



# HOME BUYING

## TRAINING TECHNIQUES

### MODULE DESCRIPTION

Buying a house is the most significant purchase most people will ever make. This workshop is designed to increase the knowledge and comfort level of first time homebuyers, and can serve as a refresher for repeat homebuyers.

Command Financial Specialists, Fleet and Family Support Center personnel, Military Housing personnel or a panel that includes a real estate agent, a mortgage lender and an insurance agent could teach this workshop. If taught in a panel format, guest speakers must agree not to solicit.

This module can easily be two-hours long, and instructors may want to have a 15-minute break in the middle.

### LEARNING OBJECTIVES

At the conclusion of this program, participants will be able to:

- Define housing “wants” versus “needs”.
- Articulate the importance of research and preparation in buying a house.
- Determine approximately what price home they can afford.
- State two factors to consider when choosing a real estate agent.
- List the different types of mortgage loans.
- Name two strategies for saving on housing insurance.
- Obtain credit report and score.

### REFERENCES

- [www.hud.gov](http://www.hud.gov) (U.S. Department of Housing and Urban Development)
- <http://www.homeloans.va.gov/> (VA Home Loan Guarantee Program)
- [www.freddiemac.com](http://www.freddiemac.com) (Home Buying Information and Education)

- [www.annualcreditreport.com](http://www.annualcreditreport.com) (Annual Credit Report)
- [www.bankrate.com](http://www.bankrate.com) (Current interest rates on all types of loans and mortgages)
- [www.ashi.org](http://www.ashi.org) (Certified Home Inspector Locator)
- [www.AMBEST.com](http://www.AMBEST.com) (Insurance Rating)
- [www.schoolmatters.com](http://www.schoolmatters.com) (Standard & Poor's School Statistics)
- [www.greatschools.net](http://www.greatschools.net) (School Rating Website)
- <http://www.ourfamilyplace.com/> (Our Family Place Resource Center)
- <http://homebuying.about.com/> (About.com Homebuying)
- [www.fool.com](http://www.fool.com) (Motley Fool Investor's Website, Home Buying Education)
- [www.saveandinvest.org](http://www.saveandinvest.org) (NASD Military Investor Education Website)
- <http://www.lifelines.navy.mil> (Lifelines Services Network)
- [www.ffsp.navy.mil](http://www.ffsp.navy.mil) (Fleet and Family Support Program)
- [http://www.pueblo.gsa.gov/cic\\_text/housing/100questions/newhome.htm](http://www.pueblo.gsa.gov/cic_text/housing/100questions/newhome.htm) (100 Questions and Answers about Buying a New Home)
- [www.realtor.com](http://www.realtor.com) (National Association of Realtors)
- [www.fsbo.com](http://www.fsbo.com) (For Sale By Owner website)
- [www.craigslist.com](http://www.craigslist.com) (All-purpose bulletin board with Real Estate rentals and sales for every state)
- [www.militarybyowner.com](http://www.militarybyowner.com) (Real Estate Network for Sales and Rentals)
- [www.mls.com](http://www.mls.com) (Multiple Listing Service)
- [www.responsiblelending.org/issues/mortgage/sevensigns.html](http://www.responsiblelending.org/issues/mortgage/sevensigns.html) (Center for Responsible Lending, A Resource for Predatory Lending Opponents)

## MODULE PREPARATION

### Handouts:

- Financial Planning Worksheet
- Figuring Your Monthly Payments
- Setting Your Price Range
- Calculating Your Debt-to-Income Ratio
- Checklist for Financing Your Purchase
- Mortgage Shopping Worksheet
- Interviewing Agents
- Checklist for Your House Hunt
- Ten Important Questions to ask your Home Inspector
- Requesting a Quote for Homeowners Insurance

### Materials (varies depending on activities chosen)

- Paper, masking tape, pencils, calculators, copies of the Mortgage Lending Role Play Script (see pg. 11)

## SUMMARY OF OPTIONAL PARTICIPANT ACTIVITIES

- **Are you ready?:** A brief opening exercise to get participants to introduce themselves and assess their readiness to purchase a home.
- **Needs versus Wants:** A short brainstorming exercise helping participants to focus in on their own needs and wants.
- **Imaginary Line:** Builds on the brainstorming activity by having participants physically place themselves on an imaginary line to rank the importance of selected house features.
- **Debt-to-Income Ratio:** Using the Calculating Your Debt-to-Income Ratio handout, participants have the opportunity to calculate their debt-to-income ratio in class.
- **Practice Interview:** Using the “Interviewing Agents” handout, participants turn to their neighbor and ask some of the questions on

the handout. The purpose of this activity is two-fold. It breaks up a large chunk of time when the instructor is lecturing and it gives participants an opportunity to do a mock interview.

- **Mortgage Lending Role Play:** Using scripted scenarios, four workshop participants ask to borrow money from three participants who act as mortgage lenders. Purpose of this activity is to demonstrate factors mortgage lenders consider when approving or disapproving a loan and how we, as individuals, do the same.
- **Home Buying Summary:** A multiple choice content review game.

## ■ CURRICULUM OUTLINE

1. Welcome and Introduction (5-15 minutes)
  - a. Optional Participant Activity: Are you ready?
2. Are you ready to Buy? (10 minutes)
  - a. Renting versus Buying
  - b. What type of house?
  - c. Location, location, location!
  - d. Needs versus wants
    1. Optional Participant Activity: Needs versus wants and Imaginary Line
3. What can you afford? (30 minutes)
  - a. Calculate your budget
  - b. Your debt-to-income ratio
  - c. Credit reports and scoring
  - d. Other factors influencing financing
  - e. Down payments
4. Lenders and Loans
  - a. Choose a lender
  - b. Choose a mortgage loan

- c. Borrower Beware
  - d. The mortgage application process
5. Selecting a Real Estate Agent (10 minutes)
- a. Real Estate Professionals
  - b. Interview agents
  - c. Do it yourself?
  - d. Begin the search
6. Negotiate the deal (5 minutes)
- a. Property values
  - b. Home inspection
7. Closing costs and closing (5 minutes)
- a. Closing Costs
  - b. Pre-Paid Costs
  - c. Closing
8. Reducing payback time (5 minutes)
- a. Early Mortgage Payment
  - b. Advantages
  - c. Disadvantages
9. Homeowner's Insurance (10 minutes)
- a. Minimal Coverage
  - b. Additional Coverage
  - c. Reduce Premium Costs
10. Summary (10-15 minutes)

## ■ INSTRUCTOR TECHNIQUES BY SLIDE NUMBER

1

### **Optional Participant Activity: Are you ready?**

Time: 5-10 Minutes

Preparation: Make two small signs, one saying, “I’m Not Sure I Even Want to Buy a House” and one saying, “I’ve Already Got a Contract on a House” and post them on opposite sides of the training space.

Procedure: This is a brief opening exercise to get participants to introduce themselves and assess their readiness to purchase a home. Ask participants to introduce themselves to the class. State, “Let’s go around the room and do quick introductions. Please tell everyone your name and tell us on a scale of 1-10 with 1 being I’m Not Sure I Even Want to Buy a House, and 10 being, I’ve Already Got a Contract on a House, where they are on the scale.” Comment as appropriate

Close the Activity by telling participants that by the time they leave this workshop they will feel much more comfortable with the home buying process.

Option: An optional way to conduct this activity would be to post a sign at each end of the training space or along a wall with the beginning and end of the scaling on it (“I’m Not Sure I Even Want to Buy a House” and “I’ve Already Got a Contract on a House”.) Have participants stand at the location somewhere between the signs that best indicates their readiness to purchase. While they are standing they can introduce themselves to each other and the rest of the class. Conducting the activity in this way will increase their comfort level with the Brainstorming/Imaginary Line activity coming up next.

6

### **Optional Participant Activity: Needs versus Wants and Imaginary Line**

Time: 10-15 Minutes

Preparation: Paper and pencils or pens, two small signs reading, “Must Have” and “Not Necessary” posted at opposite sides of the training space.

Procedure: In lieu of giving a lecture on these points, use this activity to get participants involved. Divide participants into small groups of five or six. Explain that as a group they are going to design their own perfect house. Ask each group to make two lists – one list of “needs” for their house (absolute must haves) and one list of “wants” for their house. Tell participants you realize everyone won’t agree but to come to a consensus in their group. Individuals will have an opportunity to express their own personal views in a few minutes. After about seven minutes of group work, ask each group to share their needs and wants. Instructor should record responses on a board or chart paper. Group responses may include:

<b>Needs</b>	<b>Wants</b>
Enough square footage for comfortable living	Carpeting color, paint color, exterior color, roof color, etc.
Enough bedrooms to accommodate your family	Pool or Jacuzzi (unless for medical reasons)
Adequate number of bathrooms	Wood floors
Eat-in kitchen	Bay windows
Garage or basement for storage needs	Built-in entertainment center
Lot size to accommodate children’s play area	Brass lighting fixtures
Adaptation for handicapped	Skylights
Proximity to a specific school	A pretty view
All living areas on single floor for health reasons	Specific brand/types of appliances

Next, depending on the size of your audience and training space, have participants line up along the wall where the “Must Have” and “Not Necessary” signs are posted. If you have a large audience, select 10-15 people to participate in this activity while the rest watch.

Tell participants, “Imagine this wall is a continuum. The left side of the room indicates an item is not important to you. As you move to the right side of the room, the item becomes more desirable.

The far left corner of the room is Not Necessary and the far right of the room is A Must Have. You may line up somewhere in the middle if the item I mention doesn't matter to you one way or the other. As I say an item, place yourself on the continuum of how important the item is to you." (You can use the following list, or some of the suggestions from the group brainstorming work.)

Three bedrooms  
Two story house  
House in a good school district  
House has a yard of 1 acre or more  
Formal dining room  
Deck  
Garage  
Fireplace  
Basement  
Price is right

As you work through the list, note the differences in what participants in the workshop see as a need versus a want. If there aren't many differences, note that as well and comment on how this group has similar needs and wants. Invite participants to take their seats, and suggest that as a group they put some needs and wants in writing, and they need to do the same individually, for their own personal needs and wants. Tell them that putting needs in writing and keeping this list with them will keep them, focused throughout the home buying process.



### **Optional Participant Activity: Calculating your Debt-to-Income Ratio**

Time: 5 Minutes

Materials: "Calculating Your Debt-to-Income Ratio" handout, pencils and calculators

Procedure: Distribute the Calculating Your Debt-to-Income Ratio handout. Demonstrate its use and have participants complete theirs using their best guess estimates of gross income (all pay and allowances) and monthly debt payments.

When the participants have completed the form, explain the following: Many lenders use a 28/36 qualifying ratio. This means that your mortgage payment (principal, interest, taxes and insurance, usually referred to as “PITI”, plus any homeowners dues) should not exceed 28% of your gross monthly income. All monthly debt obligations, including your mortgage payment and other recurring debt, should not exceed 36% of your gross monthly income. The VA and many other lenders will allow a total higher monthly debt-to-income ratio than you may be find comfortable, as high as 29/41. With these ratios you can determine if you are financially ready to take on a mortgage payment, or if you need to pay down some of your other recurring debt first.

8

If you have the name of participants in advance, request that they bring a current copy of their credit report to the workshop. They can use it to refer to as you cover the teaching points about credit reports and scoring.

11

Distribute the handouts “Checklist for Financing Your Purchase” and “Mortgage Shopping Worksheet”. Refer to them as the topics arise in the lecture.

17

### **Optional Participant Activity: Practice Interview**

Time: 5 Minutes

Materials: Interviewing Agents handout

Procedure: After reviewing the information in this section, give participants the chance to practice. Ask participants to turn to their neighbor and ask some of the questions on the handout. Allow a few minutes for the interview, and if time permits, have the couples switch roles. After five minutes stop the interviews and ask participants how the exercise worked for them. Explain that practicing will help them make better choices when they choose their realtor.

19

Distribute the handout “Checklist for your House Hunt” and review the elements of it as an alternative way of covering the material in this section.

20

Distribute the handout “Ten Important Questions to Ask Your Home Inspector” and review the questions with participants.

27

After slide 27 you will have covered all the material on lenders and loans. If time allows, conduct the Mortgage Lending Role play as a means of reviewing the material.

### **Optional Participant Activity: Mortgage Lending Role Play**

Time: 10-15 Minutes

Preparation: Three chairs should be set in front of the class at an angle. Mortgage Lending Role Play Script should be printed out and four copies available.

Procedure: Ask for three participants to volunteer to be mortgage lenders. Tell them all they have to do is listen to the request for a loan and give a “thumbs up” gesture if they would lend the requester money and give a “thumbs down” gesture if they would not. Lenders may not talk during the activity. Ask four other participants to come to the front of the room one at a time and read the script they have been given.

As each requester is either approved or not approved, briefly discuss the factors the lenders used in making their decision. When all four have gone, thank participants and invite them to return to their seats.

## ***Mortgage Lending Role Play Script***

### **Potential Borrower # 1**

As you can see from my application, I'm 26 years old, married for five years, and have two kids. I was in the Navy for four years and got out last year. Since then I've worked a couple of different jobs. We've lived in our apartment for two years. I've occasionally paid bills as late as sixty days past their due date, but I'm currently up-to-date on all three of my department store cards and both of my car loans. My wife doesn't work because the kids are young. We'd like to move into a house in the country to raise our boys. Will you give me a home loan?

### **Potential Borrower # 2**

I'm divorced. I've been in the Navy for twelve years. I currently live on the ship, but am planning to remarry and would like to buy a house for my new wife. I had outstanding credit until three and a half years ago. While on deployment in Afghanistan, my previous spouse opened up a bunch of charge cards without my knowledge. She didn't pay any of our bills. When I got back from deployment I found my car had been repossessed and the bank was foreclosing on my house. I had to file Chapter 13 bankruptcy. My finances are okay now. Will you loan me money to buy a house?

### **Potential Borrower #3**

I'm 20 years old. I joined the Navy nine months ago. I'm single and currently live on the ship. I've never had a loan or a credit card unless you count the \$1000.00 my dad loaned me when I was 16 to buy a drum set. I paid it back in full, but it took two years.

My grandma recently died and left me some money. I'd like to buy a condo out in town, but I need a loan in addition to the money my grandma left. Will you give me a loan?

### **Potential Borrower # 4**

I've been in the Navy for fourteen years. Married for ten. I have two kids and a dog. I have two credit cards that I pay in full each month. My car payments are done next month. I own a small home that we've lived in for the past five years. My spouse works, but we try to live on my check and put hers in savings. We'd like to get a bigger house. Will you lend us the money?

**Optional Participant Activity: Home Buying Summary**

See “Introduction to the Modules: PowerPoint Games”

**Home Buying Question Bank**

1. Which of the following statements about owning a home is not correct?
  - a. Home ownership gives you a sense of community
  - b. Home ownership provides tax incentives
  - c. Home ownership is worry-free**
  - d. Home ownership requires money to be saved for unexpected repairs
  
2. Which of the following is an example of a housing “want” vice “need”?
  - a. A chandelier in the dining room**
  - b. A kitchen
  - c. Plumbing
  - d. Heat
  
3. Which of the following is an example of a housing “need” vice “want”?
  - a. A chandelier in the dining room
  - b. Sea Foam Blue paint in the bedroom
  - c. Plumbing**
  - d. Whirlpool tub in the master bath
  
4. Renting may be better if:
  - a. You are okay with variable costs and large initial investments

- b. You move a lot and don't care about the tax advantage**
- c. Your favorite show is *Trading Spaces* and you have a framed picture of Ty Pennington in your home woodworking shop.
  - d. Property values are going up and you want to get in on the growth
5. Which of the following is not on your credit report?
- a. Your EAOS**
- b. Credit cards you have
  - c. Credit obligations paid 30 days late or more
  - d. Highest balances on charge cards
6. When figuring what you can afford, it is important to:
- a. Calculate your budget
  - b. Calculate your debt-to-income ratio
  - c. Neither a nor b
  - d. Both a and b**
7. A good debt-to-income ratio limit for getting a mortgage is:
- a. 16%
  - b. 20%
  - c. 30%
  - d. 36%**
8. What factor does a mortgage lender not take into consideration when deciding whether or not to grant you a loan?
- a. New credit
  - b. Types of credit
  - c. Your race**
  - d. Credit repayment history

9. Which of the following is not a type of mortgage loan?
- a. Variable Rate
  - b. Balloon
  - c. Fixed Rate
  - d. Forward Equity**
10. Which type of home loan typically requires a 3-5 % down payment?
- a. Federal Housing Administration loan**
  - b. Veteran's Administration loan
  - c. Bank loan
  - d. Student loan
11. Which of the following is not an example of a closing cost?
- a. Pest inspection fee
  - b. Appraisal fee
  - c. New homeowner fee**
  - d. Credit report fee
12. Which of the following is not an example of a closing cost?
- a. Loan origination fee
  - b. Title search fee
  - c. Attorney or Title Company fee
  - d. Owner payback fee**
13. Which of the following is not a way to reduce the payback time of your home loan?
- a. Make an extra lump sum payment each year
  - b. Increase monthly payment by 1/12th

c. Pay bi-weekly

**d. Pay monthly amount as required**

14. A home inspection covers all but the following:

a. Roof

b. Plumbing

**c. Cosmetic flaws**

d. House structure

15. Which of the following is ethically bound not to list and sell you the same house?

a. Selling Agent

**b. Buyer's Agent**

c. Listing Agent

d. Broker

16. Which of the following types of insurance will protect your future earnings if your dog bites your neighbor and you're sued?

**a. Umbrella**

b. Replacement Cost

c. Rider

d. Comprehensive

17. To reduce homeowner's insurance costs do all of the following except:

a. Raise your deductibles

b. Install smoke alarms

**c. Buy an older house**

d. Buy a new house

18. FSBO stands for:

- a. Frequent Selling and Buying Options
- b. For Sale by Owner**
- c. Foreign Students Bunking Opportunity
- d. Federal Standards for Buying Online

19. Predatory lending is

- a. A type of lending in the subprime market that offers extremely competitive interest rates
- b. A type of lending in the subprime market that encourages prepayment
- c. A type of lending in the subprime market that typically charges excessive fees**
- d. A type of lending in the subprime market for good credit risks

20. Which of the following websites can help you buy your home?

- a. [www.hud.gov](http://www.hud.gov) and [www.homeloans.va.gov](http://www.homeloans.va.gov)
- b. [www.annualcreditreport.com](http://www.annualcreditreport.com) and [www.bankrate.com](http://www.bankrate.com)
- c. [www.ashi.org](http://www.ashi.org) and [www.ambest.com](http://www.ambest.com)
- d. [www.schoolmatters.com](http://www.schoolmatters.com) and [www.nffsp.org](http://www.nffsp.org)
- e. (All Are Correct!)**