BEFORE YOU START - Assessing your Situation

Owning a home requires a significant amount of time, energy, money and education to understand the complicated purchase process. There are many advantages to owning a home, but there are also added responsibilities. As you contemplate whether you want to become a homeowner, consider these common motivators and common concerns in owning a home.

Common Motivators:
Stable Housing Costs: If you have a fixed interest rate, the principal and interest portion of your payment will never increase, although property taxes and insurance premiums will increase slightly over the years, you will have a housing cost that you can rely on.
Tax benefits: Mortgage interest, property taxes and some closing costs can be itemized on your tax return to reduce your taxable income, if these amounts exceed the standard deduction.
Equity Building: Most mortgage payments include principal and interest. As you pay your mortgage payments, the principal portion of your payment reduces your loan balance and increases your equity.
Control Over Your Environment: As long as you pay your mortgage payment, property taxes, insurance, when applicable homeowner association dues and maintain your property, you have the freedom to live in your home for as long as you want, make changes and upgrades to your home, decide who lives with you and decide to have pets.
Investment: In addition to building equity through the principal portion of your payment, equity is built through the appreciation in the value of your home.

Common Concerns:
Monthly costs: In addition to the mortgage payment, the monthly expense includes property taxes, insurance, homeowner association dues if you purchase a condominium or townhouse, maintenance and often higher utility costs. These costs are frequently higher than the cost of renting.
Maintenance and Repairs: When you rent, these costs are the landlord's responsibility, once you own a home, the responsibility and cost is yours.
Decreased Mobility: There are personal and professional reasons that may require that you move. Depending on the market, this can take many months, compared to the typical 30 day notice requirements when you are renting.
Amenities: Many apartments offer amenities such as pools, recreation and fitness rooms, playgrounds and other features that you may not have in a home.

Your Homeownership Team:
Although buying a home can be a very complicated process, your Home Buying Team can help you through the process. The members of your home buying team are:
Homeownership Counselor: A certified homeownership counselor is a trained professional who works for a non-profit housing counseling agency or community development corporation. In addition to Homebuyer Education Classes, individual counseling provides credit, budgeting and help you overcome barriers to achieving homeownership.
Loan Officer/ Mortgage Consultant: Asks about and listens to your financial situation, needs and plans, explores and explains the options that could be the best fit for your situation and clearly outlines the costs, services and timing.
Insurance Agent: A condition of your mortgage, is that you carry hazard insurance throughout the life of your loan. This is more commonly referred to as Homeowners Insurance and must be in place in order to close escrow. Your insurance agent will help you determine the right amount of coverage for your home.
Inspectors: The Housing Inspector checks the structure and the mechanical parts of the property. A report is written describing problems that are found. If you accompany the inspector, they can point out important features such as where the water and gas shut-off valves are located, as well as the electrical boxes. They can also give you advice on normal maintenance.

Realtor: The Agents Job

▪ Listens to your wants and needs ▪ Pre-screens properties in your price range ▪ Provides detailed information about available properties ▪ Arranges private showings of homes ▪ Shares his/her evaluation of the homes seen ▪ Writes a purchase offer reflecting your best interests	▪ Explains contracts, reports and all legal paperwork ▪ Reviews negotiating options ▪ Presents the offer to the seller ▪ Negotiates on your behalf to get the best overall deal ▪ Coordinates with lender, escrow officer, listing agent … ▪ Refers you to professional inspectors

Title Officers: The Title officer works for a title insurance company that sells insurance to guarantee that the title report is accurate. All lenders require the buyer to pay for a lender's policy of title insurance which protects the lender if there is an error in the title report. Buyers can also purchase an owner's policy to protect you, the homeowner.

Escrow Officers: The Escrow Officer is an independent person who works for both the buyer and the seller. The fee for these services is typically split between the buyer and the seller.

The Escrow Officer has 3 specific functions:

1. Retains the original purchase contract and other documents
2. Holds the Earnest Money Deposit (EMD)
3. Makes sure all of the people involved in the sale are doing their jobs.

BEFORE YOU START - Terms to become familiar with

These are common terms when purchasing a home, and will be referred to throughout the class.

Adjustable Rate Mortgage: A loan that adjust on a regular schedule based on a national economic index and the lender's margin. Also called "variable rate mortgage."

Amortization: The process of paying off a loan with regular payments over a fixed time period.

Amortization Schedule: A timetable for payment of a mortgage showing the amounts of each payment that are applied to interest and principal, as well as the remaining balance.

Buy-Downs: Points a borrower pays in advance to lower the interest rate. Also called "discount points."

Cap: The maximum amount an interest rate can increase or decrease in a designated period of time (interest rate cap) or over the life of the loan (lifetime cap) on an adjustable-rate loan.

Closing Disclosure (CD): This form is a statement of final loan terms and closing costs and must be provided to the borrower 3 business days before closing. It should be compared to the Loan Estimate (LE) that was provide after applying for the loan. The terms should match.

Conventional Mortgage: A loan made by for profit lenders and not insured by the federal government.

Debt to Income Ratio: The maximum percentage of a borrower's gross monthly income that can be spent on the house payment and all other creditor debts. This is also referred to as the "back-end ratio."

Earnest Money Deposit (EMD): The funds that are included with an offer to purchase, typically 3% of the purchase price, to show good faith in following through with the transaction.

Escrow: The period between the date the purchase contract is signed the date of the loan closing.

Escrow Account: An account set up by the lender to include 1/12 of the property taxes and insurance in the monthly mortgage payment, also referred to as an "impound."

FHA Loan: A type of mortgage that is insured by the Federal Housing Administration.

Fixed Rate Mortgage: A loan on which the interest rate remains the same over the life of the loan.

Housing Ratio: The maximum percentage of a borrower's gross monthly income that can be used to make the monthly mortgage payments. Also called "front-end ratio."

Loan Estimate (LE): A Loan Estimate tells you important details about a mortgage loan you have requested. This must be provided within 3 business days of applying for a mortgage.

Loan-to-Value Ratio (LTV): The ratio of the loan balance to the appraised value of the property.

Mortgage Payment: The total monthly loan payment known as principal, interest, taxes and insurance (PITI)

Mortgage Insurance (MI): An insurance policy required by the lender if a borrower puts less than 20 percent cash down when buying a home with a conventional or FHA loan, which protects the lender from collateral risk in case of default. Also called "private mortgage insurance (PMI)" for conventional loans and "mortgage insurance premium (MIP)" for FHA loans.

Point: A fee that is 1 percent of the loan amount.

Pre-approval: A guarantee that a lender will lend a potential buyer a fixed amount as long as the borrower buys a property by a certain time and the property appraises for the amount of money for which the borrower qualifies.

BEFORE YOU START - Manage Your Money

Why Do You Need a Spending Plan?
Creating and sticking to a spending plan will help you prepare for large expenses, encourage savings, prepare for surprise/emergency expenses, identify wasteful spending and accomplish your goals.

Build up savings
Determine how much you can save each pay period. Will your savings cover your down payment – a minimum of 3%, closing costs of approximately 1%, moving costs and sometimes reserves of at least 2 months of mortgage payments.

Change spending habits
Review your monthly expenses and identify expenses you can reduce or eliminate.
Identify:
Fixed Expenses: An expense that does not change from period to period, such as a loan payment or rent
Flexible Expenses: Expenses that change from month to month, such as the cost of groceries, utilities or gas.
Periodic Expenses: Expenses for goods and service such as insurance, water, garbage, that may be fixed but are paid only a few times per year.
Discretionary Income: The amount of money left over in a month after regular expenses are subtracted from net income (after taxes and other payroll deductions have been deducted.)
Needs: items you must have for basic survival vs. **Wants**: things you desire but can live without

Identify Goals	Make Your Plan
▪ Write down all household member's goals ▪ Rank the goals in order of importance ▪ Determine how much you must save to reach these goals ▪ Based on your "wants" list, reduce expenses	▪ Create your plan ▪ Review your plan monthly ▪ If not sustainable, make changes if needed

Keep Track of Your Spending

It is important to understand where all the money is going. Begin tracking everything you and household members spend money on. Find a simple method of tracking expenses such as saving receipts, reviewing your bank statements and credit card statements, keeping a journal etc. Review your spending habits often, at least monthly, this will help you identify the "wants" you are spending on and can help you find ways to cut spending and start saving.

Create a sustainable spending plan. **This will be referred to throughout the class, but will not be turned in**

Financial Information

Income		Expenses - Debt		Assets	
Monthly Gross wage Borrower 1	$	Rent Payment	$	Checking Account(s)	$
Monthly Gross wage Borrower 2	$	Mortgage Payment (leave blank)	$	Checking Account(s)	$
Self employment Income	$	Property Taxes (leave blank)	$	Savings	$
Disability income		Homeowner Insurance (leave blank)	$	CDs	
Social Security	$	Minimum Credit card pmt. All cards/Installment debt		Stocks/Bonds	$
Pension	$	Student Loans	$	Other Cash on Hand	$
Other:	$	Car Payments	$	Retirement Account	$
Other:	$	Utilities:	$		
Other:	$	Phone/internet:	$		
Other:	$	Other:	$		
		Other:	$		
TOTAL MONTHLY INCOME	$	**TOTAL EXPENSES**	$	**TOTAL ASSETS**	$

What is your current housing ratio? (divide rent by gross income) ______%

What is your current debt ratio? (divide your car payment, minimum credit card and student loan by gross income) _____%

Name___________________________________ Class Date____________________

Now that you have completed your Financial Information, are you happy with the way you deal with money? Yes or No (circle one)
What would you like to change? ____

Consider your typical spending habits and rate the following:

1. What things would be easiest to change? _______________________________________
2. What things would be hardest to change? _______________________________________
3. Is buying a house worth giving these things up? __________________________________
4. Are you ready to do this? ____
5. Are there other things you want to do first? _____________________________________

How would you rate your spending habits	**How would you rate your saving habits**
__ I never use credit, I use savings to make purchases	__ I save more than 10% of each paycheck
__ I have no long-term debt and pay full balances monthly	__ I save 10%, and use for present/future needs
__ I use credit only for major purchases	__ I save when I can and use when needed
__ I often borrow to my credit limit	__ I have little to no money saved except retirement
__ I am overextended on my credit cards	__ I have no savings or pension plan

List your top 5 reasons for wanting to purchase a home	List your top 5 concerns about buying a home
1	**1**
2	**2**
3	**3**
4	**4**
5	**5**

What are your top 6 goals and their timelines?	
1.	4.
2.	5.
3.	6.

What topics do you need more information about:

1.
2.
3.
4.