

Home Buyer Education

Getting
Ready to
Buy a
Home.



Are you
ready?

Member FDIC



Topics We'll Cover Today

- Getting ready to buy
- Budgeting
- Buying your home
- Getting a mortgage loan
- The mortgage loan process
- Keeping and maintaining your home



Introduction



- This course will help prepare you to *purchase* a home and help you *keep* it.
- **Today you will learn about:**
 - ✓ *Pre-qualifying* – How much home can you afford?
 - ✓ **Credit-Worthiness**
 - ✓ **Household Budgeting**
 - ✓ **The Home-Buying Process**
 - ✓ **Mortgage Loan-Application, Processing & Closing**
 - ✓ **Maintaining and Keeping Your New Home**

A Home, the Largest Investment You'll Ever Make!

How the process fits together...



You've Decided to Buy a Home!

The first question to ask yourself is:

How much can I afford to spend on a home?

The best way to find out how much you can afford is to:

- *Pre-qualify* for a mortgage loan,
- Review your credit history, and
- Design a budget you can live with.



“*Pre-qualifying*” for a Loan

Pre-qualifying shows you where you stand financially, based on your current income, debt and savings.

In doing so, you can determine:

- An *estimate* of a home purchase price and monthly house payment *you* can afford.
- How much you will need for a down payment, and
- Budgeting goals you need to set and stick by.



The *Pre-qualification* Worksheet:

- A worksheet will help you *estimate* the home price, and maximum monthly mortgage payment you can afford and qualify for, based on your monthly income and debts, and loan interest rate.
- But, before we start the worksheet, let's go over the meaning of some terms that will help us in completing the worksheet.



Gross Monthly Income

Gross monthly income includes:

- Regular Employment
- Social Security
- Rental Income
- Seasonal Employment Income
- Unemployment Compensation
- Commission Income
- Child support
- Alimony



Housing Expense and Debt Ratios

Are based on:

- Total Monthly Income
- *Estimated* Monthly Housing Expense
- *Estimated* Total Monthly Debt



Monthly *Housing* Expense Ratio:

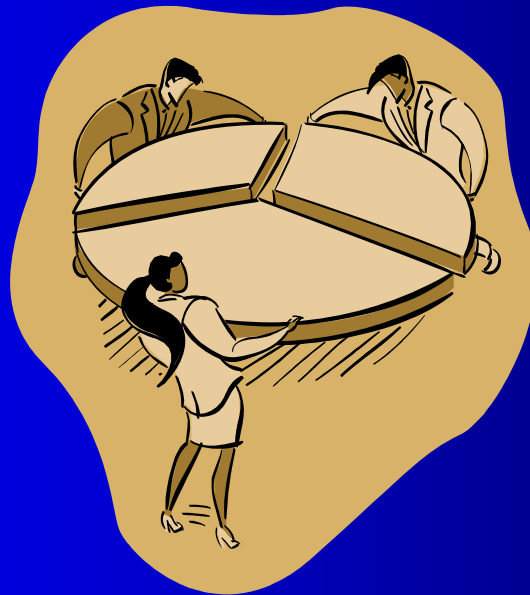
- Compares your projected total monthly *housing* expense with your *total* monthly income.
- Monthly housing expense includes the principal, interest, taxes & insurance (**PITI**) payment and, possibly, other financing and homeowners association dues.

(P.I.T.I.) ?

- **Principal**: the portion of the payment used to reduce the loan balance.
- **Interest**: the portion of the payment used to pay interest that is due.
- **Taxes**: $1/12^{\text{th}}$ of the annual tax bill.
- **Insurance**: $1/12^{\text{th}}$ of the annual mortgage and homeowners insurance premiums.

Total Debt Ratio:

Compares your *total* monthly debt with *total* monthly income.



Monthly *Installment* Debt Includes:

- **Student loans**
- **Auto & truck loans**
- **Home equity loans**
- **401-k plan loans**
- **Child support or alimony payments**
- **Other monthly installment payments**

Revolving Credit Debt **Includes:**

- **Lines of credit**
- **Credit Cards**



Let's Look at the *Pre-qualification Worksheet*:

- So that you can see it clearly and work with it, please refer to the *worksheet appearing shortly*.



Monthly Income Analysis

Let's look at: Section I:

A. Gross Monthly Income,

B. Housing Expense Test &

C. Total Debt Test.

HOW MUCH HOME YOU CAN AFFORD - PLANNER

Excel

I. MONTHLY INCOME ANALYSIS

A. Gross Monthly Income Calculation

Determine your (and any co-borrower's) total gross monthly income - the total stable and verifiable income from all sources before taxes and insurance premiums are deducted. Record the amount on Line 1, below.

Gross monthly income includes: Child support, alimony, unemployment comensation, social security, rental income, seasonal employment income and commission income.

1. Total Gross Monthly Income

\$ **4,500** (Line 1)

B. Housing Expense Test

Based on your Total Gross Monthly Income, determine an estimate of the maximum amount you could afford toward your monthly housing expense. Lenders typically allow up to 33% of gross monthly income to be paid toward housing expense. This allowance factor is called the **Housing Expense Ratio**.

Total Gross Monthly Income (Line 1)

\$ **4,500**

Housing Expense Ratio

x **33%**

2. Maximum Monthly Housing Expense Payment

\$ **1,485** (Line 2)

(You will need to refer to this figure later on in this worksheet)

The Housing Expense Ratio includes Principal, Interest, taxes, and Insurance (PITI) and, if applicable, other financing and homeowners association dues.

C. Total Debt Test

Based on your Total Gross Monthly Income, determine an estimate of the maximum amount you could afford to pay each month toward total debt, including housing expense and all other installment and revolving credit debt. Lenders typically allow for up to 38% of gross monthly income to be paid toward total debt. This allowance factor is called the **Total Debt Ratio**.

Total Gross Monthly Income (Line 1)

\$ **4,500**

Total Debt Ratio

x **38%**

3. Maximum Monthly Total Debt Payment

\$ **1,710** (Line 3)

PITI is an acronym for the 4 parts of the monthly mortgage payment:
Principal - a portion of the payment used to reduce the loan balance.
Interest - a portion of a payment used to pay interest due. Taxes - 1/12 of the annual property tax. Insurance - 1/12 of the annual mortgage and homeowner's insurance premiums.

Monthly Obligations Analysis:

Now, let's go over **Total Monthly Installment, Revolving debt** and **Available Income**, Section II

II. MONTHLY OBLIGATIONS ANALYSIS

Excel

D. Total Monthly Installment and Revolving Debt

Monthly Installment Debts. On a separate piece of paper, list all monthly installment debts with 10 or more payments remaining. Add up the amounts and record that amount on Line 4 below.

4. Total Monthly Installment Debt Payment

\$ (Line 4)

Monthly Installment Debt includes: student loans, car loans, home equity loans, 401(k) loans, and child support or alimony.

Revolving Credit Debts. On a separate piece of paper, list all revolving credit balances. Add up the balances and multiply the total by 5% (.05) to estimate the monthly payment. Record that amount on Line 5 below.

Total Revolving Credit Balances

\$
x 5%

Revolving Credit Debt includes: lines of credit and credit cards.

5. Total Monthly Revolving Credit Debt Payments

\$ (Line 5)

Add your Total Monthly Installment Debt Payments (Line 4) and your Total Monthly Revolving Credit Debt Payment (Line 5). Record the amount on line 6 below.

6. Total Monthly Installment & Revolving Credit Debt Payments

(Line 6)

E. Available Income Test.

Determine the actual amount of income available to be used for your maximum affordable monthly mortgage payment, including principal, interest, taxes and insurance (PITI), by subtracting Line 6 from Line 3.

Maximum Monthly Total Debt Payment (Line 3)

\$

Monthly Installment & Revolving Debt Payments (Line 6)

- \$

7. Income Available for maximum affordable Monthly Mortgage Payment (PITI)

= \$ (Line 7)

Affordability Analysis

- Now let's do the **Affordability Analysis, Section III F.**
- This section is split into 2 screens which follow, so we can really focus on it.

III. AFFORDABILITY ANALYSIS

This section will help you estimate a maximum affordable home price using the Affordability Factor Table.

F. Maximum Payment Calculation.

The Affordability Factor Table is based only on the Principal and Interest part of your estimated mortgage payment, because taxes and insurance can vary so much in different part of the county to another. For the purposes of this estimate, figure on 75% of your total mortgage payment will go for principal and interest; the other 25% towards taxes and insurance.

Enter the lesser of Line 2 or Line 7

\$	969	
x	75%	
=	\$727	(Line 8)

[Excel](#)

LTV (Loan to Value) Ratio is the calculation that shows the loan amount as a percentage of the value of the property. The **LTV Ratio** is determined by dividing the loan amount by the value or selling price of the property. Usually, the greater the LTV Ratio, the higher the interest rate charged on your loan. Maximum rates for banks, savings & loans, or government-insured loans are set by law. **Closing Costs** are those in addition to the price of the property itself, that are due at the loan closing. These normally include, but are not limited to: origination fees, discount points, attorney's fees, costs for title insurance, surveys and recording documents, and prepayments of real estate taxes and insurance premiums held by the lender in escrow. Sometimes, but not usually, the seller will help the borrower (buyer) pay some of these costs.

HOW MUCH HOME YOU CAN AFFORD - PLANNER (Continued)

F. Home Affordability & Down Payment Options.

Using the Maximum Principal & Interest Payment (Line 8) and the Home Affordability Factor Table below, you will be able to calculate your home affordability and down payment options that will help you meet your homeownership goal. **Select the loan type and interest rate.**

Maximum Principal & Interest Payment (Line 8)		\$727		\$727		\$727
Enter the Affordability Factor (see table below)	x	110	x	160	x	203
Enter 30 or 15 (30 yr or 15 yr loan)	Years	15	Years	30	Years	30
Interest Rate (see table below)	%	7.00%	%	6.75%	%	6.25%
Maximum House Buyer Qualifies For	=	\$79,922	=	\$116,250	=	\$147,492
Down Payment % (5, 10, or 20) -see table below	x	5%	x	10%	x	20%
Minimum Down Payment Required	=	\$3,996	=	\$11,625	=	\$29,498

(Does not include closing costs)

HOME AFFORDABILITY FACTOR TABLE

Instructions:

1. Select a loan term (15 or 30 years)
2. Find the current interest rate for the loan term you selected. (You can often find current mortgage interest rates in the real estate section of your local newspaper).
3. Read across and record the factor for each down payment percentage in the Affordability Factor section.
4. Complete the Affordability analysis calculations above.

Suggestion:

Examine your options by comparing the affordability of different loan terms (30 or 15 years) with different down payment amounts.

AFFORDABILITY FACTOR TABLE:

Interest Rate	30-YEAR LOANS			15-YEAR LOANS		
	Down Payment			Down Payment		
	5%	10%	20%	5%	10%	20%
4.50	184	202	246	128	131	163
4.75	179	196	239	126	129	160
5.00	174	191	232	124	127	158
5.25	170	186	226	122	125	155
5.50	166	181	220	120	123	152
5.75	162	177	214	118	121	150
6.00	158	172	208	116	119	148
6.25	154	168	203	115	118	145
6.50	151	164	197	113	116	143
6.75	147	160	192	111	114	141
7.00	144	156	187	110	112	139
7.25	140	153	183	108	111	136
7.50	137	149	178	107	109	134
7.75	134	146	174	105	107	132
8.00	131	142	170	104	106	130
8.25	128	139	166	102	104	128
8.50	126	136	162	101	103	126
8.75	123	133	158	99	101	125
9.00	121	131	155	98	100	123
9.25	118	128	151	97	98	121
9.50	116	125	148	95	97	119
9.75	113	123	145	94	96	117
10.00	111	120	142	93	94	116
10.25	109	118	139	91	93	114
10.50	107	115	136	90	92	113
10.75	105	113	133	89	91	111
11.00	103	111	131	88	89	109
11.25	101	109	128	87	88	108
11.50	99	107	126	85	87	107
11.75	97	105	123	84	86	105
12.00	96	103	121	83	85	104
12.25	94	101	119	82	84	102

Summary

With *Pre-qualification*, we calculated:

- Total Gross Monthly Income
- Maximum Monthly Housing Expense Payment
- Maximum Monthly Total Debt Payment
- Total Monthly Installment & Revolving Credit Payments
- Income Available for Maximum Affordable Monthly Mortgage Payment (PITI);
- Maximum Principal & Interest Payment *and*
- Home Affordability and Down Payment Options

Now, let's move on to *give ourselves some CREDIT*