

Your Own Home



Participant Guide



Building: Knowledge, Security, Confidence

FDIC Financial Education Curriculum

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MONEY SMART MODULES

- **Bank On It**
an introduction to bank services
- **Borrowing Basics**
an introduction to credit
- **Check It Out**
how to choose and keep a checking account
- **Money Matters**
how to keep track of your money
- **Pay Yourself First**
why you should save, save, save
- **Keep It Safe**
your rights as a consumer
- **To Your Credit**
how your credit history will affect your credit future
- **Charge It Right**
how to make a credit card work for you
- **Loan to Own**
know what you are borrowing before you buy
- **Your Own Home**
what home ownership is all about

TO RENT OR OWN

Benefits of renting:

- No major property maintenance costs.
- One year (or less) rental contract.
- No property taxes or homeowner's insurance.

Benefits of owning:

- You can build equity in your home and borrow against it.
- A home generally increases in value.
- The home is yours.
- Your mortgage interest is tax deductible.
- You can pass your home on to family members.

STEPS INVOLVED IN BUYING A HOME

Step 1: Determine whether you are ready to buy a house.

Step 2: Determine how much mortgage you can afford.

Step 3: Determine which mortgage option is best for you.

Step 4: Qualify for a loan.

Step 5: Go through settlement.

AM I READY TO BUY A HOME?

Use these questions to help you decide if you are ready to buy a home:

- Do I have a steady source of income?
 - This usually means you have a job or other sources of income.
- Have I been employed on a regular basis for 2 or 3 years?
- Is my income reliable?
- Do I have a credit history?
 - This refers to whether you have ever borrowed money for any purpose.
- Do I have a good record of paying bills?
- Will I be able to pay my bills and other debts?
- Do I have the ability to make the mortgage payment every month, plus handle additional costs for taxes, insurance, maintenance, and repairs?
- Do I have money saved for a down payment and closing costs?

The down payment is the portion of the home's purchase price the buyer pays in cash. The more you have for a down payment, the less you will need to borrow. Some states offer first-time homebuyer assistance programs.

Lenders prefer that you have 20 percent of the purchase price for a down payment. For example, 20 percent of a \$100,000 mortgage is \$20,000. However, there are many special programs that you can participate in that require a smaller or no down payment.

Mortgage insurance protects the lender if you default on the loan. It is an additional cost of the mortgage.

Closing costs are the charges related to transferring the ownership of the property. The lender must tell you what these costs are.

If you answer yes to these questions, you might be ready to buy a home. You also should consider that you may need additional funds saved for emergencies, like possible repairs to the home you buy. If you answer no to any of them, concentrate on strengthening those areas.

To strengthen those areas, look for homebuyer education classes in your area. These classes are a good source of information and will help you prepare for home ownership.

Is Patricia Ready to Buy a House?

Based on what you know so far about Patricia, do you think she is ready to buy a house? Why or why not?

PATRICIA'S SAVINGS

Patricia saved \$50 a month for 30 months.	\$1,500
Matched amount $\$1,500 \times 3$	\$4,500
Total savings in IDA $\$1,500 + \$4,500$	\$6,000
Patricia's previous savings	\$2,500
Patricia's total savings	\$8,500

HOW MUCH MORTGAGE CAN PATRICIA AFFORD?

As a rule of thumb, many people estimate they are able to afford a mortgage of two to three times their household income. Patricia's annual income is \$49,200; she might be able to afford a mortgage of \$98,400 to \$147,600.

$$\mathbf{\$49,200 \times 2 = \$98,400}$$

$$\mathbf{\$49,200 \times 2.5 = \$123,000}$$

$$\mathbf{\$49,200 \times 3 = \$147,600}$$

Keep in mind that just because you qualify for that amount does not mean you can afford or be comfortable with those monthly payments. You need to consider your own circumstances and your future financial needs and goals.

Lenders look at debt-to-income (DTI) ratios when they consider an application or pre-qualification for a mortgage loan. A DTI ratio is your monthly expenses compared to your monthly gross income.

Lenders consider monthly housing expenses as a percentage of income and total monthly debt as a percentage of income. Both ratios are important factors in determining whether the lender will make the loan.

Lenders usually require the PITI (principal, interest, taxes, and insurance) or your housing expenses to be less than or equal to 25 percent to 28 percent of your monthly gross income. Lenders call this the front-end ratio. In other words, since Patricia's monthly gross income is \$4,100, or \$49,200 annually, her mortgage payment should be \$1,148 or less:

$$\mathbf{\$4,100 \times 28\% = \$1,148 - \text{maximum monthly housing costs}}$$

Lenders usually require housing expenses plus long-term debt to be less than or equal to 33 percent to 36 percent of your monthly gross income. Lenders call this the back-end ratio. In other words, since Patricia's monthly gross income is \$4,100, the combination of her mortgage, \$1,148, and her other long-term debt should be no more than \$1,476:

$$\mathbf{\$4,100 \times 36\% = \$1,476 - \text{maximum total debt}}$$

How much can the total of Patricia's other debts (e.g., car loan payments, monthly credit card bills) be? No more than \$328.

$$\mathbf{\$1,476 (\text{max. total debt}) - \$1,148 (\text{max. monthly housing costs}) = \$328}$$

Long-term debt is outstanding debt with a remaining term of more than 10 or 11 months. It can include student loans, credit cards, car loans, and other non-housing expenses.

If your debt-to-income exceeds these ratios, talk to your lender about your options.

OTHER FACTORS AFFECTING HOW MUCH MORTGAGE PATRICA CAN AFFORD

Two other factors affect how much mortgage Patricia can afford: the length or term of the mortgage and whether her mortgage has a fixed or variable interest rate.

Mortgages may range from 10-year to 50-year terms. The table shows the most typical 15-year or 30-year terms.

15-Year Mortgage	30-Year Mortgage
Borrow less money Build equity faster Less interest to pay Larger monthly payment Lower interest rate For example, if you borrowed \$75,000 for 15 years at 7.5%, your monthly principal and interest payment would be \$695.	Borrow more money Build equity slower Can deduct more interest from income tax Lower monthly payment Higher interest rate For example, if you borrowed \$75,000 for 30 years at 8%, your monthly principal and interest payment would be \$550.

Whether her mortgage has a fixed or variable interest rate will also affect how much mortgage Patricia can afford.

Fixed-Rate Mortgage	Adjustable-Rate Mortgage (ARM)
Interest rate stays the same for the term of the loan. Your payments are predictable and not affected by interest rate changes. Interest rates could go down while you are locked into your mortgage at a higher than market rate.	Interest rate can increase or decrease during the term of the loan. You might have a low rate for an initial period of 1, 3, 5, 7, or 10 years. Monthly payments can be lower than fixed-rate loans. The interest rate and your payment can increase significantly throughout the term of the loan.

Note: Make sure you compare loan offers based on annual percentage rate (APR), not interest rate.

MORTGAGE OPTIONS

Interest-Only Mortgage

Unlike conventional mortgages, interest-only mortgage loans are mortgages in which only interest, not principal, is paid in the initial monthly payments. Then, after a specified period, depending on the loan, you will have to pay the entire principal balance in a lump sum, or you will begin to pay regular mortgage payments.

Interest-only mortgages have a lower monthly payment, so borrowers can purchase a home that they might otherwise be unable to afford, especially in areas with high housing costs.

Be very careful with these mortgages, because you may not pay down your principal. This mortgage payment may also increase over time because very frequently the interest rate is adjustable. Additionally, the term may convert to a conventional mortgage, which requires both interest and principal payments.

Biweekly Payment Mortgage

Biweekly payment mortgages are usually fixed-rate conventional mortgages with payment due every 2 weeks. The borrowers can pay their mortgage faster because every year, they pay 26 smaller biweekly payments instead of 12 monthly payments. Many borrowers who receive biweekly wages find this mortgage option a closer match to their spending plans. Because of the frequency of payment, lenders usually require direct bill payment from a bank or credit union account. Ask whether your lender offers a biweekly payment mortgage option.

You might be able to achieve the same result by adding more money to your monthly payment. Generally, your lender will not charge you a fee for this option. However, check to ensure that your lender does not charge a prepayment penalty.

MORTGAGE LENDING WORKSHEET

<i>Name of Lender</i> <i>Name of Contact</i> <i>Date of Contact</i> <i>Mortgage Amount</i>	Lender 1		Lender 2	
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
A. Basic Information about the loan				
❶ Type of Loan: Fixed rate, variable rate, conventional, FHA, other?				
❶ Minimum down payment requirement				
❶ Loan term (length of loan)				
❶ Contract interest rate				
❶ Annual Percentage Rate (APR)				
❶ Points (may be called discount points)				
❶ Monthly PMI payments (mortgage insurance)				
❶ How long must you keep PMI?				
❶ Estimated monthly escrow for taxes and insurance				
❶ Estimated monthly payment (Principal, Interest, Taxes, Insurance, PMI)				
B. FEES – different banks have different names for similar fees. Listed below are some of the typical fees you may see on loan docs				
❶ Application or loan processing fee				
❶ Origination or underwriting fee				
❶ Lender fee or funding fee				
❶ Appraisal fee				
❶ Attorney fees				
❶ Document preparation and recording fees				
❶ Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
❶ Credit report fee				
❶ Other fees				
C. Other Costs at Closing/Settlement				
❶ Title Search/Title Insurance For Lender For You				
❶ Estimated prepaid amounts for interest, taxes, hazard insurance, payments for escrow				
❶ State and local taxes, stamp taxes, transfer taxes				
❶ Flood determination				
❶ Prepaid PMI				
❶ Surveys and home inspections				
D. Total Fees and other closing/settlement cost estimates				

MORTGAGE LENDING WORKSHEET (Continued)

<i>Name of Lender</i>	Lender 1		Lender 2	
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
E. Other Questions and Considerations about the loan				
❶ Can any of the fees or costs be waived?				
Prepayment Penalties				
❶ Is there a prepayment penalty?				
❶ If so, how much is it?				
❶ How long does the penalty period last? (3 yrs? 5yrs?)				
❶ Are extra principal payments allowed?				
Lock-ins				
❶ Is the lock-in agreement in writing?				
❶ Is there a fee to lock-in?				
❶ When does the lock-in occur – at application, approval or another time?				
❶ How long will the lock-in last?				
❶ When the rate drops before closing, can you lock-in at a lower rate?				
If the loan is an adjustable rate mortgage:				
❶ What is the initial rate?				
❶ What is the maximum the rate could be next year?				
❶ What are the rate and payment caps each year and over the life of the loan?				
❶ What is the frequency of rate change and any changes to the monthly payment?				
❶ What is the index the lender will use?				
❶ What margin will the lender add to the index?				
Credit Life Insurance				
❶ Does the monthly amount quoted to you include a charge for credit life insurance?				
❶ If so, does the lender require credit life insurance as a condition of the loan?				
❶ How much does the credit life insurance cost?				
❶ How much lower would your monthly payment be without the credit life insurance?				
❶ If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				

PATRICIA'S MORTGAGE

Cost of Townhouse	\$172,000
5% Down payment	\$8,250
30 year mortgage @ 7%	\$163,750
Monthly P & I	\$1,081
Monthly T & I	\$125
Mortgage Insurance	\$105
Homeowner's Association Dues	\$160
Total Housing Expenses (35.9% of \$4,100 monthly income)	\$1,471
Total Long-Term Debt	\$100
Total Housing and Long-Term Debt (38.3% of \$4,100 monthly income)	\$1,571

Does Patricia's debt-to-income ratio fall within most lenders' guidelines? Why or why not?

HUD-1 SETTLEMENT STATEMENT

A. Settlement Statement		U.S. Department of Housing and Urban Development		OMB Approval No. 2502-0265 (expires 9/30/2006)	
B. Type of Loan					
1. <input type="checkbox"/> FHA	2. <input type="checkbox"/> FmHA	3. <input type="checkbox"/> Conv. Unins.	6. File Number:	7. Loan Number:	8. Mortgage Insurance Case Number:
4. <input type="checkbox"/> VA	5. <input type="checkbox"/> Conv. Ins.				
C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.					
D. Name & Address of Borrower:		E. Name & Address of Seller:		F. Name & Address of Lender:	
G. Property Location:			H. Settlement Agent:		
			Place of Settlement:		I. Settlement Date:
J. Summary of Borrower's Transaction			K. Summary of Seller's Transaction		
100. Gross Amount Due From Borrower			400. Gross Amount Due To Seller		
101. Contract sales price			401. Contract sales price		
102. Personal property			402. Personal property		
103. Settlement charges to borrower (line 1400)			403.		
104.			404.		
105.			405.		
Adjustments for items paid by seller in advance			Adjustments for items paid by seller in advance		
106. City/town taxes to			406. City/town taxes to		
107. County taxes to			407. County taxes to		
108. Assessments to			408. Assessments to		
109.			409.		
110.			410.		
111.			411.		
112.			412.		
120. Gross Amount Due From Borrower			420. Gross Amount Due To Seller		
200. Amounts Paid By Or In Behalf Of Borrower			500. Reductions In Amount Due To Seller		
201. Deposit or earnest money			501. Excess deposit (see instructions)		
202. Principal amount of new loan(s)			502. Settlement charges to seller (line 1400)		
203. Existing loan(s) taken subject to			503. Existing loan(s) taken subject to		
204.			504. Payoff of first mortgage loan		
205.			505. Payoff of second mortgage loan		
206.			506.		
207.			507.		
208.			508.		
209.			509.		
Adjustments for items unpaid by seller			Adjustments for items unpaid by seller		
210. City/town taxes to			510. City/town taxes to		
211. County taxes to			511. County taxes to		
212. Assessments to			512. Assessments to		
213.			513.		
214.			514.		
215.			515.		
216.			516.		
217.			517.		
218.			518.		
219.			519.		
220. Total Paid By/For Borrower			520. Total Reduction Amount Due Seller		
300. Cash At Settlement From/To Borrower			600. Cash At Settlement To/From Seller		
301. Gross Amount due from borrower (line 120)			601. Gross amount due to seller (line 420)		
302. Less amounts paid by/for borrower (line 220)	()	602. Less reductions in amt. due seller (line 520)	()
303. Cash <input type="checkbox"/> From <input type="checkbox"/> To Borrower			603. Cash <input type="checkbox"/> To <input type="checkbox"/> From Seller		
<p>Section 5 of the Real Estate Settlement Procedures Act (RESPA) requires the following: • HUD must develop a Special Information Booklet to help persons borrowing money to finance the purchase of residential real estate to better understand the nature and costs of real estate settlement services; • Each lender must provide the booklet to all applicants from whom it receives or for whom it prepares a written application to borrow money to finance the purchase of residential real estate; • Lenders must prepare and distribute with the Booklet a Good Faith Estimate of the settlement costs that the borrower is likely to incur in connection with the settlement. These disclosures are mandatory.</p>			<p>Section 4(a) of RESPA mandates that HUD develop and prescribe this standard form to be used at the time of loan settlement to provide full disclosure of all charges imposed upon the borrower and seller. These are third party disclosures that are designed to provide the borrower with pertinent information during the settlement process in order to be a better shopper.</p> <p>The Public Reporting Burden for this collection of information is estimated to average one hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.</p> <p>This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number. The information requested does not lend itself to confidentiality.</p>		
Previous editions are obsolete		Page 1 of 2		form HUD-1 (3/86) ref Handbook 4305.2	

HUD-1 SETTLEMENT STATEMENT (Continued)

L. Settlement Charges						
700. Total Sales/Broker's Commission based on price \$	@	%	=			
Division of Commission (line 700) as follows:						
701. \$	to				Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
702. \$	to					
703. Commission paid at Settlement						
704.						
800. Items Payable In Connection With Loan						
801. Loan Origination Fee		%				
802. Loan Discount		%				
803. Appraisal Fee	to					
804. Credit Report	to					
805. Lender's Inspection Fee						
806. Mortgage Insurance Application Fee to						
807. Assumption Fee						
808.						
809.						
810.						
811.						
900. Items Required By Lender To Be Paid In Advance						
901. Interest from	to	@ \$	/day			
902. Mortgage Insurance Premium for						
903. Hazard Insurance Premium for						
904.						
905.						
1000. Reserves Deposited With Lender						
1001. Hazard insurance		months @ \$	per month			
1002. Mortgage insurance		months @ \$	per month			
1003. City property taxes		months @ \$	per month			
1004. County property taxes		months @ \$	per month			
1005. Annual assessments		months @ \$	per month			
1006.		months @ \$	per month			
1007.		months @ \$	per month			
1008.		months @ \$	per month			
1100. Title Charges						
1101. Settlement or closing fee	to					
1102. Abstract or title search	to					
1103. Title examination	to					
1104. Title insurance binder	to					
1105. Document preparation	to					
1106. Notary fees	to					
1107. Attorney's fees	to					
(includes above items numbers:)						
1108. Title insurance	to					
(includes above items numbers:)						
1109. Lender's coverage \$						
1110. Owner's coverage \$						
1111.						
1112.						
1113.						
1200. Government Recording and Transfer Charges						
1201. Recording fees: Deed \$; Mortgage \$; Releases \$						
1202. City/county tax/stamps: Deed \$; Mortgage \$						
1203. State tax/stamps: Deed \$; Mortgage \$						
1204.						
1205.						
1300. Additional Settlement Charges						
1301. Survey to						
1302. Pest inspection to						
1303.						
1304.						
1305.						
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)						

TAPPING INTO YOUR HOME'S EQUITY

Home Equity Loans and Home Equity Lines of Credit

The "traditional" home equity loan is a one-time loan for a lump sum, and typically at a fixed interest rate. The loan is repaid in equal monthly payments over a set period of time.

A home equity line of credit (HELOC) works like a credit card. You receive a line of credit from which you can draw money. As you repay the principal, your available credit goes up again, just like a credit card. Typically, the interest rate on a line of credit is variable, meaning that it is tied to an index and will change with movements in interest rates.

Advantages

Home equity products offer homeowners great flexibility to finance major expenses, including home improvements and college tuition. They usually have a lower interest rate than credit cards, and the interest often is tax deductible (check with your tax advisor).

Risks

The most important thing to remember is that your home is collateral for the loan. If you run into repayment difficulties, you could lose your home. So, before you put your home at risk, you should learn more about how these loans work and what can go wrong if they are not used carefully.

With both types of home equity products you also are at risk if there is a drop in the value of your home. Although the housing market has done extremely well in recent years, there is always a chance that real estate values will go down.

HELOCs often come with extra-low interest rates for an introductory period, such as 6 months, but these are variable rates that could go up during the life of the loan.

When deciding whether a line of credit is right for you, ask yourself if you can afford the increased monthly payments after the introductory period ends or when interest rates rise. You will also have to decide if you are comfortable with a fluctuating monthly mortgage payment or whether a fixed interest rate and stable payments are better for you.

Also remember that you are drawing out the money you have invested in your home, so you should think carefully about what you do with that money. It is generally best to invest in another asset of long-term value, such as a home renovation or college tuition, instead of paying for a car or a vacation. The flexibility these loans give you can be dangerous because if you are not disciplined about how you use the funds, you could end up paying a lot of money over a long period of time for something you no longer own or that did not add any value to your existing assets.

TAPPING INTO YOUR HOME'S EQUITY (Continued)

Your Rights

You have specific rights if you are using your home as security for a home equity loan or line of credit. Federal law gives you 3 business days after signing the loan papers to cancel the deal – for any reason – without penalty. You must cancel in writing. The lender also must return any fees or finance charges you had paid. This right does not apply if you are buying a home or refinancing without borrowing additional money.

For more information, see the brochure *Putting Your Home on the Loan Line Is a Risky Business*, available on the FDIC Website at www.fdic.gov/consumers/consumer/predatorylending.

Cash-Out Refinancing

With cash-out refinancing, you refinance your mortgage for more than you currently owe, then pocket the difference.

Here is an example: Suppose you still owe \$80,000 on a \$150,000 house, and you want a lower interest rate. You also want \$20,000 cash, maybe to finance your child's education. You can refinance the mortgage for \$100,000. That way, you get a better rate on the \$80,000 that you owe on the house, and you get a check for \$20,000 to spend as you wish.

How does cash out refinancing differ from a home equity loan?

Cash-out refinancing differs from a home equity loan in a couple of ways. First, a home equity loan is a separate loan on top of your first mortgage; a cash-out refinance is a replacement of your first mortgage. Second, the interest rate on a cash-out refinancing is usually, but not always, lower than the interest rate on a home equity loan.

Another difference: You have to pay closing costs when you refinance your loan; you may not have to pay closing costs for a home equity loan. Closing costs can amount to hundreds or thousands of dollars.

Finally, it does not make sense to refinance a higher amount at a higher rate. If your current mortgage is at a lower interest rate than you could get now by refinancing, it is probably better to get a home equity loan.

Is cash-out refinancing right for you?

How do you decide whether a cash-out refinancing is right for you?

It depends on how much you would save each month and what you want to spend the money on.

Let's take the example of a couple who own a home. They took out a \$100,000 mortgage on a \$130,000 house in early 1992. Their interest rate was 9.95 percent, making their monthly payment \$873.88 (plus taxes, insurance, and other extras).

TAPPING INTO YOUR HOME'S EQUITY (Continued)

For 13 years, they never bothered refinancing. Now it is spring 2005, and they qualify for a rate of 6.02 percent. They still owe \$87,000 on their mortgage and they want \$20,000 cash to pay for some home improvements. They could refinance \$107,000 at a cost of \$642.90 a month for 30 years, allowing them to pocket the \$20,000. Over 30 years they would pay \$231,442.40.

Or they could refinance the \$87,000 at a cost of \$522.73 a month, then take out a \$20,000 home equity loan at 7.36 percent for 20 years. That would cost \$159.41 a month. Added together, they would pay \$682.14 a month for 20 years, then \$522.73 a month for the last 10 years. Total cost over 30 years: \$226,440.75.

With the home equity loan, they might struggle with higher payments for 20 years, but will save about \$5,001.65 over 30 years. Which option they take is a matter of personal preference.

When you decide whether to do the cash-out refinancing option, keep in mind that you will have to pay private mortgage insurance (PMI) if you borrow more than 80 percent of your home's value. If you would have to pay PMI, it might be cheaper to take out a home equity loan.

How do you plan to spend the cash?

Take a close look at how you plan to spend the money from cash-out refinancing. Specifically, is the cash for a short-term purpose or a long-term purpose?

If you are going to make payments for 15 or 30 years, it makes sense to spend the money on something that will last: an addition to the house that will increase its value, potentially lifesaving experimental medical treatment that your health insurance will not pay for, or starting a business.

In other words, do you want to spend 15 years paying for your month-long dream vacation? Do you want to spend 30 years paying for that luxury car? The car might be on the junk heap by the time it is paid for.

Maybe you want the cash so you can pay down a mountain of high-interest credit card debt. Yes, you will pay a lower interest rate and you can take a tax deduction, but you are probably lengthening the time it will take to pay off the credit card debt.

You are taking 30 years to pay off credit card debt that you might have been able to tackle in 5 or 10 years by cutting other expenses or taking out a shorter term home equity loan.

Source: adapted from www.bankrate.com/brm/news/loan/20010824a.asp

TAPPING INTO YOUR HOME'S EQUITY (Continued)

Reverse Mortgage

A reverse mortgage is a home loan that you do not have to pay back for as long as you live in your home. It can be paid to you in one lump sum, as regular monthly income, or at the times and in the amounts you want. The loan and interest are repaid only when you sell your home, permanently move away, or die.

Because you make no monthly payments, the amount you owe grows larger over time. By law, you can never owe more than your home's value at the time the loan is repaid.

You continue to own the home, so you must pay the property taxes, insurance, and repairs. If you fail to pay them, the lender can use the loan to make payments or require you to pay the loan in full. To qualify for a reverse mortgage:

- All homeowners must be at least 62 years old.
- At least one owner must live in the house most of the year.

Homes that are eligible for the reverse mortgage are:

- Single family, one-unit dwellings.
- Two-to-four unit, owner-occupied dwellings.
- Some condominiums, planned unit developments, or manufactured homes.

NOTE: Cooperatives and most mobile homes are not eligible.

Reverse mortgages can be paid to you:

- All at once in cash.
- As monthly income.
- As a credit line that lets you decide how much you want and when.
- In any combination of the above.

The amount you get usually depends on your age, your home's value and location, and the cost of the loan. The greatest amounts typically go to the oldest owners living in the most expensive homes getting loans with the lowest costs.

Most people get the most money from the Home Equity Conversion Mortgage (HECM), a federally insured program.

The Federal Government requires you to see a federally approved reverse mortgage counselor as part of getting a HECM reverse mortgage.

For more information, visit the U.S. Department of Housing and Urban Development's Website at www.hud.gov, or visit the U.S. Financial Literacy and Education Commission's Website at www.mymoney.gov.

Source: adapted from http://www.pueblo.gsa.gov/cic_text/housing/bad-loans/loan.htm

WHAT DO YOU KNOW? – YOUR OWN HOME

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about home ownership both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

I know:	Before the Training				After the Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The benefits and pitfalls of renting versus owning a home.	1	2	3	4	1	2	3	4
2. The steps required to buy a home.	1	2	3	4	1	2	3	4
3. What questions to ask to determine their readiness to buy a home.	1	2	3	4	1	2	3	4
4. Basic terms used in a mortgage transaction.	1	2	3	4	1	2	3	4
5. The advantages and disadvantages of different mortgage options.	1	2	3	4	1	2	3	4

EVALUATION FORM

This evaluation will allow you to assess your observations of the Your Own Home module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

<p>1. Overall, I felt the module was:</p> <p style="padding-left: 40px;"><input type="checkbox"/> Excellent</p> <p style="padding-left: 40px;"><input type="checkbox"/> Very Good</p> <p style="padding-left: 40px;"><input type="checkbox"/> Good</p> <p style="padding-left: 40px;"><input type="checkbox"/> Fair</p> <p style="padding-left: 40px;"><input type="checkbox"/> Poor</p>	<table border="1"> <thead> <tr> <th style="writing-mode: vertical-rl; transform: rotate(180deg);">Strongly Disagree</th> <th style="writing-mode: vertical-rl; transform: rotate(180deg);">Disagree</th> <th style="writing-mode: vertical-rl; transform: rotate(180deg);">Neutral</th> <th style="writing-mode: vertical-rl; transform: rotate(180deg);">Agree</th> <th style="writing-mode: vertical-rl; transform: rotate(180deg);">Strongly Agree</th> </tr> </thead> </table>	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree																																																																						
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree																																																																								
<p>2. I achieved the following training objectives:</p> <p style="padding-left: 20px;">a. Describe the benefits and pitfalls of renting versus owning a home.</p> <p style="padding-left: 20px;">b. Identify the steps required to buy a home.</p> <p style="padding-left: 20px;">c. Identify questions to ask to determine my readiness to buy a home.</p> <p style="padding-left: 20px;">d. Identify basic terms used in a mortgage transaction.</p> <p style="padding-left: 20px;">e. Describe the advantages and disadvantages of different mortgage options.</p> <p>3. The instructions were clear and easy to follow.</p> <p>4. The overheads were clear.</p> <p>5. The overheads enhanced my learning.</p> <p>6. The time allocation was correct for this module.</p> <p>7. The module included sufficient examples and exercises so that I will be able to apply these new skills.</p> <p>8. The instructor was knowledgeable and well prepared.</p> <p>9. The worksheets are valuable.</p> <p>10. I will use the worksheets again.</p> <p>11. The students had ample opportunity to exchange experiences and ideas.</p>	<table border="1"> <tbody> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr> </tbody> </table>	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
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<p>12. My knowledge/skill level of the subject matter before taking the module.</p> <p>13. My knowledge/skill level of the subject matter upon completion of the module.</p>	<table border="1"> <thead> <tr> <th colspan="3">None</th> <th colspan="3">Advanced</th> </tr> <tr> <th>0</th><th>1</th><th>2</th><th>3</th><th>4</th><th>5</th> </tr> </thead> <tbody> <tr> <td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td> </tr> <tr> <td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td> </tr> </tbody> </table>	None			Advanced			0	1	2	3	4	5	0	1	2	3	4	5	0	1	2	3	4	5																																																			
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EVAUATION FORM (Continued)

Instructor Rating

Please use the response scale and circle the appropriate number.

Response Scale: 5 Excellent 4 Very Good 3 Good 2 Fair 1 Poor	Name of Instructor				
Objectives were clear & attainable	5	4	3	2	1
Made the subject understandable	5	4	3	2	1
Encouraged questions	5	4	3	2	1
Had technical knowledge	5	4	3	2	1

What was the most useful part of the training?

What was the least useful part of the training?

HOMEBUYER ASSISTANCE PROGRAMS

There are a number of different programs available for first-time homebuyers. Many people start the home buying process with one of these programs or with a program offered by local community organizations. Be sure to ask your financial institution or mortgage counselor what options are available to you.

Federal Housing Administration (FHA) Insured Loans

The 203(b) is the most common FHA loan, featuring:

- Low down payment.
- Flexible qualifying guidelines.
- Limited lender fees.
- Maximum loan amounts.

Department of Veterans Administration (VA) Insured Loans

Features of VA loans include:

- You must be an eligible veteran.
- No down payment requirements.
- Competitive and negotiable fixed interest rates.
- Limitations on closing costs.
- Longer payment terms.

Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (Freddie Mac) Loans

FNMA and Freddie Mac both offer many loan programs. The programs may include features such as low or no down payment requirements and options for borrowers with less-than-perfect credit.

In addition, some programs are targeted for various groups, such as:

- First-time buyers.
- Low- to moderate-income buyers.
- Teachers, firefighters, law enforcement officers, and health care workers.

HOMEBUYER ASSISTANCE PROGRAMS (Continued)

United States Department of Agriculture (USDA) Rural Development Housing Services

The USDA offers several loan programs for those seeking to purchase homes in rural areas. Two loan programs are:

The Section 502 Rural Housing Direct loan features include:

- You must have low income – between 50 percent and 80 percent of the median income for the area in which you live.
- You must be unable to obtain financing elsewhere.
- The loan can be financed at 100 percent.
- Payments are usually 22 percent to 26 percent of your income.

The Section 502 Single Family Housing Loan Guarantees features include:

- You may earn up to 115 percent of the median income for the area in which you live.
- You must be unable to obtain credit elsewhere.
- You must be without adequate housing.
- You must be able to afford the payments.
- Thirty-year term.
- No down payment.

GLOSSARY

Adjustable-Rate Mortgage (ARM)

An adjustable-rate mortgage has an interest rate that might change during any period of the loan as written in the contract (loan agreement).

Annual Percentage Rate (APR)

The APR is a measure of the cost of your loan expressed as a yearly percentage rate, such as 10 percent or 11 percent.

Asset

An asset is anything owned by a person or organization having monetary value.

Balloon Mortgage

A balloon mortgage is a large payment at the end of your loan term. This is often after a series of low monthly payments. A balloon mortgage generally offers very low rates for an initial period of time (usually 5, 7, or 10 years). After the period ends, the entire balance is due. Many borrowers pay the balance by refinancing their mortgage.

Broker

A mortgage broker helps a prospective borrower shop around for the best rate and terms in obtaining mortgage financing. You pay the broker a fee for this work.

Caps

Caps are provisions of an adjustable rate mortgage, which limit how much the interest rate can change at each adjustment period or over the life of the loan. A payment cap limits how much the payment due on the loan can increase or decrease.

Closing Costs

Closing costs are various charges associated with the transfer of property. The lender must disclose these costs to you.

Compensating Factors

Compensating factors are favorable factors that might outweigh the negative factors. For example, a borrower has high ratios, but he or she balances this with a good credit history and extra cash in a savings account.

Condominium

A condominium is an apartment building or multiple-unit housing area in which the living units are owned individually.

Conventional Loan

A conventional loan is a mortgage that is not guaranteed, insured, or made by the Federal Government.

GLOSSARY (Continued)

Debt-to-Income Ratio (DTI)

DTI is the ratio of monthly debt payments to monthly gross income. Lenders use DTI ratio to determine whether a borrower's income qualifies him or her for a mortgage.

Down Payment

The down payment is the portion of the home's purchase price the buyer pays in cash.

Duplex House

A duplex is a house divided into two living units.

Finance Charge

The finance charge is the dollar amount the credit will cost.

Fixed-Rate Loan

A fixed-rate loan has an interest rate and payment amount that stays the same throughout the term of the loan.

Good Faith Estimate (GFE)

When you apply for a loan, the Real Estate Settlement Procedures Act (RESPA) requires that the lender or mortgage broker give you a GFE of the settlement service charges you will likely have to pay.

Government Mortgages

A government mortgage is insured by the Department of Housing and Urban Development (HUD) (through the Federal Housing Administration) or guaranteed by the Department of Veterans Affairs or the Rural Housing Service.

HUD-1 Settlement Statement

A HUD-1 Settlement Statement is a summary of all the costs paid by the buyer and seller in a mortgage transaction.

Index

The index is a base interest rate used to calculate the interest rate that will be charged on a variable-rate loan. The rate you will pay on a variable rate loan is usually a set percentage above the base rate, or the index.

Individual Development Account (IDA)

An IDA is a matched savings account. When an account is matched, it means that another organization, such as a foundation, corporation, or government entity, agrees to add money to your account.

Interest

Interest is the charge for borrowing money.

Glossary (Continued)

Lien

A lien is a legal claim on the home that secures the promise to repay the debt.

Loan Origination Fees/Underwriting Fees

These are fees charged by the lender for processing or evaluating the loan application and are often expressed as a percentage of the loan amount.

Loan to Value (LTV)

LTV is the amount of money you borrow compared to the price of the property you are buying.

Mortgage

A mortgage is a legal document whereby the borrower pledges property to the lender to ensure payment of a loan.

Principal, Interest, Taxes, and Insurance (PITI)

PITI are the factors included in the standard mortgage payment.

Point

A point is the amount equal to 1 percent of the loan amount. It is a fee paid to the broker or lender for the loan, often linked to the interest rate.

Principal

The principal is the loan amount borrowed or still remaining on the loan.

Private Mortgage Insurance (PMI)

PMI is mortgage insurance issued by private insurers that protects the lender against loss in the event the borrower defaults on a mortgage with a low down payment.

Rate Lock

A rate lock is the time period, usually 30 to 60 days, that a mortgage lender agrees to hold the mortgage rate and points payable by the borrower to the rate quoted by the lender on a given day.

Real Estate Agent

A real estate professional that helps people buy and sell property.

Glossary (Continued)

Settlement Costs/Closing Costs

These are fees associated with the transfer of property to a purchaser and recording the mortgage lien on the property deed by the bank financing the transaction. They may include application fees, title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorney's fees; recording fees; and notary, appraisal, and credit report fees.

Title

The title indicates the right of ownership in the property.

Title Insurance

Title insurance protects the buyer and lender against losses arising from disputes over the ownership of property.

Townhouse

A townhouse is one of a row of houses connected by common side walls.

FOR FURTHER INFORMATION

Department of Housing and Urban Development (HUD)

www.hud.gov

Office of Fair Housing and Equal Opportunity

451 Seventh Street, SW, Room 5100

Washington, DC 20410

202-708-4252

800-669-9777

Federal Deposit Insurance Corporation (FDIC)

Division of Supervision & Consumer Protection

2345 Grand Boulevard, Suite 1200

Kansas City, MO 64108

1-877-ASK-FDIC (1-877-275-3342)

Email: consumer@fdic.gov

www.fdic.gov

U.S. Financial Literacy and Education Commission

MyMoney.gov is the Federal Government's Website dedicated to teaching all Americans about financial education.

Whether you are planning to buy a home, balancing your checkbook, or investing in your 401k, the resources on MyMoney.gov can help you.

Throughout the site, you will find important information from 20 federal agencies.

www.mymoney.gov

888-My-Money (888-696-6639)