Lesson: *Home Sweet Home*

Home Sweet Home is a 60-minute interactive lesson. This lesson is designed to increase the knowledge of first-time home buyers on the home buying process and financial considerations when deciding to buy a home.

Learning Objectives

At the conclusion of this lesson, learners should be able to make informed decisions about purchasing a home.

Enabling learning objectives:

- Determine readiness to purchase a home
- Describe different types of mortgage options
- Describe the home buying process
- Identify home buying resources

Learning Activities

This lesson contains the following activities:

- Why do you want to buy? (3-minute large group discussion)
- Mortgage Comparison (2 to 3-minute large group discussion)
- Steps to Homebuying (2-minute large group discussion)
- Housing Calculators (3-minute demonstration)
- Closing the Deal – optional quiz (2-minutes)

Content Outline

1. Welcome and Introduction (5 minutes)
    - Welcome
    - Facilitator Introduction
    - Agenda
    - Why Do You Want To Buy?

2. What Can You Afford? (5 minutes)
    - Calculate Your Budget
        - Debt-to-Income Ratio (DTI)
    - Creditworthiness
        - What Lenders Look For
    - Down Payment
        - Lender Requirements
        - Private Mortgage Insurance (PMI)

3. Lenders and Loans (25 minutes)
    - Loan Types
        - Conventional
        - Government Insured
            - Federal Housing Administration (FHA)
            - Department of Veterans Affairs (VA)
    - Mortgage Comparison
    - Choosing a Lender
        - Interest Rate
        - Annual Percentage Rate (APR)
        - Discount Points
        - Loan Origination Fee
        - Lock-in Options
    - Choosing a Mortgage Loan
        - Fixed Rate Mortgage
        - Adjustable-Rate Mortgage (ARM)
        - Other Loan Options
            - State Veterans Programs
    - Mortgage Calculators

4. The Home Buying Process (15 minutes)
    - Steps to Homebuying
    - Mortgage Application
        - Prequalify
        - Preapproval
            - Capacity
            - Capital and Cash Reserves
            - Credit
            - Collateral
            - Good Faith Estimate
        - Document Requirements
        - Review Credit Report
    - Selecting a Real Estate Agent
        - Can You Do It Alone?
    - Negotiating the Deal
        - Offer Letter
        - Contingencies
        - Counteroffers
        - Property Appraisal
        - Home Inspection
    - The Closing
        - HUD-1 Settlement Statement
        - Closing Costs
        - Prepaid Costs

5. Homeowners Insurance (1 minute)
    - Basic Coverages
        - Cost to Rebuild
        - Personal Property
        - Personal Liability
            - Medical Costs

6. Resources (3 minutes)
    - Local Homebuying Resources
    - Additional Support Resources
        - Personal Financial Manager (PFM)
        - Personal Financial Counselor (PFC)

7. Conclusion (6 minutes)
    - Summary and Review
    - Activity: Closing the Deal
    - Final Questions

Training Materials

A laptop, projector, and screen are needed to project the PowerPoint presentation and videos, if applicable, during the training session. You will also need the following items to conduct the session:

- PowerPoint Presentation: *Home Sweet Home*
- Handouts:
    - *Closing the Deal* (optional quiz)
    - *Looking for the Best Mortgage*
      www.hud.gov/sites/documents/BOOKLET.PDF
    - *Mortgage Shopping Worksheet* (optional)
      www.consumer.ftc.gov/articles/pdf-0104-mortgage-shopping-worksheet.pdf
    - *Spending Plan Worksheet* (optional)
      finred.usalearning.gov/assets/downloads/FINRED-Spendingplan-TK.pdf

- Blank paper
- Pencils or pens
- Large chart paper or whiteboard (optional)
- Markers (optional)
- Internet connection (optional)

Using This Instructor Guide

The presenter is the most important part of delivering information. Make sure to familiarize yourself with the content in the lesson so that you can effectively discuss each key point during the training session. Review the material and practice delivering the content ahead of time in order to feel comfortable covering the material in your own words.

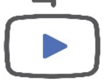
To use this Instructor Guide, review its various parts and components below.

The **Discussion Points** section contains the key points you must present in the training. The information should be presented in the order provided. Use the discussion points as a lesson outline. Avoid reading it word-for-word.

An ***Instructor Note*** provides guidance for the instructor in presenting the discussion points. This section also includes specific instructions on using the media, activities for learners, and references to any other documents or content.

This symbol indicates a handout is associated with the content.

This symbol indicates a discussion activity is associated with the content.



This symbol indicates a video is associated with the content.

Course Preparation

Being prepared for training promotes organization, projects a positive image, and reduces stress. To ensure you are prepared, review the following:

- *Home Sweet Home* PowerPoint Presentation
- References
  - DoD Instruction 1342.22, *Military Family Readiness*
  - DoD Instruction 1322.34, *Financial Readiness of Service Members*
- Resources
  - Annual Credit Report.com
    www.annualcreditreport.com/index.action

  - Consumer Finance.gov
    - Buying a house: Tools and resources for homebuyers
      www.consumerfinance.gov/owning-a-home/

    - Closing Disclosure Explainer
      www.consumerfinance.gov/owning-a-home/closing-disclosure/

- Consumer Financial Protection Bureau (CFPB) – What fees or charges are paid when closing on a mortgage and who pays them? www.consumerfinance.gov/ask-cfpb/what-fees-or-charges-are-paid-when-closing-on-a-mortgage-and-who-pays-them-en-1845/
- Department of Veterans Affairs (VA)
  - www.benefits.va.gov/homeloans/
  - www.va.gov/housing-assistance/home-loans/home-buying-process/
- Department of Financial Readiness – Housing Calculators
  - finred.usalearning.gov/ToolsAndAddRes/Calculators/Housing
- Department of Housing and Urban Development (HUD) www.hud.gov/topics/buying_a_home

Instructor Note: Prior to the start of the session, print enough copies of each handout so each learner has a copy. Ensure you are familiar with home buying classes and resources available in the area. Be prepared to share that information with the learners.

At the end of this instructor guide you find definitions for terms used in this lesson.

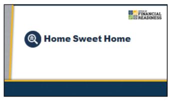
Personalize your lesson. Use the white space on the left side of the page to add your own notes and prompts for discussions.

You can fill it with:

- Subject matter
- Detailed/technical information
- Instructional strategies and methods
- Personal experiences
- Examples and analogies

Discussion Points

1. Welcome and Introduction



Slide 1

Instructor Note: Display slide 1.

Welcome learners to the *Home Sweet Home* lesson.

Gain learner attention and interest:

- Share a short story about the lesson topic
- Share a surprising fact about the lesson's topic(s)
- Ask learners to write down one thing they hope to learn from attending the training today

Facilitator Introduction

Introduce yourself by providing:

- Your name
- Your experience with the lesson topic, financial counseling experience, and/or professional/educational background

Instructor Note: Read the disclaimer to the group.

Disclaimer: *The information presented in this lesson does not constitute legal, tax, investment, financial, or other advice. This lesson is intended as an informational resource to assist you in identifying or exploring resources and options for managing your personal financial situation.*

Agenda

Slide 2

Instructor Note: Display slide 2. Briefly introduce the lesson topics.

- What Can You Afford?
- Lenders and Loans
- The Homebuying Process
- Homeowners Insurance
- Resources

Say: Today we are going to discuss the topics shown on the slide. The information provided will help you make decisions such as whether you are financially ready to buy a house and what you can expect as you go through the homebuying process.

Slide 3

Why Do You Want To Buy?

Instructor Note: Display slide 3.

Purpose: The purpose of this activity is for learners to state the reasons why they want to buy a house.

Time: 3 minutes

Materials:

- Blank paper, pens or pencils
- Whiteboard or chart paper, markers (optional)

Process:

1. Distribute paper and pens or pencils.
2. Instruct the group to write down the reasons they want to buy a house.
3. Tell learners how much time they have to write down their reasons.
4. Ask the group to share their reasons.
5. Write the on the whiteboard or chart paper the group's reasons (optional).
6. If the group is hesitant to share their reasons, you can provide the information below.

Reasons a person wants to buy a house might include:

- I need more space
- I do not want to:
  - Be so close to noisy neighbors
  - Pay extra to own pets
  - Deal with a landlord or deposits
- I want:
  - A place I can decorate/renovate to suit my tastes and needs
  - To build equity
  - Stability and a sense of community
  - To live the American dream

Buying may be a good option if you:

- Are willing to take on the risk that comes with home ownership.
- Have the money for the large initial investment involved.
- Do not mind the possibility of becoming a landlord if you have to move and cannot sell your house.
- Do not mind the time, effort, and cost involved in maintaining a house (e.g., mowing the grass, fixing or replacing broken appliances).
- Are ready to take the time needed to research and find the best home for you and your family.

[End activity]

2. What Can You Afford?

Slide 4

Instructor Note: Display slide 4.

Say: Now that we know why you want to buy a house, let's see if you are financially ready to buy a house.

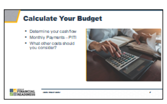
You may have determined your needs and wishes for your new home, but before you start looking for a house you have to make sure your finances are in order.

It may be the right time and place to buy, but if you cannot afford the cost of owning a home (i.e., mortgage payments, taxes, and maintenance), buying a house may not be an option.

You should also understand the impact owning a home will have on your taxes, namely what you can and cannot deduct. This may impact your cashflow and tax withholdings.

To figure out how much house you can afford start by looking at your cash flow, checking your credit, and determining how much money you will need to set aside for a down payment and to cover the costs associated with the purchase.

Calculate Your Budget



Slide 5

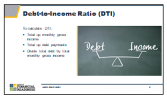
Instructor Note: Display slide 5. The *Spending Plan Worksheet* is an optional handout, but it is recommended that you have copies available for learners who express an interest in updating their spending plan or starting one. During this segment advise learners that a mortgage payment includes the principal, interest, taxes, and insurance (PITI).

Say: To calculate how much you can afford the first thing you want to do is look at your cash flow.

- Ask yourself whether you have a significant amount of money left over every month, or are you living on a shoestring budget?
- Tracking your cash flow (how much money is coming in and what you spend) for a couple of months can give you an idea of where you stand.

If you already have a Spending Plan for your household, that plan is a key tool in determining your cash flow and determining the monthly mortgage payment you can afford. If you do not have a Spending Plan this is a good time to develop one.

Once you know what you can afford, you can use an online calculator to get a ballpark estimate of what you can afford.



Slide 6

Debt-to-Income Ratio (DTI)

Instructor Note: Display slide 6.

Say: Lenders base mortgage loan decisions on a number of factors including how much debt the borrower currently carries. This includes all current debt payments plus the new mortgage. Lenders will require borrowers and/or their spouses to qualify for loans according to a set debt-to-income ratio.

Many lenders use a 28/36 qualifying ratio.

- This means that your mortgage payment (PITI plus any homeowners association dues) should not exceed 28% of your gross monthly income.

- All monthly debt obligations, including mortgage payment and other recurring debt, should not exceed 36% of your gross monthly income.

You can use these ratios to determine whether you are financially ready to take on a mortgage payment or whether you need to first pay down some of your recurring debt.

Instructor Note: Some lenders allow a higher monthly debt-to-income ratio, some as high as 43%. If learners ask how they can determine their DTI, briefly walk through the steps using the example below for a Service member and working spouse or an example that is representative of individuals in the class. Tell learners that if PMI is required, that will factor into their DTI.

Example:

- Monthly household gross income: $6620.38
- Total debt payments: $1932.77

To calculate your debt-to-income ratio:

- Total up your monthly gross income—everything you make in one month before taxes.

  Example: $1932.77 ÷ $6620.38 = .2919 x 100 = 29.19% DTI

- Total all your debt payments (loans, new mortgage, and credit card balances.)
  - For debt payments (e.g., loans and credit card balances) and rent (or mortgage).
    - Use the minimum payment for each debt, even if you pay more than the minimum each month.

- Divide the total monthly debt amount by the total monthly gross income, and multiple that by 100. This is your debt-to-income ratio.

Slide 7

Creditworthiness

Instructor Note: Display slide 7. Tell learners that by federal law, they can request one free credit report a year from each of the three main credit reporting agencies at www.annualcreditreport.com/.

Say: Besides debt-to-income ratio, lenders base mortgage loan decisions on your creditworthiness and their professional judgement of your ability to pay and federal/state rule.

What Lenders Look For

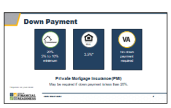
To judge creditworthiness, lenders look for evidence that you pay your bills on time, that you have a track record of managing and prepaying past debt, and that you have the capital needed to take on a mortgage.

Lenders look at three factors: capacity, capital, and character.

From a lender’s perspective, the ideal customer has a:

- High credit score,
- Low level of recurring debt,
- Long history of on-time payments,
- Steady and reliable employment history, and
- Sufficient assets, such as savings and investments.

Instructor Note: Generally, a higher the credit score leads to being offered more favorable interest rates.



Slide 8

Down Payment

Instructor Note: Display slide 8. This slide uses animations. Click one time to reveal the text.

Say: For most mortgage loans, borrowers will need to make a down payment, which is a set percentage of the home’s appraised value or selling price that you pay at time of purchase.

Lender Requirements

The minimum down payment required for a house varies depending on the type of mortgage and can range from 0% to 20%.

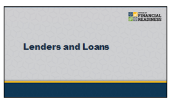
- Conventional loans may require 20%
- FHA loans may require as little as 3.5%
- VA loans usually do not require a down payment but there is a BA funding fee

The amount of your down payment can affect the total cost of your mortgage over the life of the loan. In general, the less money you put down at time pf purchase, the more money you will pay in interest and fees over the life of the loan.

Private Mortgage Insurance (PMI)

In general, if your down payment is less than 20%, you will have to pay for mortgage insurance also known as private mortgage insurance, or PMI. Mortgage insurance protects the lender if you default on the loan.

3. Lenders and Loans

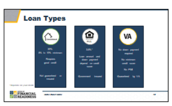


Slide 9

Instructor Note: Display slide 9.

Say: Let's look at what you need to know about selecting lenders and loan types and the costs associated with obtaining a mortgage loan.

Loan Types



Slide 10

Instructor Note: Display slide 10. This slide uses animations. Click three times to reveal the text.

Say: There are many different options in terms of mortgages and lenders. Today we will focus on government insured and conventional loans.

- Government insured loans are backed by the federal government.
- Conventional loans are not insured or backed by the federal government.

Conventional

Basic features of a conventional loan:

- Down payment is typically 20% although some loans may require 10% and others need as little as 5% down
- Mortgage insurance is required when down payment is less than 20% of appraised value
- Requires a good credit score
- Obtained from private lenders

Federal Housing Administration (FHA)

Basic features of a FHA loan:

- Designed for first-time or lower income home buyers
- Has a maximum loan amount

- Benefits include:
  - Less restrictive in credit qualification than a conventional loan
  - Low down payments; can be as low as 3.5%
  - FHA occasionally change minimum required down payment
  - Your required down payment will depend on your credit score
- Mortgage insurance required when down payment is less than 20% of appraised value
- Loan is insured by the FHA
- Obtained through private lenders such as a bank or credit union

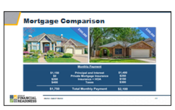
Department of Veterans Affairs (VA)

Basic features of a VA loan:

- Available to qualifying veterans
- Generally:
  - Does not require a down payment, unless required by the lender
  - Has more relaxed credit requirements than a conventional loan
  - Does not require mortgage insurance; requires a VA funding fee
- Backed by the VA (VA guarantees a portion of the loan)
- Obtained from private lenders such as banks or credit unions

Instructor Note: The VA funding fee is a one-time, non-refundable charge that the borrower pays for a VA-backed mortgage. In most cases the fee can be rolled into the loan but if a borrower does this, it will add to the overall loan balance. Individuals eligible for a VA loan will need to obtain a Certificate of Eligibility (COE).

Mortgage Comparison



Slide 11

Preparation: Check what the current terms (e.g., down payment and interest rate) are for FHA and VA home loans in your area.

Instructor Note: Display slide 11.

Say: Let's comparison two mortgage payments for two different homes that have the same selling price.

Purpose: The purpose of this activity is to engage learners in a discussion of the factors that they think can affect a monthly mortgage payment.

Time: 2–3 minutes

Materials: None

Process:

1. Ask learners why they think two houses, with the same selling price, can have a different monthly payment. What factors do they think affect the payment amount?
2. Allow learners 2 to 3 minutes to share and discuss ideas.

   Factors can include:

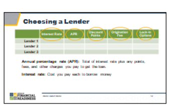
   a. Down payment (affects amount financed)
   b. Credit score of the borrower(s)
   c. Mortgage loan type and annual percentage rate (APR)
   d. Financing the VA funding fee (fee is rolled into the loan)
   e. Location/region can affect:
      - Property taxes
      - Homeowners insurance
      - Home Owners Association (HOA) fees

3. At the end of the discussion tell learners that in the next few slides you will cover factors and costs they need to consider when shopping for a mortgage loan.

Instructor Note: The interest rate and APR associated with a mortgage loan are not the same. The interest rate is the cost the borrower pays each year to borrow the money, expressed as a percentage rate. The APR is a broader measure of the cost of borrowing money and reflects the interests rate, points, mortgage broker fees, and other charges a borrower pays to get the loan.

[End activity]

Choosing a Lender



Slide 12

Instructor Note: Display slide 12. This slide uses animations. Click five times to reveal the text and circles around the column headings. Distribute the *Looking for the Best Mortgage* booklet. Tell learners to turn to the end of the booklet where they will find a mortgage shopping worksheet. The worksheet contains an extensive list of variables they can use to compare loans and lenders.

Say: Finding a reputable lender with a variety of mortgages and attractive loan rates is an important first step in the home buying process. Your real estate agent can make recommendations. Friends and coworkers may be an also provide referrals.

When looking for a lender, you want one that can offer several mortgage options, who is knowledgeable about those options, and who takes the time to explain the options to you.

When comparing the loans that lenders offer, you want to pay attention to the interest rate, APR, points, origination fee, escrow deposit, and other costs of each loan. Each factor affects the total you pay over the life of the loan.

Interest Rate

- The cost you pay each year to borrow the money
- Expressed as a percentage rate

Annual Percentage Rate (APR)

- The total of the interest rate plus any points, fees, and other charges you pay to get the loan
- Expressed as a percentage rate
- When comparing loans, a lower APR is the least expensive option

Discount Points

- Points, also known as discount points, lower your interest rate in exchange for paying an upfront fee at closing. Paying points upfront lowers your interest rate and therefore you pay less over time.
- A discount point is a percentage of the loan amount
- The exact amount that your interest rate will be reduced depends on the specific lender, the kind of loan, and the overall mortgage market.

Loan Origination Fee

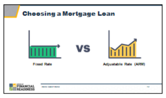
- A loan origination fee is imposed by the lender for processing the loan and is payable at closing.
- The fee is generally about 1% of the loan amount and is applied toward the lender's cost of making the loan.
    - The amount of the fee will be included in the Good Faith Estimate, which is discussed a little later in the lesson.
- You may be able to negotiate the amount of the loan origination fee with the lender, particularly if you are taking out a large mortgage.

Lock-in Options

- Lenders may offer different options to lock in the interest rate at the time you apply for the mortgage.
- Lenders usually honor guaranteed lock-in rates for a specific time, such as 45 or 60 days or more.
    - If you close the transaction within that period, the lender guarantees to provide the interest rate you locked in, regardless of whether the rates rise or fall during the interim.

- If you choose to lock in your rate be sure to get a written lock-in agreement.

Choosing a Mortgage Loan



Slide 13

Instructor Note: Display slide 13. If your state offers a home buying program for veterans, know where to refer learners if they want information about the program.

Say: There are many types of mortgage loans to choose from. Knowing which type of loan suits your needs takes research and understanding how interest and fees are charged on the loan.

There are two basic types of loans—fixed rate and adjustable rate.

Fixed Rate Mortgage

- With this mortgage, the interest the lender charges you stays the same for the entire loan term—usually 15, 20, or 30 years.

- The combined principal and interest payment will not change over the life of the loan but the amounts that go toward principal rather than principle will change.
    - The portion of your payment that goes toward principal will increase over time.

Adjustable-Rate Mortgage (ARM)

- Also called a variable rate.

- With this mortgage, the interest rate adjusts, or fluctuates, over the lifetime of the loan to match the underlying market rate.

- ARMs typically start with a lower (introductory) interest rate than fixed-rate mortgage for months, one year, or a few years.

- While these loans offer lower initial interest rates than fixed-rate loans, as the interest rate increases, so does your mortgage payment.

Other Loan Options

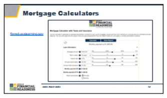
- State veterans programs are offered by many states and may include home loans. Each state manages its own benefits.

- There are other types of mortgage options that may appear attractive (e.g., offer a low initial monthly payment). Do your research to know if any of these options suit your financial situation:
    - Balloon loan
    - Buydown
    - Mortgage assumption

- Seller financing

- Before you sign any documents, it is critical that know what you are purchasing. As with any contract, read the fine print.

Mortgage Calculators



Slide 14

Preparation: Familiarize yourself with the calculators on the FINRED website: finred.usalearning.gov/ToolsAndAddRes/Calculators/Housing

Instructor Note: Display slide 14. This slide contains one hyperlink. Click the link to access the Housing Calculators page on the FINDRED website.

Say: There are many calculators available on the internet. Let’s look at one on the Office of Financial Readiness website.

Instructor Note: If you have an internet connection, show learners how to use one or more of the calculators on the FINRED website. If you will not demonstrate a calculator explain that mortgage calculators contain fields where you can enter and change values (e.g., loan terms and interest rates).

Below are the recommended calculators to demonstrate:

- Mortgage Calculator
- Home Closing Cost Calculator

Instructor Note: Some calculators do not include taxes and insurance in the calculations and, therefore, do not give a complete picture of all costs associated with a monthly mortgage payment. When determining what they can afford each month, tell learners that need to consider any homeowners association (HOA) or planned unit development (PUD) fees that they must pay. These fees, taxes, and insurance need to be included to determine the total monthly cost of homeownership.

Slide 15

4. The Home Buying Process

Instructor Note: Display slide 15.

Say: We have looked at lenders and mortgages, now let's look at home buying process.

Slide 16

Steps to Homebuying

Instructor Note: Display slide 16. This slide uses animations. Click one time to reveal the second image.

Purpose: The purpose of this discussion is to help learners think about the steps involved in the home buying process.

Time: 2 minutes

Materials: Whiteboard or chart paper, markers

Process:

1. Ask learners what they think are the steps in the home buying process. Give them about 1 minute to offer ideas.
2. Write the steps on the white or chart paper.
3. Ask learners in what order they think the steps should occur. Give them about 1 minute to offer ideas.
4. Write the order number next to each step as they offer ideas.
5. Click to reveal the second image on the slide and tell learners that what they see are the steps in the homebuying process and the order the steps occur.

Recommended homebuying steps and order:

1. Figure out home much you can afford*
2. Shop for a mortgage and get prequalified and/or preapproved
3. Shop for a professional real estate agent
4. Shop for a home
5. Make an offer / sign purchase agreement
6. Get a home inspection and appraisal
7. Shop for homeowners insurance
8. Review pre-closing paperwork and provide lender any final paperwork
9. Close on your new home
10. Move in!

* If applying for a VA loan, apply for a Certificate of Eligibility (COE).

[End activity]

Slide 17

Mortgage Application

Instructor Note: Display slide 17. This slide uses animations. Click two times to reveal the bullets.

Say: Before you start the search for the specific home you want, you should comparison-shop mortgage loans with a few different lenders. This process can include one or both of these two processes: Loan pre-qualification and loan pre-approval.

Prequalify

- This is an informal process where you talk with a lender to see how much you may be able to borrow.
- The process can be done online or over the phone using general information about your income, debts, and possible down payment.
- Getting prequalified by a lender does not a guarantee that you will qualify for the loan.

Preapproval

- This process is more formal where you meet with the lender either face-to-face or by phone.
- Prior to the meeting you will need to gather documentation and information about your current and past financial situation.
- After you meet with the lender (and provide all of the requested documentation) the lender will:
  - Pull your credit report and score from all three major agencies to verify your credit history.
  - Evaluate your financial situation to determine if you are creditworthy by looking at:
    - **Capacity:** your current and future ability to make payments
    - **Capital or cash reserves:** money, savings, and investments you have that can be sold quickly for cash
    - **Credit:** your history of paying bills and other debts on time
    - **Collateral:** the address of the property you want to purchase

If the lender decides that you are creditworthy, they will give you a **Good Faith Estimate**, or GFE. The GFE lays out the loan terms, type, amount, and estimated closing costs. The GFE has a time limit. The GFE is not a guarantee of a loan, it is just notification that you are approved for one.

Document Requirements

Before you apply for a loan, there are somethings you should do to prepare.

Gather personal and financial documents for all borrowers:

- Personal identification
  (e.g., government issued identification with photo)
- Proof of income
  - Recent paystubs
  - W-2 wage statements from past two years
  - 1099 forms
  - Tax returns (two most recent years)
- Proof of assets
  - Bank statement(s)
  - Investment statement(s)

Review Credit Report

Request your free annual credit report to look for errors, unpaid accounts, or collection accounts.

- You can obtain a free annual credit report from each of the main credit reporting agencies: Equifax, Experian, and Transunion www.annualcreditreport.com

- Finding and removing errors and eliminating excessive debt will make you a more attractive borrower to lenders.
  - Errors in your credit report could prevent you from being approved for a mortgage.
  - You can request that the reporting agencies correct inaccurate information by filing a Credit Report Dispute.

Selecting a Real Estate Agent

Slide 18

Instructor Note: Display slide 18. This slide uses animations. Click three times to reveal the bullets and question.

Say: Because a house is one of the biggest financial investments people make, many team up with a real estate agent during the house search process. A good agent can save you time, effort, and money.

A real estate agent can:

- Help assess your financial situation and suggest lenders and suitable loan types.
- Focus your house search by targeting suitable neighborhoods.
- Provide listings of available houses that fall within your budget and meet your needs.

- Research prices of comparable houses that have recently sold.
- Help you determine a realistic asking price.
- Manage the details of your purchase.

There are different types of real estate professionals, so you want to know who you are working with. Is the person a buyer's agent or a seller's agent? What types of services do they offer? Do they offer a "movers advantage" program that might offer discounts or "refund" fees.

Can You Do It Alone?

Some people prefer to not use a real estate agent to help them buy a house.

If you do decide to go it alone there are some things to keep in mind:

- Understand why you do not want to work with an agent. Is it because you want to save on agent fees?
  - Typically, the seller pays the real estate agent's commission.

- There will be lots of paperwork.
  - Can you decipher the complex jargon and terms?
  - Do you know how to draw up a purchase agreement?
  - Can you read an inspection report?

- You will have to
  - Do the negotiating on:
    - Price
    - Clauses and contingencies in the purchase agreement
  - Request and review seller disclosures
    - Know what sellers are required to disclose in your state

The bottom line is, unless you have been through the house buying process before, it can be better to use a real estate agent to ensure you are protected financially and legally and do not pay too much for the house.

Negotiating the Deal

Slide 19

Instructor Note: Display slide 19.

Say: On the slide are parts of "the deal" that you need to understand when negotiating.

Offer Letter

Once you are pre-approved for a loan and have found the home of your dreams, your agent will send an offer letter to the listing agent.

Also called a purchase agreement, an offer letter typically includes:

- Description of the property
- Offer price
- Down payment amount
- Financing method you have chosen (e.g., VA loan)
- Closing and occupancy dates
- Any requested repairs
- Contingencies

Contingencies

Contingencies are clauses that allow you to “walk away” from the deal if certain conditions are not met.

Common types of real estate contingencies:

- Home inspection—if the inspector finds defects or damage, you can ask the seller to make the repairs.

- Mortgage approval—if you do not qualify for a loan, you are not obligated to purchase the property.

- Appraisal—if the home appraises for a value that does not match the offer letter, then the buyer can offer a different value. The seller may make a counter offer with a different value.

Counteroffers

Rather than let you walk away from the deal because some contingency has not been met or they do not agree with some part of your offer, the seller is allowed to make a counteroffer.

Some examples are if the seller:

- Wants to haggle over closing costs or needed repairs.
- Cannot move out by the requested closing date, they are allowed to propose a different date.

Anything in the offer letter is subject to a counteroffer, so be prepared to negotiate, especially on the price, and specifically if you have made a low-ball offer.

Under Contract

Once negotiations are complete—the buyer and seller have come to an agreed upon price and other terms of the sale—and all parties have signed the offer letter (purchase agreement), the document becomes a legally binding agreement that governs the purchase and sale of the property.

This is the point when the house if considered “under contract.”

Property Appraisal

Your lender orders an appraisal to determine the market value of the property, because it will be used as collateral for your loan. You have a legal right to get a copy of the appraisal report.

Unlike the inspection, the appraisal is mandatory. The appraiser is a certified professional hired by the lender, not the buyer.

The appraiser can use one of two approaches:

- In the sales comparison approach, the appraiser compares the property with three or four similar houses that have sold in the area. These houses are called comparable, or comps.
- In the cost approach, the appraiser estimates the cost to replace the home and any permanent structures on the property.

If the property's appraised value matches the loan amount, then the lender will issue a Commitment Letter.

The Commitment Letter serves as final approval of your mortgage loan and states the terms of the approval. Once you receive and accept this, you are ensured the financing needed to complete the purchase of the house.

Home Inspection

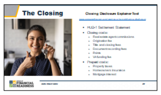
Instructor Note: Be prepared to tell learners what the average cost for a home inspection in in your area.

Once you have made an offer to purchase the home and have signed the contract, your next step should be to get the home inspected, preferably by a professional. Some states require licensing for home inspectors, and some do not.

- The buyer is responsible for hiring and paying for the home inspection.

Within a few days after the inspection is complete, you will receive a written report, which should include observations on the current condition of the:

- Plumbing/HVAC/electrical systems
- Doors and windows
- Attic insulation
- Ventilation
- Appliances
- Roof
- Foundation



Slide 20

The Closing

Instructor Note: Display slide 20. This slide uses animations and a hyperlink. Click two times to reveal the bullets. Click one more time to reveal the Closing Disclosure Tool text and link.

Say: The day you close on your house is the day you officially finalize the transaction. There are a variety of costs associated with closing, which is also referred to as a settlement.

- The total amount of closing or settlement costs can be anywhere from 3 to 3.5% of the selling price.
- Closing costs can be paid by the buyer, seller, or both, depending on what was negotiated.
- Whatever you negotiate should be in writing and will become the basis of the sales contract.
  - If some buyer's costs are shifted to the seller, then the price the buyer pays for the property may increase if the seller wants to recoup those costs.

HUD-1 Settlement Statement

All of the settlement costs will be listed on the HUD-1 Settlement Statement, which you can review at least one day before closing.

Closing Costs

Closing costs can include:

- Real estate agent commissions
- Origination fee
- Lender’s title insurance
- Owner’s title insurance
- Closing attorney fee
- Document recording fees
- Points
- VA funding fee

Prepaid Costs

Prepaids are items required by the lender to be paid in advance such as property taxes, homeowners insurance, mortgage interest.

The funds are placed in an escrow account to cover mortgage expenses that are typically included in monthly homeownership-related costs. The lender will draw funds from the account to pay bills when they are due.

Instructor Note: Tell learners that they can use the Closing Disclosure Explainer tool to double-check that all the details about their loan are correct on the Closing Disclosure.

- Lenders are required to provide you with a Closing Disclosure three business days before your scheduled closing. Use these days wisely—now is the time to resolve problems. Before you sign the document, review it completely. if something looks different from what you expected, ask why.

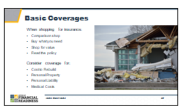
5. Homeowners Insurance

Slide 21

Instructor Note: Display slide 21.

Say: Some lenders require that you to purchase homeowners insurance to cover the amount of your mortgage.

Basic Coverages



Slide 22

Instructor Note: Display slide 22. This slide uses animations. Click one time to reveal the additional bullets.

Say: When shopping for homeowners insurance there are some tips to keep in mind:

- Compare coverage, price and customer reviews.
- Be sure you get the right type and amount of coverage.
- Shop for value, not necessarily a rock-bottom price.
- Understand the details of the policy you plan to purchase: premium, deductible, and types of coverage.

Cost to Rebuild

At a minimum, you need to make sure that the amount of insurance coverage you obtain is enough to cover the cost of rebuilding the house in the event of a catastrophe.

- The cost of the land is not included in the cost to rebuild.

- Rebuilding costs are not based on the price you paid for your house. The cost of rebuilding could be more or less than the price you paid or could sell it for today.

Personal Property

- Most homeowners insurance policies provide coverage for your personal possessions for approximately 50% to 70% of the amount of insurance you have on the structure or “dwelling” of your house.

- This may not be enough if you own high-value items. To determine how much personal property coverage, you need conduct a home inventory where you create a detailed list of everything you own and the cost to replace the items if they were stolen or destroyed.

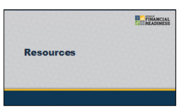
Personal Liability

- This part of your policy covers you against lawsuits for bodily injury or property damage you or family members cause to other people.
- It pays for both the cost of defending you in court and for any damages a court rules you to pay.
- Generally, most homeowners insurance policies provide a minimum amount of liability insurance, but higher amounts are available.

Medical Costs

- Your liability insurance also pays for the medical treatment of those injured in your home or on your property.
- Basic coverage is usually $1,000 per person for medical payments.

6. Resources

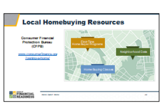


Slide 23

Instructor Note: Display slide 23.

Say: Before we end today let's take a few moments to talk about some of the free resources available to you.

Local Homebuying Resources



Slide 24

Instructor Note: Display slide 24. The slide uses animations and one hyperlink.

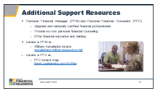
Tell learners about home buying classes and resources available in the area.

Resources may include:

- State and local first-time homebuyer programs
- Home buying classes
- Neighborhood data sources

Instructor Note: Click one time to reveal the text and link. If you have an internet connection, click the link to show learners where they can access the various tool available on the webpage.

Say: The Consumer Financial Protection Bureau (CFPB) website contains tools and resources for homebuyers.



Slide 25

Additional Support Resources

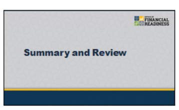
Instructor Note: Display slide 25. This slide uses animations and two hyperlinks. Click two times to display the additional bullets. If you have an internet connection, click the links to show where on the web pages learners can locate personal financial professionals.

Say: If you would like assistance in determining your financial ability to buy a home or other financial topics, consider talking to a financial professional. There are two types of professions available to you at no cost: Personal Financial Manager (PFM) and Personal Financial Counselor (PFC).

These individuals have a degree and are nationally certified. They can provide you with personal financial counseling and financial education and training, like the session today.

- To find a **PFM** at your nearest installation visit the Military OneSource website.

- To find a **PFC** check out PFC locator map on the Office of Financial Readiness website. These individuals are available 24/7, 365 days a year.



Slide 26

7. Conclusion

Summary and Review

Instructor Note: Display slide 26. At the beginning of the session if you asked learners to write down one thing, they hoped to learn from attending the training today, ask them if they learned what they had hoped they would, and if not to share with the group what they wrote down.

Provide a short answer or explanation to what learner's shared and invite them to make an appointment with a personal financial counselor to learn more.

Closing The Deal

Instructor Note: If you will use *Closing The Deal* quiz as a closing activity, distribute the handout now. The answers to the questions are shown below.

There are several ways you can use the quiz:

- Group discussion—Ask the group to provide the answers and answer learner's questions as they come up.

- Individual activity—Tell learners to write their answers on the handout. After a predetermined amount of time, provide the answers and ask the group if they have any questions.

Answer Key

1. You can expect to pay 3% to 3.5% of the selling price for ___(closing costs)___.
2. ___(Private mortgage insurance)___ protects the lender against default on the loan.
3. The ___(buyer)___ is responsible for hiring and paying for the home inspection.
4. The VA accepts liability on your behalf through the ___(VA funding fee)___.
5. Your lender will order an ___(appraisal)___ to determine the _(market value)_ of the property.
6. Prepaids are items required by the___(lender)___ to be paid in advance such as property taxes and homeowners insurance.
7. Some ___(conventional)___ lenders offer home loans with either a 10% or 20% down payment.
8. ___(Contingencies)___ are clauses that allow you to redraw or get out of the contract if they are not met, such as a home appraisal, inspection, certain repairs, clear title, and HOA requirements.

Final Questions

Slide 27

Instructor Note: Display slide 27.

Ask: Does anyone have any final questions about the topics we covered today?

- What Can You Afford?
- Lenders and Loans
- The Homebuying Process
- Homeowners Insurance
- Resources

Thank everyone for participating in the discussions and sharing their ideas!

Definitions

Amortization is the process the lender uses to calculate the amount of a monthly payment is applied to the loan's principal balance each month. The borrower owes more interest in the early years of a mortgage and most of the payment goes toward interest. Near the end of the loan, the borrower owes much less interest because most of the payment goes to pay off the remaining principal.

Balloon loan: payments made during the term of the loan do not fully pay of the mortgage. At the end of the term, the homeowner must pay the remaining principal in one lump sum.

Buydown: buyer pays an extra point to buy down the mortgage interest rate And in turn have a lower monthly payment.

Mortgage assumption: buyer assumes (takes over) the seller's loan (mortgage terms and balance).

Seller financing: seller takes on the role of lender and extends enough credit to the buyer for the purchase price of the home, minus any down payment

Types of Real Estate Professionals

Real estate agent: Anyone who earns a real estate license can be called a real estate agent. An agent could be a sales professional, broker, or REALTOR®. State requirements vary, but in all states, an agent must take a minimum number of classes and pass a licensing exam.

REALTOR®: A real estate agent who is a member of the National Association of REALTORS®. Realtors are bound by the association's code of ethics and must uphold its standards.

Real estate broker: A person who has taken education beyond the agent level as required by state laws and has passed a broker's license exam. A broker may work independently or hire other agents.

Buyer's agent: A buyer's agent works for the home buyer. The agent helps individuals find a house and negotiate terms and conditions that will be most favorable for the buyer. The relationship is defined in a contract. Buyer's agents usually split part of their commissions with their brokers or may charge a fee for services.

Listing agent: A listing agent represents the home seller and "lists" the home with the Multiple Listing Service (MLS). When the home sells, both the listing agent and the selling agent split part of their commission with their respective brokers.

Selling agent: A selling agent usually learns about houses for sale through the MLS and then finds a buyer. This agent works with the buyer but legally represents the seller and must get the best possible deal for the seller