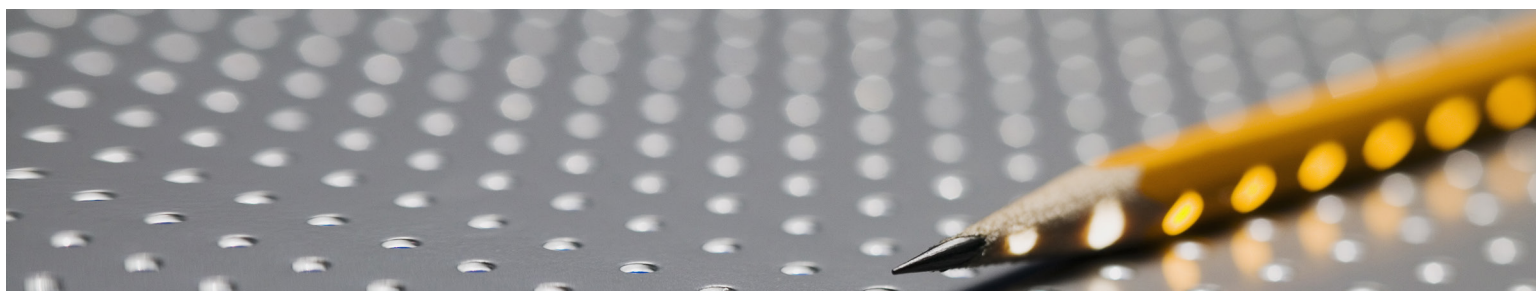


homebuyer education



participant guide

september 2015

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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 renting
 - Cost
 - Repairs
 - Ease of mobility
- Cons of renting
 - No tax advantages
 - Repairs
 - No asset building
 - Lack of privacy
- 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 on process
- 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 protection with policy
- 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 goals
 - 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
 - Record-keeping 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
 - Debt reduction and your spending plan
 - Manage your debts so they don’t manage you
 - Identify total debt (revolving accounts only)
 - Discern cause for financial distress
 - 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 your credit
 - Pay bills on time
 - 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 Act
 - Equal Credit Opportunity Act
 - Truth-in-Lending Act
 - 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

section 2

mortgage lending

notes

preparing for your application

- 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
- 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.

- Ratios
 - Housing ratio
(aka "front-end ratio")
 - Maximum amount of income that can go toward housing costs each month
 - Debt-to-income ratio
(aka "back-end ratio")
 - Maximum amount of income you can use toward 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

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)/USDA loans
 - RD 502 Direct
- Conventional loans
 - Not insured or guaranteed by federal government
 - Down payment requirements from 3 to 20 percent
 - Fixed or adjustable interest rates

other loan types

- Portfolio
- Lease-purchase

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

loan terms

- Interest rate
- Fixed (interest) rate
- Adjustable (interest) rate mortgage (ARM)
- Loan-to-value
- Interest-only
- Option ARM
- Balloon payment mortgage
- Buydowns
 - Temporary buydown
 - Reduces rate for at least the first few years of mortgage
 - Permanent buydown
 - Reduces rate for entire life of loan
 - Pros of buydowns
 - Payment is lower
 - Pay less interest
 - Cons of buydowns
 - Benefits are short-lived
 - Temporary buydown = interest rate change
 - History of buydowns

mortgage insurance

- Conventional loan
 - With 20 percent 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 financial institution, referrals from friends and family, chfainfo.com, nonprofit housing agencies, your real estate broker
- Interview several lenders and ask questions
- 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

applying for your loan

- Getting pre-approved
 - Pre-approval vs. prequalification
 - Pre-approval is based on verified/documented info; guarantees lender will lend to you that amount
 - Prequalification is based on verbal/unverified information; no guarantee on lending
 - Qualifying for a mortgage you can afford
 - Advantage of pre-approval

- Coborrower, non-occupying coborrower, cosigner
- Loan 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
 - Loan Estimate
 - Replaced the Good Faith Estimate and Truth-in-Lending statements

characteristics of subprime lending/predatory lending

- Subprime loans
- Predatory lending
 - CFPB - no longer allows:
 - Single premium life insurance
 - Prepayment penalties
 - Balloon payments
 - Option ARM
 - Negative amortization
 - Higher interest rates and fees
 - Discount points
 - Padding costs and fees

loan processing

- Buyer coordinates inspection
- Lender orders appraisal
- Borrower procures hazard (homeowners) insurance
- Title company
 - 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
 - Finances or credit score change since pre-approval

loan closing

- Closing Disclosure
 - Outlines your final loan terms and closing costs
- Fulfill and complete all outstanding requirements prior to closing
 - Final walk-through
 - Cashier's check
 - Call utility companies
 - Reasons for delay/prevention of closing
- 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
 - Closing Disclosure
 - Affidavits
 - Power of Attorney (POA)
- Real estate documents to sign
 - Warranty Deed
 - Buyer's and Seller's Statements
 - Final Tax Agreement
 - Final Water Agreement
 - HOA fees
- Down payment, closing costs, prepaids, and escrows
- Items to bring to the closing

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)

online class materials

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

chfainfo.com/homeownership/Pages/homebuyer-education.aspx.