

SESSION AGENDA

“More Than Just A Mortgage”

Session Agenda

Homeownership Overview

- **Overview of steps in buying and closing a home**
 - Preparing for home ownership, Deciding what is affordable, Obtaining pre-approval or pre-qualification for a loan, Shopping for a home, Negotiating for a home & preparing a purchase agreement, Shopping for financing, Applying for a mortgage loan (work w/ people you are comfortable with), Getting a professional home inspection, title search, title insurance, survey, Shopping for & purchasing homeowner’s insurance, Closing, Moving into the home, Maintaining home ownership obligations
- **Renting versus Owning**
 - **Advantages**
 - Personal control over property, Equity, Meeting individual & household needs, Tax deductions, Hedge against inflation, Freedom to renovate, Sense of community
 - **Disadvantages**
 - Responsibility, High initial cost, Long – term costs, Commitment to location, Variable costs of taxes & insurance, Decrease in property values, Mortgage default may result in foreclosure, Fewer amenities
- **Who’s Who in the home buying process**
 - Homeowner Educators or Housing Counselors, Budgeting & Credit Counselors, Mortgage Brokers, Real Estate Agents, Appraisers, Inspectors, Surveyors, Insurance Agents, Closing Attorneys

Budgeting & Credit Counseling

- **Budgeting**
 - Analyzing Your Current Expenses

- Analyzing Budget Needs for Post-Closing
 - o New Expenses
 - § Home Care
 - § Yard Care
 - § Additional Utilities
 - § Repairs/Replacements
 - Exterior Deck Stain – 2 years, Sump Pump – 5 years, Exterior Siding (unless vinyl or aluminum) & Trim Paint – 5 to 10 years, Interior Paint – 5 to 10 years, Laundry & Kitchen Appliances – 10 to 15 years, Hot Water Heater – 10 to 15 years, Air Conditioner – 10 to 15 years, Furnace or Boiler – 15 to 25 years, Shingled Roof – 15 to 25 years

- Costs involved in purchasing a home (general)
 - o Up-front costs (down payment, closing, moving)
 - o On-going costs (monthly payments, taxes, insurance, maintenance)

- Developing a Savings Plan
 - o Having a savings plan is important (Hand out “Unexpected Expenses” sheet)
 - o How much should homeowners save?
 - § At a minimum, homeowners or renters for that matter should start by saving an amount equal to one month’s mortgage or rent payment. Each month, add at least 1% of the payment amount to your savings account.
 - o Starting a savings plan on a tight budget
 - § Temporary extra job, Unexpected overtime, Tax refunds

· **Credit**

- Understanding the credit report (**Pass out a sample credit report**)

- o How to read the credit report, Establishing and maintaining good credit, Identify credit difficulties, Correcting credit problems, Understanding the credit score
- o Data included in a credit score
 - § Past payment behavior, Level of indebtedness, Length of credit history, Pursuit of new credit (inquiries), Types of credit available
- o Types of scoring
 - § Trans Union: Empirica Score, Equifax: Beacon Score, Experian: Experian/FICO Score (Fair, Isaac, & Company, Inc.)
- Establishing and maintaining good credit
 - o Timeliness of payments, Appropriate use of credit, Lines of credit used, Impact on credit when you co-sign
- **Foreclosure & Avoiding It**
- Prioritizing Debts During A Crisis (Handouts)
 - o Household Necessities, Housing-Related Bills, Utility Service, Car Loans, Child Support Debts, Income Tax, Student Loans, Loans without Collateral

**It is very, very important to keep in touch with your mortgage lender AS SOON AS a crisis begins!!!*

**Another word from the wise...Pay just one extra mortgage payment per year to reduce your mortgage by 7 years!!! Huge reduction!*

Homeowner's Insurance

- Liability Protection
 - § This coverage provides payment for certain accidental bodily injury or property damage you or a relative who lives with you may be legally responsible for – like someone is accidentally injured on your premises or you accidentally injure someone while playing golf.
- Casualty or Property Protection
 - § This coverage protects things in your home like furniture, electronic equipment, clothes and most of your personal belongings. It also provides some protection for your personal property while away from home – like the things you take with you on vacation.

- Deductibles
- Perils
 - § Basic Form (HO-1)
 - § Broad Form (HO-2)
 - § Special Form (HO-3)
 - § Comprehensive Form (HO-5)
 - Endorsements (also called riders or attachments)
 - Property's replacement value
 - o Depreciation
 - Flood Insurance
 - Inflation coverage

Working With A Real Estate Professional

- **Evaluating the need for a real estate professional**
 - Is time available during the purchase process for a real estate agent to perform the services a professional would provide? Does the agent have the necessary skills? Does the agent have access to the information I need and to the real estate network? (MLS) Am I under pressure to complete the home purchase, and could the assistance of real estate professionals make this process easier? Can I meet the requirements of the lender, the insurer, or other agencies and entities I will need to work with in order to complete the purchase?
- **Selecting the real estate professional**
 - What will be included in the service? What will the service cost?
Who is expected to pay for the service? When will the service begin and how long will it last? Is the service really needed or beneficial? How will the involved professionals providing services work together?
- **Real Estate Licensees**
 - Credentials – REALTOR®, Salesman, Broker, GRI, ABR, CRS, CRB, etc.
 - Services

- o Review your general financial status to determine an approximate range of housing prices
- o Review your list of requirements and preferences for a home in order to select potential housing properties
- o Make arrangements to show houses that meet your particular needs
- o Provide information about properties of interest, including information about neighborhoods, schools, property taxes, and public services, as well as specific information about a particular house
- o Cooperate with other real estate licensees
- o Provide information about mortgage lenders, as well as other real estate professionals and services, and available grants
- o Help coordinate the various activities of the real estate transaction, including property transactions and the closing

· **Relationships in the Real Estate Transaction**

- Buyer's Agent, Seller's Agent, Dual Agency
- Single Agency, Exclusive Agency, Designated Agency, Disclosed Dual Agency,

· **Finding & Choosing a Real Estate Professional**

- Ask for references from people who have recently purchased a home
- Visit "open houses" held by various real estate brokerage firms
- Interview several real estate professionals familiar with the community
- Evaluate the professional's training and experience
- Contact the Better Business Bureau or N.C. Real Estate Commission (919-875-3700) to determine if there have been complaints or charges against the real estate brokerage firm and/or real estate licensee. If so, find out how it was handled.

· **Preparing to shop for a home**

- Interior of the home, Exterior of the home, Neighborhood, Quality of life features, Economic priorities

- **On-Site Evaluation of the Home**
 - The Neighborhood & Community
 - o Zoning, Covenants, Amenities, Character, Future of the community
 - The Lot & Physical Location
 - o Siting, Lot, Location within the neighborhood, Exterior appearance, Restrictions
 - The Floor Plan & Layout
 - o Zoning of plan, Traffic patterns, Social spaces, Sleeping areas, Bathrooms, Kitchens, Other areas, Utility & storage, Safety & convenience, Miscellaneous
- **Evaluation of the Home in the Community**
 - Property records, Community plans, Zoning, Criminal activity
- **Evaluating the Price of the Home**
 - Asking or Listing Price, Market or Sale Price, Market Value or Appraised Price, Assessed Value, Comparative Market Analysis (CMA)
- **Contingencies**
 - Radon testing, Lead Paint Disclosure & testing, Asbestos, Water Supply, Private Sewage System
- **The Purchase Offer** (Pass out Offer To Purchase and Contract)
 - Property Description, Price, Fixture & Non-Fixture Properties, Timing (Home Inspections, Payment, Earnest Money Deposit, House Sale Contingency

The Home Inspection / Maintenance

- **Inspections**
 - What is a home inspection and why do I need one?
 - What is the average cost of a home inspection?
 - What is covered by the home inspection?

- Driveways, sidewalks, patios, porches, decks, chimneys, exterior wall cladding, exterior trim, roofs, gutters and downspouts, exterior & interior doors, windows, doorbells, electrical switches, outlets & wiring, electrical panels, garage, kitchen range, exhaust fans, disposal, water heater, fireplaces, stairways, bathrooms, kitchen sink, cabinets, smoke detectors, plumbing, heating, central cooling, ceiling fans, attic, crawlspace, washer & dryer hook up, hardwood floors, the home's foundation, interior walls
- Additional services that could be available with the same inspector for additional money may include: (please ask your inspector for a referral to a specialist if needed)
 - Radon Testing, Lead Testing, Asbestos, Well & Septic, Termite & Pest Control, Major and/or minor repair, Helical Pier Inspector (Specialists)
- Questions you should ask before hiring an inspector:
 - How long have you been in business?, How many inspections have you performed?, What is your North Carolina Home Inspector License number? What is your fee? How soon can I use your services?

§ **Maintenance**

- Locating important control switches & valves to electricity, water, & gas
- Develop a maintenance & inspection schedule annually
 - o Roof, Chimneys, Gutters, Siding, Foundation, Interior walls & ceilings, Tub & shower areas, Doors & windows, Heating equipment, Plumbing fixtures, Safety equipment, Basement or crawl space, Lead-based paint

The Closing Process

· **Preparing for the closing**

§ Scheduling the closing

§ Before the day of closing

- Title Search

- Homeowner or Hazard Insurance, All repairs or corrections to the inspection report have been complete, Buyer has complied w/ terms specified in the lender's commitment letter, Buyer has received

a preliminary settlement statement, Buyer knows when the seller is moving out, It has been determined how the deed will be held:

- o Sole Ownership
- o Tenancy In Entirety
- o Tenancy In Common
- o Joint Tenancy (With Rights of Survivorship)

§ The Final Walk-Through

§ Preparing to move

§ The day of closing

· **Documents at the Closing** (Pass out sample Truth-In-Lending & Closing Statements)

§ Truth-In-Lending Statement, HUD-1 Settlement Statement, Mortgage Note or Promissory Note, Deed of Trust (N.C. does not use a “Mortgage”), Affidavits, The Deed (Warranty Deed & Quitclaim Deed), Title Insurance, Abstract of Title or Preliminary Report, Survey of the Property

· **Closing Costs**

§ Loan origination fee, Points, Credit report, Appraisal fee, Private Mortgage Insurance (PMI) or Mortgage Insurance Premium (MIP), First year’s premium for homeowner’s or hazard insurance, Assumption fee to an assumable mortgage if applicable, Commitment letter, Interim interest, Title search fee, Recording fees, Stamp tax, Home Inspection fee if not paid already, Property taxes

***Closing costs are negotiable!**

Predatory Lending & Fair Housing

- Show videotape of predatory lending practices
- Fair Housing (FRESH CORN) – don’t worry about “e” or “o”
- Familial Status
 - **BE SUSPICIOUS** if you hear:

§ “This building is for adults only.” “We take younger children, but teenagers will disturb the other tenants.” “Sure, we rent to families with kids, but we’ll need an extra security deposit.” “Only 3 people are allowed in a 2 bedroom apartment.” “Children are only allowed in the basement and first floor units.” “Our ‘kids’ building is full.” “This complex isn’t suitable for children – no playground.” “Sorry, a parent and child cannot share a bedroom.”

- Race

- **BE SUSPICIOUS** if you hear:

- § When you are renting...

- “I rented that apartment right after you called.” “I’ll show the apartment after I see your green card.”

- § When you are buying:

- “Do you think you can afford this neighborhood?” “We just can’t make an appointment to show you that house.” “I can’t show you any houses until I see all your financial information.” “The owner *just* took the house off the market.”

- When you are seeking financing:

- “There’s a problem with the appraisal.” “We have a minimum mortgage amount; we don’t make loans under \$30,000.” “We’d like to make this loan, but we need at least a 20% down payment.” “You haven’t been at your job long enough to qualify for a mortgage loan.” “You might get a better deal at another bank. Why don’t you call there first before you apply here?”

- Sex

- It is against the law for a landlord to ask for or require sexual favors in exchange for the rental of an apartment, lease renewal, repairs, or any other condition or privilege of renting.

- Handicap

- **BE SUSPICIOUS** if you hear:

§ “I don’t really want all those changes – a ramp, grab bars; that’s too much.” “We can’t have mentally retarded people living here. Who will take care of them? It will make the neighbors uncomfortable.” “How can I be sure you can pay the rent?” “I’d like to rent to you, but my insurance will go up.” “We have a no-pets policy.” “I want to see your medical records.” “Your wheelchair will damage the carpet and if there’s a fire you won’t be able to get out.”

- Color
 - See Race.
- Religion
 - It is illegal to question or refuse to rent or sale to a person because of their religion or religious preference.
- National Origin
 - See Race.

Financing A Home / Working with a Mortgage Broker

- **Intro. To Financing A Home**
 - Lenders use “underwriting guidelines”
 - Value & quality of the property (collateral)
 - § Property appraisal determines value
 - Ability to repay the loan
 - Willingness to repay the loan
 - § Credit report
 - § “Compensating Factors”
- **Who’s Who in the Home Financing Process (“Providers”)**
 - Primary Lender (Mortgagee), Loan Servicer, Mortgage Insurer, HUD (U.S. Department of Housing & Urban Development), USDA (U.S. Department of Agriculture) Rural Development, VA (Veterans Administration), North Carolina Housing Finance Agency, Greensboro Housing Counseling Services

(GAHLI Program-City of Greensboro), Secondary Mortgage Market & Mortgage Investors (Fanny Mae & Freddie Mac)

Lender Language

Basic Loan Terminology

- Mortgage, Mortgage Note, Mortgagee (Lender), Mortgagor (Borrower), Deed of Trust, Principal, Interest, Amortization, Equity & Appreciation, PITI & Escrow, Default & Delinquency, Foreclosure, Judicial Foreclosure, Non-Judicial Foreclosure

Mortgage Loan Components

What's in a mortgage payment?

- PITI – principal, interest, taxes, insurance

Forms of interest

- Interest Rate (Fixed Rate, Adjustable Rate Mortgage (ARM), Annual Percentage Rate (APR)), Points, Terms, Down Payment & Loan-To-Value Ratio (LTV), Mortgage Insurance & Guaranteed Loans, Mortgage Life Insurance, Qualifying Ratios

Menu of Mortgages

Conventional, “Affordable Home Ownership” Loan Programs, FHA (Federal Housing Administration), Housing Finance Authority (HFA) Bond Issues, VA (Veterans Administration), USDA Rural Development Housing Service, Fixed Rate Mortgage (FRM), Adjustable Rate Mortgage (ARM), Two-Step Mortgage, Convertible Mortgage, Jumbo Mortgage Loan, “Sub-Prime” or Non-Conforming Mortgage Loan, Purchase-Rehabilitation or Home Improvement Mortgage, Energy-Efficient Mortgage, Growing Equity Mortgage (Rapid Payoff Mortgage), Graduated Payment Mortgage (Start-Up Mortgage), Assumable Mortgage, Balloon Loan, Contract for Deed, Land Contract, or Seller Take-Back, Wraparound, Land Trust Mortgage, Subsidized Mortgage (sometimes called “Silent Second Mortgage”, Buy-Down Mortgage, Lease-Purchase or Rent with Option to Buy, Manufactured Housing Mortgage, Reverse Mortgage, Construction Loan

Questions to Ask about All Types of Mortgages

What are the qualifying guidelines – including ratios, restrictions, requirements, & allowable compensating factors – for this type of loan? What are the loan's interest rate & discount point options? What is the

Annual Percentage Rate (APR) for this loan? (What are ALL the costs?)
What is the required down payment or LTV (Loan-To-Value) for this loan?
What does mortgage insurance for the loan cost? What are ALL the
estimated closing costs associated with this loan? Will the lender lock in the
interest rate for the loan? What is the loan application fee, and is it
refundable? Is there a late payment charge for this loan?

- **Questions to Ask about Adjustable Rate Mortgages (ARM)**

- Is the initial interest rate of the loan discounted (below the ARM's formula rate) and, if so, when and how will the interest rate change? How often can the interest rate & payment amount for the loan change? What adjustment index is used to adjust the rates for this loan? What is the index margin for this loan? What are the periodic & overall rate caps for this loan? Is the loan convertible to a fixed rate mortgage? Is negative amortization possible?

- **Qualifying for a Mortgage**

- **Borrower Qualifications (Pass out Annual Income / Interest Rate Grid and Interest Rate / Loan Amount Grid)**

- Capacity (Income)
 - § Gross Monthly Income, Bonuses, Stable Income
- Capital (Cash Reserves)
 - § History of savings, Gifts, Assets
- Credit (Credit Usage & Payment History)
 - § Credit Report
- Collateral (Appraised Value of Proposed Property)

- **Mortgage Qualifying Process**

- Qualifying Ratios for Loans
 - § Front-end ratio
 - § Back-end ratio
- Credit Scoring (discussed in Budgeting & Credit Counseling)
- Automated Underwriting

§ Fast computer-based method

· **The Approval Process**

- Underwriting, Credit Check, Housing Documentation, Appraisal of the Property, Income & Employment Verifications, Verification of Assets
- Federal Laws Protecting the Applicant During Loan Processing
 - § The Equal Credit Opportunity Act, The Fair Housing Act, Fair Credit Reporting Act
- The Commitment Letter
 - § Terms of the loan
 - § Conditions to be met before closing
 - Evidence of Insurance, Termite Inspection, Final Inspection, Title Search, Payment of Closing Costs, Others

· **Possible Reasons for Rejection of Loan**

- Poor Credit History, Low Appraisal, Not Enough Income or Assets, Too Much Debt or Not Enough Money for Down Payment and/or Closing Costs, Other: The Equal Credit Opportunity Act requires the lender to send the buyer a written explanation of the loan rejection within **30 days** of a request.

(Pass out Good Faith Estimate of Settlement Costs)

***Excerpt from WFMY News 2 Wants To Know investigates a Greensboro mortgage broker

11/2001: *“You should educate yourself on what to expect and on what a broker should do. A broker should give you a disclosure statement with the percentage rate. That’s required by law. A broker should also give you a good faith estimate of all the closing costs. And a broker should not ask you to pay more than an appraisal fee up front. Most of the other costs will be paid at the closing. If you don’t get the good faith estimate or the disclosure statement or you’re asked to pay a lot up front – those are good tip-offs that you might want to get a different broker.”*