



Module 7:

Home Buying and Selling

I. Introduction

The *Marine Corps Personal Services Manual* states that the Relocation Assistance Program should provide pre-departure relocation assistance on home renting, buying and selling. This module is designed for participants to develop knowledge and skills that will provide them the information needed to buy or sell a home. It is designed to introduce participants to the steps involved including whether to rent or buy, what to look for in a neighborhood, real estate agents, and financial considerations.

II. Learning Objectives

Upon completions of this module, participants will be able to do the following:

- Determine at least three factors that go in to deciding whether to rent or to buy.
- Identify four items to look for in selecting a neighborhood.
- Name three types of mortgage loans available.
- Demonstrate knowledge of pre-paid and closing costs.
- Describe the factors that go into determining how much house you can afford.
- List four things that should be done to get a home ready to sell.

III. References

The following materials were used in preparation of this module.

- *Navy Personal Financial Management Standardized Curriculum*
- Fannie Mae at <http://www.homebuyingguide.com>
- USAA at <http://www.usaefoundation.org/house>
- DoD Per Diem, Travel and Transportation Allowance Committee at <http://www.dtic.mil/perdiem/bahintro.html>
- HUD at <http://www.hud.gov/buying/index.cfm>
- Home Buying at <http://homebuying.about.com/>
- Military.com Home Buying at <http://www.military.com/Finance/HomeBuying/0,13397,66,00.html>
- House and Home at <http://houseandhome.msn.com/>
- The Motley Fool's Mortgage Center at <http://www.fool.com/homecenter/finance/finance.htm>

IV. Preparation and Procedures

- **Marketing/Target Audience:** The target audience for this workshop is service members/families contemplating buying or selling their first home. An emphasis is placed on those with PCS orders who will be buying in a new community. It can be marketed through Marine and Family Services staff and publications as well as at other relocation workshops.
- **Module Length:** Approximately 1.5 -2 hours
- **Training Considerations/Options:** Marine and Family Services RAP or Personal Financial Management staff can conduct this workshop, or it could be jointly facilitated by PFM and RAP staff. Professionals from the community including, for example, personnel from the VA Home Buying Division, Local Board of Realtors, and/or a building inspector could be asked to be guest speakers. Videos on home buying are available and can be shown as part of the presentation. Check Conquest Corporation's

(1-800-922-6629) *Finding a Home, Buying the House that is Right for You.*

- **Registration:** Registration is recommended. All registrants should receive a reminder phone call or email at least three days prior to the workshop.
- **Training Materials and Tools:** All handouts should be placed at each seat or handed to participants at the beginning of the workshop. It is helpful to put handouts in the order that you will be using them. Needed materials and tools are listed below.

Home Buying Training Materials/Tools

Equipment/Materials

- Tables and chairs to accommodate all participants
- Separate resource table
- Name tents or name tags (optional)
- Pencils
- Markers
- Projector and screen (PowerPoint capable)
- PowerPoint slides
- White board or chart paper
- Sign-in sheet

Handouts (Should be available at each seat or handed to each participant upon arrival.)

- Pre-check/Post-check (At the end of this module.)
- Needs/Wants List (Page A-43)
- Real Estate Terms (Page A-44)
- House Hunting Checklist (Page A-46)
- Calculating Monthly Debt Ratio (Page A-47)
- Program Evaluation (Page A-1)

NOTE: Use of additional or alternative handouts is at the discretion of the local RAP. Handouts specific to one's own locale are encouraged.

Resource Materials

Include multiple copies of handouts or brochures for participants to take with them or single copies of books, pamphlets or videos for participants to look at.

There are numerous books on buying and selling homes. Among the most popular are the following books:

- Brown, Ray, & Tyson, Eric. (2001). *Home Buying for Dummies*. 2nd Edition. New York: For Dummies
- Eldred, Gary W. (2002). *The 106 Common Mistakes Homebuyers Make (and How to Avoid Them)*, 3rd Edition. New York: Wiley
- Glink, Ilyce R. (2000). *100 Questions Every First-Time Home Buyer Should Ask: With Answers from Top Brokers from Around the Country*, 3rd Edition. Riverside, CA: Three Rivers Press

USAA Educational Foundation and Channing Bete Company both publish booklets on home buying and selling. They can be contacted at the following web addresses:

- USAA at <http://www.usaaedfoundation.org/>
- Channing Bete at <http://www.channing-bete.com/>

V. Key Terms

- Numerous real estate terms. See Real Estate Terms handout (Page A-44)

VI. Curriculum Outline

- Introduction (5-10 minutes)
- Administration (10 minutes)
- Home buying basics (10 minutes)
- Should I rent or buy? (10 minutes)
- What am I looking for in a house and a neighborhood? (10 minutes)
- Real Estate Agents - What to look for (5 minutes)
- Financing: types of loans (10 minutes)
- Finding a lender (5 minutes)
- Making an offer (10 minutes)

- Home inspection (5 minutes)
- Selling your home (5-10 minutes)
- Summary (10 minutes)

VII. Curriculum Detail

Introduction

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WELCOME participants to the *Home Buying and Selling* workshop.

TELL participants your name, position, and title. Include your experience with relocating military families as well as experience with home buying and selling.

ASK participants, “How many of you are planning to buy a home in the next few months? Is anyone planning to sell their home? How many of you have PCS orders in hand or are expecting them soon?”

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TELL participants, “Whether you are planning to buy or sell, we will be covering the basics in this workshop. We will briefly discuss whether you should rent or buy, what to look for in a home and neighborhood, real estate agents and financing. Please feel free to ask questions and share your experiences. We can all learn from each other.”

NOTE: If the group is not too large, spend a few minutes on participant introductions. There are several ways to do this. Participants can just state their name and something about themselves such as what type of home they are planning to purchase. Or participants can take a minute to talk with the person sitting next to him/her and then introduce that person to the group. If you have distributed name tags, check to see that everyone has one.

Administration

REVIEW the following information with participants:

- Breaks. As this workshop is approximately 2 hours, a short break (10 minutes) is recommended after the first hour.
- Restrooms. Provide directions to the restrooms.

- Coffee/snacks. If you provided refreshments, offer them to the participants. If you're in a classroom that does not allow food or drinks, be sure to let participants know.
- Sign-in sheet. Ask participants to complete the sign-in sheet if they did not do so upon arrival.
- Participant materials. Tell participants that the materials they received will be reviewed during the workshop.
- Resource materials. Note that resource materials are available for participants to look at after the workshop. Indicate where the materials are located.

Pre-check

REFER participants to the Pre-check/post-check handout.

SAY A pre and post-check will be given as we are interested in knowing not only how much you might have enjoyed the workshop but how effective we are at teaching. Please answer each question as I read it aloud and then set the paper aside. At the end of the workshop there will be a post-check and the papers will be collected. We are not asking for any identifying information.

NOTE: The correct answers to the pre-check are included here. The answers need not be given to the participants as the information will be covered during the workshop.

Home Buying Pre-Check

1. The golden rule of real estate is “location, location, and location.” (True)
2. A VA loan is the only type of loan available to service members. (False)
3. You should always buy the most expensive home for which you can get financing. (False)
4. It is important to get your credit report from all three credit companies. (True)
5. Once you own a home you can remodel and add on to it in any manner you desire. (False)
6. Real estate agents most often work for the seller. (True)
7. Before selling your home you should always paint and put down new carpeting. (False)
8. A home inspection is recommended only if you are buying a home costing more than \$200,000. (False)

Home Buying Basics

A home is one of the most complicated and costly purchases you'll ever make. Despite the importance of this major purchasing decision, many individuals do not have the information they need. The purpose of this workshop is to provide objective information so you will be confident in your decision whether or not to purchase a home and to understand the home buying/selling process and financing.

REFER to the *Needs/Wants* handout. Ask participants to take a few minutes to list what they need in a home and neighborhood as well as what they want. Under needs they should write in what they absolutely must have in a house and neighborhood - minimum number of bedrooms, for example. Under “wants” they should list those things they'd like to have in a house or neighborhood - a community pool for example.

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Should I rent or buy?

To evaluate whether renting or buying is best for you, let's consider some of the pros and cons of each choice.

Renting may be better if:

- You move often. Unless you live in one place at least five to seven years, you may lose money when selling your home. If you cannot sell, you may become a landlord by having to rent your home.
- You are unfamiliar with the area. Before buying a home, you may want to identify a neighborhood and rent there first to determine its ultimate long-term desirability.
- You are low on cash to cover the down payment and initial costs involved in purchasing a home. Renting now to save for a down payment and closing costs makes sense.
- You do not care to commit the time, effort, and expense of maintaining a home. The costs of maintaining a home greatly exceed those of renting. If you cannot imagine not calling a landlord to fix the backed-up drain, you should rent.

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Buying may be better if:

- You are moving to an area enjoying high appreciation in the value of residential property. If an area's homes are appreciating at rates of 5 to 10% a year, your home's increased value should offset the costs of selling it should you be transferred.
- You can afford to buy a home that will allow you to itemize on your tax return and allow you to deduct other items like charitable contributions. It must be expensive enough that the interest paid and real estate taxes nearly equal or exceed the standard deduction.
- You own pets that may be frowned upon by landlords. It is often difficult, if not impossible, to rent when you have large dogs or multiple dogs and cats.
- You are ready for stability and a sense of community. Buying a home automatically commits you to an area and a neighborhood. You become interested in zoning laws, tax rates, the city's/county's plans for expansion and growth, and the appearance of your neighbor's property.

ASK What about the benefits of living in military housing? If you have the option, living in military housing may be the best choice for the mobile military lifestyle. While in housing you will not receive basic allowance for housing (BAH). However, many of your costs are covered and you have no monthly housing payments.

However, the reality for most service members is that military housing is unavailable or the waiting list is so long that they must find other housing first. In this case, you will receive your housing allowance and pay all housing costs yourself.

If you're not familiar with BAH, it is based on local rental costs, pay grade, dependency status, and location. It is not designed to cover all your housing costs but is intended to allow you to maintain a standard quality of housing regardless of your duty station. For more information on BAH check out the information at <http://www.dtic.mil/perdiem/bahintro.html>. You can even enter a zip code and your pay grade and get a figure for BAH for that area as well as average out of pocket expenses.

What am I looking for in a neighborhood?

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ASK Where do you want to live? What are you looking for in a neighborhood?

NOTE: Ask participants to share some of their wants and needs from their lists. Depending on the size of the audience and the time available you may want to write responses on chart paper or white board. Answers may include location, schools, safety, friendly neighbors, and good investment.

SAY Your responses point out that there are numerous things to consider when looking at neighborhoods. Looking for a house really starts with looking for a neighborhood. Deciding where you want to live is key to narrowing your search. As many of you are relocating and unfamiliar with the community in which you wish to buy, this can be a difficult task.

Consider the following when looking for a neighborhood:

- The “Golden Rule of Real Estate” - location, location, and location! However, only you can decide which location is good for you. Do you want to be close to work, to shopping, to public transportation?
- Take a tour of different neighborhoods. If you have the opportunity to take a house-hunting trip, find a good city map and the classified ads section of the local newspaper. Survey prospective neighborhoods by selecting a dozen homes from the ads, then make a day of visiting them. The idea here isn't to find “the” house,

but to narrow your search to the most desirable neighborhood. Remember it's much easier to fix up a house than a neighborhood. Contact a licensed real estate agent to help you with this, especially if you are unfamiliar with the area.

- Consider your family's needs. Considerations in this area include driving time to work, shopping, recreation facilities, medical care, places of worship, and the availability of public transportation.
- Safety. Talk to potential neighbors in various parts of town and in specific neighborhoods in which you might be interested. Ask the local police department for comparative crime statistics.
- School Districts. This will be easier if you have determined your definition of a "good" district and understand your children's individual needs. Even if you don't have school-aged children, don't overlook the quality of the school district. This factor may figure prominently in the resale value of your home. Comparative school information is available at The National Center for Education Statistics at <http://nces.ed.gov/> or Best Places School Statistics at <http://www.bestplaces.net/school/sch1.asp>.
- High concentration of military families. These neighborhoods have established themselves as attractive to military families. With a steady turnover of incoming and outgoing military families, it may make it easier to sell your home when the time comes.

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Neighborhood Feel or "Ambiance"

Ask people about what they like - or dislike- about where they live, and the first comment is usually about the feel and character of their neighborhood. Don't underestimate the impact the local area can have on your enjoyment of a property. Here's how to evaluate a prospective neighborhood:

- Try to visit the neighborhood you're considering at different times of the week- during work hours, in the evening, and on weekends.
- Don't just drive around. Get out of your car and walk. You'll see and hear things that you might otherwise miss.
- People are generally more than happy to share their experience of where they live. Don't be shy. Ask people out working in their yards or washing their car what they think about the area.

- Check to see if there are children playing outside unattended. A child playing is often an indication of how safe their parents feel.
- Is there too much traffic? Being next to an interstate may make it easier to get to work but it also brings noise and congestion.
- Consider the noise level. Can you hear airplanes or trains? What about sirens? Are those children who are playing outside going to make you smile or drive you nuts?
- How does the neighborhood look? Are there public utility substations nearby? What about broadcasting towers or junkyards? Even that park that you're so happy to be close to might have lights for night games.

Zoning and Neighborhood Regulations

When choosing a neighborhood, it is important to understand zoning and other regulations. Renovations, additions, and new construction in most areas are heavily controlled by a number of regulations. If you like the feel of a neighborhood, investigate whether there are regulations in place to prevent changes. The last thing you want is to move in, only to find your next-door neighbor is converting their property to a rooming house or replacing their existing dwelling and destroying your view.

On the other hand, you may be considering adding on to make room for a growing family or a home-based business. Check to see if the zoning allows you to use the property in ways you are considering in the future.

Many neighborhoods, particularly condos and town homes, have Neighborhood Associations. These associations have rules and regulations as well as fees to cover common areas, trash collection, and recreational facilities. Check for covenants, conditions, and restrictions (CC & R's) that define restrictions. A realtor can access and interpret these for you.

Getting Around

One area that needs serious consideration is how far you will be from the places you need to go and how easy it will be to get there. Your quality of life is often affected by how much time you need to get from point A to point B. Here are a few things to think about:

- **Ease of commuting:** Find out how long it will take to drive to work from any area that you are considering. The best way to find this out is to do the drive yourself. Drive during regular work hours - rush hour may tie you up longer than you think. Check for special rush-hour traffic restrictions.

- **Public Transit:** If you utilize public transportation, look at how close your neighborhood and your regular destinations are to transit stops. Call the transit company and ask about the frequency of service, routes, and fares.

In addition, you should consider the availability, location, and condition of the following services and amenities:

- Sidewalks
- Parks
- Community centers
- Sport facilities
- Playgrounds
- Curbside garbage and recycling pickup
- Home mail delivery
- Snow removal
- School bus stops

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What am I looking for in a house?

ASK participants to again take a look at their *Wants/Needs* list and share their responses.

ASK Is your list flexible? What if you can't find a home in your price range with all the amenities you want? It's a good idea to put the list in order of importance. For instance, an eat-in kitchen may be more important to you than a fireplace.

First, think about the type of house you want to buy - detached, semi-detached, townhouse or condo. And of course, part of assessing a specific house is whether it suits your fancy. Do you like the siding? Is the tree in the backyard going to mean too much yard work in the fall? Is the sunroom so beautiful that you plan to live out the rest of your days there with a good book?

But don't let your heart get ahead of your head. Once you've narrowed down your options, you'll need to look critically at many different elements of the lot and the building. This means everything from the size of the closets to the state of the plumbing.

The next step is to think logistics. What are your room and layout requirements? How many children do you have or hope to have? Do you want them all to have their own bedrooms? Do you want a separate den? Do you need an extra room for a home office?

In addition to your preferences and requirements, you should also keep what others like in mind. The less “unique” characteristics and the more commonly desired features your home has, the wider its appeal and the higher the price you’ll get if and when you sell. You may want a pool, for example, but that can take away from a home’s resale value. By contrast, off-street parking or a garage can add thousands to a property’s value.

Are you the do-it-yourself type? Think about how much work you want to do yourself. If you have the time, energy, and inclination, buying a fixer-upper can save you a lot on the purchase price and give you the satisfaction of working on your own property. If you already lead a busy life or simply aren’t the do-it-yourself type, consider paying more for a home that’s already in good, livable condition. Or, look for a smaller property or one in a less popular neighborhood.

REFER participants to the *House Hunting Checklist* handout.

SAY This handout will be helpful in evaluating what you like and don’t like about the houses you look at. It’s also helpful in further developing your “wants” and “needs” list.

Selecting a Real Estate Agent

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SAY Not everyone uses a real estate agent to buy or sell a home. However there are many advantages, particularly when you’re buying your first home and/or are unfamiliar with the area.

What does a real estate agent do? A real estate agent can help:

- Target suitable neighborhoods.
- Show you available homes.
- Compare the cost of a home to that of nearby homes that have recently sold.
- Assess your financial situation and help determine whether a house is affordable.
- Manage the details of your purchase including assistance with obtaining financing.

Frequently, the first person you consult about buying or selling a home is a realtor or broker, known generically as agents. Although real estate agents provide helpful advice on many aspects of home buying, they may serve the interests of the seller and not your interests as the buyer. The most common practice is for the seller to hire the agent to find someone to buy the home on terms and conditions that are acceptable to the seller.

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Therefore, a buyer must remember that the agent you are dealing with may also represent the seller. However, a buyer can use his/her own agent to represent their interests. Also, in some states, agents are allowed to represent both buyer and seller.

Let's review the various professionals associated with real estate.

- **Broker:** A self-employed individual who is licensed to operate a real estate office. May work independently or hire other agents. All real estate professionals must work under a principal broker's license.
- **Realtor:** A member of the National Association of Realtors, a state Realtor's association and a local Board of Realtors. They are also bound by the Realtor's Code of Ethics. Realtors may access the Multiple Listing Service (MLS), a local computerized database of for-sale homes, unavailable to most non-realtors. Through the MLS, a realtor can give you a detailed printout on each listed home you plan to consider.
- **Agent:** The generic name for any licensed real estate professional (e.g. broker, realtor).

No matter what kind of agent you use, take time to find one you are comfortable with and trust.

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- If you're staying in an area you know, ask friends and family if they can recommend someone to you. If you're moving to a new area, ask the Better Business Bureau or the Chamber of Commerce for the names of agents that are members of their organizations. Call at least four or five of them and actually meet with the two or three who seem to best meet your needs.
- Look for professional credentials. You want someone who knows the market well enough to advise you on any given house, that's had experience in negotiating with buyers and sellers, and with closing.

When looking for a real estate agent ask the following questions:

- How long have you been selling residential real estate? (Three or four years of full-time activity is generally enough to impart a solid foundation.)
- Are you a full-time sales person? (There are some very good part-time agents, but in the absence of a personal referral, go with full-time experience.)
- Are you a licensed realtor? (Realtors are well-trained and must conform to a strict Code of Ethics.)

- How are your fees or commission handled? (Buyer's agent fees usually are included in the purchase price, as are the selling agent fees.)
- Will you give me the names of at least three people who have bought or sold their homes through you during the past few months? (If yes, call and ask if the buyers were satisfied. If no, find another agent.)

If you're a buyer, once you've identified a potential agent ask them to show you one house. Take a tour of the house with your potential agent. Has he/she listened to your requests? Did you want to see a single family detached home with two acres and are being shown condos instead? A good real estate agent will let you know if what you want is reasonable. If you don't hit it off, interview another agent. Thank the first agent and say that you have decided to use another agent. Don't waste his/her time (and yours!) if you'd rather work with someone else.

If you're selling, ask three agents for a comparative market analysis. Be sure they specialize in your area. Not only will the agents take recent sales data and your home's attributes into account, they also will factor your neighborhood into the equation. If you choose to work with an agent to sell your home, select one with a track record of local sales and a good marketing plan. Compare their responses and inquire about what they'll do for you - such as holding open houses.

If you want full service from an agent and his or her company, an "exclusive right to sell" is probably the only type of listing they will accept. This means that no matter what other realtors are involved, your agent will get a commission. Full service means an agent will advertise your home, place it in the Multiple Listing Service, market the home to other agents, and perhaps even hold open houses. This requires an expenditure of both time and money. Only with an "exclusive right to sell" does an agent have a realistic expectation of earning anything on their investment in selling your home. That is why it is the most common type of listing.

Remember: The law and the Realtor's Code of Ethics require that you be treated fairly and given full disclosure of all facts about the property. However, you are not required nor should you reveal the amount you may be willing to pay for a property. If you offer to buy a house for \$80,000, for example, but tell the selling agent you are willing to pay \$85,000, the selling agent is required to pass that information along to the seller. You will probably end up paying \$85,000.

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Financing

What Can you Afford?

Determining what you can realistically afford in a house takes some work on your part. The first thing to do is to get your finances in order.

Your credit reports are an ongoing look at how you manage your finances. You must know exactly what your credit reports say about your financial history before you apply for a home loan. These play an important role in the mortgage approval process and in determining the interest rate and other loan terms that a lender offers you.

If you haven't looked at your credit reports, you might be surprised at their contents because errors are common. There are three credit companies.

- Equifax at <http://www.equifax.com/>
- Experian at <http://www.experian.com/>
- TransUnion at <http://www.transunion.com/>

You can obtain a report from each company, or a 3 in 1 credit report with information from all three companies. This is available online, by phone or mail. Just contact any one of the three companies.

The lender you decide to use will pull your credit files, but taking your personal copies to the initial interview avoids multiple credit pulls that can lower your scores (requesting your own credit reports does not affect your scores).

Set Your Price Range

Know what you can afford. You should not purchase a home unless you feel comfortable that you can make the mortgage payments and be able to pay for other housing-related costs. These include up-front costs and on-going costs.

Up-front costs are the costs related to closing and settling-in. On-going costs include your utilities, mortgage payment, property taxes, homeowner's insurance, and others. Mortgage insurance may also be required.

Some additional housing costs to keep in mind when calculating expenses are furniture, appliances, lawn and garden equipment, repair work that may need to be done before you move in, as well as ongoing repairs and maintenance.

Mortgages

SAY Very few people pay cash for a house. Most take out a mortgage. What exactly is a mortgage? It's a loan from a financial institution to you. In return, you pay interest on the amount loaned. The lender also can repossess your house in case you neglect to pay back the loan.

A loan has three facets:

- Size - how many dollars you need to borrow.
- Percentage rate - how much you pay in interest on the loan.
- Term - how long it will take to pay off the loan.

Lenders base mortgage loan decisions on a number of factors:

- Income
- Debt
- Credit history
- Down payment: A down payment is money you agree to pay, usually in a cashier's check, at the time of purchase. Your down payment will probably affect your price range because the loan amount is based on the purchase price minus your down payment. Different types of loans require different down payments from zero to 20% of the cost of the home.

Stable employment, sufficient income, and consistently paying bills on time will get you a mortgage loan. Most military members can generally demonstrate this type of reliability. However, separation or retirement from the military may make securing a mortgage difficult. If you've already separated or retired, are between jobs or have recently taken a new position, lenders may not approve your loan or may approve a lower amount than you expect.

Types of Mortgage Loans

One of the more confusing aspects of home-buying is deciding what type of mortgage is best. Of course, the answer is different for everyone depending on finances, how long you plan to live in your house, and what a lender is willing to give you.

DESCRIBE the following types of mortgages.

- **Fixed-Rate Mortgage** - This is the type of loan that most people think of when considering a mortgage. You will owe a certain percentage of the loan as interest to the lender. This amount never changes and your monthly payment will

remain the same over the life of your loan. Loans for homes are usually for 15 or 30 years. The advantage to this is that you can determine exactly how much you're going to pay each month for the next 15 or 30 years.

- **Adjustable-Rate Mortgage (ARM)** - An adjustable rate mortgage or ARM is a mortgage with an interest rate that is linked to an economic index. The interest rate - and your payments - are periodically adjusted up or down as the index fluctuates. The advantage to this type of loan is that the interest rates are initially lower, making it easier to borrow. This is often important to first-time home buyers who are already stretching the limits of what they can afford. There is, however, a disadvantage. If interest rates rise, your payments will rise.

SAY You will frequently hear about FHA and VA loans as well.

- **FHA Loan Program** - FHA (Federal Housing Administration). FHA's primary objective is to assist in providing housing opportunities for low to moderate-income families. The FHA does not make home loans—it insures them. If a home buyer defaults, the lender is paid from the insurance fund. To get an FHA home loan, you'll need to have a good credit history and sufficient income to qualify for the loan.
- **VA Loan** - The Veterans Administration (VA), banks and other private mortgage companies make a special type of home loan to veterans and members of the military. A portion of each loan is guaranteed by the VA and protects the lender's investment if the borrower defaults. The guaranteed amount of a VA loan is called an entitlement. An entitlement is not a cash payment to you or to the bank. It is the amount the VA promises will be paid to the lender if you default on your loan. Should that happen, the VA may pursue you to recover those funds.

There are benefits to a VA loan including no down payment, no Private Mortgage Insurance (PMI), and loan qualification is sometimes easier than if you were applying for a conventional loan. The Veterans Administration Website is an excellent resource for detailed information about VA guaranteed home loans. If you cannot find the answers to all of your questions there, be sure to contact your local or regional VA office.

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How does a lender decide how much you can afford?

SAY Your debt to income ratio is a simple way of showing what percentage of your income is available for a mortgage payment after all other continuing obligations are met. The ratio is one of the many things a lender considers before approving your home loan. Different types of mortgage loans have different debt limits.

For conventional loans the debt limits are referred to as the 28/36 qualifying ratio. These numbers refer to two percentages that are used to examine two aspects of your debt load. The first number, 28%, indicates the maximum percentage of your monthly gross income that the lender allows for housing expenses. The total includes payments on the loan principal and interest, private mortgage insurance, hazard insurance, property taxes, and homeowner's association dues (often referred to by the acronym PITI). Mortgage payments should not exceed 28% of your gross monthly income.

The second number, 36%, refers to the maximum percentage of your monthly gross income that the lender allows for housing expenses plus recurring debt. Recurring debt includes credit card payments, child support, car loans, and other obligations that will not be paid off within a relatively short period of time (6-10 months). All monthly debt obligations, including your mortgage payment, should not exceed 36% of your combined gross monthly income.

FHA loan ratios are typically 29/41, allowing a higher debt load for both housing expenses and recurring debt. For a VA loan, the debt to income ratio should not exceed 41% of your monthly gross income.

These ratios are not as ironclad as they once were. Today, new buyers with good credit, adequate assets and an above-average down payment can qualify for a mortgage loan with higher ratios.

Let's look at an example.

Debt to Income Example

Yearly Gross Income = \$45,000 / Divided by 12 = \$3,750 per month income

\$3,750 Monthly Income x .28 = \$1,050 allowed for housing expense

\$3,750 Monthly Income x .36 = \$1,350 allowed for housing expense plus recurring debt

For the above example, FHA would allow \$1087 for housing and \$1538 for housing plus recurring debt.

SAY Included in your handouts is the handout, *Calculating Monthly Debt Ratio*. Although we do not have time to complete this here, be sure to fill it out so you will know about how much house you can afford.

ASK When should I shop for a mortgage? Ideally, you should find a mortgage before you ever start looking for a house. Not only will you feel more confident knowing that you'll have a certain amount of money, but you'll be a more serious candidate to sellers.

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Finding a Lender

When you're looking for a home loan, you might work with an officer at a bank or other lending institution, or you might choose to work with a mortgage broker. Let's take a look at the differences.

- **Loan Officers** - The loan officers at a bank, credit union or other lending institution are employees who work to sell and process mortgages and other loans originated by their employer. They often have a wide variety of loan types to draw from, but all originate from that specific lender. The loan officer takes your application and works to find a loan product that suits your needs. If your personal credit is approved, the officer moves forward to process the home purchase transaction.
- **Mortgage Brokers** - Mortgage brokers are professionals who are paid a fee to bring together lenders and borrowers. They usually work with dozens or even hundreds of lenders, not as employees, but as freelance agents. Think of mortgage brokers as scouts. They find and evaluate home buyers, analyzing each person's credit situation to determine which lender is the best fit for that person's needs. The broker submits the home buyer's application to one or more lenders in order to sell it, and works with the chosen lender until the loan closes. A good mortgage broker can find a lender for just about any type of credit.

The mortgage broker working to secure your loan is earning a fee for that transaction—and the better deal they achieve for a lender, the more they are paid. Don't be too anxious to disclose the interest rate you would be willing to accept, let them tell you what terms they can secure. Shop around to make sure the terms are reasonable.

- **The Internet - The Web** provides you the opportunity to comparison shop, right from the comfort of your own computer. Not only that, but you don't have to hunt down a hundred different banks — certain sites have done that for you. For example, The Motley Fool's Mortgage Center at <http://www.fool.com/homecenter/finance/finance.htm> has links that, based on information you provide, will locate the best rates available.

Make your choice of a lender based on the best loan terms you can find, but ask questions about the transaction's time-frame. Ask for referrals from your real estate agent and from friends who have recently bought a home. There is no overall "best" solution; every buyer's loan needs are different.

Get Pre-qualified or Pre-Approved

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It's always best to get pre-qualified or pre-approved before you begin home shopping so that you'll know exactly what price range (and loan payment) fits your budget.

Pre-qualification is an informal agreement between you and your lender. The bank gives their opinion on how much they think they will be able to lend to you based on information that you have provided to them. Your bank doesn't do any background checks at this point. It relies solely on you portraying an accurate picture of your circumstances. Because this is more like a friendly handshake, the lender can decide not to give you the loan if they find out later that you have been less than candid with them. There is no charge to do this and you are under no obligation to get a mortgage with this lender if you find a better deal later.

Pre-approval is more serious. The bank will actually check your credit history, employment information, assets and liabilities. If you're concerned that you might not qualify for a mortgage, we highly recommend that you go for pre-approval. It will put your mind at ease while you search for your new home and make the entire experience much less worrisome. Some lenders charge for a pre-approval. If you decide to go with one who charges for this service, make sure you're really going to buy a house soon or you'll just be throwing money away.

Making an Offer

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When you find the home you want, the next step is presenting an offer to purchase contract. After you make an offer the seller may accept it, reject it or make a counter offer. If a counter offer is made — and they are quite common — you, in turn, may accept it, reject it or make another counter offer. This process continues until both parties agree or until one of you refuses to negotiate further. Be certain to put everything in writing.

The following should be included in your offer:

- The price you're willing to pay.
- The type of mortgage, if needed, acceptable to you.
- Personal property you may wish included; such as the refrigerator, washer and dryer, curtains, dining room chandelier to name a few.

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- Needed repairs; i.e. peeling paint, cracked window panes, cleaning or replacing carpet.

Other factors to consider include:

- An earnest money deposit, though not required, shows your “good faith” while negotiating. The amount of the earnest money deposit may vary, usually \$500 up to 10 percent of the sale price. If you cancel the contract, the earnest money deposit is usually forfeited to the seller; therefore limit your deposit to no more than \$500 if at all possible.
- Your offer to purchase should be contingent on qualifying for financing within a specified time.
- Be sure to include the type of mortgage and the APR (rate) you are willing to pay.
- The offer of purchase should include any contingency clauses that you deem necessary; i.e. a home inspection. A contingency clause may also be added to the offer to purchase by the seller.

Once you and the seller sign the offer, it becomes a contract. This contract spells out the requirements for both parties to fulfill in order to close the sale. A contract can be changed after it is signed through an addendum that both parties must initial and date.

Remember - The threat of walking away is one of your most powerful bargaining tools during negotiations. Use it wisely. If you tell the selling agent you “must have this house,” the seller has already won. If you remain willing to buy another house, you put the pressure on the seller to agree to your price as well as your terms.

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Home Inspection

The best way to know what you’re getting for your money is to hire a professional home inspector. A professional home inspector will be objective and is trained to look for problems and warn you of costly repairs that you might not notice or even know to look for. A home inspector gives you an assessment of everything from the state of the plumbing to the safety of the electrical system.

A home inspection will generally cost between \$200 and \$400. Don’t be tempted to think this is one extra expense you can skip. Spending a few hundred dollars is great value, giving you some comfort that you haven’t overpaid for a property that may need thousands, if not tens of thousands of dollars of work.

A home inspection can be done before you sign the contract but is most often done after the seller has accepted your offer. However, you must include an inspection clause in your offer that the contract hinges on the inspection. This gives you an “out” on buying the house if serious problems are found or gives you the ability to renegotiate the purchase prices if repairs are needed. An inspection clause can also specify that the seller must fix the problems before you purchase the house.

Closing

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Closing is the final step in transferring home ownership from the seller to the buyer. It occurs when all the promises in the purchase contract are fulfilled, the loan documents are prepared and the loan is finalized. One thing you may not know is that mortgage payments are paid in arrears - due on the first of a month for the previous month. Set your closing date as close to the end of the month as possible. It will minimize the amount of pro-rated interest charges you have to pay and you can skip a month before your first house payment is due.

For example: Close on the 30th of March. You will pay pro-rated interest for the days of 30 and 31 March and your first house payment will not be due until May 1st.

Closing Costs

Usually, both the seller and buyer have closing costs. These are one-time charges unique to the transaction; such as an appraisal, cost of a credit report, and lawyer’s fees. In a buyer’s market, the buyer can ask the seller to pay part or all of the closing costs. VA loans require the seller to pay all closing costs.

Pre-paid costs are recurring charges; such as, ad valorem (real estate) taxes, pre-paid interest, homeowner’s insurance, and private mortgage insurance (PMI).

Selling Your Home

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SAY When selling real estate you need to remove emotion from the equation. You need to think of your house as a marketable commodity. Your goal is to get others to see it as their potential home, not yours. When a potential homebuyer sees your family photos displayed everywhere, it puts your own brand on the home and momentarily shatters their illusions about living in the house themselves.

Before you list your house, be sure to do the following.

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- Clean it thoroughly and keep it clean: If nothing else, a clean home is essential. Make sure surfaces sparkle and clutter is at a bare minimum.
- Refresh a room's decor: If a prominent room shows signs of wear or is very outdated, consider a coat of paint or new floor coverings (in that room only).
- Make necessary repairs: Make sure outlets work, toilets flush, and windows and doors open and shut smoothly. All heating, air conditioning, and other home systems should work, too.
- Increase curb appeal: Tidy up landscaping, plant fresh flowers, and otherwise make your home look as inviting as possible to the drive-by buyer.

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Your house should always be available for show, even though it may occasionally be inconvenient for you. Let your listing agent put a lock box in a convenient place to make it easy for other agents to show your home. Most agents will call and give you at least a few hours notice before showing your property. Try not to be home – this way the potential buyers are more receptive and feel free to discuss both positives and negatives

SAY When selling a house, federal, state and local laws require some form of seller disclosure. Federal law, for example, requires sellers of homes built before 1978 to disclose any known lead hazards. Some states require a seller to complete a questionnaire about their property's condition; in other states, disclosures can be made verbally or are voluntary.

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Summary

SAY We have covered a lot of material today. Do you have any questions? If you have a question after leaving here, don't hesitate to contact us at Marine and Family Services.

If there are no more questions, could you please take a few minutes and complete the post-check and also the program evaluation. You will find the post-check on the back side of the pre-check. When you've completed these, please return them to me. And, please stop by the resource table and look at the materials.

THANK the participants for attending.

VIII. Quality Assurance Procedures

To assure accurate and current information as well as a quality presentation, the following should be completed:

- Review and update the curriculum annually.
- Distribute program evaluations to participants after each workshop. Results should be tabulated and retained to measure the effectiveness of information disseminated, workshop content, and delivery of presentation.
- Evaluate pre and post-checks to determine if participants' knowledge increased. Revise presentation if necessary.
- Observe and evaluate the program annually. This should be done by the RAP supervisor. Both program content and the presenter's effectiveness should be included in the evaluation.

IX. PowerPoint Slides

A PowerPoint slide presentation can be found directly after the next section. They are printed three to a page with space to the right of each slide for presenter's notes. The slides are designed to underscore the main points of the presentation. This workshop can be presented without use of the slides.

X. Instructional Materials

Handouts:

- Pre-check/Post-check (At the end of this module.)
- Needs/Wants List (Page A-43)
- Real Estate Terms (Page A-44)
- House Hunting Checklist (Page A-46)
- Calculating Monthly Debt Ratio (Page A-47)
- Program Evaluation (Page A-1)

