

# Buying a Home



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# Welcome



1. Agenda
2. Ground Rules
3. Introductions



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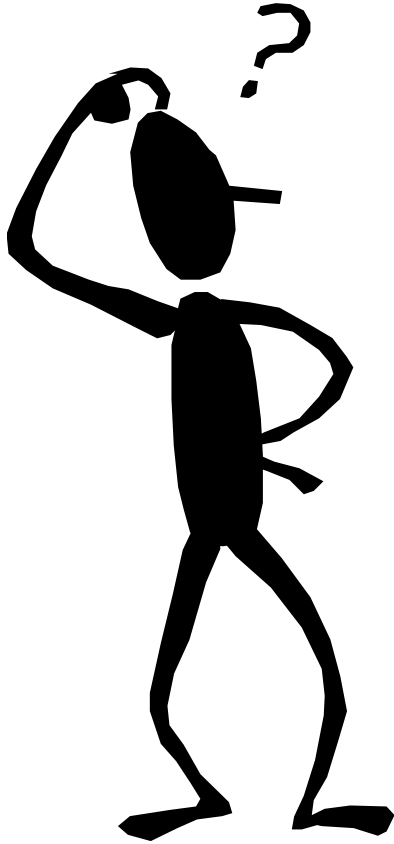
# Objectives

- **If you are a pre-homebuyer:**
  - Explain the advantages and disadvantages of renting versus owning a home
  - Determine your readiness to buy a home
  - Identify the steps required to buy a home
  - Describe different mortgage options
  - Explain how taxes and insurance affect a monthly payment and the amount of house you can buy



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# What Do You Know?



**What do you know or want to learn about buying or owning a home?**



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# Renting a Home

- **Advantages:**
  - No property maintenance
  - Rental contract 1 year or less
  - No homeowner associated costs
- **Disadvantages:**
  - You are not the owner
  - Your rent might increase
  - You might not be able to renew your contract



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# Owning a Home

- **Advantages:**
  - Building equity and borrowing against it
  - Good investment
  - Tax-deductible mortgage interest
  - Asset you can pass on to family members
- **Disadvantages:**
  - Property maintenance and upkeep
  - Not as easy to move as renting
  - Risk of losing your home



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# Five Steps to Buying a Home

1. Determine your readiness to buy a house
2. Determine how much mortgage you can afford
3. Determine which mortgage option is best for you
4. Qualify for a mortgage “loan”
5. Go through settlement “closing”



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# Step 1: Readiness to Buy A House

- **Do you have:**
  - A steady source of income?
  - Good credit history?
  - Ability to pay debts, mortgage, and other additional costs?
  - Plans to move within 2 to 3 years?
  - Money for a down payment and closing costs?



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# Down Payment and Other Expenses

- **Down payment:**
  - Typically 20% of the purchase price
  - Smaller down payment options may be available (e.g., 3% of purchase price)
- **Other expenses:**
  - Household emergencies, repairs, and other expenses
  - Private Mortgage Insurance (PMI)



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# Mortgage Payments

- Include principal and interest
- May include PMI, property taxes, and homeowners insurance
- Should be no more than 28% of your income



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# Other Questions to Ask Yourself

- **Where do you want to live?**
- **What kind of neighborhood do you want?**
- **If you have children, what types of schools should be in the neighborhood?**
- **How much space do you need?**



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# Homebuyer Assistance Programs

- **For programs in your area, check with:**
  - Your lender, real estate agent, or local government about homebuyer assistance programs
  - There are a number of different programs available to help first-time homebuyers.



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# Fair Housing Act

- Prohibits discrimination in housing-related transactions on the basis of:
  - Race
  - Color
  - Religion
  - Sex
  - National origin
  - Family status
  - Handicap status



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# Mortgage Terms

- **PITI:**

- Principal
- Interest
- Taxes
- Insurance



- **PMI (Private Mortgage Insurance)**



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# Four Cs of Loan Decision Making

Four factors lenders use to qualify you for a loan:

Capacity

Capital

Character

Collateral



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# Step 2: Determine How Much Mortgage Can You Afford

- Pre-qualification

- Lets you know how much mortgage you can afford

- Pre-approval

- Commitment from the lender to lend you money



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# Step 3: Which Mortgage Option Is Best for You

- **Mortgage Types:**
  - Fixed-rate mortgage
  - Adjustable-rate mortgage
- **Mortgage Terms:**
  - 15-year mortgage
  - 30-year mortgage



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# Mortgage Type

## Fixed-Rate Mortgage

- Interest rate cannot increase
- Payments are predictable
- Interest rates could go below your set rate

## Adjustable-Rate Mortgage

- Interest rate can increase or decrease
- Rates may be low for only an initial period
- Monthly payments may initially be lower than fixed-rate loans, but can increase significantly



# Mortgage Terms

## 15-Year Mortgage

- Borrow less money because of larger monthly payments
- Build equity faster
- Less interest to pay
- Lower interest rate

## 30-Year Mortgage

- Borrow more money because of lower monthly payments
- Build equity more slowly
- Can deduct more interest from income tax
- Higher interest rate



# Step 4: Qualify For a Loan

- Obtain pre-qualification and pre-approval
- Include homeowner's association dues when calculating your housing expenses



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# Step 5: Go Through Settlement

- **Settlement (also called closing)**
  - Sign documents to finalize the sale of the house and any mortgage financing.
  - Right to review the settlement statement at least three business days before closing.



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# Having Trouble Making Payments?

- **Contact your lender immediately**
- **Get help from a trained reputable housing counselor at no charge or for a small fee**



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# Conclusion



- **You learned about:**
  - Renting versus owning your home
  - The steps required to buy a home
  - Questions to determine if you are ready to buy a home
  - The components of a mortgage
  - Different mortgage options for buying a home



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