# Homeownership: Are You Ready?

Tennessee Housing Development Agency

*Leading Tennessee Home*

www.thda.org

## *What Is First?*

Ask anybody and homeownership will be mentioned as part of the American Dream. Are you interested in buying a home? Do you know what you need to know or do?

In Tennessee, Tennessee Housing Development Agency (THDA) offers affordable mortgages to first-time homebuyers of low and moderate income. THDA defines a first-time home buyer as anyone who has not occupied a home they owned or currently own as their principal residence in the last three years. Every day THDA helps families move from being renters to being owners.

## *What Is Next?*

Most people borrow money from a lender to buy their home. A long-term loan for property and the buildings on the property is called a mortgage loan. A lender will review your financial history and other criteria to determine how well you qualify for a mortgage. Knowing the requirements can help you prepare yourself to be a good candidate for a mortgage.

## *What about My Credit History?*

People often ask, “Do I have to have good credit?” The answer is, “Good credit helps.” A record of timely bill-paying is an important part of establishing and maintaining good credit. Paying the full bill instead of a monthly minimum is also an important part of establishing and maintaining good credit. These histories will be reviewed with any loan application. Give yourself the benefit of a good credit rating by spending your money wisely.

You can request your credit report before you apply for a mortgage to allow unhurried time to verify the information. Visit www.annualcreditreport.com to access your credit report from three different companies, free of charge, one time per year. Credit reports

cover four main areas: personal identification and employment data; payment history; inquiries and public record information. Reporting errors are easily corrected with sufficient time and documentation. Personal information will include your correct name, Social Security information and that of your spouse. Employment histories and previous addresses are included. Payment history shows if payments have been missed, or paid late, and how much debt you have outstanding. Ask yourself: Are you carrying too many credit cards, with or without balances?

## *Steady Employment*

Will your work history show that you have worked for the same company for over two years? Will your job changes show a steady increase in income or responsibility? Lenders want to see commitment and responsibility before putting their funds in your care.

## *Budgeting*

It is possible you may find a home to buy that costs less every month than the rent you pay. However, there are costs involved in buying that are not reflected in the monthly payment. In the months before you look for your first home, you may want to design a budget and save 3% to 5% of the cost of the home for the down payment and 3% to 5% more for closing costs. Even new homes need maintenance and repairs. Consider setting aside 1% of the sales price of the home annually for repairs or appliance replacements. NeighborWorks® America-certified homebuyer education trainers can help you plan a budget.

## *Know the Facts*

There is a lot to know about buying a home. Many groups, like non-profit agencies and UT Extension Services, offer homebuyers education classes covering topics that explain different kinds of mortgage loans,

down payment requirements, loan approval criteria, and special programs that exist to encourage homeownership. THDA maintains a list of certified trainers. See our website, www.thda.org, and click on "Purchasing A Home". From the drop-down box, choose the county where you would like to attend classes. A list of approved trainers will appear next to the list of approved lenders. If no trainers are shown, please choose another county.

Homebuyer education provided by NeighborWorks® America-certified trainers is paid for by THDA if the applicant closes on a THDA mortgage within one year of successfully completing the certified course.

There are many professionals involved in the home buying process.

- Lenders, such as mortgage companies, banks or credit unions, lend the money, i.e., make the mortgage. Staff there can describe the company's mortgage programs so you can compare the details. Those details are interest rates, terms, and down payments. Lenders can prequalify you for a mortgage loan so you will know the price range of houses to consider. Lenders are required to provide applicants a good faith estimate of the costs of different mortgage loans.
- THDA is the investor, or funder, of a mortgage loan.
- Realtors® can help you decide what kind and size of home you prefer and help you visit neighborhoods. A Realtor® is usually the person who helps you negotiate your offer to buy.
- Inspectors can be hired to assess the structural integrity and level of repair needed in the home you have chosen.

## *When I'm Ready*

Knowing what kind of house and neighborhood you want will make your communication with a real estate professional easier. Do you want a larger yard for children or animals to play or a smaller yard for less outdoor work? Do you need a room for relatives to visit, or would you rather have a larger kitchen or family room? Is brick the only exterior finish for you?

## *Where Do I Go for a Mortgage?*

Lending institutions such as banks and mortgage companies are the largest mortgage lenders, but some credit unions offer long-term loans. Sometimes a seller will finance the home for a buyer.

Banks lend from their own deposits, but also make loans to be sold to other investors. In rural areas, the USDA/Rural Development (RD, formerly FmHA) office offers guaranteed loans with no down payments.

Most states have a housing finance agency, such as Tennessee Housing Development Agency, which makes loans to first-time buyers with low and moderate incomes, with local lenders as the primary contact. A list of approved lenders is posted on THDA's site. To receive an information packet, please email tlampley@thda.org or after hours leave a message at 800-228-THDA (8432).

THDA's website, **www.thda.org,** has a great deal of information about the various mortgage programs it offers. THDA offers affordable rates and down payment as well as closing cost assistance to borrowers meeting its income limits. THDA's programs are targeted to low and moderate income Tennesseans. Acquisition (sales price) and income limits are listed by county name. The approved lenders are listed by county, as are the homebuyer education offices.

## *Mortgage Options*

The federal government has a long history of insuring 30-year mortgage loans. These are commonly known as FHA, VA, and USDA/RD. Now most lenders offer similar mortgage loans, called conventional mortgages.

**THDA mortgage loans** are fixed rate, 30-year loans, available through local lenders. Three options are available. Current rates are posted on the website.

- **Great Rate** has the lowest interest rate.
- **Great Advantage** has a low rate and a grant to assist with down payment and closing costs equal to 2% of the THDA loan amount.

- **Great Start** has a good rate and a grant to assist with down payment and closing costs equal to 4% of the THDA loan amount.

The following two mortgage loan options need to be approached with caution and care. They are not designed for first-time buyers in low or moderate income ranges.

**Adjustable Rate Mortgages** (ARMs) start at a low rate which adjusts following a set schedule. If you are training in a career that pays more money after training is completed, you might choose a lower payment to get started in your home, expecting to have the house payment increase regularly in the future.

**Balloon Mortgages** have low monthly payments, but require refinancing or pay off at the end of the initial term, sometimes three years. If you will be selling at the same time your balloon mortgage is due, this might be an option for you.

## *How Much Can I Borrow?*

Keep in mind the amount you feel comfortable borrowing. You don't have to borrow as much as the lender is willing to lend. You can reduce the amount you borrow by paying more money in down payment or by buying a lesser-priced property.

Two guidelines to consider:

1. A household should spend no more than 29% of its before-tax income (gross income) on household expenses. Household expenses include mortgage principal and interest, hazard insurance, real estate taxes, and mortgage insurance.
2. Housing expenses and other long-term debts combined should not exceed 36% to 41% of gross income. Long-term debt includes car loans, installment loans, credit card payments, student loan, and medical bills.

The chart on the next page shows principal and interest payments for various loan amounts and interest rates on a 30-year loan. This does not include monthly taxes and insurance payments which will be required to be paid in addition to principal and interest.

| Amount | 5% | 6% | 7% | 8% |
|---|---|---|---|---|
| $70,000 | $375.78 | $419.69 | $465.71 | $513.64 |
| $80,000 | $429.46 | $479.64 | $532.24 | $587.01 |
| $90,000 | $483.14 | $539.60 | $598.77 | $660.39 |
| $100,000 | $536.82 | $599.55 | $665.30 | $733.76 |
| $110,000 | $590.50 | $659.51 | $731.83 | $807.14 |
| $120,000 | $644.19 | $719.46 | $798.36 | $880.52 |

## *Other Costs*

There are one-time fees required in making a mortgage. Some of these costs are charged when you apply for a mortgage, others are charged at closing when the loan becomes official and title to the property has been transferred to the borrower.

Lenders usually charge points as part of their cost to make the loan. One point equals 1% of the mortgage amount.

Closing costs are paid by the buyer or seller at closing (depending on the terms negotiated in your sales contract).

A sample list of closing costs follows:

- Loan application fee
- Credit report
- Property appraisal
- Hazard insurance
- Private or federal mortgage insurance premium
- Survey fee
- Inspection fees (Structural & Mechanical, Termite)
- Loan origination fee (covers administrative costs of lender)
- Discount Points
- Recording fees
- Buyer's attorney's fees
- Deposit for appropriate escrow items (insurance, taxes, mortgage insurance, etc.)
- Transfer fees
- Recording fees (local government office)
- Prorated interest until the first regular payment
- Title search and title insurance fees

Exact closing costs will depend on fees charged in your area, how much you are borrowing, how you finance your mortgage loan, and your closing date, i.e., where it falls within the month. Closing costs are **in addition to your down payment** and generally are about 5% of the loan amount.

If you are considering a home in a neighborhood with a homeowners' association, check for an annual fee. Group ownership of amenities and exterior maintenance of condominiums add to your costs. Any costs related to this type of ownership should be considered in your budgeting.

## *New Opportunities*

Mortgage insurance (MI) companies are working to make home buying more affordable. Some private mortgage insurance companies are offering involuntary unemployment insurance at no additional cost to the borrower. Protection against job loss is required with a conventional THDA mortgage. In addition, reduced MI rates are available to housing finance agency borrowers. Ask your lender about these opportunities.

# *Tennessee Housing Development Agency*

THDA mortgages are originated by local lenders. We can help you find a lender through our website (**www.thda.org**) or a telephone call.

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| **General Information**: | (615) 815-2100 |
| Business Development: | (615) 815-2152<br>(615) 815-2153 |
| Production Coordination: | (615) 815-2082 |

Let us know how we can help you achieve the American Dream!