Project Pro$per Inc.

Presents

Home Buying 101

The buying process, The real cost, Loan options

Participant Guide

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Based on Wells Fargo’s Hands on Banking ®

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www.handsonbanking.org & www.elfuturoentusmanos.org
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For more information about our small No-interest loan program for immigrants and refugees you can reach us at:

www.projectprosper.org

727-538-4179

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Join Our Facebook Group- Project Prosper: Money Talks
I. ARE YOU READY TO BUY A HOME?
Buying a home is one of the largest purchases you'll ever make. Many people believe that owning a home is an essential part to living the American Dream. Homeownership offers lots of financial benefits as well as financial risks. Before you start the process of buying a home, it is highly recommended that you think about whether owning a home is right for you and what it will really take to buy and maintain a home.

*Together, let's list the top 5 reasons people want to buy, or do not want to buy homes.

<table>
<thead>
<tr>
<th>Top 5 Reasons to Buy a Home</th>
<th>Top 5 Reasons to NOT Buy a Home</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1.</td>
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<tr>
<td>2.</td>
<td>2.</td>
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<tr>
<td>3.</td>
<td>3.</td>
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<tr>
<td>4.</td>
<td>4.</td>
</tr>
<tr>
<td>5.</td>
<td>5.</td>
</tr>
</tbody>
</table>

A. Benefits of Homeownership

1. A place of your own -
   - Owning a home is an opportunity to settle down and gain a sense of belonging in a community. It can provide a sense of personal satisfaction to have a home of your own to share and enjoy with family and friends.

2. Investment in your future-
   - The value of your home can increase over time.
   - As you pay down your mortgage over the years, you can build **Home Equity**.
   - **Home Equity** is the current market value of a home minus the outstanding mortgage loan balance. Home equity is the amount of ownership that has been built up by the homeowner through monthly payments and appreciation.
3. A financial stepping stone-

- Responsibly paying your mortgage each month will help to strengthen and increase your credit rating and financial options.

B. Realities of Homeownership

1. Ongoing costs-

- Homeownership is a large, long-term financial responsibility.
- You are making a commitment to a mortgage, taxes, insurance, utilities, and maintenance of your home.

2. Upkeep of the home-

- Homeowners are responsible for all home repairs and maintenance costs (i.e. roof, air conditioner, appliances, paint, and yard upkeep).
- You are also responsible for paying property taxes and home owners insurance. Both of which can increase over time.

3. Harder to Move-

- If you think you might need to move in the near future, you will have to sell your home or find good renters. This can take some time and a lot of effort.
- If you move and your house doesn't sell right away, you will have to pay for your current home, and the cost of living at your new residence.

4. Increased value NOT guaranteed-

- While most homes can increase in value over time, it is possible that your home could lose some of its value.
- You could lose money if you sell your home for less than what you paid.
- The home values in your area may increase, but if you do not keep your property well maintained, your home may decrease in value.
C. Renting vs. Owning
There are two main housing options; you can either rent or buy. Depending on your budget and lifestyle, both options have benefits. Let's take a look.

<table>
<thead>
<tr>
<th>Renting</th>
<th>vs.</th>
<th>Owning</th>
</tr>
</thead>
<tbody>
<tr>
<td>You pay less up front. Most landlords require first and last month's rent, as well as a security deposit. This is still less than what you'd likely pay for a down payment.</td>
<td>![Money Icon]</td>
<td>Most mortgages require a down payment, and the more money you put down towards the price of the home, the better. You may also need to pay closing costs.</td>
</tr>
<tr>
<td>You may not be able to update or personalize your living space. However, repairs, if needed, generally cost less. Typically, your landlord is responsible for fixing things like leaky faucets or A.C. repair.</td>
<td>![House Icon]</td>
<td>You can usually customize or update your home with renovations. Some renovations can add value to your home. However, repairs and maintenance are your responsibility.</td>
</tr>
<tr>
<td>Your rent may increase in the future. The standard increase can be 3% each year. This solely depends on your landlord or property management company.</td>
<td>![Money Icon]</td>
<td>Depending on the type of mortgage rate you choose, your monthly costs might not increase. However, home values can rise and fall overtime.</td>
</tr>
<tr>
<td>Relocating can be easier; if you think you might move cities or change jobs in the near future, you have less responsibility leaving a rental property.</td>
<td>![Truck Icon]</td>
<td>Less flexibility when it comes to moving. However, by remaining in your home for a few years, you may be able to build equity which can increase your personal wealth.</td>
</tr>
</tbody>
</table>

D. Upfront Costs of Homeownership
It is important to understand that the cost of a home is more than the just purchase price. For many aspiring homebuyers, saving enough money to cover the initial expenses can be difficult. Even with the help of first time home buyer programs, a buyer will still need a sizeable savings for upfront costs.
E. Fill in the blanks Activity: Fees and Costs Associated With Buying A Home

Using the word bank below, match the terminology with the definitions.

*Insurance    *Down Payment    *Closing Costs    *Property Taxes    *Earnest Money Deposit    *Home Inspection

1. ____________  ____________ - Most lenders require buyers to pay a percentage of the purchase price upfront to the seller. This upfront cost helps to reduce the amount of the mortgage loan, and proves to the lender that you have a good savings habit.

   The percentages can range from 0%-20%. If you are able to pay more than 20% you can do so, however, If you pay less than 20%, you may be required to pay for Private Mortgage Insurance (PMI). This is an additional cost each month added to your mortgage payment.

2. ______________  ______________ - This cost is paid at least once a year to one or more governmental authorities. The amount is based on the market value of your property as determined by the county where the property is located. Usually a buyer will pay 6 months of advanced payment due at the time of your closing.

3. ______________ - This cost protects you against financial losses on your property as a result of fire, wind, natural disaster or other hazards. Most lenders require that you pay a year in advance at the time of closing.

4. ______________  ______________  ______________ - This is a deposit made by the buyer, and held in a Escrow to demonstrate the sincerity of buying the property. The EMD can be anywhere from $500-$5000. This is also known as the good faith deposit. These funds, are agreed upon in the contract and will be counted toward your down payment at closing.

5. ______________  ______________ - Costs normally paid by the buyer in addition to the purchase price of a home. These costs are usually between 3%-5% of your total mortgage. These costs can include:

   - Appraisal Fees
   - Credit Report Fees
   - Title Insurance
   - Survey Fees
   - Property Taxes
   - Home Owners Insurance

6. ______________  ______________ - This is a highly recommended service before you buy a house. This upfront cost often saves you money in the long run. It provides you a report that lists all of the major defects of the house that will cost the buyer a lot of money above the purchase price to repair.
F. Are you ready?
Complete this exercise at home.

<table>
<thead>
<tr>
<th>✓ Yes</th>
<th>✓ No</th>
<th>Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>I have a steady, reliable source of income.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I've been continuously employed for at least two years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I make regular, on time payments on my debts (credit cards, bills)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I can afford to pay my current debts plus a mortgage. (In general a mortgage cost should not exceed 28% of your gross income.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I have some money saved for the purpose of buying a home.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I've recently reviewed my credit report; I know my current credit score.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I've researched how much my other expenses are likely to be-such as homeowners insurance, taxes, association dues, utilities, repairs and maintenance-and feel confident that I can pay them.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>I have time to take care of a home—including responsibilities like home repairs and yard work.</td>
</tr>
</tbody>
</table>

II. BEFORE YOU SHOP

A. Create a savings strategy - Plan ahead for the whole year and review your progress once a month to see how well you’re doing.

B. Keep good records- Track what you spend as this will help you stick to your financial strategy. If you own your own business, you will need to provide your lender a list of your monthly expenses, and will probably have to provide copies of your recent tax returns.

C. Determine must have features- Decide what you need in a home. Consider square footage, number of bedrooms and bathrooms. Do you need a garage or fenced yard and in what neighborhood would you like to live.

D. Attend a first time home buyer course- This course teaches you all about the process of buying a home. The course can be taken in person and online. It is an 8 hour class. If you want to take advantage of a down payment assistance program, you will need to submit a certificate that proves you attended a FTHB class. This certificate is usually presented to class attendees at the end of class.

Updated 8/2017
III. PEOPLE TO HELP YOU BUY A HOME

When it's time for you to buy a home, you do not have to do it alone. There are professionals in the real estate business to help you on this journey. At some point you will probably need their services. These are the people YOU hire. Again, we strongly suggest that you attend a first time homebuyer class. These classes offer the best tips on hiring the best professional for your search.

<table>
<thead>
<tr>
<th>Title</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Lender</td>
<td>A financial institution that makes loans directly to you for the purpose of buying a home. This should be your first step towards purchasing your home. Receiving a preapproval from a mortgage lender.</td>
</tr>
<tr>
<td>Real Estate Agent</td>
<td>A state licensed professional who represents a buyer or a seller in a real estate transaction in exchange for commission that is paid by the seller.</td>
</tr>
<tr>
<td>Home Inspector</td>
<td>A licensed professional you hire to perform an inspection on the property you plan to purchase.</td>
</tr>
<tr>
<td>Insurance Agent</td>
<td>A professional who works for an insurance agency. They will help to guide you to purchase the best insurance coverage for your new home.</td>
</tr>
</tbody>
</table>

*Step One- Mortgage Lender*

*Step Four- Insurance Agent*

*Step Two- Real Estate Agent*

*Step Three- Home Inspector*
IV. HOW MUCH HOME CAN I AFFORD?

When considering our needs and wants of a home, we often dream bigger than our wallets can afford. To help you learn the truth of what you can afford, mortgage lenders provide you with a Preapproval Letter that confirms the maximum mortgage loan amount they are willing to give you and, therefore, the maximum home purchase price you can afford.

A. What is a Preapproval letter?

This is a letter from a lending institution, of your choosing, who has investigated your income, credit and employment history and determined that you would be a eligible for a mortgage. This letter also provides how much money you have been preapproved to borrow. By obtaining this letter first, you are proving to both real estate agents and sellers that you are serious in the pursuit of buying a property.

B. What documentation do I provide for a preapproval?

- Proof of Income-
  -W-2 statements (past two years)
  -Tax returns (past two years)
  -Pay stubs
  -Proof of additional income like alimony or bonuses
- Employment Verification- The lender will contact your employer and may request documentation of your employment history.
- Good Credit Report/Score Rating
- Proof of Assets- Bank account statements, proof of down payment and closing costs.

C. Does a preapproval letter expire?

In general, a preapproval letter is good for 60-90 days. This all depends on your lender. If your letter is expired or close to expiration, you will need to re-verify some of the documents.
A Preapproval Letter Example:

June 15, 2011

To: Clovis Real Estate

RE: Pre Approval for Carl and Linda Smith

This letter will serve as acknowledgement that a mortgage loan application has been received from the above-named borrowers.

Based on the information provided, we have a loan that currently conforms to our underwriting guidelines as stated below:

| LOAN AMOUNT: | $340,152 |
| DOWN PAYMENT: | $12,215 |
| SALES PRICE: | $349,000 |
| **LOAN TYPE:** | **FHA 96.5% LTV** |

The loan approval is contingent upon preliminary title report and satisfactory property appraisal.

This letter should not be construed as a formal loan approval; nor does this letter acknowledge a commitment to lend by imortgage, but rather the intent of this communication is to advise of our client’s application status and to verify that we have received a completed mortgage loan application verifying income, assets and credit. A DU Approval has been run and approved.

Please do not hesitate to call if you have any questions regarding this transaction or any of our other loan programs.

Sincerely,

Kathy Tuck  
NMLS ID 259755  
imortgage  
(559) 256-9826 direct  
(559) 284-4020 Cell

D. Loan to Value

In this preapproval letter you see that the LTV (Loan to Value) is 96.5%. This means that the mortgage lender will only provide 96.5% of the sales price of the house. The buyer will need to supply the additional 3.5% in the form of a down payment.
V. KNOW YOUR LOAN OPTIONS
All mortgages are not the same, you have options. Here are the most common types and terms.

A. Mortgage Types

<table>
<thead>
<tr>
<th>Mortgage Types</th>
<th>Description</th>
</tr>
</thead>
</table>
| FHA Loans               | FHA loans are available to all types of borrowers, not just first-time buyers. The government insures the lender against losses that might result from borrower default.  
  **Advantage**: This program allows you to make a down payment as low as 3.5% of the purchase price.  
  **Disadvantage**: You'll have to pay for mortgage insurance, which will increase the size of your monthly payments. |
| Conventional Loans      | This loan is not insured or guaranteed by the federal government in any way.  
  **Advantage**: These loans are made in the private sector, without and thus may have more flexible terms and underwriting standards.  
  **Disadvantage**: You'll have a higher down payment percentage to pay, 10%-20%. |

B. Loan Terms

<table>
<thead>
<tr>
<th>Loan Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Year Loan Term</td>
<td>This loan term gives you 180 months to repay your loan. This shorter term requires higher monthly mortgage payments, however, the mortgage will be repaid sooner.</td>
</tr>
<tr>
<td>30 year Loan Term</td>
<td>This loan term gives you 360 months to repay your loan. This can afford buyers a lower monthly mortgage payment.</td>
</tr>
</tbody>
</table>

C. Interest Rate Types

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Interest Rate</td>
<td>The interest rate will not change for term of the loan.</td>
</tr>
<tr>
<td>Adjustable Interest Rate (ARM)</td>
<td>This interest rate will be adjusted at specified intervals based on an index. If the index rate goes down, your monthly payment can go down, but if the index rate goes up, your monthly payment will go up and could even double!</td>
</tr>
</tbody>
</table>
VI. YOU'VE FOUND THE HOME YOU WANT...NOW WHAT?

Congratulations, you've found a home you love! Now the real work begins. Here are the steps to finalizing your dream of a new home.

1. Make an offer-

If the home is listed at $150,000, this is known as the asking price. You can offer more or less than the asking price. Your real estate agent should provide you with comparables of recently sold properties in the area that are similar to your property. This helps to guide you in offering the best price for the home.

**Counter offer** - The seller may not accept your offer right away. They may counter offer where they give you a price they are willing to accept. For example, the asking price is $150,000. You offer $142,000. The seller counter offers at $147,000. If that price works for you and is within your preapproval budget, then you can accept or submit another counter offer. Also at this time, you can request the seller pay for part or all of the closing costs as you counter offer.

Remember, someone else may also love this home, and they too can make an offer. The seller will accept the best offer.

2. Go into contract-

The seller accepted your offer! Now is the time for you to complete a purchase contract with your real estate agent. This is where you negotiate for home warranty, inspection and appraisal contingencies. A contingency can state that if the home inspection report identifies needed repairs, or the home does not appraise for at least the purchase price, then you can WALK AWAY from the deal, cancel the contract.

3. Have a home inspection-

This is an examination of the property's condition. A qualified home inspector can assess the condition of a property's roof, foundation, heating and cooling systems, plumbing, electrical work, water and sewage, and some fire and safety issues. In addition, the home inspector will look for evidence of insect, water or fire damage or any other issue that may affect the value of the property.

**Re-inspection** - If the seller agrees to fix issues identified on the report, you can request a re-inspection, at your cost. If you use the same home inspector they usually have a lower fee for re-inspection.
4. Get an appraisal

Your lender will have the home appraised to determine its fair market value. This is to confirm that the home is worth as much (or more) than your purchase price, so that the lender's loan to value (LTV) requirement is satisfied.

<table>
<thead>
<tr>
<th>Home Appraisal Example</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>$150,000</td>
</tr>
<tr>
<td>Appraisal</td>
<td>$145,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

**Home Appraisal Example**

You can either walk away, bring the additional $5000 to closing, or renegotiate the price with the seller.

5. Final loan approval-

Now the bank will finalize your loan paperwork. During this time, expect your lender to request additional information and paperwork. After this step you will receive official notification from your lender that your home loan has been approved, including a confirmation of the amount loaned.

6. Finalize the sale

This is also known as closing. At closing, ownership of the property is transferred from the seller to you. You will also sign document giving your lender a mortgage on your new home. You’ll meet formally with a closing agent, a professional who prepares the official documents related to the sale. At the end of this step you are officially a home owner.

VII. NOW YOU ARE A HOME OWNER

Congratulations! However the work doesn't stop there. Here are some important tips to remember while you celebrate your new home.

| Pay your mortgage | • Be sure to make your payments ON TIME. If you don't, you could damage your credit or lose your home.  
|                   | • Sign up for automatic mortgage payments to ensure that your mortgage is paid on time. |
| Manage your money | • Stick to your BUDGET so you don't overspend, and establish a monthly pay schedule so that no bills are overlooked. |
| Postpone new debt | • Avoid opening new credit accounts. 1st make sure that you can handle your new monthly housing expenses like utilities, and maintenance. |
| Maintain your property | • Regular maintenance, inside and out, may help you avoid expensive repairs. |
| Keep on Saving | • To help protect you from losing your home should unexpected emergencies occur like temporary job loss or illness, try to have enough savings available for six months of mortgage payments and monthly expenses. |
Glossary

Appraisal
An expert estimate of the value of something, including real estate.

Conventional Loan
A mortgage that is not guaranteed or insured by any government agency.

Escrow
A financial instrument or an asset held by a third party on behalf of two other parties that are in the process of completing a transaction.

FHA loan
A mortgage insured by the Federal Housing Administration (FHA). FHA loans are designed for low-to-moderate income borrowers who are unable to make a large down payment.

Home Equity
The value of ownership built up in a home or property that represents the current market value of the house less any remaining mortgage payments. This value is built up over time as the property owner pays off the mortgage and the market value of the property appreciates.

Loan to Value
Also referred to as LTV Ratio, is a comparison between the amount of your loan and the value of your home.

Mortgage
An agreement that allows you to borrow money from a bank or similar organization by offering security interest in your house or condo.

Mortgage Lender
Bank and other financial organizations that lend money to buyers of houses, condos and other real estate.

Warranty Deed
A written and signed legal instrument that is used to transfer ownership of real property from the old owner (the grantor) to the new owner (the grantee).
Property Taxes

A millage rate is an ad valorem tax on the value of a property. This is usually levied on real estate by the governing authority of the jurisdiction in which the property is located. This can be a national government, a federated state, a county or geographical region or a municipality.

Property Title

is the right to, or ownership of, a specific real estate property.

Survey

Used to identify boundaries and features of land to determine ownership.
First Time Home Buyer Programs

*Pinellas County

1. Pinellas County Community Development

2. Tampa Bay Community Development Corporation (Tampa Bay CDC)

3. City of St. Petersburg

4. Habitat for Humanity (Pinellas)
   727-536-4755 - http://www.habitatpinellas.org/

*Hillsborough County

1. Habitat for Humanity (Hillsborough)

2. Hillsborough County First time Home Buyer

3. Tampa Housing Authority

*Pasco County

1. Pasco County Community Development

2. Pasco County Housing Authority

3. Habitat for Humanity East and Central Pasco County
Home Buying 101
Post Course Survey

Please answer the following questions. When finished remove this paper and hand it to our instructor. Thank you for attending our class!

1. Place the home buying steps in the correct order using 1-4 (1 being first, 4 being last). I Don't Know □
   □ Purchase home owners insurance
   □ Speak with a mortgage lender
   □ Hire a home inspector
   □ Meet with a real estate agent

2. When do you have to pay for Private Mortgage Insurance (PMI)?
   □ Always
   □ When your down payment is less than 20%
   □ When you buy a home with cash
   □ I don’t Know

School Name______________________________________________________________