

City of Columbia Community Development

803-545-3373



A Home Would Like to Buy One? Are You Mortgage Ready?



Homebuying Overview



Advantages of Homeownership

- Stable housing costs
- Tax benefits
- Equity
- Control over your environment
- Stability



Disadvantages of Homeownership

- Monthly costs
- No guarantees
- Maintenance and repairs
- Decreased mobility
- Fewer features included



Steps in the Homebuying Process

- Attend homeownership education class
- Determine how much you can afford
- Meet with lender for pre-approval
- Determine wants and needs in a home
- Shop for a home



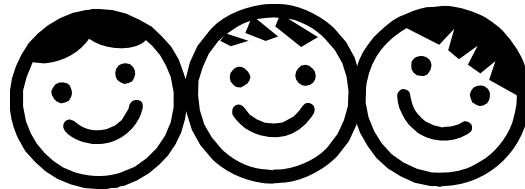
Steps (Continued)

- Make an offer
- Obtain professional home inspection
- Apply for mortgage loan
- Secure homeowners insurance
- Close the loan



The Homebuying Team

- Homeownership Counselor
- Real Estate Agent
- Lender
- Attorney or Escrow Agent
- Title Insurance Agent
- Home Inspector
- Appraiser
- Surveyor
- Homeowners Insurance Agent





Agenda



Managing your Money



Understanding Credit



Getting a Mortgage Loan



Managing Your Money



Why do you need a spending plan?

- Prepare for large expenses
- Encourage savings
- Prepare for surprise expenses
- Identify wasteful spending
- Accomplish goals



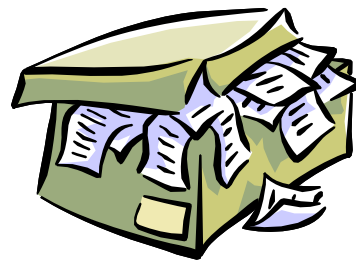
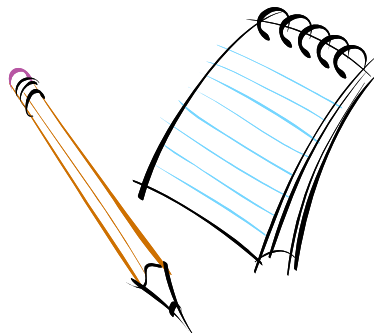
Establishing a Spending Plan

- Determine your monthly net income
- Calculate your monthly expenses
- Subtract your regular expenses from your income



Keeping Track of Spending

- Save all receipts
- Record in a small notebook
- Use a Money Management App



Mint.com, Goodbudget,
Mvelopes, BuildGuard, Pocket
Expense, HomeBudget,
Expensify (all free except
HomeBudget \$5.00 - \$6.00)

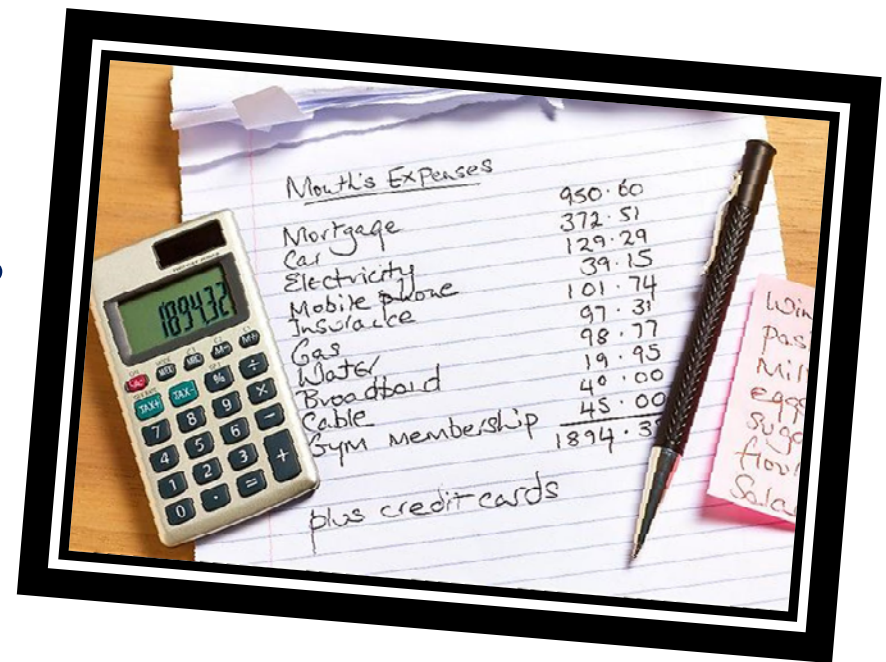
Wants vs. Needs

- ✓ Needs = items you must have for basic survival
- ✓ Wants = things you desire but can live without



Different Types of Expenses

- Fixed expenses
- Periodic fixed expenses
- Flexible expenses
- Indebtedness expenses



Trimming Expenses

- Clip coupons
- Use a list to do grocery shopping
- Make cost comparisons fun
- Get three quotes for large purchases
- Agree on allowance for each household member



Trimming Expenses (Continued)

- Eat at home
- Take lunches to work
- Shop in resale stores
- Trade services with friends
- Find fun activities that are free



Money Management Tips

- Plan according to current income
- Plan ahead for six months
- Include spending money for all
- Keep record keeping simple
- Set money aside for maintenance & reserves
- Pay yourself first - at least 10% of take-home pay
- Get consensus from entire household



Reviewing the Plan



- Is the spending plan working?
- Are all household members able to follow it?
- Which costs always seem to be over the planned amount?
- Are we getting closer to reaching our goals?

Making Money Management Easier

- Decide who pays bills
- Know when bills are due
- Use utilities' level billing payments
- Open a checking account
- Open a savings account
- Consolidate credit card accounts
- Consider selling a car
- Check your interest rates
- Stick to the plan

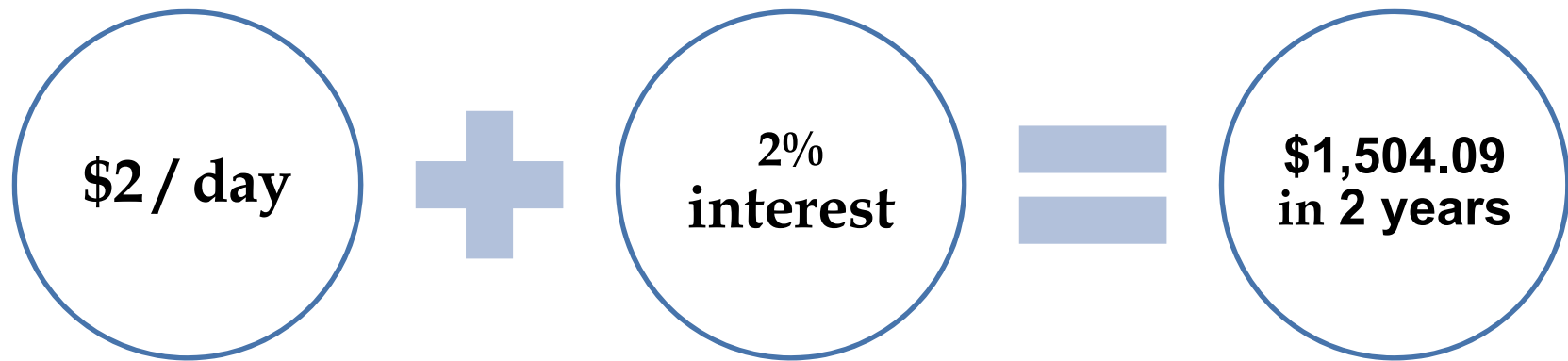


Controlling Day-to-Day Spending

- Carry written reminders of your goals
- Carry as little cash as possible
- Pay with cash, check or debit card
- Avoid using credit cards
- Buy only what you need




Importance of Saving



Try to save 10% of your income on a monthly basis!

Types of Savings Accounts

- Regular savings account
- Club account
- Certificate of deposit (CD)
- Money market account
-  Matched savings account (IDA)

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Tips for Savers



- Pay yourself first
- Open a savings account far away from home and work
- Save change at end of day
- Bank your surprises



Understanding Credit



Your Credit Rating



- How much you have borrowed
- From whom you borrowed
- How well you have repaid your debts
- How you are handling current debts

Importance of Good Credit

- To obtain a lower interest rate
- To get a job
- To lease property
- To establish utility services
- To obtain insurance



Credit Reporting Agencies

Experian

www.experian.com
(888) 397-3742

TransUnion

www.transunion.com
(800) 888-4213

Equifax

www.equifax.com
(800) 685-1111

Types of Credit Reports

- Consumer credit report
- Infile credit report
- Residential mortgage credit report



Reviewing Your Credit Report

- Identifying information
- Credit information
- Public record information
- Inquiries



Types of Accounts

Use and responsibility

- Individual
- Joint
- Authorized user

Payment arrangement

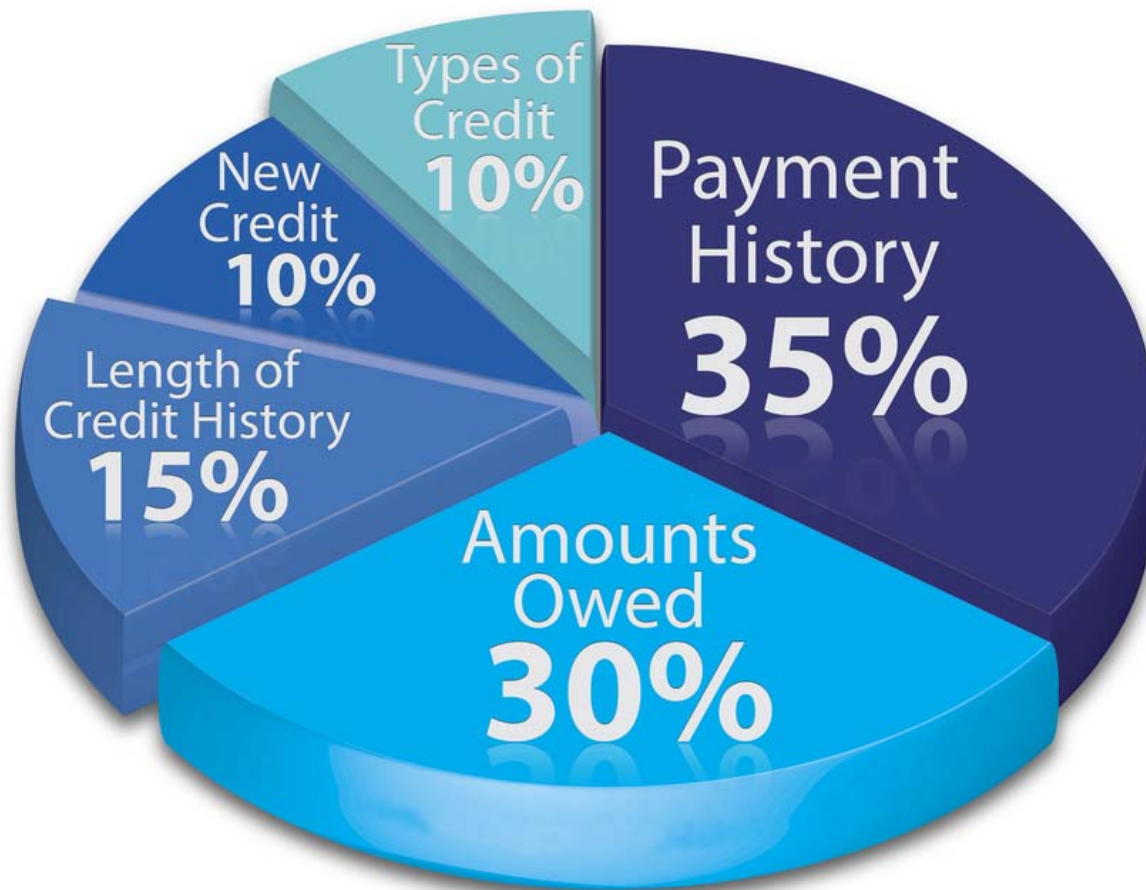
- Installment
- Revolving
- Open 30-day

Credit Scores

Credit Reporting Agency	FICO Score	Range
Equifax	BEACON	300-850
Experian	Fair Isaac Risk Model Version 2	150-934
TransUnion	EMPIRICA	330-830
All Three Bureaus	VantageScore 3.0	300-850*

*VantageScore 3.0 closely models the FICO Scoring Range, but is not yet authorized for use in mortgage lending.

What Makes Up a Credit Score



Tips for Improving Your Credit Score

- Correct any inaccurate information
- Pay your bills on time
- Minimize outstanding debt
- Open new accounts only if needed
- Manage credit accounts responsibly



Correcting Errors and Omissions

- Follow the instructions provided
- Explain the problem in a brief letter
- Contact the creditor directly if the credit reporting agency does not find the error
- Write a consumer statement if the issue remains unresolved



Common Credit Problems

- Pattern of late payments on current debts
- Bankruptcies
- Judgments or liens
- Past-due or collection accounts
- Charge-offs
- Foreclosures or repossessions



How Long Does Information Remain? (Based on the Fair Credit Reporting Act)

- **Basic Negative information** 7 years
- **Collections** 7 years + 180 Days
- **Foreclosure/Short Sale** 7 years
- **Bankruptcies** 10 years
- **Judgments** 7 years or longer per state statute
- **Unpaid Tax Liens** Indefinitely*
- **Student loans** 15 years
- **Inquiries** 2 years

* Each Bureau has different policies relating to how long an unpaid tax lien will remain in a credit profile. As of fall, 2016, their policies are: **Experian = 15 years, Exquifax = 10 years, TransUnion = indefinitely.**

Solving Credit Problems

- Prepare a realistic spending plan
- Contact creditors
- Seek professional help
- Pay past due accounts
- Negotiate discounted payoffs
- Negotiate a workout plan
- Write an explanation letter
- Negotiate a debt-management plan



Debt-Management Plans

- At start, accounts may be paid late
- Not all creditors “re-age” accounts
- Some creditors report the plans
- Many lenders view the plans as Chapter 13 bankruptcy



Danger Signals of Quick Credit Fixes

- Asking for payment before credit repair services are provided
- Advising you to dispute all negative information
- Over-promising quick results
- Helping you get a new identity



Nontraditional Credit



- Rent payments
- Monthly Insurance Payments
- Gas, electric and other utility payments
- Any other large, recurring expense

Establishing Credit



- Always pay bills on time
- Open checking and savings accounts
- Apply for a loan using savings as collateral
- Apply for a limited-use credit card
- Apply for a loan with a co-signer

Managing Your Debts

1. Be honest about your debts
2. Add up what you owe to all creditors
3. Figure out why you have money problems
4. Decide how many credit cards you really need
5. Establish or maintain savings plan
6. Automate to be on time
7. Give up luxuries temporarily
8. Look to the future
9. Try “Power-Pay” for smarter paying



Pizza Cost Comparison

Payment Method	Terms	Cost to the Consumer
Cash	Pay Now	\$10.00
Credit Card With Balance	Pay Off Over 18 Month with 18% Interest	\$42.40

Opt Out to Avoid Debt

Opt-Out Number

888-567-8688



Reducing Your Risk of Identity Theft

1. Only provide your Social Security number as needed
2. Be cautious with personal information
3. Shred documents
4. Keep mail safe
5. Store personal information in a safe place
6. Don't carry extra credit cards or paperwork
7. Create unique passwords and PINS for accounts
8. Pay attention to billing cycles
9. Order credit reports once a year



If You're a Victim

1. Contact Credit Reporting Agency fraud departments
2. Contact all creditors involved
3. File a police report
4. Contact the FTC
5. Keep records of contacts



Know Your Rights

- Prevent discrimination by companies that give credit
- Require credit companies to give reasons for denials
- Require credit companies to answer consumers' questions



Equal Credit Opportunity Act

- Prevents lender discrimination on the basis of race, color, religion, national origin, sex, age, marital status or source of income
- Requires disclosures of reason for denial within 30 days



Truth in Lending Act

- Requires lenders to provide complete and accurate information about credit costs and terms
- Requires companies to send monthly billing statements showing balance, billing cycle, rate, payments and other information



Fair Credit Billing Act



- Provides a 60-day right to question any item on your credit card bill
- Requires creditors to begin research within 30 days
- Requires creditors to supply an answer within 90 days
- Allows you to skip payments on disputed items until you hear back from the creditor



Fair Credit Reporting Act

Prevents collection agency employees from:

- Failing to identify themselves
- Calling your home before 8 a.m. or after 9 p.m.
- Contacting you after being told in writing to stop
- Harassing, oppressing or abusing you
- Falsely implying that you have committed a crime
- Telling others that you owe money
- Failing to contact you through your attorney



Getting A Mortgage Loan





What is a Mortgage

- Promissory Note
- Mortgage or Deed of Trust
- Collateral
- Secured Loan



The Mortgage Payment

- Principal
- Interest
- Taxes
- Insurance
- Homeowner's Association Fee



Costs of Buying a Home

Upfront Costs

- Down payment
- Closing costs
- Escrows
- Reserves
- Moving costs

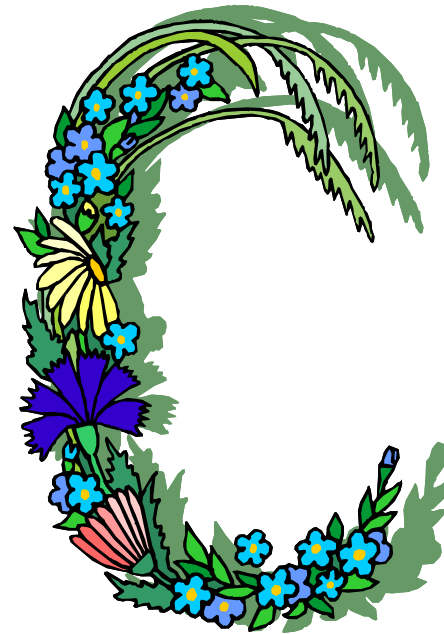
Ongoing Costs

- Mortgage payment
- Utilities
- Maintenance and repairs



The 4 Cs of Credit

- Capital
- Capacity
- Collateral
- Credit History



Reminder

Order Your Annual Free Credit Report

1. www.annualcreditreport.com.

2. 877-322-8228

3. Mail Request to:

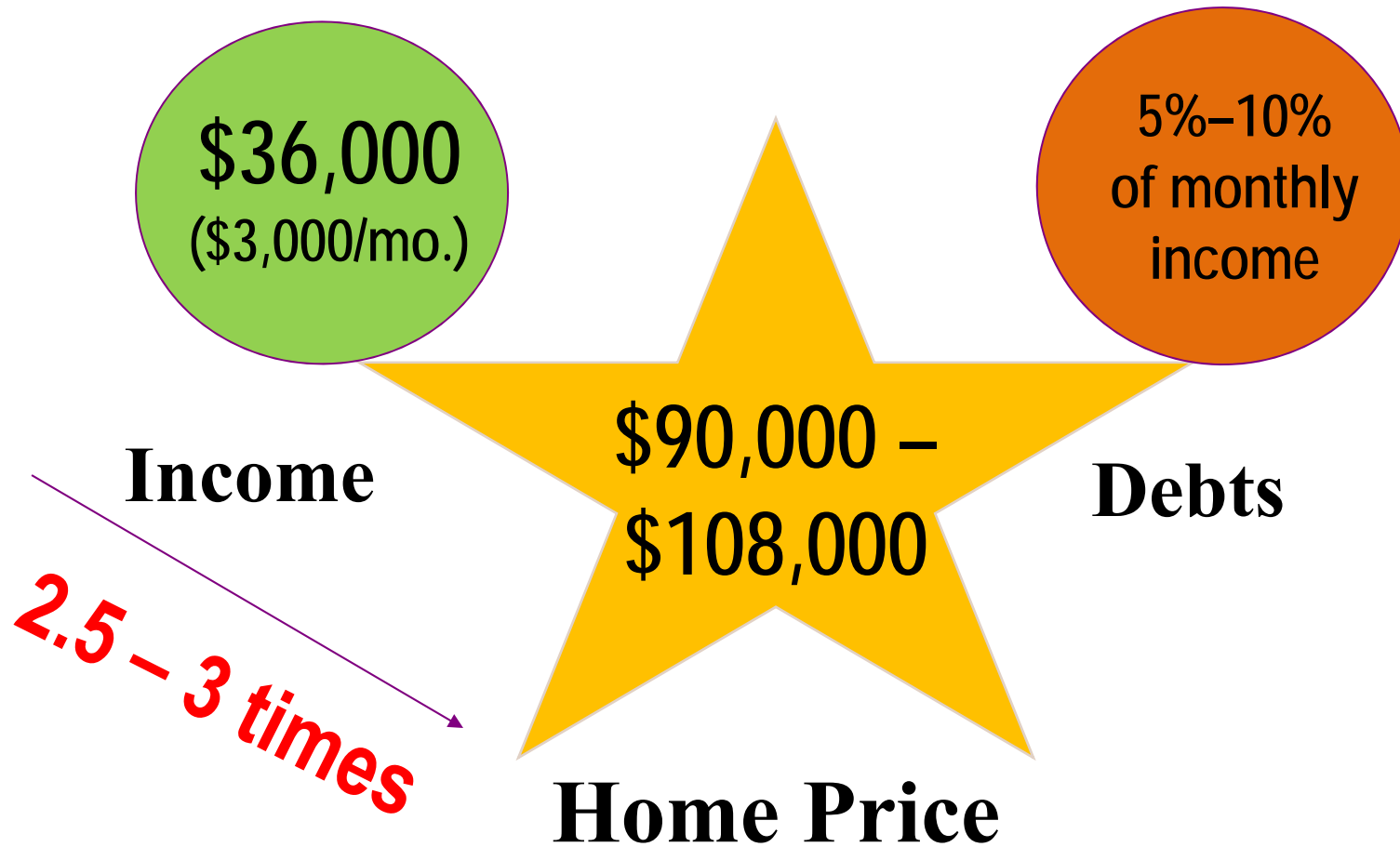
Annual Credit Report Request Service

P.O. Box 105281

Atlanta, GA 30348-5281



How Much Can You Afford?



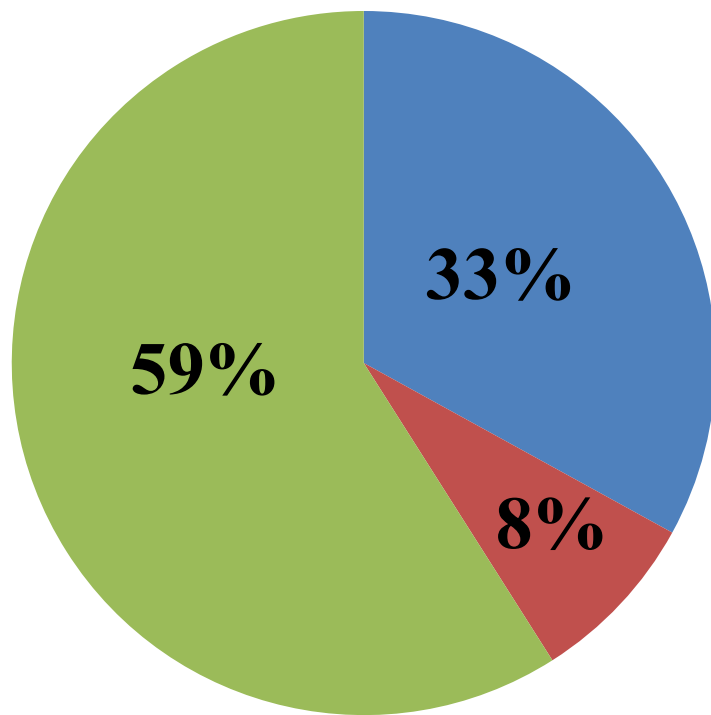
Ratios

- **Housing Ratio** = maximum % of gross monthly income that can be used for a monthly mortgage payment
- **Debt-to-Income Ratio** = maximum % of gross monthly income that can be used for the house payment plus all other debts



Qualifying Ratios

Housing **Debts** **Other Expenses**
33% 8% 59%



41% for housing
plus all other
long-term debt

Prequalification



Financial Calculations

- How much money the lender will lend you
- How much home can you afford
- How much down payment you need
- How much your monthly payments will be

This is Not a Guarantee

Mortgage Terminology

1. Loan-to-value
2. Down payment
3. Loan term
4. Interest rate
5. Annual percentage rate
6. Points
7. Mortgage insurance
8. Escrow account
9. Loan fees
10. Prepayment
11. Rate lock-in
12. Amortization



Mortgage Terminology

1. **Loan-to-value** – The ratio of the loan balance you owe to the appraised value of the house.
2. **Down payment** – The amount of cash you pay towards the purchase price.
3. **Loan term** – The amount of time you have to pay off your loan.
4. **Interest rate** – The cost of borrowing money.
5. **Annual percentage rate** – The total rate you are paying, which includes the monthly interest, the points and other fees charged by the lender.
6. **Points** – one percent of the loan amount.
7. **Mortgage insurance** – A policy required by the lender if the down payment is less than 20%. It is to protect the lender in case you default.
8. **Escrow account** – A special account set up by the lender to collect and pay for taxes and insurance.
9. **Loan fees** – Cost associated with obtaining a mortgage loan.
10. **Prepayment** – Paying more each month than the amount of your mortgage loan payment to pay off the loan sooner and save money on interest.
11. **Rate lock-in** – Protects the interest rate if it rises
12. **Amortization** – The process of paying off a loan with payments over fixed time period.

Loan Fees

- Loan application fee
- Credit report fee
- Appraisal fee
- Loan origination fee
- Document preparation fee
- Broker fee



Loan Application Documents

✓ Application (Form 1003)

✓ Loan Estimate Disclosure

✓ Closing Disclosure



Who Makes Mortgage Loans?

- Banks, Savings Associations, Credit Unions
- Nonprofit organizations
- S.C. State Housing Finance Development Authority
- USDA Rural Development (RHS)
- Sellers
- Mortgage Brokers



Local Affordable Housing Programs

- Richland County
- Columbia Housing Authority

-  **City of Columbia**
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- S.C. State Housing Finance Development Authority

Next Steps




Order copies of your credit reports



Seek Financial Counseling (if needed)

Other Local Agencies that Provide Housing Counseling & Homebuyer Training

-  **City of Columbia** (Housing Counseling)
803-545-3373
We Are Columbia
- **Columbia Housing Authority** (Homebuyer Training)
803 254-3886 ext. 220 or 212



Summary

- Pros and cons of ownership
- Key steps involved in the homebuying process
- Steps in developing a realistic spending plan
- Setting financial goals, trimming expenses and using strategies to increase savings
- Credit reports, scores and how lenders use them
- The importance of good credit
- How to correct errors and what to do if you have credit problems



Summary (continued)

- How to minimize your risk of identity thief and what to do if you become a victim
- Laws that protect your consumer rights
- What a mortgage is and how to qualify for one.
- Lending process for approval or rejection
- Loan Disclosures
- Local affordable housing resources

**City of Columbia
Community Development**

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Loan Officer: Jonathan Grier

