Roadmap to Home Ownership

First Time Home Buyers Seminar

Thurs. March 5th | 5:30 p.m.
Agenda

» Benefits of Owning a Home
» Credit Fundamentals
» Mortgage Basics
» Looking for a Home and Calculating Affordability
» Obtaining a Mortgage/Comparing Finance Options
» Loan Approval Phase
» Preparing for Closing
» Maintaining Home Ownership
» Assistance Programs
Benefits of Owning a Home

Benefits of Home Ownership: Powerful Source of Wealth

Tax Deductions
- Mortgage interest and property tax payments may be included as itemized deductions on federal and/or state income taxes. Consult with your tax advisor.
- Mortgage Insurance (MI) premiums may be tax deductible. Consult your tax advisor.

The Power of Amortization
- Making each monthly payment reduces the loan balance, increasing your equity in the property.

Appreciation
- As your property value increase, this provides another powerful long-term wealth accumulation vehicle for your family’s financial security.

Personalization
- Personalize your property and its decor, as you see fit.

Inheritance
- You own something tangible that can be left to your heirs to help establish their financial security.
Benefits of Owning a Home

Key Areas to Consider:

Requirements
› Buying a home requires significant upfront cash. These expenses typically include a down payment, closing costs and reserves.

Increase in Expenses
› You will need to budget for maintenance/upkeep, property taxes, insurance and homeowner association (HOA) fees (if you are moving into a community that requires these).

Property Function
› Your property value may fluctuate, so it is important to stay focused on the long-term benefits of home ownership.

Limited Flexibility
› Can limit flexibility to relocate for a job or change neighborhoods.

Limited Budget
› May require you to more closely follow a budget.
Credit Fundamentals

Credit Scores
Credit bureaus provide lenders your credit scores based on payment patterns and the nature of your credit use.

A credit score is calculated based on:

- Your previous credit performance.
- Current debt levels.
- The depth of your credit file: How far back your credit history runs and whether there is sufficient information to ascertain payment patterns.
- Whether you have recently added new debt.
- The type and frequency of debts you take on.
  - Revolving
  - Installment

Credit Levels
- 620 and below
- 621 – 700
- 700+
Credit Fundamentals

How to Improve or Protect Your Credit Profile:

» Pay your bills on time and include at least the minimum amount due.
» Don’t “max out” your credit cards.
» Limit the number of credit cards you have.
» Avoid impulse buying on major purchases.
» You are responsible for all joint accounts opened with another individual and for all loans on which you’re the co-signer
  » **Co-signing a loan is generally not a good idea. If an individual requires a co-signer, it’s likely an indication that he or she can’t afford the loan.**
» Review your credit report at least once each year. Get reports from several major credit agencies.
» Treat student loans like any other debt and pay on time.
Mortgage Basics

» **Length/Term of the Mortgage**

  › The period of time during which you pay back the loan will also determine the amount of your payment. The longer the term of the loan, the lower the mortgage payments. For that reason, many first-time homebuyers prefer a 30-year loan. However, rates for shorter terms (including 15-year loans) are generally lower and build equity faster.

» **Components of a Mortgage Payment: PITIA**

  » **P** stands for Principal or the amount you borrowed.

  » **I** stands for interest. Lenders charge interest on the money you are borrowing. The interest generally reflects prevailing market rates based on investor demands.

  » **T** is for taxes. Property taxes.

  » **I** represents insurance. Homeowners insurance premiums (hazard insurance) is mandatory.

  » **A** stands for Association, as in homeowner association. For some residential properties, HOA dues are required.
Mortgage Basics

» **Fixed Rate vs. Adjustable Rate**
  - With a fixed-rate loan, the interest rate charged by the lender never changes over the life of the loan. That means the P (principal) and I (interest rate) portion of your PITIA payment will not change. However, the T (taxes) and I (insurance) portions may change if your taxes or insurance premium change. Many people prefer the stability of a fixed-rate loan.
  - With an adjustable-rate loan, the interest rate can increase or decrease. There are a large variety of adjustable-rate mortgages (ARMs).

» **Government Loans vs. Conventional Loans**
  - Government loans include VA loans guaranteed by the Veterans Administration, FHA (Federal Housing Administration) loans administered by the U.S. Department of Housing and Urban Development (HUD) and USDA Rural Loans insured by the Department of Agriculture.
  - If a loan is not insured or guaranteed by a government agency, it is considered to be a conventional loan. These loans are often purchased by Fannie Mae and Freddie Mac, although this purchase is typically invisible to the borrower. If you have less than a 20 percent down payment, you will likely need private MI. The advantage of MI is that you need less upfront cash and can buy your home sooner.
Looking for a home and calculating how much you can afford to borrow

Beginning to look for a Home:

» **Getting Pre-Qualified**
  » Knowing what mortgage payment you are comfortable with

» **Selecting an Agent**
  » Why you should always have an agent
Mortgage Payment
($100,000 / 30 years / 4.5% / 95% ltv)

» Principal & Interest - $507
» Taxes & Homeowner’s Insurance - $250
» Mortgage Insurance - $60
» Flood Insurance
» Total Payment $817
Deciding on a Mortgage Payment

» Find payment that you are comfortable with
» Make that payment for 6 months in advance

Example:

» You pay $500 in rent
» You decide on a $850 mortgage payment
» Pay $850 for 6 months
  » $500 rent
  » $350 into savings (down payment)
Looking for a home and calculating how much you can afford to borrow

A lender considers the following factors in deciding what you can afford:

- Income and employment
- Other debts (for example, car and student loans, credit cards, etc.)
- Debt-to-Income Ratio
- Down payment
- Cash available after closing (reserves)
- Type of mortgage product
- Interest rate of the mortgage
- Length or term of the mortgage
- Credit history
Down Payment

» Minimum- 3%
» Average- 5%
» Benefits of larger down payment
  » Lower overall payment
  » No mortgage insurance (20%)
  » Better approval rating
Obtaining a mortgage and comparing financing options

Applying for a Mortgage:
Checklist of documents the lender will typically ask for:
- Last 2 years tax returns
- Last 2 years W2s
- Last 30 days pay stubs
- Insurance agent
- Last 2 months bank statement for all accounts

Mortgage Brokers
Mortgage brokers are licensed originators representing multiple lenders who work as intermediaries to secure a mortgage for a borrower.

Mortgage bankers originate and fund the loan with the funds of the lender they work for, but immediately sells the loan to another lender, an investor, or directly to Fannie Mae or Freddie Mac.

Consider and compare potential fees that will be charged up front and at closing.
Comparing Products (Part 1)

Rates
- Lock-in option preferable. Generally, the longer the loan period, the higher your interest rate.

Term
- The longer the term, the lower the monthly payment. However the equity buildup is slower as well.

ARMs
- Carefully consider your ability to absorb higher payments if the rate increases.

Points
- Discount points represent the upfront payment of interest to the lender. The lower the interest rate, the higher the discount points and vice versa. Each point is 1 percent of the loan amount.
- Origination points are charged to offset the administrative cost of processing and originating your loan. They can also include a document preparation or underwriting fee.
Obtaining a Mortgage and Comparing Financing Options

Comparing Products (Part 2)

Down Payment

» What is the minimum down payment required? Will MI be required? If so, what is the cancellation policy on the insurance premium?
Obtaining a Mortgage and Comparing Financing Options

FHA vs. Conventional:
FHA loans are guaranteed by the Federal Housing Administration and extend credit to homeowners, particularly those who have limited down payment funds and lower credit scores. Conventional loans are typically guaranteed or insured (when required) by private mortgage insurers such as Arch MI. Conventional loans are purchased by Fannie Mae or Freddie Mac.

Conventional Loans
» Generally require a 5 percent down payment, with certain programs allowing as little as 3 percent down.
» If MI is required, private MI companies offer cancelable and flexible monthly or single premium options.
» Private MI on a conventional loan is typically less expensive than the MI on a FHA loan.
» Typically, a minimum credit score of 620 is required.
» Often have quicker processing time than FHA loans.
» Generally have a lower loan-to-value (LTV) ratio than FHA loans.

FHA Loans
» Require a 3.5 percent down payment, and most borrowers have an FHA insurance premium payment for the life of the loan. Additionally, FHA loans have both an upfront payment (which may be financed into the loan amount) and monthly premium payments.
» Lower maximum loan limits may be imposed (compared to conventional).
» May allow lower minimum required credit score.
Obtaining a Mortgage and Comparing Financing Options

What is MI and why is it of value to you? (Part 1)

» If you have a down payment of less than 20 percent (of the home's value) on a conventional loan, you will probably be required to have MI.

» The function of private MI is to protect the lender or investor from losses incurred in the event of foreclosure.

» Enables the borrower to purchase a home sooner, and with less upfront cash.

» Typically, you'll pay the MI premium to the lender, along with your monthly mortgage payment.

» Unlike an FHA-insured loan, with a conventional loan you may request that your private MI be canceled, so long as you have a good payment record and have paid off 20 percent of the original loan amount, or your property has appreciated (as documented by the lender's appraisal). The cancellation occurs automatically when you have paid off 22 percent of the original loan amount and payments are current.
Obtaining a Mortgage and Comparing Financing Options

What is MI and why is it of value to you? (Part )

» Piggybacks (Purchase Money Seconds).
  » Second loan that takes the place of a portion of your down payment, requiring you to make payments on two loans.
  » Although terms may vary by lender, they're generally initially interest-only, with rates adjusting monthly.
  » Introductory rate may generate a payment that is lower than a conventional single insured loan, but the payment can increase as rates rise.
Loan approval phase

Lender Evaluates Mortgage Loan Application:
The following **five Cs** are examined in underwriting a loan application:

- **Collateral**
  - Requires property appraisal. Determines whether the loan amount is supported by property value.

- **Capacity**
  - Ability to repay the mortgage along with other debts.

- **Credit**
  - Credit history shows your willingness to repay.

- **Capital**
  - Down payment and closing or settlement costs demonstrate your ability to save.

- **Character**
  - How long have you been on your job or in the same line of work. How long have you been at your current address. If you have late payments, what is the reasoning?
Loan approval phase

Lender Disclosures

Under the Consumer Financial Protection Bureau's (CFPB) new "Know Before You Owe Rules," you are considered to have completed a loan application when you provide your lender with the following six pieces of information:

1) Your name.  2) Your income.  3) Your Social Security Number.  4) Your property address.  5) Estimate of property value.  6) Loan amount.

Once you've submitted these six pieces of information, your lender is required to send you the following disclosures within three business days:

1. The Loan Estimate, which lists the charges you are likely to pay at settlement and helps you understand the full cost of the mortgage, including fees and interest. This form shows the amount being borrowed, the interest rate being assigned to the loan and whether there are prepayment penalties. This form has been in use since October 1, 2015, and replaced the older Truth in Lending Statement and the Good Faith Estimate.

2. A special information booklet called the “Home Loan Toolkit,” published by the CFPB, which informs consumers of the steps they need to take to get the best mortgage for their individual situation, explains their closing costs and what it takes to buy a home. It also offers tips on how to be a successful homeowner.
Loan approval phase

Communication from your Lender: The final decision will be forwarded to you:

- Loan application may be approved with conditions that must be met prior to
- Loan application may be declined. With a denial, you may consider immediate steps or longer-term strategies.

Contingencies: Meet any contingencies spelled out in the sales contract for the home:

- Home inspection and other inspections, such as pest or termite.
Preparing for closing

» **Obtain Hazard Insurance (well before closing)**

» If you are purchasing a single-family residence, your lender will require you to obtain hazard insurance for the replacement value of the property. If you are buying a condo or townhouse, get a copy of the umbrella insurance policy from the HOA. You will likely also be required to purchase insurance coverage protecting the interior, including contents.

» Certain hazards are not covered in a standard policy (flood, earthquake), and you may be required to purchase additional insurance.

» Borrowers should obtain more information regarding specific insurance requirements from their lender.
Preparing for closing

» **Prior to Closing: Review Closing Disclosure**
  » The “Know Before You Owe” rules require your lender to send you a form called a Closing Disclosure at least three business days before your loan closes. The Closing Disclosure lists your final mortgage costs in the same format as the Loan Estimate. You should compare your Loan Estimate to the Closing Disclosure and make sure that you understand the reason for any differences. Be sure to keep a copy of your Closing Disclosure; because some of the closing costs may be tax-deductible.

» **Closing Agent or Settlement Attorney**
  » Generally, these important closing functions are performed by a title or escrow company. In certain regions of the country, specially trained closing attorneys deal with this task.

» **Title Insurance**
  » Your lender will recommend a title insurance provider, but you have the option to choose for yourself and decide on coverage options. Title insurance policies protect both you and the financial institution against losses resulting from certain claims, such as others claiming ownership to the property or undisclosed liens against the property.
  » A title insurance company will research public records to ensure that the seller holds legal title to the property and that there are no undisclosed liens or past due taxes.
Maintaining Home Ownership

» **Mortgage Payment**
  » Confirm the amount, due date and method of payment (such as direct debit from your checking account).

» **Other Monthly Housing-Related Fees**
  » Condos, townhouses and co-ops may also have monthly association fees.

» **Prepaying Your Mortgage**
  » Consider making additional principal payments to speed your equity build-up.

» **Transfer of Servicing**
  » If loan is transferred to another servicer, ensure payments are sent to the correct entity.
Maintaining Home Ownership

Consider an Escrow Account

» Escrow accounts exist for the purpose of collecting taxes and insurance so that your lender can remit these funds on your behalf.

» Ensure property taxes and insurance payments are paid current and no negative balance exists in your impound account. Adjustments to taxes and insurance payments may occur when the value of your property increases and will be reflected in your monthly payment if you have an impound account.

» Loan-to-value over 80% then an escrow account is a requirement

Preparing your Federal Tax Submission

» Your mortgage servicer will send a Form 1099 early in the year (generally by Jan. 31). You may be able to deduct your mortgage interest and property taxes plus some of your closing costs. Consult a professional tax advisor for more information.
Other housing expenses:

- Heating/Air/Electricity
- Water
- Garbage disposal/sewage
- Lawncare
- Snow removal
- Repairs
  - Furnace
  - Roof
  - Windows
Stay current on your mortgage

Financial Emergency

» Always have a savings cushion.
» Consider alternate sources of funds for mortgage payment.
» Contact a credit counselor at your local Consumer Credit Counseling Services (CCCS).
» Contact your Servicer if you are going to be late or miss a payment.

Alternatives to Foreclosure

» Some of the options your servicer may present, depending on your financial circumstance, include:
» Forbearance.
» Loan modification.
» Assumption.
» Preforeclosure sale.
» Deed-in-lieu of foreclosure.
Down Payment Assistance Programs

» Iowa Finance Authority – can only use 1 of 2 programs once
» Homes for Iowans
» DPP (Down Payment Plus)
» Live-Work Rock Island
First Home Program

- $2500 grant assistance for down payment or closing costs – This does not have to be repaid
- OR 2nd Mortgage program up to 5% of sale price or $5000, whichever is less- and repayable at time of sale or refinance (NO Monthly Payment Required)
- Income Limit $76,900 in Scott County for a household of 2
- Purchase price limit $283,000 In Iowa only
- Must be a first time home buyer or has not owned primary residence in last 3 years OR be a military member with discharge other than dishonorable and previously used a mortgage revenue bond program to finance a home before OR Purchase a home in a Targeted area
- Minimum credit score 640
- Debt to income ratio cannot exceed 45%
- Must complete online homebuying course
Homes for Iowans

- $2500 grant assistance for down payment or closing costs – This does not have to be repaid
- OR 2\textsuperscript{nd} Mortgage program up to 5% of sale price or $5000, whichever is less- and repayable at time of sale or refinance (NO Monthly Payment Required)
- Household Income Limit $133,980
- Available for first-time home buyers and repeat homebuyers who are purchasing a primary residence
- 640 minimum credit score
- Debt to income ratio limit 45%
DDP (Down Payment Plus)

- 5 year forgivable grant
- Recorded recapture agreement
- Can be used with Conventional loans serviced my IHMVCU
- Follows HUD Household Income Limits – Davenport, Moline, Rock Island $40,750 for family of 1 up to $76,800 for family of 8
- Minimum fund from borrower to participate- $1000
- Grant programs based on funds borrower is contributing towards purchase and cost to close.
- Borrower can receive up to $6000
- Grant funds calculated by multiplying borrowers funds by 3 (example – Borrower funds $1000 = Grant funds $3000, or Borrower funds $2000 = grants funds $6000)
- Requires online home buying course and one on one home buying course.
Live-Work Rock Island

- Employer assisted program assists eligible homebuyers who work for a member of the Development Association of Rock Island (DARI), with purchasing a home anywhere within the city limits of Rock Island.
- Up to 3% of the home’s price for downpayment assistance
- Up to $1,500 for closing costs
- Must work for a DARI member company
- Earn up to 120% of the Area Median Income (AMI)
- Must apply for and be approved through GROWTH’s Homebuyer Program
- Must contribute a minimum of $1,000 to the transaction
- Complete a Homebuyer Education Workshop Class offered by GROWTH
- Sign a 5-year recapture agreement
- Wait to make an offer on a home until you have been approved
- Visit [www.LiveRI.com](http://www.LiveRI.com) to apply
Thank you

Any questions?