I WANT TO BUY A HOUSE

FINANCIAL WELLNESS EDUCATION
BEFORE WE START

- Q & A
- Evaluation
TODAY WE’LL TALK ABOUT…

• The benefits and risks of owning a home
• Getting your finances in order
• Using professional services
• Mortgage options and fees
BENEFITS OF OWNING A HOME

- Pride of ownership
- Asset versus rental payments
- Tax benefits
- Potential appreciation
- Estate planning
RISKS OF OWNERSHIP

- Mortgage and maintenance costs
- Relocation – transaction timeline
- Potential depreciation
Know your budget

• Is your income consistent?
• Are your debts manageable?
• Have you saved money for a down payment & closing costs?
MORTGAGE PAYMENT COMPONENTS (PITI)

Principal
Interest
Taxes (property)
Insurance
  - Home Owner’s Insurance
  - PMI Insurance
  - Flood Insurance
PRIVATE MORTGAGE INSURANCE (PMI)

- Usually required if down payment is less than 20%
- Protects lender from default
- Terms vary by program
OTHER COST CONSIDERATIONS

- Maintenance and repair expenses
- Home Owner’s Association fees (HOA)
- Utilities
  - Sewer
  - Water
  - Garbage
TOTAL HOUSING EXPENSES

Less than 25 – 33% of monthly gross income

- Principle, Interest, Taxes, Insurance (PITI)
- Home Owner’s Association dues
TOTAL DEBT-TO-INCOME RATIO

Less than 40 - 45% of monthly gross income

- Includes total housing expenses (PITI + HOA)
- Plus all other scheduled monthly debt payments
Higher credit score = better mortgage terms
  • Lowest credit score to apply = 620

Free credit score
  • CreditKarma.com
Lender Requirements

- 12+ months of on-time payments
- Three open accounts in good standing
- No open collections or judgements

Free credit report
- Annualcreditreport.com
PREQUALIFICATION REQUIREMENTS

- Credit score and report
- Bank statements
- Mortgage or rental history
PREQUALIFICATION REQUIREMENTS

- Employment information
- Pay stubs
- Retirement account statements
- Tax returns and W-2 forms
PROFESSIONAL SERVICES – CHOOSING A LENDER

Bank or Credit Union

• Existing relationship
• Breadth of services
  o Programs offered
• Retail pricing
PROFESSIONAL SERVICES – CHOOSING A LENDER

Mortgage Company

- Word of mouth
- Multiple lenders and programs
- Interview a few
The Value of a Realtor

- Experience & area expertise
- Selection – objective
- Efficient use of your time
- Other professional services contacts
- NO COST!
CONVENTIONAL LOANS

- Banks, credit unions, mortgage companies
- 5% – 25% + down payment
- Sliding interest rate scale based on credit score and down payment
- 20% down avoids PMI
GOVERNMENT LOAN PROGRAMS – FHA

Insured by the Federal Housing Administration (FHA)

• Low down payment and less strict requirements
• Minimum 3.5% down payment
• Gift as down payment is OK
• Down payment assistance (DPA) programs OK
• Mortgage insurance required
GOVERNMENT LOAN PROGRAMS – VA

Guaranteed by the US Department of Veterans Affairs (VA)

• Military service required – Certificate of Eligibility
• No down payment required
• Lower closing costs
• No monthly PMI premiums
United States Department of Agriculture (USDA) Guaranteed Rural Development Loan

- Low to moderate income requirement
- No down payment
- Low monthly PMI
- Flexible credit guidelines
- Rural location of property
MORTGAGE OPTIONS – FIXED RATE

Fixed-Rate Mortgages

- Interest rate never changes during the life of the loan
- Common terms: 30, 20 or 15 years
- Offers long-term peace of mind
MORTGAGE OPTIONS – ADJUSTABLE RATE

Adjustable-Rate Mortgages (ARMs)

- Low initial interest rate
- After the initial period, the interest rate can adjust up or down
- Common terms: 3/1, 5/1, 7/1
- May allow you to buy a bigger or more expensive home now
Good Faith Estimate

- Disclosure of estimated loan terms and fees
- Available for review prior to closing
- Final terms and fees at closing
MORTGAGE TRANSACTION COSTS – NON-RECURRING

Lender Fees:
- Application
- Origination
- Processing
- Underwriting

3rd Party Fees:
- Appraisal
- Title insurance
- Escrow
- Notary
MORTGAGE TRANSACTION COSTS – POINTS

- “Discount” Points: paid as a method to reduce the interest rate on the loan – “buy down the rate”
- One point paid = 1% of loan amount (i.e. $300,000 x 1% = $3,000)
- The ratio of points to rate reduction IS NOT proportional
  - Example: 4.00% 30-yr fixed rate – no discount points
  - Buy rate down to 3.75% by paying one discount point
RECURRING COSTS – INCORPORATED INTO CLOSING

- Mortgage insurance
- Property taxes
- Pre-paid interest
- Home owner insurance
Document Specific Goals

- Budgeting
- Credit improvement
- Saving
- Utilizing professional services
FINANCIAL COACHING

• Contact your EAP for a FREE financial referral
• Benefits include:
  o 1:1 telephone consultation with a specialist regarding your financial issue
  o Assessment of your situation and a discussion of options
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