Participant Guide

FDIC Financial Education Curriculum

Revision Date: 03–2010

Table of Contents

Checking In

Welcome

Welcome to *Your Own Home*. Owning your own home can be a major investment, but one that can also lead to financial security. This module will help you understand what is involved in buying a home.

Objectives

After completing this module, if you are a **pre-homebuyer**, you will be able to:

- Explain the advantages and disadvantages of renting versus owning a home
- Identify questions to ask to determine your readiness to buy a home
- Identify the steps required to buy a home
- Identify basic terms and required disclosures used in a mortgage transaction
- Describe the advantages and disadvantages of different mortgage options
- Describe how interest rates affect the amount of house you can buy
- Explain how taxes and insurance affect a monthly payment and the amount of house you can buy

If you are a **homeowner**, you will be able to:

- Describe the advantages and disadvantages of borrowing against a home
- Explain what to do if you are having trouble making payments
- Describe different types of refinancing options
- Explain the advantages and disadvantages of a reverse mortgage
- Identify predatory lending practices and loan scams

Participant Materials

This *Your Own Home* Participant Guide contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module

Pre-Test

Test your knowledge about owning a home before you go through the course.

1. **What are the advantages of owning a home? Select all that apply.**
   a. You are not responsible for property maintenance and upkeep
   b. You can reduce your income taxes by deducting mortgage interest and property taxes
   c. You will have costs (e.g., property taxes, maintenance expenses, homeowner's insurance, and homeowner/condominium association fees)
   d. You may be able to build equity

2. **When renting an apartment or home:**
   a. Your payment for rent may increase
   b. Homeowner's insurance will be required
   c. You are responsible for property taxes
   d. You are the owner of the property

3. **Charles is thinking of buying a house. Which questions should he ask himself before buying? Select all that apply.**
   a. Where do I want to live?
   b. What type of home do I want?
   c. How do I want to furnish the home?
   d. Am I financially ready and able to buy a house?

4. **Below are four steps to buying a home. Which of the following is the final step to buying a home?**
   a. Determining your readiness to buy a house
   b. Going through settlement and closing
   c. Determining which mortgage option is best for you
   d. Qualifying for a mortgage

5. **Mary has a steady job. She feels ready to move into her own space and has $1,000 in savings. Which is the best choice for her?**
   a. Renting, because she does not have enough saved to buy a house
   b. Buying a house, because she can build equity very quickly
   c. Renting, because she heard she can save on taxes
   d. Buying, because she can play her stereo as loud as she wants

6. **Which of the following disclosures are you required by law to receive within three days of applying for a mortgage?**
   a. Notice of approval or denial and reason for denial
   b. Good Faith Estimate (GFE) of Closing Costs

c. Housing and Urban Development (HUD)-1 Settlement Statement
d. HUD-1A Settlement Statement

7. **With a home-equity loan:**
   a. You typically receive a lower rate of interest than a credit card
   b. Your home serves as collateral for the loan
   c. You risk losing your home if you have difficulties making your payments
   d. All of the above are correct

8. **How can interest rates and different types of mortgages affect the amount of house you can buy? Select all that apply.**
   a. Fixed-rate mortgage payments will help you determine how much house you can realistically afford if you plan to own the home for a long time period (e.g., 5+ years)
   b. Interest-only and adjustable-rate mortgages (ARMs) will help you determine how much house you can realistically afford if you plan to own the home for a long time period (e.g., 5+ years)
   c. Fixed-rate mortgages may allow you to buy more house if you plan to own the home for a short time period (e.g., 2–5 years)
   d. Interest-only and ARMs may allow you to buy more house if you are sure you will only own the home for a short time period (e.g., 2–5 years)

9. **Which of the following reasons may discourage a homeowner from refinancing? Select all that apply.**
   a. Having to pay for closing costs
   b. Getting a lower interest rate
   c. Expecting to move from the home and sell it next year

10. **What should you do if you are having trouble making monthly mortgage payments? Select all that apply.**
    a. Pay what you can without contacting the lender
    b. Submit a late payment when you get the money
    c. Contact your lender to discuss options and establish a plan
    d. Get help from a reputable housing counselor

11. **Which of the following is a <u>FALSE</u> statement regarding reverse mortgages?**
    a. You generally do not have to pay back money you borrow for as long as you live in the home
    b. Reverse mortgages are a good way for people starting out in their careers to be able to afford to buy a home
    c. You are responsible for paying property taxes and insurance, and if you fail to pay them you may be required to immediately repay the loan in full
    d. Expect to pay origination fees, mortgage insurance fees, and closing costs when you obtain a reverse mortgage.

12. **Which of the following are signs of predatory lending practices and loan scams? Select all that apply.**
    a. Demand for up-front fees
    b. Verbal promise documented in writing

c. Contracts/documents with blank lines or spaces
a. An unsolicited offer that you are told is only valid for a few hours so you need to "act now"

To Rent or To Own?

Renting a Home

Advantages:

- Property maintenance is the responsibility of the landlord.
- You can move or change homes once you have met the terms of the rental contract.
- You do not have the costs associated with owning a home (e.g., property taxes, homeowner's insurance).

Renters insurance, while not required, can be obtained from many insurance companies. Renters insurance:

- Protects you against the loss or destruction of your possessions (e.g., burglary or fire)
- Covers your living expenses if you are unable to live in your apartment because of a fire or other covered disaster
- Provides liability protection if, for example, someone is injured at your home while visiting

Disadvantages:

- You do not own your home or apartment or receive the benefits of being a homeowner.
- Your rent might increase or cost more than a mortgage payment.
- You might be unable to renew your rental contract and then have to find a new place to live.

Owning a Home

Advantages:

- You can build equity. *Equity* is the value of the home minus the amount you owe on it.
- You can borrow against the equity for many purposes.
- Homes generally increase in value over time and are a good long-term investment.
- The home is yours once your mortgage is paid in full.
- Homeownership may reduce the amount of income tax you pay (interest and taxes are tax deductible).
- You can pass your home on to family members.

Disadvantages:

- Property maintenance and upkeep are your responsibility.
- You are responsible for the additional costs of:
  - Homeowner's insurance
  - Other types of insurance if required by the lender (e.g., flood or earthquake insurance)
  - Real estate taxes
  - Homeowner's association fees, if applicable, to pay for maintenance of the common areas and the exterior of the buildings and grounds
- You may have to sell or rent your home before you can afford to buy or rent another one.
- You can lose your home, and your investment in it, if you do not make timely mortgage payments.

Steps Involved in Buying a Home

- Step 1: Determine if you are ready to buy a house
- Step 2: Determine how much mortgage you can afford
- Step 3: Determine which mortgage option is best for you
- Step 4: Qualify for a loan
- Step 5: Go through settlement

Meet Patricia

After completing her job training program, Patricia got a full-time job as a medical technologist. She makes $49,200 a year, or $4,100 a month. Patricia has been living with her parents and wants to get out on her own. She has considered her situation and has decided to find out more about home ownership. The first step she needs to take is to determine whether she is ready to buy a home.

Am I Ready To Buy a Home?

Use these questions to help you decide if you are ready to buy a home.

Do I have a steady source of income?	
Have I received this income on a regular basis for at least the last 2 or 3 years?	
Do I have a credit history?	
Do I have a good record of paying bills?	
Will I be able to pay my bills and other debts?	
Do I have the ability to make the mortgage payment every month, plus handle additional costs for taxes, insurance, maintenance, and unexpected repairs?	
Do I anticipate moving to another community within the next two or three years?	
Do I have money saved for a down payment and closing costs?	
Where do I want to live?	
What kind of neighborhood do I want?	
What types of schools are in the neighborhood?	
How much space do I need?	

Down Payment

The *down payment* is the portion of the home's purchase price the buyer pays in cash. Lenders prefer that you have 20 percent of the purchase price for a down payment. If you have difficulties saving 20 percent, there are mortgage options that make it possible to buy a home with a smaller down payment (e.g., only 3 percent).

Other Expenses

- Household emergencies, repairs, and other expenses (It is a good idea to save money in a special savings account for these.)
- *Private Mortgage Insurance (PMI);* required insurance for loans that are more than 80 percent of the home's value

Mortgage Payments Considerations

The monthly mortgage payment should be no more than 28 percent of your monthly income and should include:

- A partial repayment of principal
- Interest and PMI (if required)
- Homeowner association dues (if you live in a condominium or other association)
- Property taxes if included in your monthly payment

Activity 1: Is Patricia Ready to Buy a House?

Based on what you know so far about Patricia, do you think she is ready to buy a house? Why or why not?

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Homebuyer Assistance Programs

There are a number of different programs available for first-time homebuyers. Many people start the home buying process with one of these programs, or with a program offered by local community organizations. Be sure to ask your financial institution or mortgage counselor what options are available to you.

Federal Housing Administration (FHA) Insured Loans

The 203(b) is the most common FHA loan, featuring:

- Low down payment
- Flexible qualifying guidelines
- Limited lender fees
- Maximum loan amounts

Department of Veterans Administration (VA) Insured Loans

Features of VA loans include:

- You must be an eligible veteran
- No down payment requirements
- Competitive and negotiable fixed interest rates
- Limitations on closing costs
- Longer payment terms

Federal National Mortgage Association (Fannie Mae) & Federal Home Loan Mortgage Corporation (Freddie Mac) Loans

Fannie Mae and Freddie Mac both offer many loan programs. The programs may include features (e.g., low or no down payment requirements and options for borrowers with less-than-perfect credit).

In addition, some programs are targeted for various groups, including:

- First-time buyers
- Low- to moderate-income buyers
- Teachers, firefighters, law enforcement officers, and health care workers

United States Department of Agriculture (USDA) Rural Development Housing Services

The USDA offers several loan programs for those seeking to purchase homes in rural areas. These are generally targeted for low- and moderate-income individuals who are unable to obtain financing elsewhere. They may allow financing up to 100 percent of the value of the home.

Fair Housing Act

The Fair Housing Act prohibits discrimination on the basis of race, color, religion, sex, national origin, family status (including children under the age of 18 living with parents of legal custodians, pregnant women, and people securing custody of children under the age of 18), or handicap status in housing-related transactions.

Activity 2: Patricia's Down Payment?

Patricia found an Individual Development Account (IDA) program that will match her savings to help with the down payment and closing costs for her first home. She talked to a non-profit organization to get more information. She learned that the program requires her to attend a home ownership counseling class and set up a savings account at a participating bank. When she opened her IDA, she found out the program would match $3 to her $1, with a maximum contribution of $7,000. Patricia was already saving $25 a month and had $2,500 in a savings account. But she wants to save $50 to have more money for a down payment.

What can Patricia do to save an extra $50 a month toward her down payment?

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Mortgage Terms

These terms describe the components of a mortgage payment. Your mortgage payment will reflect the following costs:

- **Principal:** the amount applied to the outstanding balance of the loan
- **Interest:** the amount of the charge for borrowing money
- **Taxes:** amount equal to 1/12th of the estimated annual real estate taxes on the home
- **Insurance:** amount equal to 1/12th of the annual homeowner's insurance premium
  - In addition to homeowner's insurance, this figure may include flood or earthquake insurance. For more information on flood insurance and preparing for disasters, visit www.fema.gov and www.ready.gov.
- **Private Mortgage Insurance (PMI):** if required

How Taxes and Insurance Are Paid

You will most likely pay the taxes and insurance along with the principal and interest to the lender every month. However, the lender may allow you the option of paying the taxes and insurance separately.

If the lender requires you to pay the taxes and insurance as part of your mortgage payment, the lender will open an *escrow account* to hold this money until the payments are due. In certain states, the escrow account will also earn interest. Many people consider this convenient because they do not have to make separate payments.

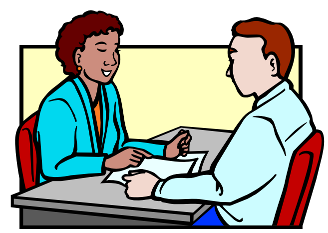
If you to pay the taxes and insurance separately you will be responsible for paying your property tax bill, either once or twice a year, and insurance premium, usually paid annually.

The Four Cs of Loan Decision Making

- *Capacity* is your present and future ability to meet your payment obligations. This includes whether you have enough income to pay your bills and other debts.
- *Capital* refers to the value of your assets and your net worth.
- *Character* refers to how you have paid bills or debts in the past. Your credit report is one tool lenders use to consider your willingness to repay your debts.
- *Collateral* refers to property or assets offered to secure the loan.

Step 2: Determine How Much Mortgage You Can Afford

Pre-Qualification



Pre-qualification is an informal way to find out how much money you can borrow. You can be pre-qualified by giving the lender some basic information over the phone, including:

- Employment
- Income
- Down payment information
- Outstanding debts

No paperwork is required. There is no obligation. The pre-qualified amount is not exact; it is only a ballpark figure.

Pre-Approval

Pre-approval is a commitment from the lender to lend you money. The pre-approval process lets you know how much of a mortgage you can obtain and tells sellers you are prepared to buy a home. To obtain pre-approval, you need to assemble financial records and fill out an application. You will usually need:

- Pay stubs for the last two or three months
- W-2 forms for the last two years
- Tax returns for the last two years
- Information about your assets and long-term debts
- Recent bank statements
- Proof of any additional income—you do not need to disclose alimony or child support payments unless you want them considered in repaying the loan

Sample Pre-Approval Letter

Sample Mortgage Company
123 Elm Street
Denver, Colorado 80216
(303) 123-0000
(303) 456-6666 FAX

March 3, 2010

According to the income and expense information provided, along with a review of past credit history, Jim and Mary Jones have been pre-approved to purchase the property located at:

1490 West 104th Avenue
Northglenn, CO 80229

This statement is subject to closing underwriting conditions and an acceptable review of the subject property, to include a complete residential appraisal and full title policy.

APPROVAL REPORT

Purchase Price:	**$120,000**
Down Payment:	**5%**
Term of Loan:	**30 year fixed FHA**

If any further information is needed please contact Lisa Jones at 303-123-0000.

Sincerely,

John Doe, Loan Officer
Sample Mortgage Company

Step 2: How Much Mortgage Can I Afford?

As a rule of thumb, many people estimate they are able to afford a mortgage of two to three times their household income.

________________ x 2 = ______________
(Annual Income)

________________ x 2.5 = ______________
(Annual Income)

________________ x 3 = ______________

Consider your debt-to-income ratio. Lenders usually require the principal, interest, taxes, and insurance (PITI) of your housing expenses to be less than or equal to 25 to 28 percent of your monthly gross income. Lenders call this the *front-end ratio*. Calculate your front-end ratio and be sure your monthly mortgage payment is no greater than this figure.

___________________ x .28 = ________________
(Monthly Gross Income) x 28% = Front-End Ratio

Lenders usually require housing expenses plus long-term debt to be less than or equal to 33 to 36 percent of your monthly gross income. Lenders call this the *back-end ratio*. Calculate your back-end ratio and be sure your monthly mortgage payment is no greater than this figure.

____________________ x .36 = _______________
(Monthly Gross Income) x 36% = Back-End Ratio

Long-term debt is outstanding debt with a remaining term of at least one year. It can include student loans, credit cards, car loans, other loans, and other non-housing expenses.

If your debt-to-income exceeds these ratios, talk to your lender about your options.

Activity 3: How Much Mortgage Can Patricia Afford?

Since Patricia's monthly gross income is $4,100 her maximum monthly mortgage payment, including escrow, should be $1,148 or less.

Front-End Ratio:

$4,100 x 28% = $1,148

Patricia's monthly gross income is $4,100 so the combination of her mortgage, $1,148, and her other long-term debt, should be no more than $1,476.

Back-End Ratio:

$4,100 x 36% = $1,476

Based on the difference between the back- and front-end ratios, how much can Patricia's remaining debts (e.g., car loan payments, monthly credit card bills) be?

Two other factors affect how much mortgage Patricia can afford: the length or term of the mortgage, and whether her mortgage has a fixed or variable interest rate.

Mortgages may range from 10- to 50-year terms. See the table below for the most typical mortgage products: 15- and 30-year terms.

15-Year Mortgage	30-Year Mortgage
• Borrow less money because of larger monthly payments • Build equity faster • Less interest to pay • Lower interest rate • **For example, if you borrowed $75,000 for 15 years at 7.5%, your monthly principal and interest payment would be $695.**	• Borrow more money because of lower monthly payments • Build equity more slowly • Can deduct more interest from income tax • Higher interest rate • **For example, if you borrowed $75,000 for 30 years at 8%, your monthly principal and interest payment would be $550.**

Whether her mortgage has a fixed or variable interest rate will also affect the mortgage amount that Patricia can afford.

Fixed-Rate Mortgage	Adjustable-Rate Mortgage (ARM)
• Interest rate stays the same for the term of the loan. • Your payments are predictable and not affected by interest rate changes. • Interest rates could go down while you are locked into your mortgage at a higher-than-market rate.	• Interest rate can increase or decrease during the term of the loan. • You might have a low rate for an initial period of 1, 3, 5, 7, or 10 years. • Monthly payments may initially be lower than fixed-rate loans. • The interest rate and your payment can increase

	significantly throughout the term of the loan. • If interest rates rise, do not count on being able to refinance into a lower-rate fixed-rate loan, as your financial situation could change (e.g., due to a job loss)—and still, refinancing to a rate lower than the going rate may not be possible.

Note: Make sure you compare loan offers based on annual percentage rate (APR), and not the interest rate. The APR is the cost of the loan expressed as a yearly rate, including interest and certain fees.

Which mortgage do you think would be good for Patricia, based on what we know so far about how much mortgage she can afford? Why?

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Step 3: Determine Which Mortgage Option Is Best for You

There are different types of mortgages:

- **Fixed-Rate mortgage** (usually 15 or 30 years in length)
  - You pay the same amount each month at a fixed interest rate for the life of the loan.
- **Adjustable-rate mortgage (ARM)**
  - The interest rate adjusts according to a schedule; usually the rate is fixed for a short term in the beginning of the loan, after which time it automatically adjusts.
- **Interest-only mortgage**
  - You pay only the interest (not the principal) on the mortgage in monthly payments for a fixed term. Be very careful with these mortgages.
- **Biweekly payment mortgage**
  - These are usually fixed-rate conventional mortgages with payments due every two weeks.

Shop, Compare, Negotiate

Once you have decided on the type of mortgage you want, there are several steps you can take to get the best price for your mortgage.

- Check advertisements in local newspapers and on the Internet to get an idea of the best terms and rates.
- Contact several lenders on the same day to compare quotes.
- Negotiate for the best price you can get.
- Make sure the lender gives you all the costs of the loan in writing.
- Use the APR and good faith estimate (GFE) of closing costs to compare all costs.

Good Faith Estimate (GFE) of Closing Costs

Be sure to get a Good Faith Estimate (GFE) of settlement service charges you will likely have to pay. A *GFE* is an itemized list of the costs and fees associated with your loan, given to you in good faith by your lender or broker. It must be provided within three business days of applying for a loan.

Loan terms, called *disclosures*, must also be delivered to you, at least seven days before you complete (close) your loan. Disclosures include the maximum change (increase or decrease) in the loan interest rate each month, year, or over the life of the loan; the index rate for changes; cost estimates of the loan; the APR; and the GFE.

You can use the GFE to shop mortgage lenders and save hundreds of dollars. Be aware that the amounts listed on the GFE are only estimates. Actual costs may vary and changing market conditions can affect prices. If the APR increases by a certain margin above what was previously disclosed, you must receive a corrected disclosure at least three business days before the loan closing.

Keep your GFE so you can compare it with the final settlement costs and ask the lender questions about any changes.

Good Faith Estimate Form

OMB Approval No. 2502-0265

Good Faith Estimate (GFE)

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	
Originator Email	Date of GFE

Purpose

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. For more information, see HUD's *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and other consumer information at www.hud.gov/respa. If you decide you would like to proceed with this loan, contact us.

Shopping for your loan

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the shopping chart on page 3 to compare all the offers you receive.

Important dates

1. The interest rate for this GFE is available through ☐. After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through ☐.
3. After you lock your interest rate, you must go to settlement within ☐ days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least ☐ days before settlement.

Summary of your loan

Your initial loan amount is	$
Your loan term is	years
Your initial interest rate is	%
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	$ per month
Can your interest rate rise?	☐ No ☐ Yes, it can rise to a maximum of %. The first change will be in .
Even if you make payments on time, can your loan balance rise?	☐ No ☐ Yes, it can rise to a maximum of $
Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?	☐ No ☐ Yes, the first increase can be in and the monthly amount owed can rise to $. The maximum it can ever rise to is $
Does your loan have a prepayment penalty?	☐ No ☐ Yes, your maximum prepayment penalty is $
Does your loan have a balloon payment?	☐ No ☐ Yes, you have a balloon payment of $ due in years.

Escrow account information

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of $ ☐

Do we require you to have an escrow account for your loan?

☐ No, you do not have an escrow account. You must pay these charges directly when due.

☐ Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

Summary of your settlement charges

A	Your Adjusted Origination Charges *(See page 2.)*	$
B	Your Charges for All Other Settlement Services *(See page 2.)*	$
A + B	Total Estimated Settlement Charges	$

Good Faith Estimate (HUD-GFE) 1

Understanding your estimated settlement charges

Your Adjusted Origination Charges	
1. **Our origination charge** This charge is for getting this loan for you.	
2. **Your credit or charge (points) for the specific interest rate chosen** ☐ The credit or charge for the interest rate of ☐ % is included in "Our origination charge." (See item 1 above.) ☐ You receive a credit of $ ☐ for this interest rate of ☐ %. This credit **reduces** your settlement charges. ☐ You pay a charge of $ ☐ for this interest rate of ☐ %. This charge (points) **increases** your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	
A Your Adjusted Origination Charges	$

Some of these charges can change at settlement. See the top of page 3 for more information.

Your Charges for All Other Settlement Services	
3. **Required services that we select** These charges are for services we require to complete your settlement. We will choose the providers of these services. *Service* *Charge*	
4. **Title services and lender's title insurance** This charge includes the services of a title or settlement agent, for example, and title insurance to protect the lender, if required.	
5. **Owner's title insurance** You may purchase an owner's title insurance policy to protect your interest in the property.	
6. **Required services that you can shop for** These charges are for other services that are required to complete your settlement. We can identify providers of these services or you can shop for them yourself. Our estimates for providing these services are below. *Service* *Charge*	
7. **Government recording charges** These charges are for state and local fees to record your loan and title documents.	
8. **Transfer taxes** These charges are for state and local fees on mortgages and home sales.	
9. **Initial deposit for your escrow account** This charge is held in an escrow account to pay future recurring charges on your property and includes ☐ all property taxes, ☐ all insurance, and ☐ other ☐.	
10. **Daily interest charges** This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. This amount is $ ☐ per day for ☐ days (if your settlement is ☐).	
11. **Homeowner's insurance** This charge is for the insurance you must buy for the property to protect from a loss, such as fire. *Policy* *Charge*	
B Your Charges for All Other Settlement Services	$
A + B **Total Estimated Settlement Charges**	$

Good Faith Estimate (HUD-GFE) 2

Mortgage Shopping Worksheet

	Lender 1		Lender 2	
Name of Lender:				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
A. Basic Information on the Loans Type of Mortgage: fixed rate, adjustable rate, conventional, FHA, other? If adjustable, see below				
Minimum down payment required				
Loan term (length of loan)				
Contract interest rate				
APR				
Points (may be called loan discount points)				
Monthly (PMI premiums				
How long must you keep PMI?				
Estimated monthly escrow for taxes and hazard insurance				
Estimated monthly payment (PITI, PMI)				
B. Fees Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents. Application fee or Loan processing fee				
Origination fee or Underwriting fee				
Lender fee or Funding fee				
Appraisal fee				
Attorney fees				
Document preparation and recording fees				
Broker fees (may be quoted as points, origination fees, or interest rate add on)				

Credit report fee				
Other fees				
C. Other Costs at Closing/Settlement Title search/Title insurance For lender				
Title search/Title insurance For you				
Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow				
State and local taxes, stamp taxes, transfer taxes				
Flood determination				
Prepaid PMI				
Surveys and home inspections				
D. Total Fees and Other Closing/Settlement Cost Estimates				
	Lender 1		Lender 2	
Name of Lender:				
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
E. Other Questions and Considerations about the Loan Are any of the fees or costs waivable?				
Prepayment penalties Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (e.g., 3 years? 5 years?)				
Are extra principal payments allowed?				
Lock-ins Is the lock-in agreement in writing?				
Is there a fee to lock-in?				
When does the lock-in occur—at application, approval, or another time?				
How long will the lock-in last?				

If the rate drops before closing, can you lock-in at a lower rate?				
If the loan is an adjustable rate mortgage: What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and of any changes to the monthly payment?				
What is the index that the lender will use?				
What margin will the lender add to the index?				
Credit life insurance Does the monthly amount quoted to you include a charge for credit life insurance?				
If so, does the lender require credit life insurance as a condition of the loan?				
How much does the credit life insurance cost?				
How much lower would your monthly payment be without the credit life insurance?				
If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				

Step 4: Qualify For a Loan

Lenders use certain criteria to qualify you for a loan, including: income, debt, and credit history. You already learned that before you start looking for a house, you should become pre-qualified by a lender. Once you find the house, you can get a pre-approval. In some circumstances, it is advisable to get pre-approved before you buy (e.g., in housing markets or areas in which houses stay on the market only a short time before they are purchased).

Activity 4: Does Patricia Qualify for a Loan?

Thanks to the Mortgage Shopping Worksheet and what Patricia learned in her homebuyer class, she found a townhouse in a neighborhood close to her family. She has also qualified for the first-time homeowners' program in her state. She receives a lower interest rate and the requirement for PMI is waived.

- Patricia qualified for a 5 percent down payment mortgage with an interest rate of 6 percent for 30 years.
- The price of the house is $127,000.
- Her monthly principal and interest payment is $761, and her estimated taxes and insurance payments are $125.
- Patricia wants to buy a townhouse so she does not have to worry about outside maintenance and upkeep. However, this convenience will cost her $105 a month in homeowner's association dues. She may also have to pay a special charge, known as an assessment, for any major repairs.
- Patricia's total monthly housing expenses are $1,061, or 26 percent of her monthly income of $4,100.
- The total of Patricia's monthly housing expenses and long-term debt is $1,161, or 28 percent of her monthly income.

Patricia's Mortgage

Cost of Townhouse	$127,000
5% Down payment	$6,350
30 year mortgage @ 6%	**$120,650**
Monthly P & I	$761
Monthly T & I	$125
Mortgage Insurance	$70
Homeowner's Association Dues	$105
Total Housing Expenses (26% of $4,100 monthly income)	**$1,061**
Total Long-Term Debt	$100
Total Housing and Long-Term Debt (28% of $4,100 monthly income)	**$1,161**

Does Patricia's debt-to-income (DTI) ratio fall within most lenders' guidelines?

When DTI Exceeds Recommended Ratios

If you do not meet the lender's DTI ratio you may qualify for the loan if you:

- Show that you currently pay more in rent than what your mortgage payment would be
- Have a good credit history or limited credit use
- Make a larger down payment
- Have cash reserves (e.g., savings and investment accounts)

You also might want to consider looking for a less expensive home. This can help prevent you from taking on too much in debt.

Step 5: Go Through Settlement

Settlement occurs when the borrower meets with the seller and other representatives to sign the documents that will finalize the sale of the house and any mortgage financing. An important document that you must review before the settlement meeting takes place is the Housing and Urban Development (*HUD)-1* or *HUD-1A* Settlement Statement. This is to ensure that the closing fees are what you and your lender agreed on.

You have a right to review the settlement statement at least one day before closing. Compare the costs on the HUD Settlement Statement with the Good Faith Estimate (GFE) you received when you applied for the loan..

What To Do If You Are Having Trouble Making Your Mortgage Payments

- Consider actions that can enable you to make your payments. Look for ways to cut expenses.
- Stay current on loans, credit cards, and other bill payments to help minimize damage to your credit score.
- Contact your lenders immediately if you anticipate payment problems.
- Be proactive if your payment problems have already started.

If you think you need assistance working with your lender, get help from a trained reputable housing counselor who can help you for no charge or a small fee. Find one through **NeighborWorks America** (www.nw.org), or by calling **1-888-995-HOPE (4673)**. For a referral to a local homeownership counseling agency certified by HUD, visit www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm or call **1-800-569-4287**.

Tapping Into Your Home's Equity

Equity is:

Value of home	=	$250,000
minus debt	=	- 200,000
Equity	=	$ 50,000

The traditional *home equity loan* is a one-time loan for a lump sum, typically at a fixed interest rate. The loan is repaid in equal monthly payments over a set period of time.

A *home equity line of credit* (HELOC) works like a credit card. You receive a line of credit from which you can draw money. As you repay the principal, your available credit goes up again, just like a credit card. Typically, the interest rate on a line of credit is variable, meaning that it is tied to an index and will change with movements in interest rates.

Advantages

Home equity products offer homeowners great flexibility to finance major expenses, including home improvements and college tuition. They usually have a lower interest rate than credit cards, and the interest often is tax-deductible (check with your tax advisor).

Risks

- The most important thing to remember is that your home is collateral for the loan. If you run into repayment difficulties, you could lose your home.
- With both types of home equity products you also are at risk if there is a drop in the value of your home.
- When deciding whether a line of credit is right for you, ask yourself if you can afford the increased monthly payments after the introductory period ends or when interest rates rise, and if you are comfortable with a fluctuating monthly mortgage payment or whether a fixed interest rate and stable payments are better for you.
- Also remember that you are drawing out the money you have invested in your home, so you should think carefully about what you do with that money.
- The flexibility these loans give you can be dangerous because if you are not disciplined about how you use the funds, you could end up paying a lot of money over a long period of time for something you no longer own or that did not add any value to your existing assets.

Your Rights

Federal law gives you three business days after signing the loan papers to cancel the deal—for any reason—without penalty. You must cancel in writing. The lender also must return any fees or finance charges you had paid. This right does not apply if you are buying a home or refinancing without borrowing additional money.

For more information, see the brochure *Putting Your Home on the Loan Line Is a Risky Business*, available on the Federal Deposit Insurance Corporation (FDIC) website at www.fdic.gov/consumers/consumer/predatorylending.

Cash-Out Refinancing

Refinancing is a process by which an existing home loan is paid off and replaced with a new loan. A *cash out refinance loan* allows you to borrow more money than owed on the loan to be replaced. Cash-out refinancing differs from a home equity loan in a couple of ways.

1. A home equity loan is a separate loan on top of your first mortgage. A cash-out refinance is a replacement of your first mortgage.
2. The interest rates on a cash-out refinancing loan are usually, but not always, lower than the interest rate on a home equity loan.
3. You have to pay closing costs when you refinance your loan. You may not have to pay closing costs for a home equity loan. Closing costs can amount to hundreds or thousands of dollars.
4. It does not make sense to refinance a higher amount at a higher rate. If your current mortgage is at a lower interest rate than you could get now by refinancing, it is probably better to get a home equity loan.

When you decide whether to do the cash-out refinancing option, keep in mind that you will have to pay PMI if you borrow more than 80 percent of your home's value. If you have to pay PMI, it might be cheaper to take out a home equity loan.

Reverse Mortgage

A *reverse mortgage* is a home loan that you do not have to pay back for as long as you live in your home. It can be paid to you in one lump sum, as regular monthly income, as a credit line that lets you decide how much you want and when, or in any combination of these. To qualify for a reverse mortgage, all homeowners must be at least 62 years old and at least one owner must live in the house most of the year.

The loan and interest are repaid only when you sell your home, permanently move away, or die. If your heir or your family members want to keep the house, they must repay the loan. They will also have to repay any interest, finance charges, and fees.

A reverse mortgage usually makes more sense the longer you plan to stay in the home. The expensive up-front costs make the first years of the loan relatively expensive. It is very important to have a realistic understanding of not just your life expectancy, but also how long you can afford the expenses related to your home; including: utilities, property taxes, insurance, maintenance and repairs, and how long you are physically able to keep living in the house.

Most reverse mortgages are made under a FHA program. Most people get a Home Equity Conversion Mortgage (HECM), which has government insurance that protects not only the lender but the borrower. Reverse mortgage products that are not FHA-insured may not offer the same guarantees and protections as an FHA-insured HECM.

Depending on your circumstances, there may be other, less expensive options available to you.   If you decide a reverse mortgage makes sense, contact several lenders and compare the costs and benefits of their products.

To understand the potential pros and cons of a reverse mortgage, talk to a HUD-approved housing counseling agency. HUD sponsors housing counseling agencies throughout the country to provide free or low cost advice. To find one, call 1-800-569-4287 or visit www.hud.gov.

Beware of Predatory Lenders, Foreclosure Rescue, & Loan Modification Scams

Be wary of any company that does the following:

- Demands a fee in advance
- Makes unsolicited offers or lofty advertisements claiming they can help save your home
- Offers to negotiate a loan modification for a fee
- Recommends you break off contact with your current lender or counselor
- Advises you to stop making mortgage payments
- Tells you to send your mortgage payment to anyone other than your loan servicer
- Instructs you to transfer ownership of your property
- Makes verbal promises that they will not put in writing
- Asks you to sign a document that has blank lines or spaces

Post-Test

Now that you have gone through the course, see what you have learned.

1. **What are the two main costs of owning a home? Select all that apply.**
   a. Homeowner's insurance
   b. Borrowing against equity
   c. Real estate taxes
   d. Increasing income tax burdens

2. **You are ready to buy a house when:**
   a. You are tired of living in a rental unit or with family
   b. You have determined that you have the financial ability to buy a house
   c. You have just started a new job
   d. You have your first child

3. **For most conventional loans, lenders usually require the principal, interest, taxes, and insurance (PITI) or your total housing expenses (front-end ratio) be less than or equal to what percentage of your monthly gross income?**
   a. 3% to 20%
   b. 25% to 28%
   c. 33% to 36%
   d. 44% to 49%

4. **Match each mortgage payment term with the correct definition.**

Principal: ____	a. The amount of the charge for borrowing money
Interest: ____	b. The amount applied to the outstanding balance of the loan

5. **Which of the following are risks to using a home equity product to tap into your home's equity? Select all that apply.**
   a. There is no risk as long as the homeowner stays in the home for five years
   b. Your home is collateral for the loan. If you run into repayment difficulties, you could lose your home
   c. The real estate values in your area may drop
   d. Federal and state taxes may impact your loan

6. **Which document are you required by law to receive one day before settlement?**
   a. Notice of approval or denial and reason for denial
   b. Good Faith Estimate (GFE)
   c. HUD Settlement Statement
   d. Pre-approval letter

7. **Private mortgage insurance (PMI) is:**
    a. The amount of the charge for borrowing money
    b. Often required from homebuyers who obtain loans that are more than 80 percent of their new home's value
    c. The amount applied to the outstanding balance of the loan
    d. Equal to 1/12th of the annual homeowner's insurance premium

8. **Identify the five steps to owning a home by placing the letter for each step in the appropriate order.**

Step 1 _____	a. Qualify for a Loan
Step 2 _____	b. Go Through Settlement
Step 3 _____	c. Determine If You Are Ready to Buy a House
Step 4 _____	d. Determine How Much Mortgage You Can Afford
Step 5 _____	e. Determine Which Mortgage Option Is Best for You

9. **Which loan would allow you to pay off your mortgage faster?**
    a. Traditional fixed-rate mortgage
    b. Biweekly payment mortgage
    c. Interest-only mortgage
    d. Adjustable-rate mortgage (ARM)

10. **Which mortgage allows you to borrow more money than owed on the loan to be replaced?**
    a. Home equity line of credit (HELOC)
    b. Refinance loan
    c. Cash-out refinancing
    d. Reverse mortgage

Glossary

Adjustable-rate Mortgage (ARM): A mortgage in which the interest rate can increase or decrease during the term of the loan.

Annual Percentage Rate (APR): The cost of credit as a yearly rate. The APR includes the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay.

Back-end Ratio: A ratio in which your housing expenses plus long-term debt should be less than or equal to 33 to 36 percent of your monthly gross income.

Biweekly Mortgage: A fixed-rate conventional mortgage with payment due every 2 weeks.

Cash-out Refinancing: A refinancing option in which you refinance your mortgage for more than you currently owe and pocket the difference.

Collateral: Property or assets offered to secure the loan.

Credit Insurance: A form of insurance that covers your loan payments if you die, become ill, or unemployed.

Debt-to-income ratio (DTI): Your monthly expenses compared to your monthly gross income.

Escrow Account: An account to hold money and pay for taxes and insurance as part of your mortgage payment.

Equity: The value of the home minus the amount you owe on it.

Fair Housing Act: An act that prohibits discrimination on the basis of race, color, religion, sex, national origin, family status (including children under the age of 18 living with parents of legal custodians, pregnant women, and people securing custody of children under the age of 18), or handicap status in housing-related transactions.

Fixed-rate Mortgage: A mortgage in which the interest rate stays the same for the term of the loan.

Front-end Ratio: A ratio in which the principal, interest, taxes, and insurance (PITI) or your total housing expenses should be less than or equal to 25 to 28 percent of your monthly gross income.

Good Faith Estimate (GFE): The law requires that lenders/brokers give you an estimate of the settlement service charges within three days of application.

Home Equity Line of Credit (HELOC): A line of credit from which you can draw money.

Home Equity Loan: A one-time loan for a lump sum that is typically at a fixed interest rate.

Index: A base interest rate used to calculate the interest rate that will be charged on a variable-rate loan

Interest: The charge for, or cost of, borrowing money.

Interest-Only Mortgage: A mortgage in which you pay only the interest (not the principal) on the mortgage in monthly payments for a fixed term.

Lock-in: A lender's promise to hold a certain interest rate and points for you, usually for a specified period of time, while your loan application is processed

Mortgage: A loan to finance the purchase of real estate, usually with specified payment periods and interest rates.

Mortgage Insurance: Insurance that homebuyers who make less than a 20 percent down payment are usually required to purchase to help protect the lender if the mortgage is not repaid.

Points: Charges paid by the borrower at settlement or added to the mortgage amount. One point equals 1 percent of the loan amount.

Pre-approval: A commitment from the lender to lend you money.

Pre-qualification: An informal way to find out how much mortgage you can obtain.

Predatory Lending: A practice of using certain marketing tactics, collection practices, and loan terms that deceive and exploit borrowers.

Prepayment Penalty: A penalty for adding additional money to required payment.

Principal: The amount applied to the outstanding balance of the loan.

Real Estate Settlement Procedures Act (RESPA): An act that limits the amount of money a lender may require a borrower to hold in an escrow account for payment of taxes, insurance, etc.

Refinance: A process by which an existing home loan is paid off and replaced with a new loan.

Reverse Mortgage: A home loan that you do not have to pay back for as long as you live in your home.

Settlement: When the borrower meets with the seller and other representatives to sign the documents that will finalize the sale of the house and any mortgage financing.

Taxes: An amount equal to 1/12th of the estimated annual real estate taxes on the home.

Traditional Mortgage: A 15- or 30-year mortgage with a fixed or variable interest rate.

For Further Information

Federal Deposit Insurance Corporation (FDIC)
www.fdic.gov/consumer
Division of Supervision & Consumer Protection
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108
1-877-ASK-FDIC (275-3342)
Email: consumeralerts@fdic.gov

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

Additional FDIC Resources:

- Interest-only Mortgage Payments and Option-Payment ARMs - www.fdic.gov/consumers/consumer/interest-only/
- FDIC Launches Foreclosure Prevention Initiative - www.fdic.gov/news/news/press/2009/pr09171.html
- Putting Your Home on the Loan Line Is a Risky Business - www.fdic.gov/consumers/consumer/predatorylending

U.S. Financial Literacy and Education Commission
www.mymoney.gov
1-888-My-Money (696-6639)
MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education. Whether you are planning to buy a home, balance your checkbook, or invest in your 401k, the resources on MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

Federal Trade Commission
www.ftc.gov/credit / 1-877-FTC-HELP (382-4357)
The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.

Department of Housing and Urban Development
www.hud.gov
1-800-669-9777
The Department of Housing and Urban Development (HUD) website offers educational resources on buying and renting homes.

What Do You Know? – Your Own Home

Instructor: ___________________________________ Date: ____________________

This form will allow you and the instructors to see what you know about buying and owning a home both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before the Training				After the Training			
I can:	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Explain the advantages and disadvantages of renting versus owning a home	1	2	3	4	1	2	3	4
2. Identify questions to ask to determine my readiness to buy a home	1	2	3	4	1	2	3	4
3. Identify the steps required to buy a home	1	2	3	4	1	2	3	4
4. Identify basic terms and required disclosures used in a mortgage transaction	1	2	3	4	1	2	3	4
5. Describe the advantages and disadvantages of different mortgage options	1	2	3	4	1	2	3	4
6. Describe how interest rates affects the amount of house I can buy	1	2	3	4	1	2	3	4
7. Explain how taxes and insurance affect a monthly payment and the amount of house I can buy	1	2	3	4	1	2	3	4
8. Describe the advantages and disadvantages of borrowing against a home	1	2	3	4	1	2	3	4
9. Explain what to do if I am having trouble making payments	1	2	3	4	1	2	3	4
10. Describe the different types of refinancing options	1	2	3	4	1	2	3	4
11. Explain the advantages and disadvantages of a reverse mortgage	1	2	3	4	1	2	3	4
12. Identify predatory lending practices and loan scams	1	2	3	4	1	2	3	4

Evaluation Form

This evaluation will enable you to assess your observations of the *Your Own Home* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

1. Overall, I felt the module was: [ ] Excellent [ ] Very Good [ ] Good [ ] Fair [ ] Poor	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The overheads were clear.	1	2	3	4	5
5. The overheads enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this module.	1	2	3	4	5
7. The module included sufficient examples and exercises so that I will be able to apply these new skills.	1	2	3	4	5
8. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
9. The worksheets are valuable.	1	2	3	4	5
10. I will use the worksheets again.	1	2	3	4	5
11. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5
	None				Advanced
12. My knowledge/skill level of the subject matter before taking the module.	1	2	3	4	5
13. My knowledge/skill level of the subject matter upon completion of the module.	1	2	3	4	5
14. Name of Instructor: Instructor Rating: Please use the response scale and circle the appropriate number.	**Response Scale:** 5 Excellent 4 Very Good 3 Good 2 Fair 1 Poor				
Objectives were clear & attainable	1	2	3	4	5
Made the subject understandable	1	2	3	4	5
Encouraged questions	1	2	3	4	5
Had technical knowledge	1	2	3	4	5

What was the most useful part of the training?

What was the least useful part of the training and how could it be improved?