Homebuyer Seminar

2024

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Enact

Welcome

Owning a home is a dream for many. You may be wondering how to make that dream a reality. Homebuying can seem scary, but this presentation is all about demystifying the process. Rest assured—with these tools in hand, you will be well on your way to feeling confident and informed throughout your homebuying experience.

If you decide that homeownership is for you, then Sikorsky Credit Union and Enact Mortgage Insurance can help you along your journey.

Let's get started.

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01
Preparing

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Understanding Credit

Your credit score has a major impact on a mortgage, from your ability to qualify to the interest rate on your loan. It is important to understand your individual score.

- Your lender will order the credit report that is required for your mortgage application, however it's a good idea to order a copy of your own report before you apply.
- Federal law requires each of the three nationwide consumer credit reporting companies -Equifax, Experian and TransUnion -to give you a free credit report every 12 months if you ask for it.

+ Check your Understanding Credit handout for more information on how to order and review your credit report.

WARNING:
There are websites that claim to offer "free credit reports," "free credit scores," or "free credit monitoring". These sites are not associated with the official free annual credit report site that is required by federal law. In some cases, these "free" reports may come with strings attached or may try to collect your personal information.

Reviewing Your Credit Report

If you have requested a copy of your credit report, you will want to review it to ensure that the information accurate.

Here are just a few of the areas of the report you should be sure to review for accuracy:

- Personal Information: It's not uncommon to have variations or misspellings of your name. Most credit reporting agencies leave these variations to maintain the link between your identity and the credit information.
- Account History: This section includes each of your credit accounts and details about your payment history. It is important to make sure the data is correct.
- Public Records:Public records include information like bankruptcies, judgments, tax liens, and court records. Depending on the type of account, these can remain on your credit report between 7-10 years.
- Credit Inquiry: Credit inquiries list all parties who have accessed your credit report within the past two years

NOTE:
Some creditors may not report to all three agencies so your information and score may vary.

Check your Understanding Credit handout for more information on how to order and review your credit report.

Understanding Your Score

There are many factors that go into creating a credit score:

Payment History
The most significant impact on your score is whether you have paid your accounts in a timely manner (on or before the date the payment was due).

Amounts Owed
Part of the science of credit scoring is determining how much debt is too much.

Length of Credit History
In general, a more seasoned credit history will increase your score. Lenders want to see that you have responsibly managed your credit accounts over time.

New Credit
Opening several credit accounts in a short period of time can represent a greater risk, especially for those with newer credit histories.

Closing Accounts
Part of what makes up your credit score is how much credit you have available (your credit limit) vs. how much credit you are using (your current balance).

NOTE:
While your Lender will look at your income and employment history, these factors are not included in your credit score. Neither the Lender nor your score considers your race, religion, sex, marital status, age, or if you receive public assistance.

Tips for Managing Credit

Follow these best practices for managing your credit.

1. Limit number of credit lines
2. Stay below your credit limit on your credit cards
3. Pay what you owe
4. Pay attention to the payment due dates
5. Keep your contact information current
6. Have an emergency fund
7. Keep new credit lines at a minimum

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Budgeting

In addition to your Lender, there are many online calculators available to help you determine how much house you can afford. An easy guideline to follow is the 36% rule; your total monthly debt should stay below 36% of your gross income (Debt-to-Income Ratio or DTI).

To do a quick estimate of what you can afford, there are two basic numbers you need:

1. Your gross household income—that is, your income ***before*** any taxes are paid
2. Your **monthly debts**. This includes payments on charge cards, car payments and other installment loans. You will not include your present rent or house payment.

Gross Household Income (before taxes)	$50,000
Divide by 12 for Monthly Income (50,000 ÷12)	$4,166
Multiply by 36% to determine debt maximum ($4,166 X .36)	$1,500
Subtract Current Monthly Debts	-- $250
Maximum Mortgage Payment*	**$1,250**

*Mortgage payment includes Principal, Interest, Taxes and Insurance (PITI)

NOTE: Determine how large of a monthly mortgage payment you can afford based on your wants and needs; however, you may qualify for a loan with a higher payment than you are comfortable with.

Check your Budget Worksheet and Affordability Worksheet handouts for more help determining how much you can afford.

Down Payment

Lenders usually require you to contribute some of your own money to the purchase of the house. However, **you don't need 20% down to get a home.** Mortgage Insurance (MI) helps qualified borrowers realize the dream of homeownership sooner.

- Typically, a larger downpayment means a lower interest rate because lenders have less risk when you have more equity in the property.
- MI may help you realize the dream of homeownership without having to come up with a 20% down payment because it compensates the lender for losses should you be unable to make payments.
- The cost of MI depends on your loan's attributes such as your credit score, size of down payment, loan type, loan term, etc.

+ Check your Benefits of MI handout for more information on how Mortgage Insurance can help you buy a house sooner!

NOTE:

Some state or local programs provide down payment assistance or grants; ask your Lender about programs for which you may qualify.

02
Getting Started

Who’s Who?

You will work with numerous professionals on the road to homeownership and each person provides a specific service to help you become a homeowner.

Appraiser

An individual who is licensed to estimate the worth (fair market value) of the property you are purchasing.

Closing or Settlement Agent

The party who conducts the closing meeting. This role may be filled by an attorney, title company, or real estate agent depending upon the state where the property is located.

Loan Officer

A Loan Officer represents one lending institution and their loan programs. They help you choose the best mortgage loan based upon your situation and will help you complete the loan application.

Loan Processor

A Loan Processor is one who gathers, administers, and processes your loan application before it gets the approval of a loan underwriter. This individual is essential to getting your mortgage loan request to the final close.

+ Check your Who’s Who in the Mortgage Process handout for more information on who will help you throughout the process.

Who’s Who?

Loan Servicer
The entity that collects mortgage payments (it may or may not be the lender) and pays taxes and insurance and mortgage insurance, if required, on your behalf.

Mortgage Insurer
By compensating the lender for losses should a borrower be unable to make payments, Mortgage Insurance allows a borrower to get into a home without having to come up with a 20% down payment. Many Mortgage Insurers, such as Enact Mortgage Insurance, can assist borrowers if they become behind in their mortgage payments.

Mortgage Lender
A financial institution that issues loans. Unlike brokers, lenders control the whole process, from underwriting to funding.

Property Inspector
An individual certified to conduct an examination of the home. An inspector will look for issues that may affect the value of the property and can assess the condition of a property’s roof, foundation, heating and cooling systems, plumbing, electrical work, water and sewage, and some safety issues.

Check your Who’s Who in the Mortgage Process handout for more information on who will help you throughout the process.

Who's Who?

Real Estate Agent

A real estate agent is a person who acts as an intermediary between sellers and buyers of real estate/ real property and attempts to find sellers who wish to sell and buyers who wish to buy. They can often provide helpful and specific community information such as shopping, transportation, and schools.

Real Estate Broker

A broker is a licensed real estate professional who represents the sellers or buyers of a property, and can typically help determine the market values of properties. While a broker may work independently and has the ability to manage their own firm, an agent usually works under a licensed broker to represent clients.

Underwriter

A worker who evaluates and determines the risk for potential clients when applying for a mortgage. They may decide whether and under what terms to provide the mortgage.

Check your Who's Who in the Mortgage Process handout for more information on who will help you throughout the process.

Terms to Remember

As you move through the process, you may hear some industry-specific language. Below is a cheat sheet to some key terms.

Amortization

Repayment of loan principal over time with scheduled payments that consist of both principal and interest. The loan balance declines by the amount of the principal in the scheduled payment.

Annual Percentage Rate (APR)

The APR shows the costs of your mortgage loan as a yearly rate. The APR includes upfront fees (such as points) as well as interest and is intended to show you the true cost of your loan. When comparing one loan to another, be sure to compare APRs to get a true picture of what each one will cost you.

Closing Costs

The cost of getting a mortgage in addition to the down payment. Usually 3-6% of the total loan amount.

Credit Bureau

An agency that collects data on individual payment records on loans, credit cards and other debts, and compiles a credit history based on this information. They also provide credit reports to lenders, creditors, and consumers.

+ Check your Terms You Should Know handout for more information on terms you may see or hear during the process.

Terms to Remember

Debt-to-income (DTI) Ratio

The DTI ratio compares how much a borrower owes with how much they earn in a given month.

Equity

Equity is the portion of the property that you actually own through your payments, versus the portions that you still owe the mortgage lender. The longer you stay in your house and make the required payments, the more equity you will have.

Escrow

An account set up on your behalf in which a portion of your monthly payment is held to pay property taxes and insurance.

Gross Income

Amount earned before taxes or types of payroll deductions. Gross income may include overtime commissions and dividends and come from any other sources for which steady history can be shown.

+ Check your Terms You Should Know handout for more information on terms you may see or hear during the process.

Terms to Remember

Loan-to-value (LTV) Ratio

A mortgage's LTV ratio describes the ratio of the value of the property to the amount of outstanding mortgage balance.

Points

Points, also known as discount points, lower your interest rate in exchange for paying an upfront fee.

Pre-qualification

While not an approval, this gives borrowers an estimate of how much money they could borrow to purchase a home.

Pre-approval

A commitment from the Lender to make a loan to a specified borrower prior to identification of the specific property.

+ Check your Terms You Should Know handout for more information on terms you may see or hear during the process.

Mortgage Payment Makeup: PITI

Your monthly mortgage payment will be comprised of four primary buckets: Principal, Interest, Taxes and Insurance --referred to as PITI.

PRINCIPAL	Theportionofyour monthly paymentthat reducesthe balanceofyour loan amount.
INTEREST	The portion of your monthly payment that is applied toward your interest.
TAXES	Usually one-twelfth of the annual property tax bill. The Servicer holds the payments in escrow until the taxes are due.
INSURANCE	Propertyinsuranceisrequiredoneveryhome. Like taxes, they are made with each payment and held in escrow until the bill is due to be paid. MI payments are included here, too.

Check your Terms You Should Know handout for more information on terms you may see or hear during the process.

03
Buying Your Home

Documents to Gather

Begin your homebuying process by working with your lender to pre-qualify for a mortgage. Pre-qualification is ***not*** an approval for a mortgage; it is a less formal way to estimate the range of home prices for you.

***Pre-approval** is a more formal look at what your lender is willing to let you borrow, assuming your finances do not materially change before closing on your home.

These documents will be helpful for a pre-qualification and may be required for a pre-approval:

- 2-3 years of Federal Tax Returns
- 2 years of W-2 statements
- Employment History
- Paycheck Stubs that include year-to-date income
- Savings and Checking Account Statements
- Identification

NOTE:

Some circumstances will require more documentation such as divorce decree, child support, or bankruptcy discharge.

Do's and Don'ts

The mortgage process can be complex, and small changes can get you off track. To help things go as smoothly as possible for both you and your lender, consider these tips for things to do (and avoid).

Do's

- **Keep ongoing record** of income, assets, and current debts/obligations.
- **Be prepared to provide deposit receipts**, including an earnest money deposit from your personal bank account or gift funds.
- **Maintain the same employment and income** to show job stability and income continuance throughout the home buying process. Pay raises/promotions are exceptions.
- **Create a savings plan** for funds such as an earnest money deposit, down payment and closing costs.
- **Be aware of activities that result in credit pulls** so that you are ready to explain any changes in credit activity.
- **Ask questions and communicate with** your team of experts, which is there to help you!

Check your Mortgage Process Do's and Don'ts handout for more details.

Do’s and Don’ts

The mortgage process can be complex, and small changes can get you off track. To help things go as smoothly as possible for both you and your lender, consider these tips for things to do (and avoid).

Don’ts

- Close, open, or transfer money across bank accounts as this may affect your qualification or documentation.
- Make large bank deposits outside of your automated payroll deposits without consulting your Loan Officer because it may change your documentation requirements.
- Change jobs or employer without making your Loan Officer aware, as it could result in the need for a new loan approval.
- Make major purchasesprior to or during the contract period; these purchases can hurt your savings, debt-to-income ratio and credit utilization.
- Open a new line of credit, which also includes closing credit lines, co-signing on loans, or making major purchases on credit cards.
- Panic, stress or isolate; your homebuying team wants you to be successful, knowledgeable and confident during this process. Keep the lines of communication open and trust they want you to get across the finish line.

Check your Mortgage Process Do’s and Don’ts handout for more details.

House Hunting

Now that you understand more about the mortgage process, it's time to start house hunting! Here are some tips to get you started:

KNOW YOUR BUDGET

DON'T GET EMOTIONALLY ATTACHED

DO YOUR RESEARCH

THINK AHEAD

LOOK AT MORE THAN THE HOUSE

Check your Home Comparison Checklist handout for more help finding your perfect home.

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Bedrock Credit America

Your Non-Profit for Credit Education and Restoration

Understanding Your Credit

Presented by Stephen Robert

CEO Bedrock Credit America

www.bedrockcreditamerica.org

Credit Scores vs. FICO Scores

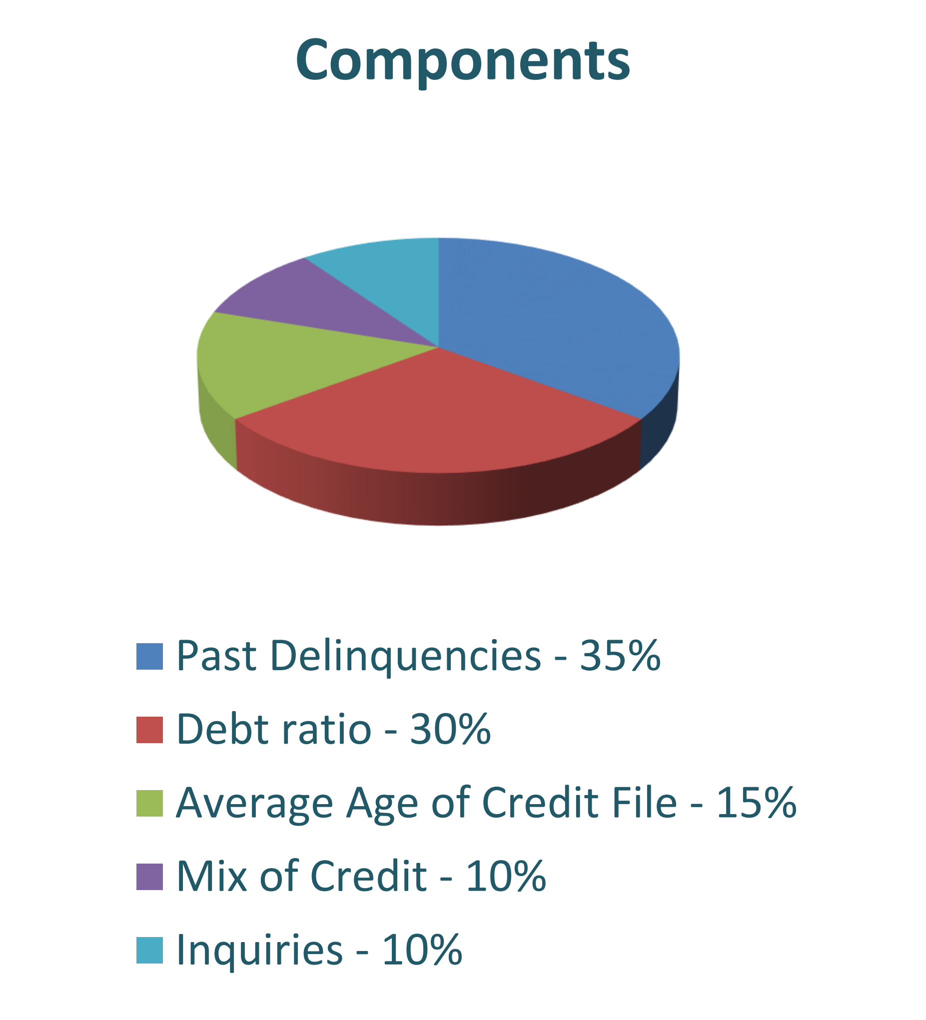
- Do NOT use "free" websites. The scores are different than what lenders use, and they sell your personal info.

- www.annualcreditreport.com – info only
  - Free and not an inquiry (one time per week)

- www.MYFICO.com – FICO scores lenders use
  - Not an inquiry, but they have to pay for it ($30)

What Makes up a FICO Score?

1. Past Delinquencies
2. Revolving Debt Ratio
3. Average Age of File
4. Mix of Credit
5. Inquiries



Upcoming Changes

- Since 2000 lenders have been using FICO Classic
- By 2025 lenders will be using FICO 10T and Vantage 4.0
- Trending Data – how revolving debt is calculated by looking at the past 24 months

Bedrock Credit America

Your Non-Profit for Credit Education and Restoration

Contact Bedrock Credit America for a FREE Consultation

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