

# **MoneyWi\$e**

**A Consumer Action-Capital One  
Financial Education Project**

## ***You Can Buy a Home***

**Seminar Lesson Plan**

**&**

**Class Activities**

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## ***You Can Buy a Home Seminar***

### **Seminar Purpose:**

- To provide workshop participants with an understanding of the home buying process, from assessing personal financial resources to “closing” the purchase
- To provide participants with the information they will need to achieve their goal of homeownership

### **Seminar Objectives:** By the end of the training, participants will understand:

- The benefits and responsibilities of homeownership
- How to identify financial needs and resources
- The costs of buying a home
- What role their credit history plays in the loan qualification process
- What their downpayment and mortgage options are
- How to shop for a home
- What goes into a home purchase offer and contract
- What kinds of inspections may be necessary
- How to get a mortgage
- Which forms and fees are part of the closing (settlement) process
- How to protect their purchase and be successful homeowners

**Seminar Duration:** There will be two sessions of two hours each. There will be one 20-minute break between the two sessions.

### **Materials:**

#### For instructor:

- *You Can Buy a Home* seminar lesson plan:
  - Lesson plan (pages 2-12)
  - Downpayment & Monthly Budget Worksheet: A Case Study (page 13)
  - Downpayment & Monthly Budget Worksheet (blank) (page 14)
  - Home Shopping Checklist (page 15-16)
  - Loan Application Checklist (page 17)
  - Offer-writing exercise (pages 18-21: buyer profile, description of three loan products, three home listings, blank offer sheet)
  - Evaluation form for the MoneyWi\$e *You Can Buy a Home* seminar (page 22)
- Home buying Leader’s Guide (Q&A)
- *You Can Buy a Home* brochure
- *You Can Buy a Home* visual teaching aid (PowerPoint presentation with instructor’s notes)

You will also need:

- A computer and an area on which to project the PowerPoint presentation
- An easel and pad or a whiteboard and markers

#### For participants:

- *You Can Buy a Home* brochure
- Downpayment & Monthly Budget Worksheet: A Case Study
- Downpayment & Monthly Budget Worksheet (blank)
- Home Shopping Checklist
- Loan Application Checklist
- Evaluation form for the MoneyWi\$e *You Can Buy a Home* seminar

## Seminar Outline

<u>Session One</u>	<u>Minutes</u>
Welcome (overview, introductions, folders)	(15)
Benefits and Responsibilities of Homeownership	(5)
Home Purchase Costs	(10)
Assessing your Financial Resources	(20)
ACTIVITY: Downpayment & Budget Worksheet	(15)
Understanding Your FICO Credit Score	(10)
Shopping for a Loan	(25)
Break	(20)

<u>Session Two</u>	<u>Minutes</u>
Shopping for a Home	(15)
Making an Offer	(20)
Getting a Loan	(20)
ACTIVITY: Making an offer (group exercise)	(25)
Closing the Purchase	(10)
Successful Homeownership	(5)
Questions & Answers	(20)
Wrap-up and Evaluation	(5)

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# Session One

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*(Instructor's Note: Before conducting the training, familiarize yourself with the You Can Buy a Home brochure, the Leader's Guide and the PowerPoint presentation. The PowerPoint presentation contains notes for each slide. These notes offer teaching tips, talking points, and detailed information about the items appearing on the slide. This lesson plan indicates which slides correspond to which parts of the lesson, and when to move to the next slide.)*

➔ **SLIDE #1** (onscreen as participants get seated)

Have participants pick up folders on their way in, or place them on seats/tables before class. Encourage participants who arrive early to begin reading the *You Can Buy a Home* brochure inside their packets.

## Welcome (15 minutes)

➔ **SLIDE #2**

Welcome participants. Introduce yourself and review the purpose of the seminar and the day's agenda.

Ask participants to introduce themselves, say where they are in the home buying process, and what they hope to get out of the seminar. On your whiteboard or easel pad, jot down some of the topics participants say they want to learn about.

(This activity is designed to serve as a brief icebreaker to help workshop participants get to know each other and feel more comfortable. It will also give you an idea of what participants' expectations and needs are.)

➔ **SLIDE #3**

Review the contents of participants' folders. Ask the class to take a look at their folders and make sure they have all the materials needed.

## Benefits and Responsibilities of Homeownership (5 minutes)

➔ **SLIDE #4**

Ask participants what they think some of the benefits of homeownership are. *(TIP: This can be done informally, with participants calling out answers. If you like, you can write down their answers on the easel pad or whiteboard.)* After a moment of brainstorming, reveal the following slide.

➔ **SLIDE #5**

Using slide notes, go over each benefit. Use your whiteboard or easel to illustrate the example for building wealth (equity):

**EXAMPLE:** If you purchased your home 5 years ago for \$150,000, and you made a \$15,000 downpayment, you started out with a \$135,000 mortgage and \$15,000 in equity. Let's say that over the five years, you have paid down \$8,000 in loan principal (the amount you borrowed) through monthly mortgage payments. If your home were appraised for \$180,000 today, you would have \$53,000 in equity (\$180,000 value - \$127,000 remaining loan balance = \$53,000 ownership).

➔ **SLIDE #6**

Now ask participants what they think some of the responsibilities of homeownership are. *(Again, this can be done informally, with participants calling out answers. If you like, you can write down their answers on the easel pad or whiteboard.)*

After a moment of brainstorming, reveal the following slide.

➔ **SLIDE #7**

Using slide notes, go over each responsibility.

### **Home Purchase Costs (10 minutes)**

➔ **SLIDE #8**

Ask participants to name some of the costs of buying a home. *(Write down their answers on the easel pad or whiteboard.)*

After a moment of brainstorming, reveal the following slide.

➔ **SLIDE #9**

Using slide notes, go over each item/cost. Continue to next slide after covering "Closing costs."

➔ **SLIDE #10**

Using slide notes, go over each item/cost. (See also Leader's Guide, pages 12 & 13 for more information about private mortgage insurance, or PMI.)

### **Assessing Your Financial Resources (20 minutes)**

➔ **SLIDE #11**

Discuss the need for every prospective homebuyer to assess his/her financial resources before taking next steps. Knowing how much you need, how much you have, and how much you can afford allows buyers to:

- Adjust their current spending and saving behavior
- Determine how much home they can afford
- Set realistic expectations regarding when they will be able to buy and what type of home to shop for

Ask participants to take out the “Downpayment & Monthly Budget Worksheet: A Case Study.” Using the completed worksheet, lead a brief discussion about the fictional homebuyer’s finances.

Start with the downpayment section of the worksheet. Ask participants what they notice about the buyer’s downpayment resources. Some things to note are:

- The fictional homebuyer (Eva, a single mother of a 14-year-old daughter) has saved \$18,000 towards a \$25,000 downpayment, with plans to save another \$2,000 (\$20,000 projected) by the time she makes an offer.
- She plans to tap her 401(k) account for additional funds (up to \$11,000, or 50% of her vested balance) for closing costs.
- Her parents have promised to give her a \$2,000 gift towards her down payment.

At this time, discuss the other possible resources of downpayment funds.

## ➔SLIDE #12

Using slide notes, go over each downpayment source. (See also Leader’s Guide, pages 2-3.)

Moving on to the Monthly Expenses section of the worksheet, ask participants what they notice about the buyer’s current expenses and how she expects them to change when she becomes a homeowner. Some things to note are:

- The buyer’s monthly housing payment will go up (higher mortgage payment + PMI than rent, Homeowner’s Assoc.(HOA) dues, property taxes, higher insurance, and home maintenance costs).
- Some expenses will go down: garbage is included in HOA dues, she’ll be using less gasoline and won’t pay bridge tolls because she purchased a home closer to work—now she can buy a bus pass to go to work, and she no longer has to pay for a storage unit to keep the furnishings that wouldn’t fit in the smaller apartment she rented after her divorce—her new home is big enough to hold what was in storage.
- She and her daughter will be making some voluntary cuts in monthly expenses to help offset the higher monthly housing expenses: they will switch from premium cable to basic cable, instead of eating out once a week, they will limit their away-from-home meals to twice a month, they will reduce the amount they spend on entertainment by renting videos instead of going to the movies, and they will use the library more
- The buyer plans to pay off her credit card before it is time to make an offer on a home

If you have time and want to give participants a chance to contribute, ask for other ways homebuyers can reduce expenses. You can write down their suggestions on the whiteboard/easel.

Moving on to the Income section of the worksheet, ask participants what they notice about changes in the buyer’s income when she becomes a homeowner. Some things to note are:

- Interest income has gone down because, after making her downpayment, she no longer has \$20,000 in savings.
- Rental income has gone from \$0 to \$250/month because she has an extra room in her new home that she will rent to her niece, who will be attending community college nearby.

- Why do you suppose the buyer's monthly employment income increased by \$398? This is the tax benefit of homeownership: mortgage interest and property taxes are deductible, which means you do not pay income taxes on this money.

To illustrate the tax benefits of homeownership, continue to next slide.

### ➔SLIDE #13

Go over the case study. You can walk through it on the whiteboard/easel if you like:

Eva buys a home with a \$225,000 mortgage.

Her mortgage interest and property taxes total \$17,050 per year.

Eva is in the 28% tax bracket.

Her tax savings as a homeowner will be approximately 28% of her \$17,050 deduction, or \$4,774 per year ( $\$17,050 \times .28 = \$4774$ ).

Instead of waiting for a \$4,774 tax refund, Eva changes her W-4 form at work (she claims more "exemptions") to have fewer taxes taken out of her paycheck. Eva's increase in net pay is approximately **\$398 per month!**

## **ACTIVITY: Downpayment & Budget Assessment (15 minutes)**

### ➔SLIDE #14

Ask participants to take out the blank "Downpayment & Monthly Budget Worksheet" from their folders.

The goal of this activity is to help participants get a clearer picture of how their income and expenses might change when they go from being renters to being homeowners.

Point out the "Illustration of Homeownership Costs & Variables" on the worksheet and explain that this is just a general example of homeownership expenses. Depending on each participant's own numbers (expected home price, downpayment, interest rate, etc.), these examples may or may not be helpful for trying to estimate housing costs. Encourage participants to fill out what they can now, and to make use of online calculators for getting accurate, personalized estimates for mortgage payments, PMI, tax deductions and so on.

Give the participants 10 to 15 minutes to fill in the worksheet as much as possible, acknowledging that they will have to finish at home.

At the end of the time period, ask the class:

- If they are surprised by any of the numbers they have entered so far. Are they spending more or less on certain categories than they thought they were? Do they have more available for a downpayment than they thought they did?
- If they can see ways to improve the numbers. How could they increase income or reduce expenses? Did everyone remember to factor in the increased income that will result from their tax deduction (mortgage interest and property taxes)?

- If anyone feels like homeownership is more achievable based on their numbers and what they've learned so far (about downpayment programs and tax deductions, for example).

Ask participants to put away their worksheets. Encourage them to finish at home, since the worksheet will be a useful tool as they pursue their goal of homeownership.

## **Understanding Your FICO Credit Score (10 minutes)**

### **➔SLIDE #15**

Ask the class what they know about credit and borrowing. Questions to generate discussion:

- What does "good credit" mean?
- What are the benefits of having good credit?
- Do you have to have perfect credit to qualify for a mortgage? (See also Leader's Guide, page 4.)

Ask participants how they think mortgage lenders assess borrowers' credit. Introduce the "FICO score" and explain it per slide notes. (Additional information in Leader's Guide, page 4.)

Ask participants how consumers can improve their credit report and, therefore, their FICO score. After participants have offered a few ideas, reveal the next slide.

### **➔SLIDE #16**

Per slide notes, go over ways to improve your FICO score.

Encourage participants to order their free credit reports (Leader's Guide, page 4) and buy their FICO score. Point out ordering information in the *You Can Buy a Home* brochure.

## **Shopping for a Loan (25 minutes)**

Explain that even before you shop for a home, you should understand, and narrow down, your mortgage options (Leader's Guide, page 5).

Ask participants, "Where can you get a loan?" Give them a minute or two to offer some options. If you like, you can write their responses on the whiteboard/easel. Then reveal the following slide.

### **➔SLIDE #17**

Go over each loan source per slide notes.

### **➔SLIDE #18**

Explain that while there are many different loan products to choose from, they all fall into two categories:

- Fixed-rate mortgage
- Adjustable-rate mortgage (ARM)



## ➔ SLIDE #19

On any loan (fixed rate or ARM), you need to compare features and terms. Per slide notes, go through the list of loan features and terms. (See also Leader's Guide, pages 5 & 6.)

## ➔ SLIDE #20

Explain that the amount any homebuyer can borrow depends on a number of factors. Per slide notes, go through each item on list. Go back to the top of the list and explain the first item while still on this slide.

*(Note: Participants can calculate the monthly mortgage payment on various loan amounts and interest rates using online mortgage calculators, such as those at [www.fanniemae.com](http://www.fanniemae.com) and [www.bankrate.com](http://www.bankrate.com).)*

## ➔ SLIDE #21

Lenders look at ratios when determining how much they will lend a borrower. One ratio they consider is the loan-to-value ratio. Per slide notes, go over sample loan-to-value calculation.

## ➔ SLIDE #22

Another ratio lenders consider when deciding a borrower's maximum loan amount is the debt-to-income ratio. Go over debt-to-income ratio per slide notes. Continue to next slide for example/case study. (See also Leader's Guide, page 7.)

## ➔ SLIDE #23

Go over how to calculate debt-to-income ratio step by step. If you like, you can recreate the example on the whiteboard/easel as you walk through it.

Let's figure out a fictional couple's debt-to-income ratio together...

Let's say Lee and Shawna earn \$60,000 per year, or \$5,000 per month (gross, or before taxes).

We multiply their monthly gross income by 36% to find out the maximum amount of non-mortgage debt they can carry.

$$\$5,000 \times 0.36 = \$1,800$$

From the \$1,800 we subtract all current debt payments. Lee and Shawna do not have any credit card debt, but they do have a monthly car payment of \$275.

$$\$1,800 - \$275 = \$1,525$$

We have determined that Lee and Shawna can qualify for a mortgage payment (PITI + PMI, if required) of \$1,525.

If you have too much debt to qualify for the mortgage you want, work on paying it down before you are ready to apply for the loan. In this example, Lee and Shawna could qualify for a mortgage payment of \$1,800 if they pay off their car loan.

➔ **SLIDE #24**

Go over prequalification and pre-approval per slide notes. (See also Leader's Guide, page 6.)

**Break (20 minutes)**

➔ **SLIDE #25**     Announce a 20-minute break.

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**Session Two**

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**Shopping for a Home (15 minutes)**

➔ **SLIDE #26**

Ask participants how they might find the home they decide to buy. Per slide notes, go over each item in the list.

➔ **SLIDE #27**

Finish discussion about real estate agents per slide notes. (See also Leader's Guide, pages 7 & 8.)

Explain to participants that whether they work with a real estate agent or not, prioritizing housing wants and needs before they start shopping will allow them to focus their search, which saves time and improves their chances of getting just what they want.

**TAKE-HOME ACTIVITY:** Point out the "Home Shopping Checklist" in participants' folders. Briefly go over some of the items on the list. Suggest to participants they use the checklist when they are ready to begin shopping.

**Making an Offer (20 minutes)**

➔ **SLIDE #28**

*(Instructor's note:* Some states require an attorney to write real estate purchase/sale contracts. If possible, find out what the requirement is in your state before you conduct the seminar.)

Ask participants to take the "Sample Purchase Offer" out of their folders. Explain that this is not the same form they will use when they make an offer, but it serves to illustrate the key features of a home purchase offer.

Per slide notes, go over the key components of the purchase offer by going through these items in the sample offer. (See Leader's Guide, pages 9-11 for more information.)

➔ **SLIDE #29**

Per slide notes, go over the various types of contingencies and present key points. (See also Leader's Guide, pages 9-10.)

➔ **SLIDE #30**

Per slide notes, present the three possible responses to a purchase offer (acceptance, rejection, and counter offer).

### **Getting a Loan (20 minutes)**

➔ **SLIDE #31**

Now that a home sales/purchase contract is in place, it is time to get your loan.

Ask participants to take the "Loan Application Checklist" out of their folders. Per slide notes, go over each item briefly.

➔ **SLIDE #32**

What can the homebuyer expect from the lender? Per slide notes, go over each item.

➔ **SLIDE #33**

Per slide notes, go over each point about the Good Faith Estimate. (See also Leader's Guide, page 14.)

➔ **SLIDE #34**

Per slide notes, go over each point about the Truth-in-Lending Statement.

### **Classroom Activity: Making an Offer (25 minutes)**

➔ **SLIDE #35**

Divide the class into smaller groups. Give each group the buyer profile, the property listings, the loan product sheet, and the blank offer form. Instruct the class to choose a loan and a property, then write a purchase offer. They should base their choices as much as possible on the buyer profile and what they have learned so far in this seminar.

Direct each group to select a representative to explain why they made the choices they did.

Questions to generate discussion:

- What property did you choose? What were your considerations when choosing this property?
- What loan did you choose? What were your considerations when choosing this loan?
- How did you decide what price to offer? How did you decide which contingencies to include?

See if the following points come up during the class discussion:

- The “City Style” property listing notes “Motivated seller!” This could be an opportunity to have a lower bid accepted, or to ask the seller to cover some or all closing costs.
- “Condo Convenience” is newest property and in the best shape, but it will cost the couple an additional \$110 in HOA fees at a time when their budget is stretched tight.
- Loan 2 (the ARM) offers a more affordable monthly payment in the first year, but there is a risk of it increasing significantly after year 1 if rates increase much.
- Though the ARM requires only 5% down, such a small down payment would require the couple to pay approximately \$150 per month for PMI.
- The couple could avoid the risk of an interest rate (and payment) increase and avoid PMI if they choose the fixed-rate loan and put 20% down. To do that, though, they will have to take out a loan on their retirement accounts.

### **Closing the Purchase (10 minutes)**

#### **➔SLIDE #36**

“Closing” means finalizing the purchase/sale (Leaders Guide, pages 14 & 15). “Closing” is also known as “settlement.”

Per slide notes, go over each item.

### **Successful Homeownership (5 minutes)**

Ask participants what they believe they must do to be successful homeowners. After they have had a chance to offer some answers, reveal the next slide.

#### **➔SLIDE #37**

Per slide notes, go over items in list.

### **Questions & Answers (20 minutes)**

#### **➔SLIDE #38**

Open the floor to questions. The Leader’s Guide is written in Q&A format to help you answer frequently asked questions.

### **Wrap-up and Evaluation (5 minutes)**

#### **➔SLIDE #39**

Congratulate participants on their participation in the seminar and wish them success in achieving their goal of homeownership. Ask them to fill out the Seminar Evaluation Form and leave it on a table or in a large envelope you provide.

# Downpayment & Monthly Budget Worksheet: A Case Study

DOWNPAYMENT SOURCE	CURRENT	PROJECTED
Savings	\$ 18,000	\$ 20,000
Retirement plans (401k)	\$ 11,000	\$ 11,000
IRAs	\$ 0	\$ 0
Private gift or loan	\$ 0	\$ 2,000
Second (piggyback) loan	\$ N/A	\$ 0
Downpayment programs	\$ N/A	\$ 0
Other:	\$ 0	\$ 0
<b>TOTAL</b>	<b>\$ 29,000</b>	<b>\$ 33,000</b>

INCOME SOURCE	CURRENT	PROJECTED
Job (net)	\$ 3,200	\$ 3,598
Spouse's job	\$ 0	\$ 0
Other employment	\$ 0	\$ 0
Rent received	\$ 0	\$ 250
Tax refunds	\$ 0	\$ 0
Interest/investment income	\$ 80	\$ 10
Government benefits	\$ 0	\$ 0
Child support & alimony	\$ 400	\$ 400
Other income:	\$ 0	\$ 0
Other income: Parents	\$ 0	\$ 0
<b>TOTAL</b>	<b>\$ 3,680</b>	<b>\$ 4,258</b>

MONTHLY EXPENSES	CURRENT	PROJECTED
Housing (rent/mortgage)	\$ 1,000	\$ 1,422
PMI (private mortgage insurance)	\$ 0	\$ 97
HOA (association dues)	\$ 0	\$ 160
Property taxes	\$ 0	\$ 210
Renter/Homeowner insurance	\$ 20	\$ 85
Gas/electricity/oil	\$ 70	\$ 80
Water & garbage	\$ 40	\$ 25
Internet	\$ 25	\$ 25
Phone (landline & mobile)	\$ 60	\$ 60
Cable	\$ 60	\$ 25
Home maintenance	\$ 0	\$ 125
Car payments	\$ 250	\$ 250
Gasoline	\$ 160	\$ 80
Auto maintenance	\$ 40	\$ 40
Auto insurance	\$ 80	\$ 80
Auto registration	\$ 15	\$ 15
Other transportation costs	\$ 75	\$ 25
Groceries & supplies	\$ 400	\$ 400
Pet care/supplies	\$ 40	\$ 40
Health insurance/medical	\$ 40	\$ 40
Childcare	\$ 0	\$ 0
Alimony/child support	\$ 0	\$ 0
Beauty/barber	\$ 30	\$ 30
Clothing	\$ 100	\$ 100
Laundry/dry cleaning	\$ 30	\$ 30
Dining out	\$ 125	\$ 50
Entertainment	\$ 100	\$ 50
Sports, gym, hobbies	\$ 40	\$ 40
Vacations/travel	\$ 50	\$ 50
Books, music, etc.	\$ 40	\$ 20
Gifts	\$ 30	\$ 30
Cigarettes/alcohol	\$ 0	\$ 0
Religious/charity	\$ 100	\$ 100
Postage, banking fees, etc.	\$ 10	\$ 10
Credit card payments	\$ 50	\$ 0
Other debts	\$ 0	\$ 0
Other: Storage fees	\$ 60	\$ 0
Other: Alarm system	\$ 0	\$ 20
Other:	\$ 0	\$ 0
Other:	\$ 0	\$ 0
<b>TOTAL</b>	<b>\$ 3,140</b>	<b>\$ 3,814</b>

BOTTOM LINE	CURRENT	PROJECTED
Total monthly income	\$ 3,680	\$ 4,258
Total monthly expenses	\$ 3,140	\$ 3,814
<b>NET (+/-)</b>	<b>\$ 540</b>	<b>\$ 444</b>

## NOTES:

- Monthly principal & interest payments are based on a 30-year fixed-rate loan of \$225,000 at 6.5% interest.
- Since the buyer is putting down only \$25,000 (10%) on the \$250,000 condominium, she must pay PMI of \$97 per month.
- PMI is deductible on your income taxes at least through 2010 on homes bought or refinanced since Jan 1, 2007.

# Downpayment & Monthly Budget Worksheet

DOWNPAYMENT SOURCE	CURRENT	PROJECTED
Savings	\$	\$
Retirement plans (401k)	\$	\$
IRAs	\$	\$
Private gift or loan	\$	\$
Second (piggyback) loan	\$	\$
Downpayment programs	\$	\$
Other:	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>

MONTHLY EXPENSES	CURRENT	PROJECTED
Housing (rent/mortgage)	\$	\$
HOA (association dues)	\$	\$
Property taxes	\$	\$
Renter/Homeowner insurance	\$	\$
Gas/electricity/oil	\$	\$
Water & garbage	\$	\$
Internet	\$	\$
Phone (landline & mobile)	\$	\$
Cable	\$	\$
Home maintenance	\$	\$
Car payments	\$	\$
Gasoline	\$	\$
Auto maintenance	\$	\$
Auto insurance	\$	\$
Auto registration	\$	\$
Other transportation costs	\$	\$
Groceries & supplies	\$	\$
Pet care/supplies	\$	\$
Health insurance/medical	\$	\$
Childcare	\$	\$
Alimony/child support	\$	\$
Beauty/barber	\$	\$
Clothing	\$	\$
Laundry/dry cleaning	\$	\$
Dining out	\$	\$
Entertainment	\$	\$
Sports, gym, hobbies	\$	\$
Vacations/travel	\$	\$
Books, music, etc.	\$	\$
Gifts	\$	\$
Cigarettes/alcohol	\$	\$
Religious/charity	\$	\$
Postage, banking fees, etc.	\$	\$
Credit card payments	\$	\$
Other debts	\$	\$
*Other:	\$	\$
Other:	\$	\$
Other:	\$	\$
Other:	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>

\*Examples of "other" expenses: payments on a previous year's tax bill, tuition, life insurance premiums, union dues, storage fees, student loan payments, alarm system, etc.

INCOME SOURCE	CURRENT	PROJECTED
Job (net)	\$	\$
Spouse's job	\$	\$
Other employment	\$	\$
Rent received	\$	\$
Tax refunds	\$	\$
Interest/investment income	\$	\$
Government benefits	\$	\$
Child support & alimony	\$	\$
Other income:	\$	\$
Other income:	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>

BOTTOM LINE	CURRENT	PROJECTED
Total monthly income	\$	\$
Total monthly expenses	\$	\$
<b>NET (+/-)</b>	<b>\$</b>	<b>\$</b>

Subtract expenses from income to get net positive or negative monthly figure.

## ILLUSTRATION OF HOMEOWNERSHIP COSTS & VARIABLES

	\$200,000	\$200,000	\$400,000	\$400,000
Purchase price	\$200,000	\$200,000	\$400,000	\$400,000
Downpayment	\$40,000 (20%)	\$10,000 (5%)	\$80,000 (20%)	\$20,000 (5%)
Mortgage	\$160,000	\$190,000	\$320,000	\$380,000
*Monthly principal & interest (@7%)	\$1,064	\$1,264	\$2,129	\$2,528
Principal & interest (@7.5%)	\$1,119	\$1,328	\$2,237	\$2,657
PMI (estimated)	\$0	\$123	\$0	\$247
**Property taxes (1.25% for this example)	\$2,500	\$2,500	\$5,000	\$5,000
***Homeowners insurance (example)	\$75	\$75	\$125	\$125

\* Monthly principal & interest payments are based on a 30-year fixed-rate loan.

\*\* Property taxes vary nationwide; the property taxes on the home you buy will be based on a formula determined by the local or county government. For example, in San Francisco, property taxes are 1.14% of the sale price.

\*\*\* Homeowners insurance rates depend on a number of variables, including home size, type of construction, location, deductible, and even how close the nearest fire hydrant is.

Online calculators can help you fill in your own budget worksheet. Search for "mortgage calculator" to find tools for estimating your monthly payments. Search for "PMI calculator" if you will put less than 20% down and want to estimate your PMI payment.

# Home Shopping Worksheet (2 pages)

Before you begin shopping for your home, it's a good idea to think about your housing wants and needs. This worksheet will help you and your real estate agent narrow the home search to those properties that come closest to matching your priorities.

(In the Priority column, indicate the importance of each item by circling the appropriate number—1 indicates highest priority, while 3 indicates lowest priority.)

FEATURE	PRIORITY	DETAILS
Price range	1 2 3	From \$ _____ to \$ _____
Location	1 2 3	City/town: _____ Neighborhood: _____ Within _____ miles of _____
Proximity to services	1 2 3	_____miles/minutes to school _____miles/minutes to church _____miles/minutes to shopping _____miles/minutes to transportation _____miles/minutes to _____
Home type	1 2 3	<input type="checkbox"/> Single-family home <input type="checkbox"/> One-story <input type="checkbox"/> Condominium <input type="checkbox"/> Multi-story <input type="checkbox"/> Townhouse
Home style	1 2 3	<input type="checkbox"/> Traditional <input type="checkbox"/> Modern <input type="checkbox"/> Rustic <input type="checkbox"/> Other: _____

Condition	1 2 3	<input type="checkbox"/> New <input type="checkbox"/> Some work needed <input type="checkbox"/> Move-in condition <input type="checkbox"/> TLC/fixer-upper
Home size	1 2 3	Square feet: _____
Rooms	1 2 3	# of bedrooms: _____ # of bathrooms: _____ <input type="checkbox"/> Formal dining room <input type="checkbox"/> Laundry room <input type="checkbox"/> Formal living room <input type="checkbox"/> Finished attic <input type="checkbox"/> Family room <input type="checkbox"/> Finished basement <input type="checkbox"/> Office <input type="checkbox"/> Other: _____
Features	1 2 3	<input type="checkbox"/> Fireplace <input type="checkbox"/> Storage space <input type="checkbox"/> View <input type="checkbox"/> Alarm system <input type="checkbox"/> Yard/Landscaping <input type="checkbox"/> Alternative energy <input type="checkbox"/> Deck or patio <input type="checkbox"/> Swimming pool <input type="checkbox"/> Other:
Parking	1 2 3	<input type="checkbox"/> Garage <input type="checkbox"/> Reserved space <input type="checkbox"/> Carport <input type="checkbox"/> Driveway
Fuel	1 2 3	<input type="checkbox"/> Electric <input type="checkbox"/> Gas <input type="checkbox"/> Oil
Heating/Cooling	1 2 3	<input type="checkbox"/> Central/forced air heat <input type="checkbox"/> Gas stove <input type="checkbox"/> Wood stove/fireplace <input type="checkbox"/> Radiator <input type="checkbox"/> Central air conditioning <input type="checkbox"/> Ceiling fans



# Loan Application Checklist

This checklist will help you prepare your loan application. It includes most of the information you will need to supply. However, some lenders have slightly different requirements, so check with your lender to ensure you collect all the required information.

## Identification:

- Social Security number
- Driver's license or state-issued photo ID

## Address History:

- Current address, name and address of landlord, and current monthly rent
- Previous address/landlord info *if you've lived at current address for less than two years*

## Proof of Income:

- Employer information (names, addresses and phone numbers) for past two years
  - Recent pay stub showing year-to-date earnings
  - Original W-2 forms for previous two (2) years
  - Copies of tax returns for previous two years
  - Proof of additional income (Social Security, interest income, alimony or child support, etc.)
- Self-employed borrowers:*
- Personal, partnership or corporation tax returns for the previous two years
  - Current financial statements for the business

## Assets:

- Recent statements for checking, savings, and brokerage accounts and CDs
- Statements for all retirement accounts (401(k), IRA, etc.) and non-retirement investments (stocks, bonds, mutual funds, etc.)
- Cash value of any life insurance policy
- Value of significant personal property, such as vehicles and boats that are paid in full

## Liabilities:

- Statements (showing name of creditor, outstanding balance and monthly payment) for auto loans, student loans, credit cards, and other debts, including loans you have cosigned
  - Alimony or child support you must pay
- NOTE:* If you don't have an established credit history, provide the lender with canceled checks for rent, utilities and other financial obligations as proof of consistent payments.

## Purchase Information:

- Copy of the home purchase contract
- Proof of your earnest money deposit
- A "gift letter" if the money for your downpayment is a gift that doesn't have to be repaid

## Payment:

- A check to cover the cost of the application, credit report, appraisal and other fees

## **ACTIVITY: WRITING AN OFFER**

### **Hopeful Homebuyers Need Your Help**

Lynette and Duane Lee are looking forward to buying their first home. They have been renting a small apartment for the past four years to save enough money for a downpayment. Currently, the couple has \$25,000 set aside in an earmarked account. They also have access to about \$20,000 through loans on their two employer-sponsored retirement plans. And Lynette's parents have said they can help the couple out with a gift of \$10,000 if they need it for the down payment or closing costs. The couple's monthly finances will be tight as homeowners, at least until they get their next raises, which they are expecting in a year or two.

Lynette and Duane have found three properties—all very different—that they are considering. As is typical, all of the homes meet some of their needs, but none of the homes meet all of their needs

The couple loves the convenience that city living offers. Not only are they near shopping, restaurants and entertainment, they are just a short walk from public transportation. This has allowed them to avoid a challenging commute and save money on auto expenses.

Of course, they have other things to consider. Lynette and Duane are hoping to start a family in two to three years. While a one-bedroom home would work for the couple now, they wonder how long it would be comfortable after a baby arrives. They've also been thinking it might be nice to have a big yard where the family could spend time outdoors.

Making the selection process even more complicated, Lynette's parents are urging the couple to consider a new condominium in a complex near their house. Though they realize it's far from the young couple's work and public transportation, Lynette's parents point out that it's bigger and that it will be easier for them to do babysitting when their grandson or granddaughter arrives.

Decisions, decisions.

Your assignment is to choose which of the three homes the couple should buy, help them select one of the two loans they have qualified for, and then write their purchase offer.

# HOME LISTINGS



## **Suburban Oasis**

This single-family home on a beautiful, landscaped half-acre lot makes you want to spend more time at home. Buyers willing to make a small investment of time and money could update the 1,000-square-foot brick charmer with all the modern amenities. Just a 15-minute drive to town.

- 2 bedrooms/1 bath
- Washer/dryer
- Fireplace, electric heaters
- Hardwood floors
- Tool shed
- Carpet

**~~\$265,000~~ Reduced to \$245,000!**



## **Condo Convenience**

Nearly-new construction means you don't have to bring your tool belt! High-end materials and appliances throughout. Corner unit (1,300 square feet) provides extra privacy and a view of downtown. HOA dues: \$110/month.

- 2 bedrooms/2 baths
- Central heating
- One-car garage
- Shared laundry room
- Carpet/vinyl flooring
- Community gym/pool

**Offered at \$249,000**



## **City Style**

This is urban living at its best. Shopping, restaurants and public transportation are practically right outside the door of this single-family home just off Main Street. No yard, but walking distance from two parks. Motivated seller!

- 1 bedroom/1 bath
- Updated kitchen
- Office
- Central heat/air
- Remodeled bath
- Easy street parking

**Listed at \$ 250,000**

# LOAN PRODUCTS

<u>FEATURES/EXPENSES</u>	<u>LOAN 1</u>	<u>LOAN 2</u>
Type:	Fixed rate	Adjustable rate (ARM)
Term:	30 years	30 years
Minimum downpayment:	20%	5%
Fixed rate:	6.5%	N/A
Initial rate:	N/A	5.5%
Initial rate expires:	N/A	1 year
Rate adjustment schedule:	N/A	Every 6 months (after year 1)
Index:	N/A	LIBOR*
Margin:**	N/A	2%
Periodic rate cap:***	N/A	+3% (current rate +3% max)
Lifetime rate cap:***	N/A	+6% (initial rate +6% max)
APR:	6.94%	7.28%
Points:	0	1
PMI:	\$0	\$150 (approximate)
Monthly payment:	\$1,580.17*****	\$1,419.47
Application (or loan processing) fee:	\$650	\$400
Underwriting (or origination) fee:	1 point	2 points
Appraisal fee:	\$375	\$0
Credit report fee:	\$75	\$0
Broker's (or origination) fee:	1 point	\$0
Attorney's fees:	\$0	\$0
Doc prep, recording, etc. fees:	\$350	\$0
Other fees:	\$150	\$0
Lock-in fee & duration:	.25 point; 60 days	.50 point; 45 days
App and/or lock-in fees refunded if loan denied?	App fee=yes; lock-in fee=no	App fee=no; lock-in fee=no
Prepayment penalty:	No	Yes; expires after 3 years

**NOTES:**

\*LIBOR (London Interbank Offered Rate is one of a handful of rate indexes used to set ARM rates.

\*\*Margin is the number of points added to the index (index +x%) to come up with your ARM rate.

\*\*\*The periodic rate cap is the most your rate can increase each adjustment period.

\*\*\*\*The lifetime rate cap is the highest interest rate possible on your loan.

\*\*\*\*\*Monthly payments are calculated as principal and interest, at the stated rate, on a \$250,000 loan.

# REAL ESTATE PURCHASE OFFER

Buyer(s) name(s): \_\_\_\_\_

Property address: \_\_\_\_\_

Offer price: \$ \_\_\_\_\_ Earnest money deposit: \$ \_\_\_\_\_

Downpayment: \$ \_\_\_\_\_ Expiration of offer: \_\_\_\_\_

Financing terms: \_\_\_\_\_

Closing costs: \_\_\_\_\_

Contingencies:

1) \_\_\_\_\_

2) \_\_\_\_\_

3) \_\_\_\_\_

4) \_\_\_\_\_

5) \_\_\_\_\_

6) \_\_\_\_\_

7) \_\_\_\_\_

Closing date: \_\_\_\_\_ Possession date: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

## Evaluation of the MoneyWi\$e *You Can Buy a Home* Seminar

Before you leave, please help us improve future presentations by giving us your opinion of today's MoneyWi\$e seminar.

Circle the number that reflects your feelings about each statement:

1 = Strongly Agree      2 = Agree      3 = Disagree      4 = Strongly Disagree

I have a better understanding of the home buying process.

1    2    3    4

I feel more prepared to achieve my goal of homeownership.

1    2    3    4

I have confidence that I know how to make wise decisions related to buying a home.

1    2    3    4

The instructor was well informed.

1    2    3    4

The materials I was given are easy to read and understand.

1    2    3    4

The activities contributed to my learning.

1    2    3    4

I would like to attend another class like this.

1    2    3    4

What else would you like to tell us about how we could improve future seminars?

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Thank you for sharing your thoughts.