

Instructor Guide

Money Smart

Your Own Home



NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Table of Contents

Instructor Information 1

Before the Session.....	1
Materials and Equipment	1
Instructor Steps	2
Icons	3

Your Own Home 4

Course Introduction	5
What Do You Know	7
To Rent or Own?.....	8
Am I Ready to Buy a Home?.....	12
Homebuyer Assistance Programs	15
Mortgage Terms.....	19
How Much Mortgage Can I Afford?	24
Shopping for the Best Deal	29
Course Summary.....	36
End of Course Evaluation	37

Instructor Information

Before the Session

To properly present the *Your Own Home* course, you should:

- Review all materials in the Instructor Guide and the Participant Take-Home Guide.
- Make copies of the Participant Take-Home Guide.
- Copy the slides (overheads) onto transparencies.
- When appropriate, prepare chart paper examples.
- Identify potential trouble spots in the exercises as well as hints for assisting participants.
- Select and prepare anecdotes from real-world experiences that can be used to illustrate special scenarios, generate discussions, and maintain participant interest.

Material and Equipment

- Transparency projector
- *Your Own Home* transparencies
- Chart paper and easel
- Markers for chart paper and transparencies
- Name Tents
- Pencils or pens for each participant
- Participant Take-Home Guides

Instructor Steps

Step-by-step directions are provided for the instructor. The text below is an example of an instructor step:

Instructor Cue	Instructions
Slide 2	<ul style="list-style-type: none">➤ Show Slide 2 (You Will Know).➤ Review course objectives.

Generally, these steps enable the instructor to ask questions, provide explanations, show slides, hand out materials, and introduce exercises.

Icons

Icons alert the instructor to discussion questions, exercises, transitions, and summaries. They appear in the left margin:



Ask questions or conduct a discussion.



Distribute a handout.



Give exercise information or record the results of a brainstorm.



Refer to activity material.



Indicate the beginning of an individual activity or exercise.



Indicate the beginning of a group activity or exercise.



Summarize an activity or check for understanding.



Summarize the course.



Transition to the next topic.

Thumbnail-sized replicas of the slides have been placed in the left column.

Your Own Home

Time


90 Minutes


Objectives

By the end of this course, participants will be familiar with process for getting homeownership financing. To achieve this objective, the participants will be able to:



- Describe the benefits and pitfalls of renting versus owning a home
- Ask questions to determine readiness to buy a home
- Identify different mortgage programs
- Recognize basic terms used in a mortgage transaction

Course Instruction

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Before the start of the class, hand out the following materials to each participant: <ul style="list-style-type: none"> • Participant Take-Home Guide • Pencil or pen • Name tent
Slide 1	<ul style="list-style-type: none"> ➤ Show Slide 1 (Your Own Home). ➤ “Welcome to <i>Your Own Home!</i>” Introduce yourself (e.g., your name and experience as an instructor or credit union employee).
Slide 2	<ul style="list-style-type: none"> ➤ Slide 2 (You Will Know) ➤ Explain: “By the end of the course, you will be familiar with the process for getting homeownership financing. You will know: <ul style="list-style-type: none"> • The benefits and pitfalls of renting versus owning a home • How to determine your readiness to buy a home • Different mortgage programs, and • Basic terms used in the mortgage process.”

Instructor Cue	Instructions
	<ul style="list-style-type: none">➤ Show the Participant Take-Home Guide to the class.➤ Explain: “Each of you has a copy of the <i>Your Own Home</i> Take-Home Guide which contains highlights of the course. Take it home and use it as a reference.”

What Do You Know



Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Take out the last page of your Take-Home Guide, the What Do You Know form.”
	<ul style="list-style-type: none"> ➤ Explain: “The What Do You Know form lets you measure how much you have learned from the course.”
	<ul style="list-style-type: none"> ➤ Read the instructions and walk the participants through each statement. ➤ Explain: “Complete the Before-the-Course column only. You will complete the other column at the end of the course.”
	<ul style="list-style-type: none"> ➤ Provide enough time for participants to complete the What Do You Know form. (1-2 minutes)
	<ul style="list-style-type: none"> ➤ Transition: “Now, let’s talk about the homebuying process.”

To Rent or Own?


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “In this course, we will follow Patricia’s experience in becoming a first-time homeowner. ➤ After completing her job training program, Patricia got a full time job as an administrative assistant. She will be making \$30,000 a year, or \$2,500 a month. ➤ Patricia has been living with her parents and wants to get out on her own. The first thing Patricia must do is decide whether she should rent or buy a home.”
<p style="font-size: 2em; margin: 0;">?</p>	<ul style="list-style-type: none"> ➤ Ask: “What do you think the benefits are of renting a home?” ➤ Acknowledge participants’ responses.

Instructor Cue	Instructions
Slide 3	<ul style="list-style-type: none"> ➤ Show Slide 3 (Renting). ➤ Explain: “Some of the benefits of renting a home are: <ul style="list-style-type: none"> • Property maintenance is the responsibility of the landlord • You are usually only under a rental contract for one year or less, and • You do not have other costs associated with owning a home, such as property taxes or homeowner’s insurance.” ➤ Explain: “Renter’s insurance, while not required, can be obtained from the same companies as homeowner’s insurance. ➤ Renter’s insurance protects your belongings if there is a fire or theft in the apartment or home you are renting. ➤ Renter’s insurance is generally cheaper than homeowner’s insurance.”
	<ul style="list-style-type: none"> ➤ Explain: “Renting also has some challenges: <ul style="list-style-type: none"> • When you rent, you are not the owner of your home • Your rent might increase, and • You might not be able to renew your rental contract and then will have to find a new place to live.”


Instructor Cue	Instructions
<p>?</p>	<ul style="list-style-type: none"> ➤ Ask: “What do you think are the benefits of owning a home?” ➤ Acknowledge participants’ response.
<p>Slide 4</p>	<ul style="list-style-type: none"> ➤ Show Slide 4 (Owning a Home). ➤ Explain: “Some of the benefits of owning a home are: <ul style="list-style-type: none"> • You can build equity. Equity refers to the value of the home minus the debt you owe on it. As you pay down the loan and your home value increases, you build up equity. • One of the benefits of equity is that you can borrow against it for many purposes, usually at a lower interest rate. For example, you can pay for a child or other family member’s education. • Homes generally increase in value over time, so it can be a good way to invest your money. • Once your mortgage is paid in full, the home is yours. A mortgage is a loan to purchase a home. • Homeownership reduces the amount of income tax you owe since mortgage interest and property taxes are deductible, and • You can pass your home on to family members.”
	<ul style="list-style-type: none"> ➤ Explain: “Homeownership also has some challenges.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Ask: “What do you think the challenges might be?” ➤ Acknowledge participants’ response.
	<ul style="list-style-type: none"> ➤ Explain: “When you own a home, property maintenance and upkeep are your responsibility. You are also responsible for the additional costs of: <ul style="list-style-type: none"> • Homeowner’s insurance • Real estate taxes, and • Homeowner’s association fees, in some cases. These fees pay for maintenance of the common areas and the exterior of the buildings and grounds.”
	<ul style="list-style-type: none"> ➤ Explain: “When you own a home, it is not as easy to move as when you rent. You will typically have to sell or rent your home before you can afford to buy or rent another one.” ➤ Explain: “It’s also important to understand you can lose your home, and your investment in it, if you do not make timely mortgage payments.”
	<ul style="list-style-type: none"> ➤ Explain: “Patricia has considered her situation and has decided to find out more about homeownership.”
	<ul style="list-style-type: none"> ➤ Transition: “Let’s see if Patricia is really ready to buy a home.”

Am I Ready to Buy a Home?

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Turn to the <i>Am I Ready to Buy a Home?</i> Section of page 4 of your Take-Home Guide.” ➤ Explain: “Use these questions to help you decide if you are ready to buy a home.”
	<ul style="list-style-type: none"> ➤ Read through the questions. • “Do I have a steady source of income? This usually means you have a job or other sources of income. • Have you been employed on a regular basis for 2-3 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? • Am I 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? <p>Do I have money saved for a downpayment and closing costs? The downpayment is the portion of the home’s purchase price the buyer pays in cash. The more you have for a downpayment, the less you will need to borrow. Closing costs are the charges related to transferring the ownership of the property.”</p>


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Lenders prefer that you have 20% of the purchase price for a downpayment. For example, 20% of a \$50,000 mortgage is \$10,000. However, there are many special programs that require a smaller or no downpayment. ➤ If you make a downpayment of less than 20%, you will generally have to purchase Private Mortgage Insurance, or PMI, or participate in a government mortgage program. ➤ Mortgage insurance protects the lender if you default on the loan. It is an additional cost of the mortgage.”
	<ul style="list-style-type: none"> ➤ Explain: “If you answer yes to the questions in the Take-Home Guide, you might be ready to buy a home. If you answer no to any of them, concentrate on strengthening those areas.” ➤ Explain: “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 homeownership.”
	<ul style="list-style-type: none"> ➤ Explain: “There are many other questions to answer when you decide to explore homeownership. For example: <ul style="list-style-type: none"> • Where do you want to live? • What kind of neighborhood do you want? • If you have children, what types of schools are in the neighborhood? • How much space do you need?


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ While we do not have time to discuss all of these issues in this course, they are important to consider when buying a home.”
	<ul style="list-style-type: none"> ➤ Transition: “By asking herself the list of questions, Patricia thinks she is ready to own a home; but she is not sure if she has enough money for the downpayment. ➤ She realizes she needs to learn more. Patricia decides to check with her financial institution to see if there are any programs that might help her.”

Homebuyer Assistance Programs

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “There are a number of different programs available for first-time homebuyers. Many people start the homebuying process with one of these programs or with a community organization. ➤ For example, in an Individual Development Account, or IDA, program, participating organizations match your savings contributions to help you save for a downpayment or closing cost.” ➤ Instructor Note: Closing costs are various charges associated with the transfer of property. The lender must disclose these costs to you. ➤ Explain: “All homeownership IDA programs require you to complete financial education classes.”
	<ul style="list-style-type: none"> ➤ Explain: “Many homebuyer assistance programs are offered by cities or local government offices. Many credit unions and banks offer loan products in conjunction with these agencies. ➤ Ask your lender or local government about the homebuyer assistance programs they offer. Local real estate agents might also be aware of special programs that are available.”

Instructor Cue	Instructions
Slide 5	<ul style="list-style-type: none"> ➤ Show Slide 5 (Characteristics of Government Programs). ➤ Explain: “Government loan programs are generally targeted to individuals and families with a modest income. The programs will have one or more of these characteristics: <ul style="list-style-type: none"> • Zero or low downpayment requirements. For example, some require 3% downpayment; some require 5% downpayment with 3% having to come from the borrower and the other 2% coming from gifts or other grants. • More flexible underwriting standards. This means the lender will consider non-traditional forms of credit history, such as rent or utility payments, and higher ratios of debt compared to your income. • Longer payment terms than typical mortgage loans. This means your monthly payment will be lower. • The program might require homeowner education. Homeowner education programs help people understand the homebuying process. These programs cover such things as budgeting, finding a home, getting a loan, and maintaining a home. • One example is the Homebuyer Education Learning Program, or HELP, for FHA loans. • Government program restrictions might include purchase price limitations, service charges, and higher loan origination fees.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “See the <i>Homebuyer Assistance Programs</i> section in your Take-Home Guide on page 10 for additional information on government mortgage loan programs.”
	<ul style="list-style-type: none"> ➤ Explain: “Patricia found an IDA program that will match her savings to help with the downpayment and closing costs for her first home. ➤ She talked to a nonprofit organization to get more information. She learned the program requires her to attend homeownership counseling and to set up a savings account at a participating financial institution. ➤ When she opened her IDA, she found out the program would match \$3 to her \$1, with a maximum match of \$5,000.”
	<ul style="list-style-type: none"> ➤ Explain: “Patricia was already saving \$25 a month and had \$600 in a savings account. ➤ She decided to find ways to reduce her spending and save more every month to build up her savings account. One way she planned to reduce her spending was to bring her lunch to work more often. ➤ Patricia also started attending homeownership classes to help prepare for her investment.”

Instructor Cue	Instructions
Slide 6	<ul style="list-style-type: none"> ➤ Show Slide 6 (Patricia’s Savings) ➤ Explain: “Patricia is now saving \$50 a month. After 30 months she will have saved \$1,500 of her own money. The organization will have matched her 3 to 1, which gives her a total savings of \$6,000 in the IDA program. ➤ She still has the \$600 she saved prior to the IDA program. This means she has a total of \$6,600 for downpayment and closing costs.”
	<ul style="list-style-type: none"> ➤ Transition: “Patricia is learning a lot through her homebuyer education program. ➤ Next, we’ll talk about some of the information she found out about mortgages.”

Mortgage Terms

Instructor Cue	Instructions
Slide 7	<ul style="list-style-type: none"> ➤ Show Slide 7 (Components of a Mortgage Loan Payment). ➤ Explain: “Your mortgage payment will reflect the following costs: <ul style="list-style-type: none"> • P=Principal. The amount applied to the outstanding balance of the loan. • I=Interest. The amount of the charge for borrowing money. • T=Taxes. 1/12th of the estimated annual real estate taxes on the home. • I=Insurance. 1/12th of the annual homeowner’s insurance premium. This figure will include flood insurance and private mortgage insurance, or PMI, if required.”
	<ul style="list-style-type: none"> ➤ Explain: “You will most likely pay the taxes and insurance along with the principal and interest to the lender every month. In some cases, however, the lender may allow you the option to pay the taxes and insurance separately.”



Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “If the lender requires you to pay the taxes and insurance as part of your mortgage payment, the lender will open an escrow account to hold this money until the payments are due. Many people consider this convenient because they don’t have to make separate payments. If you live in certain states, the escrow account may also earn interest. ➤ If the lender allows you to pay the taxes and insurance separately: <ul style="list-style-type: none"> • You will usually get a quarterly or semi-annual tax bill. • You will have to pay a separate insurance premium, usually annually, for homeowner’s insurance. ➤ Some people prefer to do this because it allows them to keep the money under their own control in their own savings or investment accounts to earn interest or dividends until the payments are due. ➤ However, in many cases, it is better to pay for these items monthly with your loan payment. That way, you don’t have to worry about having the money available when it’s needed.”

Instructor Cue	Instructions
Slide 8	<ul style="list-style-type: none"> ➤ Show Slide 8 (The Three Cs). ➤ Explain: “There are three factors lenders use to qualify you for a loan. They are known as the Three Cs: <ul style="list-style-type: none"> • Capacity is your present and future ability to meet your payment obligations. • Capital refers to your savings and other assets that can be used as collateral for a loan. • Character refers to how you have paid your bill or debts in the past. Your credit report is one tool lenders use to consider your willingness to repay your debts. Your willingness to repay your debts is important because a mortgage is most likely the largest loan you will obtain.”
	<ul style="list-style-type: none"> ➤ Refer interested participants to the <i>To Your Credit</i> course for more information about the importance of credit reports.
?	<ul style="list-style-type: none"> ➤ Ask: “What do you think pre-qualification means?” ➤ Acknowledge participants’ responses.



Instructor Cue	Instructions
Slide 9	<ul style="list-style-type: none"> ➤ Show Slide 9 (Pre-Qualification). ➤ Explain: “Pre-qualification is an informal way to find out how large a mortgage you can obtain. You can be pre-qualified by giving the lender some basic information over the phone, such as: <ul style="list-style-type: none"> • Employment • Income • Downpayment information, and • Outstanding debts. ➤ No paperwork is required. There is no obligation. The pre-qualified amount is not exact. It is only a ballpark figure.”
?	<ul style="list-style-type: none"> ➤ Ask: “Another term you may hear when discussing mortgages is pre-approval. What do you think this means?” ➤ Acknowledge participants’ responses.
Slide 10	<ul style="list-style-type: none"> ➤ Show Slide 10 (Pre-Approval). ➤ Explain: “Pre-approval is a commitment from the lender to lend you money. The pre-approval process lets you know how much you can obtain and tells sellers you are prepared to buy a home.”

Instructor Cue	Instructions
	<p>➤ Explain: “To obtain pre-approval, you need to assemble financial records and fill out an application. You will usually need:</p> <ul style="list-style-type: none"> • Pay stubs for the last 2-3 months • W-2 forms for the last 2 years • Tax returns for the last 2 years • Information about your assets and long-term debts • Recent statements from your credit union or bank, and • Proof of any additional income—you do not need to disclose alimony or child support payments unless you want them considered in repaying the loan.”
	<p>➤ Explain: “In the middle of her homeownership training, a loan officer worked with Patricia and “pre-qualified” her for a maximum mortgage amount of \$75,000. She can now start looking for her own home.</p> <p>➤ Let’s talk about how they came up with that figure.”</p>


How Much Mortgage Can I Afford?

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Turn to page 6 of your Take-Home Guide. You can follow along as I explain the calculation.”
	<ul style="list-style-type: none"> ➤ Write the following example on chart paper: <p style="margin-left: 40px;">Annual Income = \$30,000</p> <p style="margin-left: 40px;">\$30,000 x 2 = \$60,000</p> <p style="margin-left: 40px;">\$30,000 x 2 ½ = \$75,000</p> ➤ Explain: “As a rule of thumb, many people estimate they can afford a mortgage of 2 or 2 ½ times their household income. ➤ For example, if Patricia’s annual household income is \$30,000, she might be able to afford a mortgage of \$60,000 to \$75,000. ➤ Keep in mind that just because you qualify for that amount, it does not mean you can afford or be comfortable with those monthly payments. You need to consider your future financial needs and goals.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Lenders look at debt-to-income ratios when they consider your application or pre-qualification for a mortgage loan. ➤ They 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, or principal, interest, taxes, and insurance, or your housing expenses, to be less than or equal to 25% to 28% of monthly gross income. Lenders call this the “front-end” ratio. ➤ In other words, since Patricia’s monthly gross income is \$2,500, or \$30,000 annually, her PITI should be \$700 or less.”
	<ul style="list-style-type: none"> ➤ Explain: “Lenders usually require housing expenses plus long-term debt to be less than or equal to 33% to 36% of monthly gross income. Lenders call this the “back-end” ratio. ➤ In other words, since Patricia’s monthly gross income is \$2,500, the combination of her mortgage, \$700, and other long-term debt should be no more than \$900. ➤ This means her other debts, including car loan payments, monthly credit card bills, and so on, should not total more that \$200.”
	<p>Explain: “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.”</p>


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Ask: “What else do you think affects how much mortgage you can afford?” ➤ Acknowledge participants’ responses.
	<ul style="list-style-type: none"> ➤ Explain: “Turn to page 7 of your Take-Home Guide.”
	<ul style="list-style-type: none"> ➤ Explain: “First, the length, or term of the mortgage affects how much mortgage you can afford. ➤ Most mortgages are for either 30- or 15-year terms. A 30-year mortgage is the most common because the mortgage payment is lower.” ➤ A 30-year mortgage allows you to borrow more money, but will generally have a slightly higher interest rate than a 15-year mortgage. ➤ Over the life of the loan, you pay a lot more interest with a 30-year mortgage than with a 15-year mortgage.”
	<ul style="list-style-type: none"> ➤ Explain: “For example, if you borrowed \$75,000 for 15 years at 7.5%, your monthly principal and interest payment would be \$695. If you borrowed \$75,000 for 30 years at 8%, your monthly payment would be \$550.
	<ul style="list-style-type: none"> ➤ Explain: “Whether your mortgage is variable or fixed will also affect how much mortgage you can afford.”

Instructor Cue	Instructions
	<p>➤ Explain: “If you have a fixed loan, your interest rate stays the same for the term of the loan. Your payments are predictable and are not affected by interest rate changes.”</p>
	<p>➤ Explain: “If you have a variable rate loan, the interest rate can increase or decrease during the term of the loan. You might have a low rate at the beginning of the term.</p> <p>➤ However, be aware that the rate and your payment can increase significantly throughout the term of the loan.”</p>
<p>?</p>	<p>➤ Ask: “What mortgage option do you think would be good for Patricia? Why?”</p> <p>Instructor Note: The following points might be raised in the discussion:</p> <ul style="list-style-type: none"> • Thirty-year mortgages have higher interest rates, but the monthly payment is lower. • Fifteen-year mortgages have a lower interest rate, and you can build equity faster. • A fixed rate mortgage might be a good option if you want your payments to be predictable and easier to budget. • A variable rate mortgage might be a good option if you think you will have a steady rise in income or if you plan to sell your home soon. You might be able to take advantage of lower initial interest rates and not care about interest rate changes. <p>➤ Spend up to 5 minutes discussing the participants’ responses.</p> <p>Explain: “There is no right or wrong answer since we don’t have enough information about Patricia. It is only important to understand the advantages and disadvantages of the different mortgage options.”</p>


Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “At the end of the 30 months of saving and attending many homeowner education classes, she was ready to buy a home. ➤ Patricia decided she wanted a fixed payment for a lower amount so she chose a 30-year fixed rate loan. She also decided she wanted to have her financial institution pay her taxes and insurance through an escrow account.”
	<ul style="list-style-type: none"> ➤ Transition: “Now Patricia knows the maximum mortgage she could afford. Let’s talk about how she might shop for the best deal.”

Shopping for the Best Deal



Instructor Cue	Instructions
Slide 11	<ul style="list-style-type: none">➤ Show Slide 11 (Shop, Compare, Negotiate!).➤ Discuss the tips on the slide.<ul style="list-style-type: none">• Check advertisements in local newspapers and on the Internet to get an idea of the best terms and rates. Be mindful, however, that rates change frequently, and you may not be able to get the published rate. Contact several lenders on the same day to compare quotes.• Negotiate the best deal you can. Ask the lender for better terms than originally quoted. Lenders might offer different prices to different borrowers even with the same qualifications. Ask the lender to waive or reduce one or more of the fees, or agree to a lower rate or fewer points, and make sure they do not lower one fee and raise another in its place.• Do not be afraid to let lenders compete for your business by letting them know you are shopping for the best deal.• Make sure the lender gives you all the costs of the loan in writing.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Turn to the <i>Mortgage Shopping Worksheet</i> on page 8 of your Take-Home Guide.” ➤ Explain: “The <i>Mortgage Shopping Worksheet</i> will help you choose the mortgage that’s right for you. ➤ Some of this information will be provided in initial disclosures lenders are required to give you upon application. ➤ For example, Truth in Lending requires the lender or broker to disclose estimates of how much the loan will cost. ➤ The Real Estate Settlement Procedures Act requires the lender or broker to give you an estimate of these fees so you have an idea of how much the loan will cost. ➤ These disclosures are not required until you apply for a home loan. To compare terms before you fill out an application, ask the lender for the information listed on the worksheet. ➤ Let’s talk about the different sections of this worksheet.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “In section A, record basic information about loan options. Be sure to compare the APRs of different loans from different lenders. ➤ The APR includes any points charged. A point is the amount equal to one percent of the loan balance paid to the broker or lender for processing your loan. ➤ The APR is a measure of the cost of your loan expressed as a yearly percentage rate, such as 10% or 11%.”
	<ul style="list-style-type: none"> ➤ “In section B, you will compare information about the fees from different lenders. These fees are some of the standard fees included in the mortgage loan process. ➤ In section C, you will compare closing costs. Closing costs are associated with the transfer of property. The costs you ultimately pay should be similar to the estimate you were given at the time of application. ➤ In section D, you will compare the total of the fees from sections A, B, and C. It is important to know that when shopping for a mortgage, lenders give you estimates.”




Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ In section E, you will record and compare the answers to other questions about the loan. ➤ Prepayment penalties—Some lenders charge a fee if you pay the loan off within a few years. Remember that federally-insured credit unions do not. ➤ Lock-ins—A lock-in allows the borrower to guarantee the interest rate will not increase or decrease before the loan closes. ➤ Adjustable rate loans require additional disclosures that contain the listed items such as the maximum the interest rate can increase or decrease each month, year, or during the life of the loan. The lender must also disclose the index for rate changes. ➤ 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. ➤ Credit life insurance pays off the mortgage if anything happens to the borrower. The lender has to disclose all the details if you choose this option.”
	<ul style="list-style-type: none"> ➤ Ask: “Are there any questions about the worksheet?” ➤ Answer any questions participants have.

Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Explain: “Thanks to the worksheet and what Patricia learned in her homebuyer class, Patricia found the best deal for her. She found a townhouse in a neighborhood close to her family.”
Slide 12	<ul style="list-style-type: none"> ➤ Show Slide 12 (Patricia’s Mortgage) ➤ Discuss the details of the slide. ➤ “Patricia qualified for a 5% downpayment mortgage with an interest rate of 8% for 30 years. Her monthly principal and interest payment is \$488 and her estimated taxes and insurance payments are \$88. Because she only put 5% down, she also has to pay \$55 a month for PMI. ➤ Patricia wants to buy a townhouse so she does not have to worry about taking care of her roof or the outside of her house. However, this convenience will cost her \$65 a month in maintenance charges.” ➤ Patricia’s total monthly housing expenses are \$696 or 27.84% of her monthly income of \$2,500.”
	<ul style="list-style-type: none"> ➤ Explain: “Patricia also has a car loan payment of \$150 and two credit card payments totaling \$50.” ➤ Explain: “The total of Patricia’s monthly housing expenses and long-term debt is \$896, or 35.84% of the monthly income.”



Instructor Cue	Instructions
	<ul style="list-style-type: none"> ➤ Ask: “Does Patricia’s debt-to-income ration fall within most lender’s guidelines?” ➤ Answer: Yes. Patricia’s housing expenses represent less than 28% of her monthly income. Her total housing and long-term debt represents less than 36% of her monthly income.
	<ul style="list-style-type: none"> ➤ Explain: “Patricia’s debt-to-income ratios meet the guidelines. If your debt-to-income exceeds the recommended ratios, you might still qualify for the loan if you: <ul style="list-style-type: none"> • Have a demonstrated ability to pay more toward housing expenses; for example, if you are paying more in rent than what your mortgage payment will be, or if you decrease your monthly housing expenses • Show evidence of acceptable credit history or limited credit use • Will receive funding assistance provided by an organization, such as through an IDA program, like the one Patricia used • Make a larger downpayment, or • Have cash reserves, such as savings and investment accounts.”
	<ul style="list-style-type: none"> ➤ Transition: “Patricia found the perfect townhouse and was approved for the loan. She has completed a major step toward owning her own home. Before the home is hers, Patricia must complete a few more steps.”

Instructor Cue	Instructions
	<ul style="list-style-type: none"> <li data-bbox="565 275 1360 394">➤ Explain: “One of the most important steps is to review the HUD-1 settlement statement the day before closing. <li data-bbox="565 436 1409 598">➤ This is to ensure the interest rates and other terms are what she and her lender agreed upon, and to prepare for the closing, where she will meet with representatives to sign the final documents. <li data-bbox="565 640 1385 760">➤ It’s easy to be overwhelmed by the paperwork at closing. Patricia knew she had to take her time and not sign anything she did not understand. <li data-bbox="565 802 1409 1018">➤ Patricia was really glad she found out about the IDA program because the required homebuyer education program prepared her to become a homeowner. Patricia has taken a big step towards financial independence.”

Course Summary

Instructor Cue	Instructions
	<p>➤ Summarize the course: “Congratulations! You’ve completed the <i>Your Own Home</i> course. We’ve covered a lot of information including:</p> <ul style="list-style-type: none"> • The benefits and pitfalls of renting vs. owning your home • Questions to ask to determine your readiness to buy a home • Different mortgage loan programs • How to determine how much mortgage you can afford, and • Mortgage options • How to shop for the best deal. <p>➤ You should now be familiar with the process of homeownership financing.”</p>
	<p>➤ Ask: “Are there any questions?”</p> <p>➤ Answer questions as time permits.</p>
	<p>➤ Transition: “To improve the course, we will need your feedback. The After-the-Course column and Course Evaluation will identify changes that can make this course better.”</p>

End of Course Evaluation

Instructor Cue	Instructions
	➤ Explain: “Please complete the After-the-Course column and the Course Evaluation. These forms are the last two pages of your Take-Home Guide.”
	➤ Allow time for participants to complete it.
	➤ Collect the What Do You Know and Course Evaluation forms.
	➤ Conclusion: “Great job on completing the <i>Your Own Home</i> course! Thank you for participating.”