financial situation.

Principal:

- This is the original amount borrowed from the lender, before interest.
- Over the course of your loan, you will repay the principal in monthly installments.

Interest:

- This is the price you pay to borrow money; a borrower pays interest to a lender.
- The amount of annual interest is calculated as the interest rate multiplied by the unpaid balance of the loan.

Interest Rate:

- The rate at which the borrower is charged for borrowing money from the lender. The exact percentage will vary based on lender and the terms of your mortgage.
- In general, a higher interest rate means you'll pay more over the lifetime of the loan and your monthly payment will be higher.

Length/Term of Loan:

- The time period over which you will have to pay back your loan.
- In general, a longer term means lower monthly payments, but it means you pay more interest over the life of the loan.

Down Payment:

- The amount needed to pay the difference between the mortgage loan amount and the purchase price of the home.
- The amount will vary and be determined by you and your lender; if your down payment is below 20% of the purchase price or the value of the home, you typically have to secure private mortgage insurance (PMI).
- In general, the larger your down payment, the lower your monthly mortgage payments may be.

Private Mortgage Insurance (PMI)

- Insurance that protects lenders from loss if borrowers are not able to make their mortgage payments.
- Most lenders require PMI for loans greater than 80% of the total value of the home (meaning the buyer makes a down payment of less than 20% of the purchase price or value of the home).

Purchase Points

- Fee you may pay your lender to obtain a lower interest rate for the term of your loan.
- Each point is equal to 1% of your total loan amount (like $1,000 on $100,000 loan).
- Saves you money in the long run, but you need to have these funds at the time of closing.

Fees

- Fees vary in amount and type, depending on the lender (examples include lender origination charges, appraisal cost, title reports, etc.)
- Per the Truth in Lending Act (TILA), after October 3, 2015, all lenders are required to provide two documents to clarify costs associated with your mortgage:
    - Loan Estimate (3 days after loan application)
    - Closing Disclosure (at least 3 days before closing

Evaluating Mortgage Options

There are different types of mortgages; consider your own financial situation and the following information to determine which might be best for you.

Common types of mortgages

Fixed-Rate Mortgage (usually 15, 20, or 30 years in length)

- You pay the same amount each month at a fixed interest rate for the life of the loan.

Adjustable-rate mortgage (ARM)

- The interest rate adjusts according to a schedule; usually the rate is fixed for 5-10 years in the beginning of the loan, after which time it automatically adjusts.

Biweekly payment mortgage

- These are usually fixed-rate conventional mortgages with payments due every two weeks.

Shop and compare

Once you have decided on the type of mortgage you want, there are several steps you can take to get the best price for your mortgage. A few include:

- Check advertisements in local newspapers and on the Internet to get an idea of the best terms and rates.
- Contact several lenders on the same day to compare quotes.
- Use the Loan Estimate to compare costs.

Types of Mortgage Lenders

There are several types of lenders who offer or finance mortgages; major categories include:

Credit Unions

Not-for-profit, member-owned financial institutions that may offer lower fees and rates because they pass savings on to their members. Credit Unions are regulated by the National Credit Union Administration (NCUA)

Mortgage Bankers

A lender that, either by borrowing or using their own funds, originates mortgage loans. After originating the loan, the lender may continue to service the mortgage, but most mortgage bankers sell the loan to another organization.

Mortgage Brokers

An agent who brings together lenders and borrowers. Brokers circulate borrowers' loan documents to multiple lenders for approval and offers. Mortgages are then provided by the selected lender and brokers collect a fee for their services.

Savings and Loans Associations

Sometimes called "thrifts," these financial institutions provide many of the same services to customers as banks, but tend to place a stronger emphasis on residential lending.

Government Agencies

The Federal Housing Agency (FHA), which is a part of the U.S. Department of Housing and Urban Development (HUD), approves lenders and products. Consult an HUD-approved housing counselor for more information.

State or Local Housing Finance Agencies

Most states have Housing Finance Agencies to provide affordable loans and housing options to their residents. The National Council of State Housing Agencies oversees state organizations.

Homebuyer Assistance Programs

There are many resources available for those looking to buy a home. Review the following list to compare different types of programs.

Fair Housing Act

First introduced in 1968, the Fair Housing Act is to protect homebuyers from facing discrimination. Sellers and lenders must give equal consideration, terms, and conditions to buyers regardless of the buyer's race, color, religion, sex, national origin, disability, or family status.

Federal Housing Administration (FHA) Insured Loans

The FHA can help insure your loan so you're able to get a better deal through a private lender (such as a bank or mortgage company). Some benefits of FHA loans include:

- Low down payments and closing costs
- Flexible qualifying guidelines
- Limited fees
- Special financial assistance for seniors
- An Energy-Efficient Mortgage program to benefit those making energy improvements to their homes

Federal National Mortgage Association (Fannie Mae) & Federal Home Loan Mortgage Corporation (Freddie Mac) Loans

Fannie Mae and Freddie Mac both offer many loan programs, some of which are targeted at first-time homebuyers, low- to moderate-income buyers, or certain professions such as teachers, firefighters, law enforcement officers, and healthcare workers. Some benefits of these programs include:

- Low or no down payment requirements
- Options for borrowers with less-than-perfect credit

Department of Veterans Affairs (VA) Insured Loans

For eligible veterans, service members, and surviving spouses, the VA can guarantee a portion of a loan from a private lender. Some benefits of VA insured loans are:

- No down payment or private mortgage insurance premium requirements
- Competitive and negotiable fixed interest rates
- Limitations on closing costs
- Longer payment terms
- Ability to take cash out of your home equity to cover other expenses

United States Department of Agriculture (USDA) Rural Development Housing Services

For those looking to buy a home in rural areas, the USDA offers several types of loan assistance – both direct loans and guaranteed loan programs. USDA assistance programs are typically targeted and low- and moderate-income individuals. Some benefits include:

- No down payment required
- Low fixed interest rate
- Extended payback periods
- Up to 90% loan note guarantee

Calculating Your Debt to Income Ratio

Complete this worksheet to estimate your Debt to Income (DTI) ratio. DTI is expressed as a percentage and calculated by the following formula:

Total Monthly Debt Expenses ÷ Total Monthly Gross Income = Debt to Income Ratio (as a %)

1. Determine Your Monthly Income

Your Annual Gross Income (Pre-Tax) =
Your Monthly Gross Income (Annual Gross Income ÷ 12) =

2. Determine Your Monthly Debt Expenses

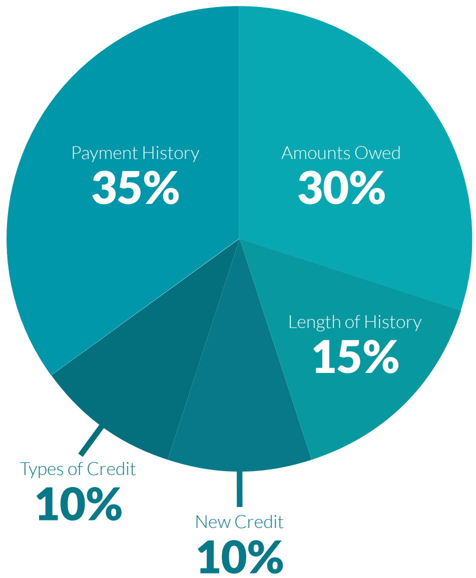
Monthly Expenses *(not all listed may be applicable)*	**Amount**
Rent Payment	
Mortgage Payment (include Principal and Interest)	
Homeowner's Insurance Payment	
Private Mortgage Insurance Payment (if applicable)	
Property Taxes	
Home-Related Payments/Dues (ex: HOA)	
Credit Card (total of all minimum amounts due)	
Auto Loan	
Student Loan	
Court-Ordered Payment (Alimony, Child Support, etc.)	
Other	
Total Monthly Debt Expenses	

3. Calculate Your DTI:

______________________________ ÷ ______________________________ = __________%
Your Total Monthly Debt Expenses   Your Total Monthly Gross Income

How is a Credit Score Calculated?

Review the factors that impact your credit score and consider how your financial behaviors may help raise or lower your credit score.



35% Payment History

- Do you pay your bills on time?
- Do you always pay at least the minimum?
- Even one late payment has a negative impact.
- That's why it's important that you always pay your bills on time.

30% Amounts Owed

- How much do you owe?
- Do you have several loans, credit cards, utility bills, store cards, etc.?
- What percentage of your credit are you using?
- People who use less of their available credit are considered lower risk.

15% Length of History

- Have you been using credit for ten weeks or ten years?
- Someone with a longer history is considered less of a risk.

10% New Credit

- Have you applied for any new lines of credit recently?
- Applying for a lot of credit at once could lower your score.

10% Types of Credit

- Do you have a variety of credit types, like credit cards, auto loan, mortgage, student loans, etc.?
- Having more credit types may increase your score.

**Source: http://www.myfico.com*

Understanding your Credit Report

Your credit report will contain information such as the following:

Personal Identification Information:

- Name
- Address
- Social Security Number
- Date of Birth

Trade Lines:

- Types of accounts you have (auto loan, mortgage, credit card, etc.)
- Date you opened each account
- Credit limit/loan amount for each account
- Account balance and payment history

Credit History:

- List of all inquiries made into your credit in the last 2 years
- Inquiries into your credit can be voluntary

Public Record and Collections:

- Public record information collected from state and county courts (ex: bankruptcies, child support, foreclosures, lawsuits, wage etc.)
- Information on overdue debt from collection agencies

How to Request Your Credit Report:

To request your credit score, contact your financial institution, one of the three main credit-reporting agencies, or request a free credit report from https://www.annualcreditreport.com

How Much Mortgage Can You Afford?

Use this simple calculation to identify a possible range for your mortgage:

1. Identify a Range

A) $__________________ X 2 = $__________________ (low-end of range)
Annual Income

B) $__________________ X 3 = $__________________ (high-end of range)
Annual Income

2. Determine a Down Payment

C) $__________________ X 0.2 = $__________________
Figure A

D) $__________________ X 0.2 = $__________________
Figure B

3. Calculate the Possible Total Price

A + C = $__________________

B + D = $__________________

You may want to begin your search by looking at homes that fall between these two figures!

Document Checklist

As you start the process of applying for a Mortgage, you'll need to gather some documents; common requirements include:

- [ ] W-2 forms from the previous two years, if you collect a paycheck.
- [ ] Profit and loss statements or 1099 forms, if you own a business.
- [ ] Recent paycheck stubs.
- [ ] Most recent federal tax return, and possibly the last two tax returns.
- [ ] A complete list of your debts, such as credit cards, student loans, car loans and child support payments, along with minimum monthly payments and balances.
- [ ] List of assets, including bank statements, mutual fund statements, real estate and automobile titles, brokerage statements and records of other investments or assets.
- [ ] Canceled checks for your rent or mortgage payments.

Mortgage Comparison Guide

The purpose of this worksheet is to assist you with comparing potential Lenders and mortgage options. Although not all factors listed may apply to all loan options, you may use this guide to collect and compare as much information as possible in considering your financial options.

I. Financial Information:

**If you need additional space, you can create your own chart*	**Lender 1**		**Lender 2**	
	Contact Information:		Contact Information:	
	Mortgage 1	**Mortgage 2**	**Mortgage 1**	**Mortgage 2**
Basic Loan Information				
Loan Amount				
Loan Type *(Ex: Fixed, FHA, etc.)*				
Loan Term				
Annual Percentage Rate (APR)				
Minimum Down Payment				
Purchase Points				
Estimated Escrow (monthly payment for taxes and insurance)				
Estimated Monthly Payment (Principal, Interest, Taxes, Insurance)				
Private Mortgage Insurance				
Fees *(Types and amounts of fees will vary by financial institution. Check with your lender for more details)*				
Application or Loan Processing				
Origination				
Lender				
Appraisal				
Legal				
Document Preparation				
Broker				
Credit Report				
Other				
Closing Costs				
Title Insurance				
Prepaid Loan Amounts (interest, taxes, escrow, etc.)				
Taxes (state, local, transfer, etc.)				
Home Surveys/Inspection				
Private Mortgage Insurance				
Other				
TOTAL				

2. Other Factors

There are many factors to consider when comparing your mortgage options, such as terms or restrictions. Please read all terms and conditions very carefully. You may use this worksheet to compare some other common terms of mortgage offers.

	Lender 1		Lender 2	
	Mortgage 1	**Mortgage 2**	**Mortgage 1**	**Mortgage 2**
Other Considerations				
Prepayment Penalties • Is there a penalty? • How much? • Term of penalty period? • Any extra payment allowed?				
Lock-In Agreements • Written agreement? • Associated fee? • Duration? • Can lock-in at lower rate?				
Adjustable Rate Mortgage • Initial rate? • Annual maximum? • Frequency of change? • What index is used? • Additional charges?				
Other				

Sample Closing Disclosure

The following is an excerpt from a sample Closing Disclosure (these forms typically consist of several pages). Speak with your lender for more details on this form.

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information

Date Issued	4/15/2013
Closing Date	4/15/2013
Disbursement Date	4/15/2013
Settlement Agent	Epsilon Title Co.
File #	12-3456
Property	456 Somewhere Ave Anytown, ST 12345
Sale Price	$180,000

Transaction Information

Borrower	Michael Jones and Mary Stone 123 Anywhere Street Anytown, ST 12345
Seller	Steve Cole and Amy Doe 321 Somewhere Drive Anytown, ST 12345
Lender	Ficus Bank

Loan Information

Loan Term	30 years
Purpose	Purchase
Product	Fixed Rate
Loan Type	☒ Conventional ☐ FHA ☐ VA ☐ _____
Loan ID #	123456789
MIC #	000654321

Loan Terms

		Can this amount increase after closing?
Loan Amount	$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest *See Projected Payments below for your Estimated Total Monthly Payment*	$761.78	NO
		Does the loan have these features?
Prepayment Penalty		YES • As high as $3,240 if you pay off the loan during the first 2 years
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	$761.78	$761.78
Mortgage Insurance	+ 82.35	+ —
Estimated Escrow *Amount can increase over time*	+ 206.13	+ 206.13
Estimated Total Monthly Payment	$1,050.26	$967.91

		This estimate includes	In escrow?
Estimated Taxes, Insurance & Assessments *Amount can increase over time* *See page 4 for details*	$356.13 a month	☒ Property Taxes	YES
		☒ Homeowner's Insurance	YES
		☒ Other: Homeowner's Association Dues	NO
		See Escrow Account on page 4 for details. You must pay for other property costs separately.	

Costs at Closing

Closing Costs	$9,712.10	Includes $4,694.05 in Loan Costs + $5,018.05 in Other Costs – $0 in Lender Credits. *See page 2 for details.*
Cash to Close	$14,147.26	Includes Closing Costs. *See Calculating Cash to Close on page 3 for details.*

*Source: http://www.consumerfinance.gov/owning-a-home/closing-disclosure/

Predatory Lenders

Predatory lending is any lending process or procedure that is intentionally disadvantageous for the borrower. Some lenders exploit borrowers through deceiving marketing tactics or corrupt collection practices. Careful research is necessary to ensure the lender is a legitimate and fair one.

If an organization does any of the following, be cautious about entering a financial relationship with it:

- Demands fees in advance
- Demands fees more than 3 or 4% of the mortgage amount
- Encourages borrowers to lie about financial circumstances
- Offers or pressure higher or higher-risk loans than the borrowed can afford
- Decides on interest rates without carefully considering the borrower's credit history
- Discusses terms verbally, but not in writing
- Targets vulnerable borrowers who have a greater need for cash
- Uses high-pressure sales tactics or unsolicited offers to sell home

The following are actions you can take to avoid predatory lenders:

- Avoid subprime and payday lenders
- Be truthful on all loan application forms
- Carefully inspect the property for potential repairs and research prices of other homes in the neighborhood
- Research and compare multiple lenders the costs and terms of multiple lenders.
- Consider the entire cost of the loan, rather than just the down payment or monthly payments.

Types of Savings Vehicles

Review these common types of savings vehicles. Consider which type of account best meets your needs.

Simple Savings Account

- Less access to your money than a checking account (so you're not tempted to spend it).
- Most financial institutions pay interest – which compounds over time – on money deposited in this account.

Money Market Account

- Part checking and part savings; you can write checks from this account but there may be restrictions.
- Tends to feature higher interest rates than a standard savings accounts, and may require a higher minimum balance.

Certificate of Deposit (CD)

- Deposit that is held for a specific period of time (6 months, 9 months, 1 year, etc.).
- Financial institutions pay interest to the CD holders on their deposit during that time period.
- Tend to have higher interest rates than savings accounts, but can only access money once the term of the CD has expired.

Online Savings Accounts

- Account managed and funded primarily online (all deposits and transactions done electronically).
- Tends to feature higher interest rates than a standard savings accounts but may not have all the options and services of a brick-and-mortar financial institution.

**Ask your financial institution about any minimum balance requirements, service fees, or withdrawal penalties*

Smart Saving Habits

Review these strategies to build savings. If you don't currently do any of these, consider which habits you can implement in your daily life. If you do currently practice these habits, consider ways you can save more.

Pay Yourself First:

Set aside some of your money each month and in regular steady contributions. You'll build a cash buffer that will help give you the financial freedom to pursue your dreams in the future. You can use the money to deal with emergencies or buy a big-ticket item.

Automate Your Savings:

If you already have a checking account, most financial institutions will be able to set up an automatic transfer so money will automatically come out of your checking account and go into your savings account. If it's automatic, you don't have to think about it (and you probably won't miss it when it's gone).

Save for a Rainy Day:

Set aside a little money today to build an emergency fund. Financial emergencies can come from a job loss, medical expenses, car repairs or something unthinkable. You don't want to be forced to rely on credit cards or a loan, which could simply make your situation worse

Personal Homeownership Plan

Part 1: Set Your Saving Goal

Refer back to page 14 where you estimated a possible down payment – for this exercise, we can use that number as a realistic savings goal. You can also set a “stretch goal” if you want to try to save more!

Use this simple formula to calculate how much you’ll need to save each month to reach your savings goals. Note this does NOT factor in any interest that might accrue on your deposit.

(Goal Amount) ÷ (# of Months) = Savings Target (Dollars per Month)

Realistic Goal:	____________
Total Amount:	$_____________
# of months until I need this money:	___ Months
Savings target ($÷ month): $	$_____________

Stretch Goal:	____________
Total Amount:	$_____________
# of months until I need this money:	___ Months
Savings target ($÷ month): $	$_____________

Part 2: Create an Action Plan

This list includes action steps you can take to help you accomplish your goal of homeownership.

1. Put a checkmark next to the steps that you already do.
2. Circle the steps you want to take and write down a date by which you want to complete each action.
3. Check back in with this plan frequently to mark actions complete and set new goals.

Goal Category: Spending & Savings

Already Do	Action Step	Complete By	Complete?
	Figure out my monthly take-home income		
	Track my spending for 1 month		
	List my spending needs vs. wants		
	Identify 3 ways to cut expenses from my monthly spending		
	Research savings account options at my financial institution		
	Find out the current interest rate on my existing account(s)		
	Open an account where I can have savings directly deposited		

Goal Category: Assess my Home Buying Readiness

Already Do	Action Step	Complete By	Complete?
	List the pros/cons of my current housing situation in comparison to buying a home		
	Consider whether I will need to move in the next few years (for personal or professional reasons)		
	Make a list of “must-haves” and “nice-to-haves” in a home		
	Research home prices in my area		
	List all the expenses I need to plan for with home ownership (mortgage, insurance, changes in transportation costs, maintenance, etc.)		
	Request my credit report and review it for accuracy		
	Identify a real estate agent (if you choose to use one)		

Goal Category: Build Financial Readiness

Already Do	Action Step	Complete By	Complete?
	Know the value of any existing assets or savings		
	Review my bill paying history and make a plan to pay all bills on time		
	Assess existing debt and make a plan to pay it down		
	Determine what percentage of my monthly income can be saved for down payment		
	Calculate what I can afford to spend on a monthly mortgage payment and related costs		
	List all the expenses I need to plan for with home ownership (mortgage, insurance, changes in transportation costs, maintenance, etc.)		

Goal Category: Apply for a Mortgage

Already Do	Action Step	Complete By	Complete?
	Speak with multiple lenders or a housing counselor about purchasing options		
	Review lenders' ratings with the Better Business Bureau (or similar consumer protection organizations)		
	Identify any private, federal, state, or Veteran loan programs for which I may be eligible		
	Research details of different loan types		
	Gather documents needed for mortgage application process		
	Visit a lender for mortgage pre-approval		
	Complete mortgage application (online or in-person)		