



**Buying a Home**

# Welcome & Why We're Here

- To identify the steps necessary to achieve your goal of homeownership

# Benefits of Homeownership

- Builds wealth
- Tax savings
- Pride of ownership
- Security
- Equity
- Asset

# Responsibilities of Homeownership

- On-time mortgage payments
- Property taxes
- Insurance
- Repairs & maintenance
- Purchase own appliances & equipment
- HOA fees

# Home Purchase Costs

- Loan fees
- Credit report fee
- Appraisal fee
- Earnest money deposit
- Downpayment
- Closing costs
  - Supplemental insurance

# Home Purchase Costs

- PITI (principal, interest, taxes & insurance)
- Mortgage insurance (PMI)
- Moving-in expenses (utility deposit)
- Emergency/reserve funds

# Steps In the Homebuying Process

- Prepare for homeownership
- Determine how much you can afford to spend
- Get your loan pre-approved
- Decide what kind of home you want and need
- Shop for a home

# Steps continued

- Make an offer
- Get a professional home inspection
- Apply for a mortgage
- Buy insurance and get additional inspections
- Close the loan



# Assessing Your Financial Resources

- For your downpayment
  - IDA
  - HELP
  - Grant funds
- For your monthly payments
  - Second job
  - Reliable hobby income

# Downpayment Sources

- Savings
- Private gifts and loans
- Retirement account loan
- Second (piggyback) loan
- Private and gov't downpayment assistance programs

# FICO Score

- A numerical snapshot of the information in your credit report
- Used by most mortgage lenders to assess your creditworthiness
- Scale ranges from 300 to 850
- Lenders want to see a score of at least 620--the higher, the better!

# Improving Your FICO Score

- Maintain or improve payment habits
- Repay collection accounts and other outstanding debts
- Reduce total debt
- Avoid taking on new credit
- Keep revolving debt well under the credit limit
- Correct credit report errors

# Where can you get a loan?

- Mortgage company
- Commercial bank
- Credit union
- Mortgage broker
- Online financial companies
- Federal government loan programs
- Housing finance agency
- Nonprofit Organizations

# Loan Types

## Fixed-rate mortgage:

Interest rate stays the same for the life of the loan

## Adjustable-rate mortgage (ARM):

Interest rate adjusts periodically, so monthly payment is subject to change; typically offers a low starting rate for a specific period

# Compare Loan Features & Terms

- Interest rate (fixed-rate loan)
- Initial interest rate (ARM)
- Rate adjustment periods and rate caps (ARM)
- Repayment period (loan term)
- Pre-payment penalty
- Fees & APR
- Lock-in options & fees
- Approval process & schedule

# How much of a mortgage can you qualify for?

Depends on:

- Downpayment amount
- Loan-to-value ratio
- Debt-to-income ratio
- Housing cost-to-income ratio



# Loan-to-Value Ratio

Example:

- Lender is willing to lend up to 90% of the property value
- The property appraises for \$200,000
- You receive approval for a loan of \$180,000

$$(\$200,000 \times 0.90 = \$180,000)$$

# Debt-to-Income Ratio

- Total monthly debt payments compared to gross monthly income
- The lower your non-mortgage debt, the bigger the mortgage you can get
- Total housing expense (mortgage/PITI, plus PMI and HOA dues) to equal no more than 28% of gross income
- Total debt (mortgage, credit cards, car loans, etc.) to equal no more than 36% of gross income
- Some lenders allow a higher ratio

# Prequalification vs Pre-approval

- Pre-qualification:
  - An estimate of how much of a loan you might qualify for. It is not a firm commitment.
- Pre-approval:
  - A firm commitment from a lender for a specific loan amount. The approval can be valid for as little as 30 days and as much as 120 days or more.

# Contingencies

- Common contingencies include:
  - Financing: Loan funding
  - Appraisal
  - Insurance
  - Title (clear & marketable)
  - Inspections
    - Building/structural
    - Pest/termite
    - Well/water
    - Environmental hazards/lead paint
    - Soil
    - Flood

# Loan Application Checklist

- Identification
- Address history
- Proof of income
- List of assets
- List of liabilities
- Information about purchase
- A check to cover fees

# What to Expect from the Lender

- Commitment letter
- Good Faith Estimate
- Truth-in-Lending Statement

# Good Faith Estimate

- Within 3 days of application
- Discloses all loan costs
- States interest rate and points
- Lists closing & other fees
- Helps you compare loans
- Is only an estimate!

# Truth-in-Lending Statement

- States your APR (annual percentage rate)
- Lists finance charges, total payments, due dates and more
- Pre-payment penalty or not
- May give ARM details
- Is not a guarantee!



# Closing/Settlement






- One or two days before closing:
  - Do a final “walk-through”
  - Examine the HUD-1 Settlement Statement
- Day of closing:
  - Attend closing/settlement meeting
  - Review & sign all documents
  - Write a check for any outstanding costs

# Successful Homeownership

- Avoid risky loans
- Make mortgage payments on time
- Stay current on property taxes
- Maintain adequate insurance
- Keep the home in good shape
- Keep an emergency fund ready
- Avoid borrowing against your equity for consumer purchases
- Get help at the first sign of trouble



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