

HOME BUYING BASICS: A SUMMARY OF IMPORTANT CONCEPTS

BEFORE YOU BUY, KNOW YOUR OPTIONS:

This chart summarizes the different types of housing options that can become available.

Channel by which to purchase a home:	HABITAT For HUMANITY	SUBSIDIZED HOUSING	TRADITIONAL PURCHASE (on the open market)
Method of Access:	350-400 Hours Sweat Equity	Lottery	Real Estate Broker
Challenges Associated with the Purchase Process:	Lottery, Long Lead Time, Competitive	Lottery, Competitive	Pricing, Large Down Payment
Affordability:	Most Affordable	Affordable	Expensive
Residency Requirement:	Live or Work in Community Serviced by HFH Branch	Open Residency	Open Residency
Condition of Home:	New Construction	Updated	Might be "Fixer Upper"
Assistance with the Process:	HFH Assigns a Family Advocate	No Official Family Advocate	No Official Family Advocate
Income Requirements:	Income Restrictions	Income Restrictions	Higher Income
Deed Restrictions:	Deed Restrictions on Resale	Deed Restrictions on Resale	No Deed Restrictions
Locations:	Location – Limited Choices	Location – Limited Choices	Location – More Choices

The following 3 pages go over some important concepts to understand before entering into the home ownership process! Please print them out and really consider them carefully. Home ownership is a big commitment, not to be entered into lightly. Set yourself up for success by doing the necessary preparation first.

GENERAL ITEMS TO CONSIDER

Important Questions:

circle one

Do I have a secure, steady job and income?	Yes	No
Can I support the cost of a home and monthly payments?	Yes	No
Where to live: city, a small town?	City	Town
Is the school system good? Explain	Yes	No
What is the commute to work for everyone? (# of miles/minutes)	_____	
Do I need two cars?	Yes	No
If I'm at work, can my spouse/kids get to where they need to go?	Yes	No
Can I get enough money for a down payment?	Yes	No
Do I have a computer and printer for paperwork? (for online applications & email correspondence)	Yes	No

Seek assistance to help you through the process.

PREPARATION BEFORE LOOKING FOR A HOME

Mortgage Pre-Approval

A lender looks at credit reports, employment history and income to determine how much money and what type of loan you qualify for and the interest rate. ***Pre-approval is a requirement*** for all housing applications.

First-Time Home Buyer Classes

Required for Habitat for Humanity houses, but should be required for every 1st time home buyer. The buying process is only the beginning of a complex and expensive venture. Most people do not have a clue what buying a house costs and what it costs once those papers have been passed. These can be done in person or online. For learning purposes, would ***recommend in-person classes***.

Finances

Savings for a down payment and closing costs is ***required***.

Literacy

Home buying involves legal contracts. Understanding some basic concepts and long-term responsibilities is ***required***. There is considerable paperwork and communication that needs to be responded to in a timely manner. You must read and understand everything you sign. They are binding, legal documents.

REQUIREMENTS FOR ALL SUBSIDIZED HOUSING

Application Timeline

- 1) Application Process opens
- 2) Information Session – Usually a month after process opens
- 3) Application Deadline – About 2.5 months after process opens
- 4) Lottery – About 3 months after process opens

The application is a first step in the lottery process and does not guarantee a home. ***All applicants must submit evidence of a mortgage approval with their application and must meet the income requirements.***

DOCUMENTATION REQUIRED FOR ALL HOUSING CHOICES

1. **Proof of citizenship** or legal residence status. Same for spouse.
2. **3-years of federal tax returns with W-2 forms** and schedules for most recent year for every person.
3. **Copy of 5 most recent consecutive pay stubs** for every family member over age 18
4. **Current statements for all other sources of income** (unemployment, disability, social security, etc.)
5. **3-months of most recent statements for:**
 - bank accounts
 - investment accounts
 - retirement accounts
 - cash life insurance policies
6. **Detailed financial information is required by the lending bank** for regulatory purposes and to be sure the applicant has enough money to cover the down payment and closing costs as well as be able to cover the monthly expenses (mortgage-principal and interest, real estate taxes, insurance). Why? The lending bank is taking the risk in loaning the money so they are required to verify the credit worthiness of the applicant.

BE PREPARED IN ADVANCE

Houses can come up quickly. Fill out an application form in advance so the information is readily available when a lottery becomes available.

In summary, you're ready to go if you have the following:

1. Mortgage pre-approval
2. know the income requirements for subsidized housing
3. look at various houses - needs vs. wants
4. application
5. proof of citizenship/legal status
6. tax returns, bank statements, retirement accounts

BEST SCENARIO: YOU'VE WON THE LOTTERY!

You have been informed that your application has been chosen! It takes about 8 weeks from start to finish and **a lot** of paperwork in between.

The professionals you will be dealing with most closely throughout the process are:

1. a housing authority representative
2. the Department of Housing and Community Development (DHCD)
3. mortgage lender
4. an attorney

Terminology to understand:

Purchase and Sale (P&S) — an agreement that states the final sale price and terms of purchase and includes most of the following:

<u>Final Sale Price</u>	Agreed upon by the buyer and seller
<u>Earnest Money</u>	Deposit included with P&S
<u>Closing Date</u>	The date the purchase will be completed
<u>Title Insurance</u>	Insurance to provide clear title of ownership to buyer
<u>Deed Restriction</u>	Limits re-sale price of home to affordable market
<u>Contingencies (4)</u>	approved financing approved title approved appraisal approved Inspection *

Escrow – Funds held by a third party such as real estate taxes and insurance

Real Estate Taxes – Payable quarterly to the town

Homeowners Insurance – Required by closing date

Loan to Value – The percentage of the mortgage to house value

Percentage (%) – Used to describe the relationship between two numbers. The number 10 is 10% of 100 (10/100), it is 20% of 50 (10/50), and 25% of 40 (10/40).

* For subsidized housing, it is required that major systems have been updated and presented to a community housing authority for acceptance. A home inspection is done as an educational process rather than for sale price contingencies.

FINANCIAL CONCEPTS TO UNDERSTAND TO PURCHASE A HOUSE

1. Subsidized housing prices generally fall between \$175,000 and \$275,000
2. Housing and Urban Development (HUD) income limit requirements are: * *

2 person - \$62,550 3 person - \$70,350 4 person - \$78,150

5 person - \$84,450 6 person - \$90,700 7 person - \$96,950

* * (can vary, so verify!)

3. Down payment and closing costs (fees, escrow taxes and insurance, pro-rated interest) can be \$10,000 to \$15,000 or more. The lending bank will verify the buyer has the funds to cover those costs.

Example of determining affordability using the following assumptions:

- A. \$68,318* household income for a family of 5 (2 adults, 3 kids). Meets income criteria.
 *calculate gross income: \$24/hour, 40 hrs./wk, 4.3 wks/mo, 12 mos = \$49,536
 spouse: \$14/hour, 26 hrs./wk, 4.3 wks/mo, 12 mos = \$18,782
- B. \$255,000** pre-approved mortgage amount
 **assume principal and interest are no more than 25% of gross income
- C. \$240,000 3-bedroom house price. Suitable for family with 3 children.
- D. \$3,000 (estimated closing costs)
 + \$7,200 (3% down payment)
 = \$10,200 minimum savings in cash needed to close
- E. \$240,000 (Price) - \$7,200 (down payment) = \$232,800 (Mortgage)
- F. 4.125% interest rate

	Annual	Monthly
Annual Principle and Interest Paid on Mortgage	\$ 13,539	\$1,128
Annual Real Estate Tax	\$ 3,600	\$ 300
Required Home Owner's Insurance	\$ 1,704	\$ 142
TOTAL	\$ 18,843	<u>\$1,570</u>
% of Income	28% (within limits)	

Loan to Value = \$232,800 divided by \$240,000 = 97%.