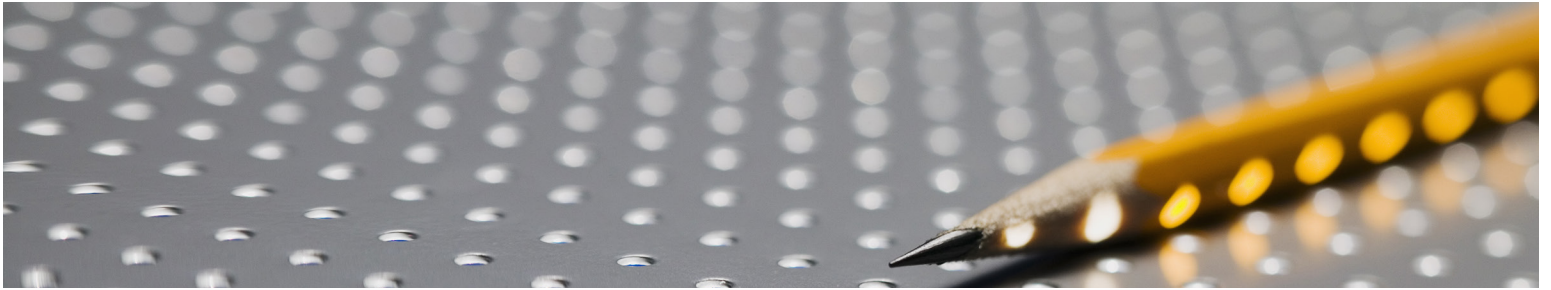


# homebuyer education



## participant guide

october 2017

brought to you by



*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 renting
  - Cost
  - Repairs
  - Ease of mobility
- Cons of renting
  - No tax advantages
  - Repairs
  - No asset building
  - Lack of privacy
  - Rent increases
- Pros of homeownership
  - Tax benefits
  - Equity
  - Savings
  - Stability
  - A place of your own
- Cons of homeownership
  - Loss of mobility
  - Increased cost
    - Maintenance
    - Mortgage payments are generally higher
    - Utilities can be higher
  - Investment risk
    - Appreciation vs. depreciation

## true cost of homeownership

- PITI & PMI
- Homeowners Association (HOA)
- Taxes/Insurance changes
- Increases in housing expenses

## steps in the homebuying process

- Is buying right for you?
- Educate yourself
- Determine what you can afford
- Compare budgets for renting vs. owning
- Contact loan officers
- Select real estate broker
- Find a home; make an offer
- Lock in interest rate
- Inspection
- Appraisal
- Homeowners insurance
- Closing
- Move-in
- Educate yourself on post-purchase practices

## 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

notes

- Insurance agents
  - Provide estimate on insurance premiums
- Title companies
  - Provide title insurance and conduct closing

## successful money management

- Why is a household spending plan important?
  - Up-front costs of homebuying
  - Meet ongoing cost of homeownership
  - Help prepare for larger financial obligations
  - Encourage savings
  - Identify wasteful spending
  - Help reach your goals
- Six steps to successful money management
  - Determine your goals
    - Prioritize
    - When to reach the goal
    - Cost of each goal
  - Calculate living expenses
    - Monthly cost to live
    - Fixed, flexible, periodic expenses
    - Track monthly spending
  - Estimate income
    - From all household members
    - Child support/Alimony
    - Other income
  - Subtract expenses from income

- Develop/Maintain useful money habits
  - Pay yourself first
  - Recordkeeping system
  - Relate budgeting to financial goals
- Adjust your plan to changes

## credit

- What is credit?
  - Critical to homebuying process
  - Credit reporting agencies/credit bureaus
    - Experian
    - TransUnion LLC
    - Equifax
  - Credit reports
    - Name, Social Security number, address, employers
    - Payment history
    - Public records
      - Judgments and liens
      - Repossession or foreclosure
      - Bankruptcy
    - Inquiries
      - Hard pulls vs. soft pulls
  - Types of credit reports
    - Consumer credit report
    - Infile credit report
    - Residential Mortgage Credit Report (RMCR)
  - Credit scores
    - 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
- Methods to calculate credit scores
  - FICO
  - Vantage Score
- “No credit” or “nontraditional credit”
- Debt
  - Revolving vs. installment debt
  - Debt as it affects the buying process
    - Housing ratio
    - Debt-to-income ratio
    - Trended credit data
  - Debt reduction and your spending plan
  - Manage your debts so they don’t manage you
    - Identify total debt (revolving accounts only)
    - Find out why you are having financial problems
    - Pay off/pay down as much debt as you can
    - Make a spending plan
    - Pay cash for everything until you are free of debt
    - Have a weekly allowance for cash purchases in your spending plan
    - Savings
    - Pay bills on time
- How to obtain a credit report
  - Colorado residents eligible for one free credit report from each agency once a year
  - Request your free report
    - 1.877.322.8228
    - Annualcreditreport.com



- Resolving errors or 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 repair companies
- Ways to improve and maintain credit
  - Pay bills on time
  - Be a “transactor” by paying more than the minimum amount
  - Do not take on more debt than what you can afford
  - Keep a healthy balance of types of credit

## consumer laws

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

## section 2

# mortgage lending

notes

### preparing for your application

- What is a mortgage?
  - Secured loan - your home is collateral
  - Deed of Trust and Promissory Note
- 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
- Homeowners association (HOA) dues
- Escrow accounts – taxes and hazard insurance

### getting prequalified

- Who to see for prequalification
  - Lender
  - Housing counselor
  - Both will pull your credit report
- Prequalification determines the mortgage payment you can qualify for and/or if additional financial planning is needed.
  - Prequalification does not include documentation
- Create a spending plan
  - Tell the lender **your** payment expectations
- Ratios
  - Housing ratio (aka “front-end ratio”)
    - The percentage of your monthly income that can go towards your mortgage payment

- Debt-to-income ratio (aka “back-end ratio”)
  - The percentage of your monthly income allowed for your mortgage payment, plus monthly debt
  - Higher than housing ratio because it adds in all your debt
- 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:
      - Base pay: hourly or salary
      - Additional income: overtime, bonuses, commission
      - Social Security (SSI & SSDI)
      - Retirement/Pension
      - Child support/Alimony, etc.
      - Co-borrower or cosigner (if needed)
- Assets
  - Money used for home purchase cannot be borrowed
  - Bank accounts document assets
    - Avoid overdrafting your bank account
    - No cash deposits – cannot be documented
    - Seasoning
    - Do you have a history of saving?
    - Payment shock
  - You will need money for the earnest deposit, inspection, and appraisal before you start shopping for a home.

## choosing a lender

- Sources: your current financial institution, referrals from friends and family, chfainfo.com, nonprofit housing agencies, your real estate broker
- Interview several lenders and ask questions
  - What loan programs do you offer?
  - Can you do FHA, VA, and conventional loans?
  - How long have you been in the mortgage business?
  - Do you work with down payment assistance programs?
  - What are your loan costs? (get a sample itemization)
  - Check their license with DORA
- Types of financing sources
  - Banks
  - Mortgage companies
  - Mortgage brokers
  - Credit unions
  - Seller financing
  - Investors
    - Fannie Mae, Freddie Mac, CHFA, etc.

## down payment assistance

- Grants
  - Does not have to be repaid
  - Do not need to be a first time homebuyer
  - Higher income limits to qualify
  - Interest rate on first mortgage could be higher based on the amount of assistance
- Loans
  - May require you to be a first time homebuyer
  - Some programs have lower income limits to qualify
  - Interest rate on first mortgage not affected
  - Loan that must be repaid on sale or refinance

## applying for your loan

- Getting pre-approved
  - There are no fees involved with the pre-approval process
- Pre-approval vs. prequalification
  - Pre-approval is based on verified/documentated info
  - Prequalification is based on verbal/unverified information
  - Qualifying for a mortgage you can afford based on your personal spending plan
- Loan application for pre-approval
  - Requires various documentation
    - Paystubs, W-2s, tax returns, bank statements, rental history, employment history
- Advantages of pre-approval
  - Review of available loan programs
  - Decide if down payment assistance is needed and available options
  - Estimate how much money you will need for your purchase
  - Strengthens your offer on a home
  - Allows for coordination between your lender and your real estate broker

## choosing a loan

- Government-insured loans
  - FHA (Federal Housing Administration)
    - Minimum down payment is 3.5 percent
    - Acquisition-rehabilitation mortgages (FHA 203K)
  - VA (U.S. Department of Veterans Affairs)
    - Zero down payment required
  - Rural Development loans
    - Zero down payment required
    - RD 502 Direct

- Conventional loans
  - Not insured or guaranteed by federal government
  - Down payment requirements from 3 to 20 percent
  - Flexible mortgage insurance options
  - Stricter credit and qualifying standards
- Mortgage insurance
  - Conventional loan
    - With 20 percent or more for a down payment, borrower will not have to pay for mortgage insurance
    - The rate of PMI is based on down payment and credit
    - PMI is automatically cancelled at 78 percent LTV
  - FHA mortgage insurance
    - Regardless of size of down payment, mortgage insurance premium (MIP) is required
    - MIP cannot be cancelled and remains on the loan for the life of the loan (Exception: with a 10 percent down payment, it will drop off after 11 years)
- Other loan options
  - Portfolio - specialty programs
  - Lease-purchase/Rent-to-own
  - Assumptions
  - Owner carry/Seller financing
  - Hard money lending - beware!

## subprime lending/predatory lending

notes

- Subprime loans
  - Interest rate higher than that of prime mortgages due to impaired credit record
- Predatory lending features
  - Avoid
    - Mortgage life insurance
    - Prepayment penalties
    - Balloon payments
    - Higher interest rates and fees
    - Excessively higher costs and fees

## under contract

- Loan disclosures due within three business days
- Loan Estimate
  - Loan term (30 years is the most common term)
  - Loan amount & loan-to-value (LTV) based on down payment
  - Interest rate (fixed or adjustable rate)
  - Interest rate lock
  - Prepayment penalty
  - Balloon payment
  - Estimated closing costs and credits
  - Cash needed to close
- Loan Estimate - third page
  - Annual Percentage Rate (APR)
    - A more comprehensive measure of cost to borrow
    - Total annual cost of your loan
      - Interest, mortgage insurance, any discount points paid, and a portion of closing costs
  - Higher than the interest rate

- Total Interest Percentage (TIP)
  - The amount of interest you will pay over the life of your mortgage loan divided by your loan amount
  - Much higher than the interest rate and the APR
- Locking your interest rate
  - Always **your** choice and timing
  - Buy-down to lower interest rate – paying discount points
  - Choosing a higher interest rate to get a lender credit to help pay closing costs
  - Once locked in, you are protected against interest rate increases
  - A commitment between you and your lender

## lender/loan fees

- Paid before closing
  - Appraisal (at time of order)
  - Credit report (possibly)
- Never pay before closing
  - Rate lock-in fee
  - Origination fee
  - Application fee

## loan processing

- Inspection - with your real estate broker
- Appraisal - ordered by the lender
- Updated documentation
- Shop for homeowners (hazard) insurance
- Put your spending on hold until closing



- Mortgage players
  - Loan officer
  - Processor
  - Underwriter
  - Closer

## loan underwriting and approval

- Most common reasons for delay in approval/denial of a loan
  - High ratios
  - Insufficient funds to close
  - Low appraisal
  - Changes in income, debt, or credit score since pre-approval

## loan closing

- Closing Disclosure
  - Compare to Loan Estimate
  - Outlines final loan terms and closing costs
  - Shows the final APR and TIP percentages
  - Provides the final amount you will need at closing
  - Must be provided to you at least three business days before your closing date
  - You must be clear who is to acknowledge receipt in writing so as not to delay the closing

## at closing

- Attendees
  - Title company's closer
  - Real estate agents
  - Down payment program representative
  - Loan officer
  - Seller
  - You
- What to bring: driver's license and cashier's check made payable to the title company
- Real estate closing - between seller and buyer(s)
  - Real estate documents to sign
    - Warranty Deed
    - Buyer's and Seller's Statements
    - Final Property Tax Agreement
    - Final Water Agreement
    - HOA fees
- Loan closing - between borrower(s) and lender
  - Loan documents to sign
    - Deed of Trust (mortgage)
    - Promissory Note
    - Closing Disclosure
    - Final affidavits and authorizations
    - First Payment Letter

## notes

## 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
  - Experience is necessary
  - Verify licensing
- 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
  - Current/future needs and wants
  - Personal/family's interests as these relate to home search
- Communicate all this to your real estate broker.
- Watch for signs that you are being unrealistic.
- Can you handle changes/repairs after the sale?

## locations of homes

- 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 "preforeclosure")
- Foreclosed home
- HUD home
- Deed restriction

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

- Who participates in an HOA?
- What is an HOA?
- Are there any fees associated with HOAs and CICs?
- Important documents/information on HOA
  - Real estate broker 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 an offer to buy
  - Buyer Agency Agreement
  - For Sale by Owner
- 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 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
  - Mold, radon, and methamphetamine testing
  - Further negotiations based on findings
- Survey/Improvement Location Certificate
- Appraisal
  - Determines fair market value of home
  - Lender will order the appraisal once all inspection items have been resolved
  - Estimated cost \$450 - \$500
- Real estate 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.
- Determine the property taxes.
- Don't close with outstanding items on the punch list.
- Consider an attorney's review of contract.
- Hire a third-party inspector.
- Get receipts and physically verify all upgrades.

## 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 per year for unexpected expenses and repairs
  - Invest in ENERGY STAR™ products
  - New credit solicitation
- Making your mortgage payment
  - Due on first of month
  - Automated Clearing House (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 percent 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
- Service transfer

## reasons for payment changes

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

## don't become a target

- Avoid identity theft
- Predatory practices
  - Unsolicited goods or services offered
  - They target anyone
  - Asking for up-front payment, personal information, etc.
  - What to do if you are a victim - Civil Rights Division, Attorney General, Federal Trade Commission

## preserving your equity

- Understanding true equity
  - Passive equity – value added via maintenance, etc.
  - Active equity – value added by reducing balance
- 100 to 150% home equity loans
- Alternatives



## 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

## 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

- Mortgage lender/Serviceer
  - Communicate your issues
  - Try to make arrangements with your servicer
- HUD-approved housing counselor
- Foreclosure

## what to do next

- Are you ready to buy a home?
  - Need to work on finances, savings, or credit
  - 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](http://chfainfo.com))

## online class materials

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

[chfainfo.com/homeownership/Pages/homebuyer-education.aspx](http://chfainfo.com/homeownership/Pages/homebuyer-education.aspx).

notes