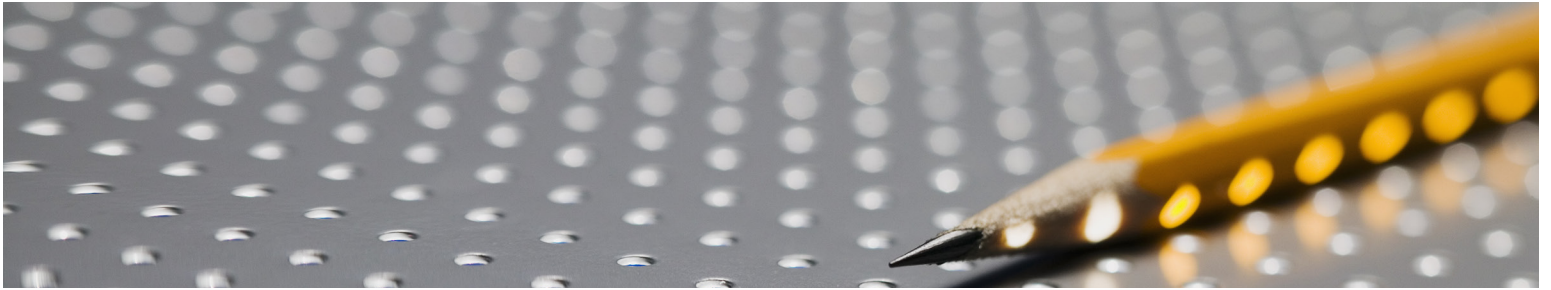


homebuyer education



participant guide

june 2011

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*financing the places where
people live and work*

homebuyer education participant guide

notes

section 1

are you ready to buy a home?

why is homebuyer education important?

- Informed consumer
 - Knowledge is power
 - Read documents and ask questions
 - Never sign blank or incomplete documents
- A source of information for current or future decisions relating to homeownership
- Access to special programs

what is a “first time homebuyer”?

- IRS definition
 - Someone who has not had ownership interest in a main home for the past three years
- Displaced homemaker

is homeownership for me?

notes

- Pros of homeownership
 - Tax benefits
 - Equity
 - Savings
 - Stability
- Cons of homeownership
 - Loss of mobility
 - Increased cost
 - Maintenance
 - Mortgage payments are generally higher
 - Utilities can be higher
 - Investment risk
 - Appreciation vs. depreciation
- Pros of renting
 - Cost
 - Repairs
 - Ease of mobility
- Cons of renting
 - No tax advantages
 - Repairs
 - No asset building
 - Rent may increase

true cost of homeownership

- PITI & PMI
- Taxes/Insurance changes
- Increases in housing expenses

homebuying process

notes

- Financial preparation
 - Create a spending plan
 - Review savings account
 - Determine available funds for down payment
 - Review your credit report and score
- Contact loan officers
 - Interview several loan officers
 - Discuss loan programs and qualifications
 - Loan prequalification
- Discuss wants vs. needs with a real estate broker
- Begin house shopping!
 - Take your time
 - Compare/examine many homes
 - Ask questions
- Make an offer
 - Consider and evaluate timelines for moving or any lease situations
 - Have your earnest money ready
 - Get ready for negotiations
- Lock in interest rate
- Title review and HOA review
- Inspection
- Appraisal
- Loan commitment
 - Escrow
 - Title search
 - Title insurance
 - Homeowners insurance
- Prepare for closing

key players and their roles

- Counseling agencies
 - Homebuyer education provider; one-on-one counseling
- Lenders
 - Find the best-suited loan program
- Real estate brokers
 - Help you find a home
 - Advocate for your best interest throughout process
- Home inspectors
 - Identify potential mechanical/structural problems
- Appraisers
 - Provide estimate of current market value
- Insurance agents
 - Provide estimate on insurance premiums
- Title companies
 - Provide title insurance and conduct closing

spending plan

- Why is a household spending plan important?
 - Meet ongoing cost of homeownership
 - Help prepare for larger financial obligations
 - Encourage savings
 - Identify wasteful spending
 - Help maintain good credit
- Items to account for in a spending plan
 - Gross vs. net income
 - Wants vs. needs
 - Fixed vs. variable expenses
 - Cost of homeownership vs. rental

tracking and adhering to a spending plan

- Tips for how to adhere to a spending plan
 - Identify how you are spending money
 - Wants vs. needs
 - Meet each week to talk about spending plan
 - Discuss family and individual goals and how to attain them
- Track spending and compare to actual plan
 - Be prepared to make adjustments

savings

- Review savings
- Incorporate savings into spending plan
 - Visit www.coloradosaves.org for saving ideas
- Setting goals
 - Short term goals - within one year
 - Long term goals - within five or more years

credit

- Credit report
 - Critical to homebuying process
 - Includes name, Social Security number, address, employer
- Credit reporting agencies/credit bureaus
 - Experian
 - TransUnion LLC
 - Equifax

notes

credit: types of credit reports

- Consumer credit report
 - Single bureau report
- Infile credit report
 - Combine one, two, or three agencies' info into one report
 - Creditor needs authorization from you
- Residential mortgage credit report (RMCR)
 - Combines all three agencies' information
 - Used by mortgage company

credit: how to obtain a credit report

- Colorado residents eligible for one free credit report from each agency once a year
 - Shows no score
 - Credit repair; identity theft
- Request your free report
 - 1.877.322.8228
 - Annualcreditreport.com

credit: resolving errors/inaccuracies

- Contact the credit reporting agency
- File complaint online, by mail, or by phone
- File with each agency
 - Agency to investigate and reply to consumer within 30 days of receiving complaint
- Contact creditor directly only if the credit reporting agency disputes what you believe to be inaccurate

credit: debt

- Shows debt and whether payments have been made on time
 - Detailed payment history on all accounts
- Revolving vs. installment accounts
- Debt as it affects the buying process
 - Housing ratio
 - Debt-to-income ratio
- Debt reduction and your spending plan
 - Pay more than minimum due on credit cards each month (“power pay” at powerepay.org)
- Manage your debts so they don’t manage you
 - Identify total debt (revolving accounts only)
 - Discern cause for financial distress
 - Too many credit cards; evaluate closing some
 - Pay off/pay down as much debt as you can
 - Pay cash for everything until you are free of debt
 - Have a weekly allowance for cash purchases in your spending plan. When it’s gone, stop spending!
 - Savings - don’t forget to build this up!
 - coloradosaves.org
 - Pay bills on time
 - Automatic debits
 - Electronic payments from your account

notes

credit

- Payment history
- Public records
 - Judgments and liens
 - Repossession or foreclosure
 - Bankruptcy
- Hard pulls vs. soft pulls
- Positive and negative info
How long does it say on the report?
- “No credit” or “nontraditional credit” situations
 - No credit vs. bad credit
 - Alternative credit

credit: credit scoring

- Methods used to calculate credit score
 - FICO (Fair Isaac and Company)
 - Range from 300 to 850
 - BEACON used by Equifax
 - Range from 330 to 830
 - Plus used by Experian
 - Range from 330 to 830
 - Empirica used by TransUnion
 - Range from 150 to 934

notes

credit: what affects your score?

- Payment history
- Amounts owed
(outstanding balance vs. available debt)
- Length of credit history
(old vs. new accounts)
- Types of credit
(credit cards, car, mortgage, or student loans, etc.)
- New credit
- Inquiries

credit

- Credit repair companies
 - Beware credit repair companies who offer quick fixes
- Tips to improve and maintain good credit
 - Pay bills on time
 - Do not take on more debt than what you can afford
 - Keep a healthy balance of types of credit
 - Three revolving accounts with balances
 - Two installment loans
 - Balances on revolving accounts below 30% of limit
 - No collections, public records, late payments, etc.

notes

consumer laws

- Know your rights
 - Fair Housing Act
 - Equal Credit Opportunity Act
 - Truth-in-Lending Act
 - Real Estate Settlement Protection Act (RESPA)
- Dealing with discrimination: HUD, Civil Rights Division
- Filing complaints about real estate professionals, appraisers, etc
 - DORA at www.dora.state.co.us

notes

section 2

mortgage lending

notes

what is a mortgage?

- Secured loan - your home is collateral
- What does a mortgage payment include?
 - Often referred to as PITI (principle, interest, taxes, and hazard insurance)
 - If it includes mortgage insurance, it is PITI + PMI/MIP
- Escrow accounts – taxes and hazard insurance
- Homeowners association (HOA) dues

getting prequalified

- Who to see for prequalification
 - Lender
- Housing counselor
- Prequalification amount is not a guarantee
- Create a spending plan
 - Find out what your mortgage payment comfort level is
- Getting prequalified - Income
 - Lenders use gross pay, not net pay, or “take home” pay
 - This approach will qualify you for a higher mortgage payment that can be outside of your comfort level
 - Possible sources of income:
 - Regular pay & bonuses
 - Part time work
 - Social Security (SSI) & (SSDI)
 - Retirement/pension
 - Child support/alimony, etc.

- Getting prequalified: Ratios
 - Housing ratio
(aka "front-end ratio")
 - Maximum amount of income that can go towards housing costs each month
 - Debt-to-income ratio
(aka "back-end ratio")
 - Maximum amount of income you can use towards your mortgage plus all other monthly debt
 - Higher than housing ratio because it adds in all your debt
- Reserves
 - Some lenders require you have money in a savings account
 - Proof shown through bank statements

choosing a loan

- Government-insured loans
 - FHA
(Federal Housing Administration)
 - Acquisition-Rehabilitation mortgages
(FHA 203K)
 - VA
(U.S. Department of Veterans Affairs)
 - Rural Development
 - RD 502 Direct
- Conventional loans
 - Not insured or guaranteed by federal government
 - Usually requires higher down payment
 - Criteria for loan qualification determined by insurer, guarantor, or investor
 - Fixed or adjustable interest rates

choosing a loan: other loan types

- Portfolio
- Lease-purchase
- Assumptions
- Owner carry
- No documents and stated income
- 80/20
- Bond programs/Down payment assistance/
Affordable housing programs

choosing a loan: loan terms

- Interest rate
- Fixed interest rate
- Adjustable interest rate (ARM)
- Loan-to-value
- Interest-only
- Option ARM
- Balloon payment mortgage

choosing a loan: buydowns (aka “discount points”)

- Temporary buydown
 - Reduces rate for at least the first few years of mortgage
- Permanent buydown
 - Reduces rate for entire life of loan
- Buydown pros and cons
- History of buydowns – perspective

choosing a loan: mortgage insurance

- Conventional loan
 - With 20% or more for a down payment, borrower will not have to pay for mortgage insurance
- FHA loan
 - Regardless of size of down payment, borrower will have to pay for mortgage insurance

choosing a lender

- Sources: your current bank, referrals from friends and family, chfainfo.com, your broker, etc.
- Look for those that offer first time homebuyer programs, FHA loans
- You are in charge; interview several and ask questions
- Verify that they are licensed; no disciplinary actions
- Consumer Corner News at the Colorado Division of Real Estate (dora.state.co.us/realestate)

choosing a lender: types of financing sources

- Financial institutions
 - Banks, mortgage companies, credit unions
- Other financing sources
 - Mortgage brokers, seller financing, contract for deed
- Investors
 - Fannie Mae, Freddie Mac, CHFA

choosing a lender: applying for your loan

notes

- Pre-approval vs. prequalification
 - Pre-approval is based on verified/documented info; guarantees lender will loan you that amount
 - Prequalification is based on verbal/unverified information
- Remember, you can qualify for more than you can afford
- Advantage of pre-approval
- Co-borrower, non-occupying co-borrower, cosigner
- Application
 - Requires various documentation
 - Paystubs, W-2s, tax returns, rental history information, etc.
- Lender/Loan fees
 - Application
 - Credit report
 - Appraisal
 - Rate lock-in
- Loan disclosures
 - Colorado Tangible Net Benefit Disclosure
 - Colorado Lock-in Disclosure
 - Colorado Mortgage Broker Compensation Disclosure
 - Good Faith Estimate - Initial Fee Worksheet
 - Federal Truth-in-Lending Disclosure Statement

choosing a lender: federal truth-in-lending

- Promotes full disclosure from lender about costs and fees
 - Annual Percentage Rate (APR)
 - Finance charge
 - Payment schedule
 - Demand feature
 - Variable rate feature
 - Late charges
 - Prepayment penalties
 - Assumption feature

subprime lending/predatory lending

- Subprime loans
- Higher interest rates for those who have credit issues or other risk factors
- Look at other options or delay purchase of home until credit improves
- Predatory lending
 - Single premium life insurance
 - Prepayment penalties
 - Balloon payments
 - Option ARM/payments
 - Negative amortization
 - Higher interest rates and fees
 - Discount points
 - Padding costs and fees

loan processing

- Borrower coordinates inspection
- Lender orders appraisal
- Borrower procures hazard insurance
- Title company
 - HUD-1 Settlement Statement
 - Compare to Good Faith Estimate
 - Warranty Deed
 - Transfers title to the property
 - Title search
 - Title insurance
 - Property survey or Improvement Location Certificate
 - Charges

loan underwriting and approval

- Common reasons for loan denial
 - High ratios
 - Insufficient funds to close
 - Low appraisal
 - Credit score change since pre-approval

loan closing

- Review your documents
- Fulfill and complete all outstanding requirements prior to closing
 - Final walk-through
 - Review HUD-1 Settlement Statement
 - Cashier's check
 - Call utility companies
- Reasons for delay/prevention of closing
- Attendees
 - Title company's closer
 - Real estate brokers
 - Down payment representative
 - Lender
 - Seller
 - You!
- Loan documents to sign
 - Deed of Trust (mortgage)
 - Promissory Note
 - HUD-1 Settlement Statement (final)
 - Final Truth-in-Lending (TIL)
 - Affidavits
 - Power of Attorney (POA)

notes

- Real estate documents to sign
 - Warranty Deed
 - Buyers' and Sellers' Statements
 - Final Tax Agreement
 - Final Water Agreement
 - HOA fees
- Down payment
- Closing costs
- Prepays
- Escrows
- Items to bring to the closing
 - Copies of Good Faith Estimate and HUD-1
 - Cashier's check payable to self
 - Do not leave without a copy of signed docs

section 3

real estate

notes

role of the real estate broker

- Help find a suitable home
- Prepare offers
- Guide through the purchasing process
- Liaison between buyer, seller, and listing agent
- Coordinate with bank, title company, and listing agent
- Disclose any facts about property or HOA

selecting a real estate broker

- Realtor® vs. real estate broker
- How to hire a real estate broker
 - Do not hire a friend or family member; experience is necessary!
- Verify that they are licensed; no disciplinary actions
 - Consumer Corner News at the Colorado Division of Real Estate (dora.state.co.us/realestate)
- Ask questions - interview the real estate broker to make sure they will meet your needs

types of real estate brokers

- Seller's agent
- Buyer's agent
- Transaction broker
- Customer

shopping for a home

- Likes/dislikes about past residences
 - Current/future needs and wants
 - Personal/families' interests as these relate to home search
- Remember to communicate all this to your real estate broker.
- Be aware of signs that your expectations may not be realistic.

locations of homes

- Where can you look?
 - Multiple Listing Service (MLS)
 - Public websites (realtor.com, coloradohousingsearch.com)
 - Newspapers, real estate shopper guides, open houses, etc.
- Considerations when selecting a home or neighborhood
- Contact your broker to access properties

types of homes

- Single family
- Townhouse
- Condominium (condo)
- Modular home
- Manufactured/mobile home
- Short sale (aka "pre foreclosure")
- Foreclosed home
- HUD home
- Deed restriction
- Land trust

homeowners association (hoa) or common interest community (cic)

- Who participates in an HOA?
- What is an HOA?
- Are there any fees associated with HOA & CIC?
- Important documents/information on HOA
 - Lender will provide these documents/information to you – Read them!
- Protect your home and get involved in your HOA or CIC

purchasing a home

- Submit a contract to purchase
- Earnest money
 - Show of a buyer's good faith
 - Amount set by the seller; is negotiable
 - Money back at closing – most FTHB programs do not allow any money back to the buyer at closing
- Submit an offer
 - Broker and lender will develop and offer to buy
 - The broker will review this offer with you
- Different ways to take title
 - Joint tenants
 - Tenants in common
 - Severalty
- Purchase contract elements
 - Forfeiting your earnest money
 - Acceptable reasons for canceling the contract
 - Observe the following contract items for deadlines: title review/CIC review, inspection, appraisal

- Title
 - Title commitment
- Home inspection
 - Inspectors not required to be licensed in Colorado
 - Pay for the inspection the day of
 - Make sure inspector is bonded and insured
 - Walk the property with the inspector
 - Bank-owned properties
 - Additional inspections
 - Mold
 - Methamphetamines
 - Radon
 - Further negotiations based on findings
- Survey
 - Specifies legal boundaries of property
 - Estimated cost \$1,000 - \$3,000
- Improvement Location Certificate
 - Estimated cost \$100 - \$200
- Appraisal
 - Determines fair market value of home
 - Lender will order the appraisal once all inspection items have been resolved
 - Estimated cost \$350 - \$400
- Property disclosures; contract attachments
 - Seller's Property Disclosure
 - Square Footage Disclosure
 - Lead-Based Paint Disclosure
 - Mold Disclosure
 - Bank Addendums
- Home warranty

new construction

- Take your buyer's agent to the initial visit
- Research the builder's reputation
- Review covenants and HOA documents
- Property taxes
- Don't close with outstanding items on the punch list
- Consider an attorney's review of contract
- Hire own inspector - punch list based on report
- Get receipts and physically verify all upgrades

notes

section 4

post purchase

notes

moving day

- What are the first things you should do?
 - Change locks
 - Recode garage door
 - Change address at post office
- Moving company – research companies' reputations and verify insurance for any lost, broken, or stolen goods
- Transferring or setting up utilities

homeowner financial management

- Developing a spending plan
 - Save 1 percent of your home's value as an annual spending plan for expenses and repairs
 - Budget for future purchases
 - Invest in ENERGY STAR™ products
 - Credit
 - Maintain your credit
 - New credit solicitation
 - Credit card applications and contracts
- Making your mortgage payment
 - Due on 1st of month; slight grace period
 - Coupon book or monthly statement
 - Allow for mailing time; note loan number on payment
 - ACH options

- Prepaying your mortgage
 - One extra payment every year reduces a 30-year mortgage to 22 years
- Biweekly payment options
- Late payments -received after the 15th of the month
 - Late fees
 - 4 to 5% of the total past due amount
 - Refer to "Note" for details
 - Payment denial
 - Lenders don't have to accept payments past the 15th unless late charge is included
 - Past 30 days late - reported late to credit bureau

secondary market

- Lender may sell your loan to an investor in the secondary market
- Original lender will notify you of this transfer/sale via "goodbye" letter
 - Contact original lender to verify the sale
- Loan terms do not change

reasons for payment changes

- Escrow account analysis
 - Property taxes & hazard insurance
- Changes in interest rates
 - ARM
 - Temporary buydown adjustments
- Tax adjustments on new construction

don't become a target

- Avoid solicitation for new credit
- ID theft
- Predatory practices
 - What are they?
 - Who they target
 - How to identify potential predator
 - What to do if you are a victim - Civil Rights Division, Attorney General, Federal Trade Commission

home equity loans

- Additional liens against your home
- Understanding true equity
 - Passive equity – value added via maintenance, etc.
 - Active equity – value added by reducing balance
- 100 to 150% home equity loans
- Alternatives
 - Review budget (wants vs. needs)
 - Community grants, etc.

refinancing

- When is refinancing a good option?
 - Evaluate cost/benefit of refinancing on interest rate
 - Evaluate cost/benefit of refinancing on loan term
- Avoid unsolicited offers to refinance
- Avoid refinancing to pay off debt
- Cash out refinance
- Reverse equity mortgage

maintaining your home/ protecting your investment

- Get to know your home
- Home safety
- Energy conservation
- Preventative maintenance
- Remodeling and major repairs
- Investing in your neighborhood
- Asset building
- Keeping records
- Taxes and insurance
- Protecting your equity

reasons for foreclosure

- Delinquent mortgage payment
 - Review Deed of Trust
- Delinquent HOA payments
 - Review Declaration of Covenants
- Unpaid property taxes
 - Tax liens supersede other liens

what to do if you can't make your house payment

- Call your mortgage lender right away
 - Communicate your issues
 - Try to make arrangements with your servicer
- Call a HUD-approved housing counselor
- Colorado Foreclosure Prevention Hotline (877.601.4673)

foreclosure alternatives

notes

- Curing the loan (reinstatement)
 - Bring it current; lenders often won't accept partial payment
 - Intent to Cure Form
- Forbearance agreement
 - A temporary reduction or suspension of payments
 - Recently lost job/source of income
 - Unexpected increase in expenses
- Repayment plan
 - Reasons for denial
 - Housing counselor can help negotiate
- Loan modification
- Refinance
 - Traditional refinance with a lender of choice
 - FHA "streamline" - only available if it reduces current interest rate on FHA-insured loans
- Sell the home
- Rent the home
- Deed-in-lieu-of-foreclosure
 - Property is transferred to lender
- Cash for keys
 - Alternative to eviction
- Reverse mortgage
- Short sale
 - Homeowner may sell home and lender will accept a lower payoff due to reduced market value
- Bankruptcy
 - Consult with bankruptcy attorneys to determine if this is a good option for you

foreclosure

- Non-judicial foreclosure
 - Most common in Colorado
 - By Public Trustee covered by Deed of Trust
- Judicial foreclosure
 - By court order
 - Sheriff involvement

what to do next

- Are you ready to buy a home?
 - Need to work on finances, savings, or credit
 - Meet with a housing counselor
 - Need to get pre-approved for a mortgage loan
 - Inquire with your current financial institution
 - Referrals from friend and family
 - CHFA Participating Lenders (chfainfo.com)

notes

online class materials

To reference the material presented in this class and download copies, please visit

chfainfo.com/homebuyer/Homebuyer_Education_course_schedule.icm

notes

notes