Are You Mortgage Ready? Preparing Your Finances for Homeownership.

Foundation Communities' Financial Coaching Program

Do you want to know if you are ready to buy a home? The following guide will help you determine whether homeownership is right around the corner, or years down the road. Use the checklists throughout the guide to determine your readiness to buy a home. The more boxes you are able to check, the closer you are to being homebuyer ready.

- I have taken a HOMEBUYER EDUCATION CLASS
- A new home fits in my BUDGET
- I have STABLE EMPLOYMENT
- I have enough in SAVINGS for all the costs of buying my home
- My CREDIT is good
- I don't have too much DEBT
- I know if I qualify for DOWN PAYMENT ASSISTANCE

Foundation Communities
Financial Coaching Program
www.foundcom.org/financial-stability/financial-coaching
737-717-4000
FinancialCoach@foundcom.org

Homebuyer Education

Have you taken a homebuyer education class in the past 6 months?

Homebuyer education classes are usually 6 to 9 hours long and will introduce you to the homebuyer process, connect you with local resources and give you a jumping off point. We recommend Frameworks CDC, but others are also available.

Frameworks CDC

First-time homebuyer class and one-on-one homeownership counseling
https://frameworkscdc.org/homebuyer-education/

The City of Austin, Housing Smarts

First-time homebuyer class
http://www.austintexas.gov/housingsmarts

Austin Habitat for Humanity--Housing Counseling

One-on-one homebuyer counseling
http://www.austinhabitat.org/housing-counseling

BCL of Texas

First-time homebuyer class
http://www.bcloftexas.org/homeownership

Homebuyer Education Checklist

☐ I took a homebuyer education class at ________________ (name of org.) on ______________(date)

Notes/To Do:

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Budget for Homeownership

Have you created a household budget?

You can use the budget worksheet in the appendix of this homebuyer guide.

One of the first things to think about when you want to buy a home is how much can you afford to spend each month on the costs of a home. Before even pulling out a calculator, the Association for Homeowners across America suggests asking yourself some critical questions:

- Do you have a stable, reliable source of income?
- Have you been steadily employed for the past two years?
- Do you consistently pay your bills on time, including rent, loans, utilities and credit cards?
- Is your debt manageable?

If you answered yes to all those questions, keep up the good work! The steps below will help you fit your new home into your budget.

Estimate your monthly mortgage payment (and beware the advertised "monthly payment")

When looking for a home, you may see the monthly payments of a home being advertised, and they sound surprisingly affordable. Please keep in mind that what they may be advertising may not be the full story. A mortgage payment typically consists of **P**rincipal, **I**nterest, **T**axes and **I**nsurance (**PITI**). However, many advertised home prices and the results of many mortgage calculators *only* include the mortgage Principal and Interest. Here are some tips for calculating the actual mortgage payment you can expect:

> **P**rincipal, **I**nterest, **T**axes, and **I**nsurance, known as **PITI**, are the four basic elements of a monthly mortgage payment. Your payments of principal and interest go toward repaying the loan. Amounts that cover property taxes and homeowner's insurance may go into an escrow account, if you are required or choose to have one, to cover your property tax and homeowner's insurance payments as they come due.
>
> *Source: www.consumerfinance.gov*

- **Principal and Interest:** Use Bankrate's mortgage payment calculator here: http://www.bankrate.com/calculators/mortgages/mortgage-calculator.aspx to estimate your monthly payment (principal and interest only) based on the amount, down payment, term and interest rate of the mortgage.
- **Taxes and Insurance:** Taxes and Insurance will add about 40% to the calculated monthly payment. To calculate the entire PITI payment, multiply the monthly payment from the Bankrate calculator by 1.4.

Consider the added costs of owning a home vs. renting

When buying a house, it is likely that you will buy a house that is bigger than where you currently live. Be sure to consider the increased cost of utilities (say goodbye to your landlord paying any of your utilities), as well as the cost of maintenance and repairs.

- Increased or added cost of utilities
- Added cost of maintenance and repairs
    - landscaping
    - pest control services
    - home repairs
    - buying and repairing appliances

Create a budget that includes a shock payment

Shock Payment: A great exercise is to create a budget where you put the difference between your current rent and your estimated mortgage payment into savings each month – this is called your shock payment. Are you able to keep the difference in savings each month? If you can get by without drawing from savings or borrowing to make ends meet, chances are your budget is ready for homeownership!

(A) My estimated monthly mortgage payment will be: $___________/month

(B) My current rent payment is: $___________/month

(C) My monthly shock payment is (A-B): $___________/month

Budget Checklist

- ☐ *I have created a household budget that includes putting my shock payment into savings each month*
- ☐ *I have reviewed my budget with a financial coach or homeownership counselor*
- ☐ *I have put my shock payment into savings each month for ____ months*

Notes/To Do:

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Stable Employment

Have you and your spouse had at least 2 years of stable employment in the same line of work?

Mortgage lenders want to see that you have stable employment which, to them, means you've stayed in the same line of work for at least 2 years.

Have you filed taxes and have tax transcripts for at least two years?

Mortgage lenders require documentation that you are filing taxes and reporting all your income.

- If you need to file tax returns, visit FC's Community Tax Centers, www.communitytaxcenters.org.
- If you filed taxes and need a transcript, contact the IRS, www.irs.gov

Employment Checklist

- ☐ I have had stable employment in the same line of work the past 2 years
- ☐ My spouse has had stable employment in the same line of work the past 2 years (if applicable)
- ☐ I (and my spouse, if applicable) have filed taxes for at least two years and have tax transcripts from the IRS.

Notes/To Do:

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Saving for Homeownership

Do you have money set aside for down payment and closing costs, as well as emergency savings?

Saving is a big part of buying a home. The following steps should help you save for your home:

Plan to save for down payment, closing costs and other expenses.

Down payments can be as little as 3.5% of the loan. That means that for a $150,000 loan, the down payment will be about $5,250. In addition, you will face closing costs, the cost of moving and utility deposits. Those costs will vary depending on your situation, just be sure you are prepared.

Have an emergency Savings account – with funds in it.

Becoming a homeowner comes with extra financial responsibilities. If something breaks you are the landlord and you are responsible for fixing it. An emergency fund can help you avoid incurring debt for those costs. Lenders want to see that you are prepared for this responsibility. There is no magic number that dictates how much you should save for emergencies, but even a few hundred dollars will be better than no fund at all.

Have you recently made an emergency withdraw from your savings account?
Lenders will see any recent emergency withdraws you've had to make from your savings account. Recent or common withdrawals from savings will look unstable to a lender.

Make Savings Automatic. To make sure you have saved up enough for the costs of buying a home, set up a savings account dedicated to these costs and set up automatic deposits into it. Contact your employer to set up direct deposit from your paycheck, or contact your bank to set up regular transfers from your checking account.

Saving Checklist

- [ ] I need $_______ for the down payment and closing costs
- [ ] I have enough saved for the down payment and closing costs
- [ ] I have an emergency savings account. The current balance of my emergency savings account is $_______
- [ ] I have automatic deposits going into my savings accounts
- [ ] I have not made a recent emergency withdrawal from my savings accounts

Notes/To Do:

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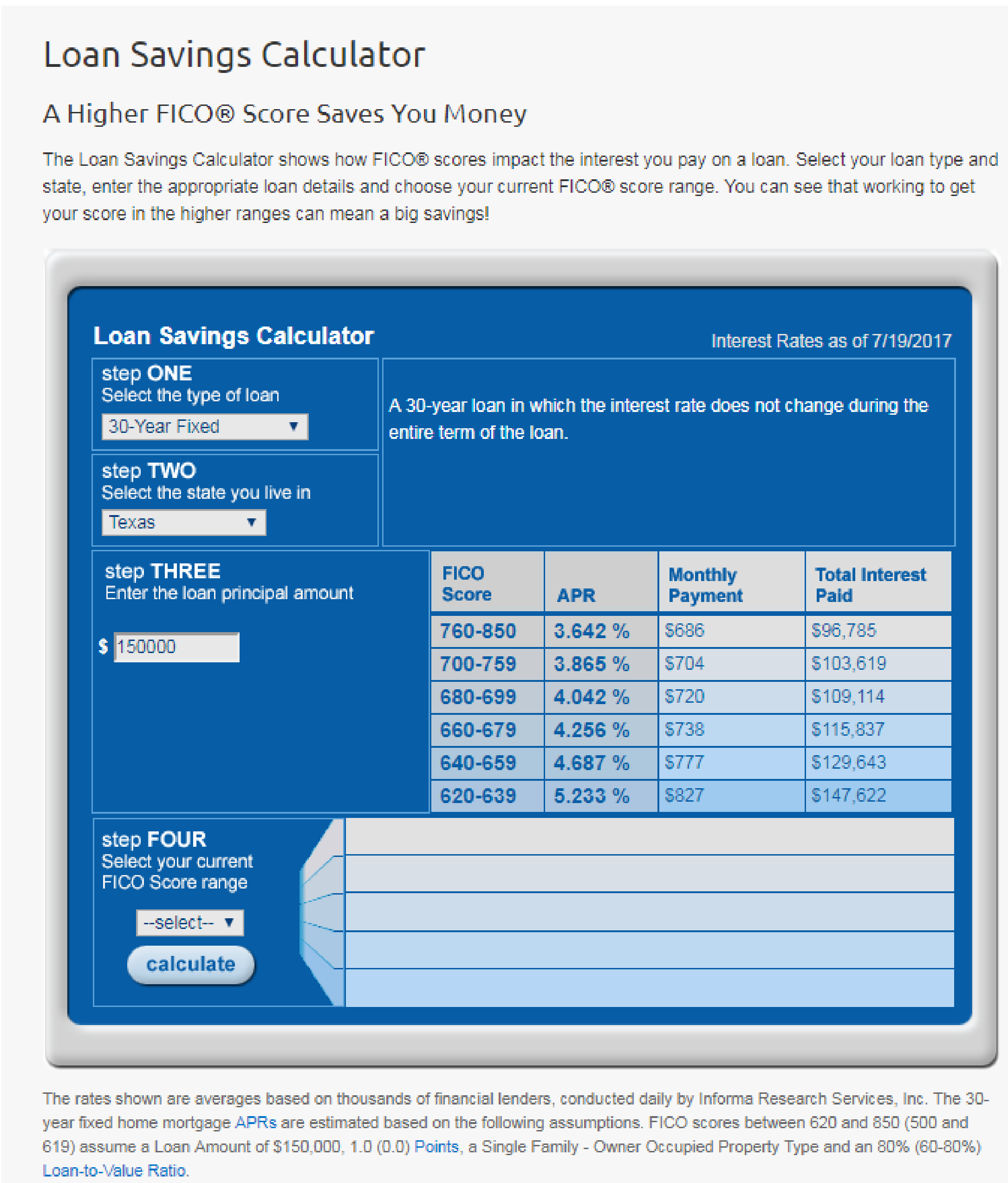
Credit and Homeownership

Do you and your spouse have good credit?

How your credit score affects your mortgage payment

Your credit score can make a big difference in your mortgage interest rate and payment. The chart below from MyFico.com shows how your interest rates and monthly payments can change depending on your FICO score. The best interest rates are given to borrowers with credit scores of 760 or higher. Most lenders require a minimum credit score of 640 for a borrower to even be approved for a mortgage. The numbers are based on a typical $150,000 mortgage loan in Texas. If you are married, this applies to both you and your spouse. Remember that the Monthly payments below only reflect the Principal and Interest (PI) portion of your mortgage.   Your mortgage payment will also include Taxes and Insurance (TI). Refer to the Budgeting section for more information.



Loan Savings Calculator

A Higher FICO® Score Saves You Money

The Loan Savings Calculator shows how FICO® scores impact the interest you pay on a loan. Select your loan type and state, enter the appropriate loan details and choose your current FICO® score range. You can see that working to get your score in the higher ranges can mean a big savings!

Loan Savings Calculator Interest Rates as of 7/19/2017

step **ONE** Select the type of loan: 30-Year Fixed

A 30-year loan in which the interest rate does not change during the entire term of the loan.

step **TWO** Select the state you live in: Texas

step **THREE** Enter the loan principal amount: $ 150000

FICO Score	APR	Monthly Payment	Total Interest Paid
760-850	3.642 %	$686	$96,785
700-759	3.865 %	$704	$103,619
680-699	4.042 %	$720	$109,114
660-679	4.256 %	$738	$115,837
640-659	4.687 %	$777	$129,643
620-639	5.233 %	$827	$147,622

step **FOUR** Select your current FICO Score range: --select--

calculate

The rates shown are averages based on thousands of financial lenders, conducted daily by Informa Research Services, Inc. The 30-year fixed home mortgage APRs are estimated based on the following assumptions. FICO scores between 620 and 850 (500 and 619) assume a Loan Amount of $150,000, 1.0 (0.0) Points, a Single Family - Owner Occupied Property Type and an 80% (60-80%) Loan-to-Value Ratio.

Source: www.myfico.com

Improving Your Credit

What can you do to improve your scores? Meet with one of Foundation Communities' Credit Counselors to find out. A credit counselor can help you identify the things you can do to improve your score. The list below shows how different factors affect your score.

- **Payment History:** Do you have a history of making payments on time?
- **Amounts owed:** Are your credit card balances less than 30% of your available credit?
- **Length of Credit History:** Have you had credit for at least a year?
- **Types of credit used:** Do you have more than one type of credit (credit cards vs. student loans vs. auto loans, etc.)?
- **New Credit:** Have you opened any new accounts in the last five years?

If you can answer yes to all the questions above, chances are your credit is good. A credit counselor can give you more guidance. Contact the Financial Coaching program to schedule your appointment with a credit counselor.

Have you made all your payments on time in the last 12 months?

Mortgage lenders will want to know that you can manage all your current bills before adding a mortgage. They will determine this by looking for late payments on your credit report from the last 12 months. Make sure you have not made late payments in the last 12 months.

Credit Checklist

☐ My Credit Score is currently: ____________

Credit Score Goal: ______________

☐ Spouse's Credit Score is currently: __________

Credit Score Goal: _____________

☐ My spouse and I have made all our payments on time in the last 12 months

Notes/To Do:

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Debt and Homeownership

When applying for a mortgage, the lender will want to know that you can afford your mortgage payment while still paying your existing debt obligations. They will do this in one of two ways, by calculating the **Housing Ratio (also called the Front-End Ratio)** or the **Debt-to-Income Ratio (also called the Back-End Ratio)**.

Housing Ratio (Front-End Ratio)

A lender will calculate your future Housing Ratio based on the mortgage you are applying for. According to Bankrate.com, many lenders will not allow your Housing Ratio to be more than 28%. Some down payment assistance programs allow this ratio to go up to 33%.

After completing the Monthly Budget Sheet, use the Housing Ratio Worksheet to calculate your Housing Ratio.

Debt-to-Income Ratio (Back-End Ratio)

A lender will calculate the percentage of your income that goes towards all debts (including housing, car payments and credit card payments but not including living expenses like food). According to Bankrate.com, many lenders will not allow your Debt-to-Income Ratio to be more than 36% but some down payment assistance programs in Austin will allow this ratio to go up to 45%.

That means that no more than 36% of your gross monthly income can be allocated to debt payments. Debts that will be paid off in the next 10 months are not included in this calculation. In addition, as your debt to income ratio decreases, loan amount you can be approved for increases.

After completing the Monthly Budget Sheet, use the Debt-to-Income Ratio Worksheet to calculate your Debt-to-Income Ratio.

The case study below can help you understand how debt can make a big difference.

Case Study – Back-End Ratio

Terrance and Wilma Murphy currently live in a three-bedroom apartment. Last year they established a goal of being in a new house within two years. They have been sticking to their budget, and have managed to accumulate **savings of $2,000** to go toward a down payment. They have had several past credit problems, and have been working to clean up their credit record before they begin the purchase process. Terrance and Wilma combined bring home **$3,290 in gross monthly income**.

SCENARIO ONE

The monthly payments on their debts total $713. **Their debt to income ratio is 22%.**

CREDITOR	BALANCE	MONTHLY PAYMENT	MONTHS REMAINING
Macy's credit card	$350	$46	8 (not counted in back-end ratio)
The RoomStore	$2,100	$53	40
UFCU Auto Loan	$3,245	$295	11
Bank of America credit card	$1,600	$58	28
Target credit card	$1,200	$48	25
Bank of America Auto Loan	$6,457	$259	25

A loan officer at their bank tells them they can only be ***approved for a $72,000 loan****, not enough for a home in Buda like they had hoped. They are feeling discouraged.*

SCENARIO TWO

Terrance and Wilma opt to take $590 from their savings and make two payments on the car loan to UFCU, leaving them with less than 10 months of payments left on that debt. This debt can then be taken out of their back-end ratio. Now their monthly debt payments total $418. **Their debt to income ratio is now 13%.**

CREDITOR	BALANCE	MONTHLY PAYMENT	MONTHS REMAINING
Macy's	$350	$46	8 (not counted in back-end ratio)
The RoomStore	$2,100	$53	40
UFCU Auto Loan	***$2,655***	***$295***	***9 (not included in back-end ratio)***
Visa	$1,600	$58	28
Target	$1,200	$48	25
Bank of America Auto Loan	$6,457	$259	25

Now the loan officer tells the Murphy's they can be ***approved for a $140,000 loan****, enough to for a home in the area they like.*

CONCLUSION

The Murphy's made a great move by reducing their debt. They now have a chance at buying a home. However, they had already worked out their budget and determined that they can afford to buy a house for up to $110,000. If they decide to borrow the full $140,000, they may leave themselves with little room in their budget for their mortgage, all their monthly expenses, plus unexpected expenses that come up.

Debt Checklist

- [ ] Using the Housing Ratio worksheet, I know my Housing Ratio is ________%
  Housing Ratio goal: ________%
- [ ] Using the Debt-to-Income worksheet, I know my Debt-to-Income Ratio is ________%
  Debt-to-Income Ratio goal: _________%

Notes/To Do:

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Down Payment Assistance Programs

Austin residents have several options for down payment assistance when buying their first home. Do you qualify for any of these programs?

NeighborhoodLIFT

http://www.bcloftexas.org/homeownership/neighborhoodlift

BCL of Texas is proud to be part of the NeighborhoodLIFT program in collaboration with Wells Fargo and NeighborWorks® America. Learn how you can leverage up to $7,500 in down payment assistance to put your dream of purchasing a home within reach. Please note: You must take home buyer education with an approved agency to qualify for this program.

City of Austin down payment assistance

http://austintexas.gov/department/down-payment-assistance

The Down Payment Assistance Program (DPA) provides qualified, first-time homebuyers, with a zero interest loan to assist with purchasing a home located within the Austin City Limits. DPA funds cover the down payment and eligible closing costs and pre-paid expenses associated with buying a home.

Texas State Affordable Housing Corporation

http://www.tsahc.org/homeownership/loans-down-payment-assistance

The Professional Educators, Homes for Texas Heroes, and Home Sweet Texas Home Loan Programs provide 30-year fixed rate mortgage loans to eligible homebuyers wishing to achieve the American dream of homeownership. In addition to a low interest rate, these programs offer down payment and closing cost assistance in the form of a grant.

Neighborhood Assistance Corporation of America (NACA)

www.naca.com

NACA is a non-profit, community advocacy and homeownership organization whose mission is to make homeownership possible for individuals who would otherwise face buriers (like bad credit). NACA pays the down payment & closing costs and offers interest rates at below-market rates. The closest office is San Antonio.

Down Payment Assistance Checklist

- ☐ I am eligible for down payment assistance with ____________________ (name of org.)
- ☐ I have started the application process for a down payment assistance program

Notes/To Do:

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Appendix

- Monthly Budget
- Housing Ratio worksheet
- Debt-to-Income Ratio worksheet

Date: ____________________

Reviewed: ________________

Reviewed: ________________

Reviewed: ________________

Monthly Budget

MONTHLY INCOME	**GROSS**	**NET**
Income 1:	$	$
Income 2:	$	$
Income 3:	$	$
TOTAL INCOME	**$**	**$**

MONTHLY EXPENSES	**Current Spending**	**Necessary Changes**	**Goal**
HOUSING			
Rent/Mortgage	$	$	$
Electric	$	$	$
Water			
Gas	$	$	$
Phone	$	$	$
FOOD			
Groceries	$	$	$
Household Supplies	$	$	$
Work-school lunches	$	$	$
TRANSPORTATION			
Car Payment	$	$	$
Gasoline	$	$	$
Car Insurance	$	$	$
Repairs & Maintenance	$	$	$
Other:	$	$	$
SAVINGS			
Deposit into savings acct.	$	$	$
Matched Savings	$	$	$
Retirement	$	$	$
OTHER			
Child Care	$	$	$
Babysitters	$	$	$
Child Support	$	$	$
Clothing	$	$	$

Laundry, Dry Cleaning	$	$	$
Haircuts, Personal Care	$	$	$
School Expenses	$	$	$
Medical, Dental	$	$	$
Insurance: Medical, etc.	$	$	$
Taxes, IRS	$	$	$
Student Loans	$	$	$
Newspaper	$	$	$
Cable	$	$	$
DEBTS			
Debt 1:	$	$	$
Debt 2:	$	$	$
Debt 3:	$	$	$
MISCELLANEOUS			
Snacks (work, conv. store)	$	$	$
Cigarettes, tobacco	$	$	$
Allowances	$	$	$
Tithes, charity	$	$	$
Eating out	$	$	$
Movies, Concerts, Plays	$	$	$
Movie rental, subscription	$	$	$
Sports	$	$	$
Books, Magazines	$	$	$
Music (CDs, downloads, etc.)	$	$	$
Postage	$	$	$
Gifts, cards	$	$	$
Out of town trips, guests	$	$	$
Hobbies, crafts, supplies	$	$	$
Stuff (house ,kids)	$	$	$
Other:	$	$	$
TOTALS	**$**	**$**	**$**

Total Net Monthly Income	$	$	$
Less Monthly Expenses	$	$	$
SHORTAGE or SURPLUS	**$**	**$**	**$**

Estimated Housing Ratio Worksheet
"Front-End Ratio"

After completing the Monthly Budget Sheet, use this worksheet to determine what your Housing Ratio might be, that is, what percentage of your gross monthly income will go towards paying your mortgage. A lender will calculate your future Housing Ratio based on the mortgage you are applying for. According to Bankrate.com, many lenders will not allow your Housing Ratio to be more than 28%. Some down payment assistance programs in Austin allow this ratio to go up to 33%.

(A) Future Estimated Monthly Mortgage Payment____________________

See the 'Budget for Homeownership' sheet for an explanation of what goes into a full mortgage payment

(B) Gross Monthly Household Income _________________________________

(C) Housing Ratio____%

A ÷ B, then move the decimal over to the right 2 places

Tips

- This worksheet is meant to give you a very preliminary idea of where you stand. A housing counselor or lender can walk you through more complete/accurate formulas.
- The Housing Ratio will often represent the maximum payment a lender or down payment assistance program will allow your monthly mortgage payment to be.
- The lender will use which ever ratio is lower: either your Housing Ratio or your Total Debt-to-Income Ratio.
- For example:

  Sarah has a gross monthly income of \$3,000 and expects/hopes to pay \$1,000 for her monthly mortgage. \$3,000 ÷ \$1,000 = 33%. Her Housing Ratio would be 33%.
- For example:

  If the down payment assistance program Sarah's using requires a max Housing Ratio of 31%, then her monthly mortgage payment cannot exceed \$930 (less than the \$1,000 she thought she could afford).

  This means that Sarah will either have to increase her income or look for a more modest home with a more affordable monthly mortgage.

Estimated Total Debt-to-Income Ratio Worksheet
"Back-End Ratio"

After completing the Monthly Budget Sheet, Housing Ratio Worksheet and pulling a copy of your Credit Report, use this worksheet to estimate what your Total Debt-to-Income Ratio might be. This is what percentage of your gross monthly income will go towards your mortgage plus all debts that you are paying. A lender will calculate your future Debt-to-Income Ratio based on **the mortgage you are applying for and the debts that occur on your credit report**. According to Bankerate.com, many lenders will not allow your Total Debt-to-Income Ratio to be more than 36%. Some down payment assistance programs in Austin allow this ratio to go up to 45%.

(A) Estimated Future Monthly Mortgage Payment ____________________________
Use your credit report (and spouse's if applicable) : **Minimum Monthly Payment on:** Credit Card 1 _______________ Credit Card 2 _______________ Auto Loan 1 ________________ Auto Loan 2 ________________ Student Loans ________________ Personal Loans ________________ Medical Debt _________________ **(B) Total Other Debt Payments**: _________________
(C) Total Future Debt Payments: (A+B)______________
Total Debt-to-Income Ratio ________% Your total future payments (C) ÷ gross monthly income, then move the decimal over to the right 2 places

Tips

- This worksheet is meant to give you a very preliminary idea of where you stand. A housing counselor or lender can walk you through more complete/accurate formulas.
- For now, only include items that show up on your credit report
- Exclude daily living expenses like groceries, childcare or utility bills
- Any unresolved collections will need to be resolved immediately if you're planning on applying for a mortgage