

# *Your Credit History*

- Now you have a rough idea of how much you can spend on a home, and about how much you'll need for your mortgage loan payment.

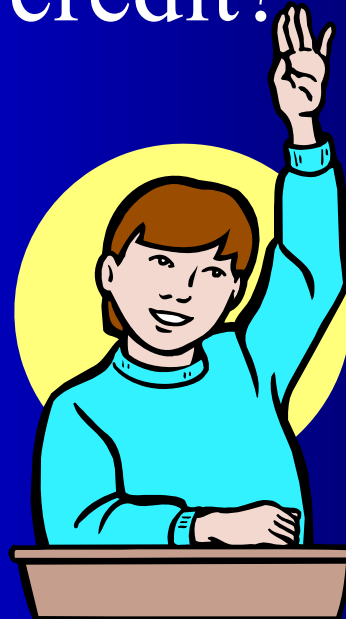
- The next step to get ready to buy your home is to examine and evaluate your credit position.

Let's find out about *Credit!*



# Questions About *Credit*

- What is *credit*?
- Where does it come from?
- How do you establish credit?
- How do you build *good* credit?
- How do you *fix* bad credit?



# What is *Credit*?

- Credit lets you buy something now for little or no money out of pocket, and pay for it over time.
- Types of credit are Open-End and Closed-End

- Open-End (or revolving) is credit on an *ongoing* basis.
  - As you pay the balance due, credit up to the limit is available to use again.
  - Examples include credit cards, store charge cards, and home equity loans.

- Closed-End credit is extended on a *one time, limited basis*, like a car or personal loan.
  - After you pay off the loan, you must re-qualify each time you want a loan.

# Where Does Credit Come From?

Typically, Credit is granted by:

- ✓ Banks
- ✓ Department stores
- ✓ Finance companies
- ✓ Oil companies
- ✓ Credit Unions, and
- ✓ Credit Card companies

**These companies  
are called Creditors.**



# How Do I Establish Credit?

**A *Creditor* looks at two things:**

- 1. You and**
- 2. Collateral (if any)**

**A *Creditor* reviews you as a credit risk using factors such as:**

- ❖ Income
- ❖ Length of employment
- ❖ Length of residence
- ❖ Prior credit history
- ❖ Amount of current debt
- ❖ Stability of your checking & savings
- ❖ Number of dependents, etc.

# *Alternative Credit*

If You Don't Have Any Credit Accounts You Can:

- Show the creditor you are willing and able to repay debts with proof of alternative credit, like paid utility bills and rent payments.

- Show evidence of debt repayment such as cancelled checks or copies of money order receipts from payment of bills and other obligations.

# How You Establish Good Credit

## Step 1

- Open a checking & savings account
- Deposit enough money to cover all the checks you write.
- Be sure the funds you deposit are in the account a few days before writing any checks on those funds.
- Apply for credit gradually through retail store credit cards, a bank credit card, or a gas card.
- *Don't* apply for more credit than you can manage!

# How You Establish Good Credit

## Step 2

- Make regular payments
- Every time you make a payment as agreed to your creditor, you are building favorable credit.
- Consistently pay all payments due, on time.
- Failure to repay the credit as agreed is where most people get into trouble.
- Don't make only *minimum* payments; it does very little if anything to reduce your outstanding balance.
- Not paying on time will leave a black mark on your history, for a year or longer!



# How You Establish Good Credit

## Step 3

- Don't assume you have great credit because you receive continuous *revolving* credit offers in the mail.

- Make sure you have credit when you need it for a mortgage or other loan.
- You don't want to be denied due to poor credit history or overextension of credit cards.



# How You Establish Good Credit

## Step 4

- First determine how much credit you can afford -- *15% to 20%* of your *take-home-pay* is a good rule of thumb; but to be sure...
- Develop a household budget.
- If you can't afford credit purchases, still concentrate on building credit, but make most purchases with cash.
- Most credit purchases should be paid off by the end of the month.
- Match the useful life of the item purchased with a payment schedule that pays off the item quickly.



# The Credit Report

- **The Credit Report only provides information.**
- **The *Creditor* uses the information to determine if you are a good or bad credit risk.**
- **Each *Creditor* will analyze the information differently in deciding whether to extend credit to you.**
- ***Creditors* also report their experience with you to *Credit Reporting Agencies*.**

# Credit Report (Continued)

The 3 main Credit Reporting Agencies are:

- TRW 1-800-682-7654; 1-800-392-1122
- TRANS UNION Corporation (216)779-7200
- EQUIFAX 1-800-685-1111

Under recent laws enacted, you can get a free credit report from them once per year. You can do this over the *Internet* or by calling them.

# Credit Report (Continued)

- Lenders order credit reports from *Credit Reporting Agencies* to examine your credit history.
- The report shows if you have paid credit timely and whether there are now – or ever have been – problems.
- If the report shows any problems, contact the Credit Reporting Agency or Lender.
- Work with them to clear up any mistakes.
- If you do have problems, see if you can address them with a written explanation.
- Serious problems that can't be resolved, such as bankruptcy or a judgment, may prevent you from getting a loan.

# Ok, You Have a Questionable Credit History, Now What?

- It can take some time, but it can be fixed.
- Contact a *non-profit* credit-counseling agency or financial counselor.
- They can help you develop a budget/debt reduction plan.
- If you work to reduce debt by making regular payments *on time* for at least a year, your credit will be improved.

# Non-Profit Credit Counseling

- **To locate the nearest CCCS agency write:**
  - National Foundation for Consumer Credit 8611 2<sup>nd</sup> Ave. Suite 100 Silver Spring, MD 20910 or
  - **Phone: (301)589-5600**
- **Consumer Credit Counseling Service**
  - **1-800-388-CCCS**



# The Credit Report

Some things included are:

- Identifying Information
- Credit Information
- Public Record Information
- Inquiries

What is NOT included in a credit report:

- Information on your race
- Religious preference
- Medical history
- Your lifestyle
- Personal background
- Political preference
- Criminal record





# Summary Time!

To this point in your training, you've learned:

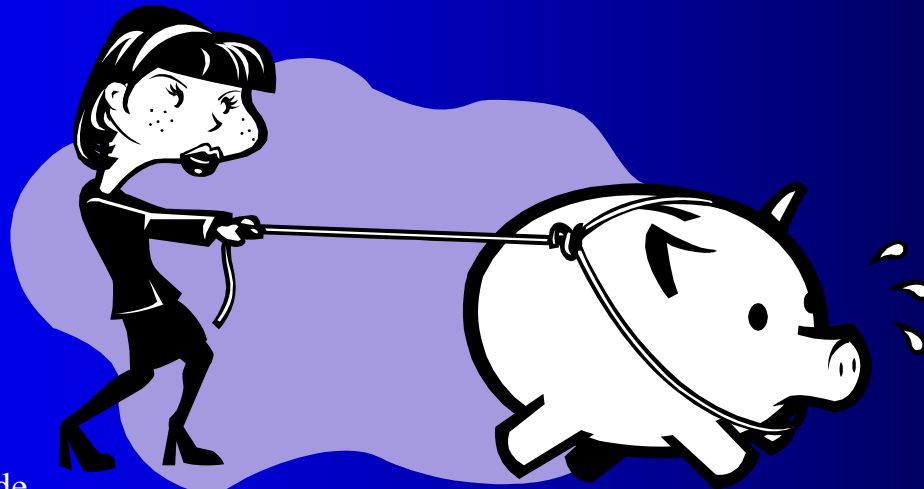
- ❖ How the *pre-qualification* process works
- ❖ What information the credit report shows the lender and how the lender will use it
- ❖ How to establish good credit, and fix credit problems

Now let's move on to the "Monthly Spending Planner"

# Budgeting

## Your Plan for Successful Home Ownership

In this area of our training we'll go over a *Monthly Spending Planner* that will help you create a workable budget.

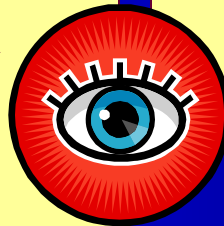


# Budgeting, The Secret To A Better Standard Of Living

- A budget is a written plan listing your income and expenses *as close as you can*.
- A budget is crucial to using credit wisely and to meeting your financial goals.
- Like saving up for a down payment or making your monthly mortgage payment.
- With these tools, you'll discover your spending patterns, and uncover places where you can save, or cut expenses.
- If there is one reason why most tries at establishing a budget fail, it is the “*you must cut expenses until it hurts*” frame of mind.

# Budgeting (continued)

- One of the most challenging parts of a budget is not cutting expenses – it's identifying expenses!
- Keep a detailed record of all income and all expenses, no matter how small.
- This is an *eye opening* experience because you will see where your money is really going.



- For most households, the most obvious expenses are: mortgage or rent payments, utilities, food, transportation, clothing, and entertainment.
- Budgeting will improve your financial condition and may help you eliminate the possibility of financial trouble in the future.

# Budgeting (continued)

- It is important for you to set aside funds in your monthly budget for home maintenance.
  - You will continue to have a variety of expenses.
  - Budgeting for them will help you identify, plan for, and manage the costs involved in owning your home.
- It will also help you plan for day-to-day maintenance, along with creating a plan for financing major improvements.
  - The budget will also help you allocate funds for emergency maintenance needs, like a new hot water tank.

# Budgeting (continued)

- It will take time to develop your budget.
- You might have to make some calls, do research, and ask some questions.
- You'll have something most home buyers lack: *a clear picture of the price of being a successful homeowner.*
- Set realistic goals.
- Use your willpower.
- Be *flexible*.
- Start a good system of keeping records.
- This will enable you to *adjust* your spending to achieve your dreams.

# The Monthly Spending Planner



A simple, yet effective tool to help you get your budget on paper.

The *planner* is divided into 3 sections to help you measure your income & expenses, then compare the two of them.

Please refer to the  
*“Monthly Spending – Planner  
Completion Instructions”*

You will see a picture of it on the  
following screen >>>





## Monthly Spending Planner – Completion Instructions

### Section 1. Income

First you need to add up all your sources of income, including take-home pay (amount left after taxes & deductions), Social Security, pensions, alimony, child support, workers' compensation, unemployment and disability payments received.

**If your earnings are irregular** – for example, if you are a salesperson and receive some or all of your income from commissions – it might be harder to estimate your income. If so, it is better to underestimate your income when you set up your budget (Monthly Spending Planner).

### Section 2. Expenses

- Housing.** Enter your current monthly rent in Column "A" and your expected new mortgage payment in Column "B". Find out from your lender if taxes & insurance will be included in your mortgage payment (escrowed). If they are not, then you are responsible for sending in these payments and you must budget for and save enough money to pay these amounts when they are due. Enter these amounts on the appropriate line under Column "B".
- Installment Loans.** Automobile, furniture & appliance loans as well as any payments you are currently making *and will be* making to finance companies or any other installment debts need to be entered here.
- Revolving Credit.** Credit cards payments, such as Visa or MasterCard, department store charges and any other credit card payments must be entered in this section.
- Utilities.** Enter your *current* average monthly payment in Column "A", and enter the amount you figure your average monthly payment will be *after your home purchase*, for each type of utility in Column "B". Ask the current owner of the house you want to buy or utility companies to get an idea for these amounts. Check into going on a "budget" utility plan if the utility company offers one, which will help you spread out the cost over a 12-month period.
- Insurance.** Enter the amount of any *direct* premiums for applicable insurances you pay in Columns "A" and "B". Don't include deductions from your paycheck for insurance coverages (such as health or dental insurance).
- Spouse/Child Care.** Enter the amount of your *current* and new *after-purchase* expenses for alimony, child support, childcare and school fees here.
- Donations.** Enter the amount of any donations you make to charity or to religious organizations in this section.
- Dues.** Union dues, youth group and professional organization dues can often be forgotten about or included in miscellaneous expenses, but they should be listed here.
- Medical.** You already entered health & dental insurance premiums above under # 5, Insurance, but you may have additional health-related expenses not covered by insurance, like co-pays and deductibles. Doctor and dental bills, drugs, hospital payments, contact lenses and eyeglasses are some of the items that fall in this area. Estimate a lump-sum amount for a year, then divide by 12 to get the *monthly* expense amount you need to enter here.
- Subtotal Columns "A" and "B".** Carry forward this subtotal to the top of page 2 of your "Monthly Spending Planner".
- Transportation.** Gasoline, oil changes, repairs & maintenance items for you car need listed here. Also, include money you spend on public transportation such as buses, taxis, and similar expenses and include them in this section.
- Clothes.** The amount you spend on clothing, uniforms, laundry, dry cleaning, hair appointments, cosmetics and toiletries all need to be listed in this section.
- Household Operations.** Furnace and air conditioner maintenance; carpet cleaning; landscaping/gardening; appliance, electrical and plumbing repairs; trash pickup; paint; cleaning & paper supplies; tools; light bulbs; fixtures; hardware, etc. – or anything else you will use to keep up your home needs to be included in this section. A good rule-of-thumb amount is to figure about 1% of the value of your property value, annually, to cover *after home purchase* maintenance expenses. Estimate an annual amount, then divide by 12 to get a monthly amount to enter here.
- Major Improvements.** This section is for future budgeting. When the time comes, get estimates from reputable companies who are bonded and insured that will be doing your work. Determine when the improvement needs done and then take the total estimated cost and divide it by the number of months until you will actually be doing the improvement. This will provide you with a *monthly* amount to enter in this section.
- Professional Services.** The services of an attorney *may be needed* to help you with legal matters, like creating a will, etc. Also, you may need the services of an accountant if you aren't familiar with tax codes and deductions. Talk with an attorney/accountant about the fees they charge for these services and enter that amount here.
- Miscellaneous items.** Costs associated with Sports, hobbies, entertainment, vacations and gifts should be entered here. Don't try and lump together too many expenses in this category; otherwise it will be too large and won't help you plan.
- Savings.** Include savings bonds, bank accounts, credit unions, etc. that are not entered through payroll deductions.

Now enter the total of all Column "A" figures (*current*) and Column "B" (*After Home Purchase*) expenses.

### Section 3. Income/Expense Comparison

Now let's look at the bottom line. Enter you *Total Net Income* from section 1. Income, and the *Total After Home Purchase* expenses from Section 2, Column "B".

**If your Monthly Net Income is greater than** your *After Home Purchase* monthly expense total, your financial transition to homeownership should be fine.

**If your Monthly Net Income is less than** your *After Home Purchase* monthly expense total, you need to look at your expenses for ways to cut back to remove this difference.

# If You Have Time, Let's Briefly Review:

- Section I, “Income”
- First part of Section II, “Expenses”





Together, let's now go over the last part of **Section II -** "**Expenses**", and **Section III - Income / Expense Comparison** of the Monthly Spending Planner.



# **Summary Time!**

## **You've Now Learned about:**

- **Why it is so important to establish a budget.**
- **Reasons, besides buying a home, that make it important to budget and save money.**
- **How to build a monthly budget using a Monthly Spending Planner.**

**Now let's move on to the "*Home-Buying Process*"**

# The Home-Buying Process

- You're now ready to buy a home.
- Let's talk about the steps you need to take to shop for, select and make an offer to purchase a home.



- **STEPS:**
  1. What to look for in a home;
  2. How real estate agents can help;
  3. What to do before you make an offer; and
  4. How to make an offer to purchase.



# Home Buyer Checklist

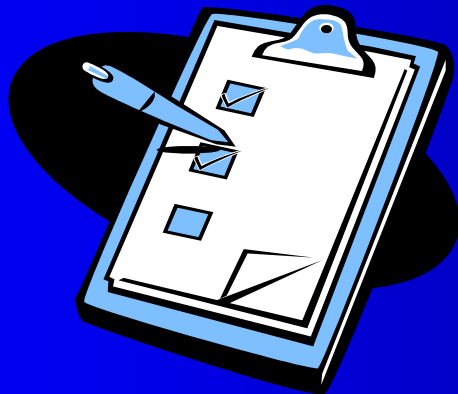
- Think carefully about what you want in a home.
- There are *so many* things to consider:
  1. Sales Price
  2. Neighborhood
  3. Distance to work
  4. Schools
  5. Shopping
  6. Bank locations
  7. On and on
- What you need is a good checklist to help keep track of features of each home you inspect.
- You may already know the type and size you'd like to purchase, but there are many other features you'll want to think about.

Let's talk about some of those now!



# Home Buyer Checklist (continued)

- **Features to consider before buying a home:**
  1. **Plumbing**
  2. **Heating**
  3. **Electrical systems**
  4. **Are these up to code?**
  5. **Closet space**
  6. **Roof condition**
  7. **Number of bedrooms**



- Take the checklist with you when you go looking for a house.
- It will help you compare, side-by-side, the different features of up to 3 different houses.
- Without the checklist, you might forget specific details about each house, after you have looked at several.

# The Checklist

With the other handouts we have provided you today, you will find the Home Buyer Checklist.

- The checklist identifies important factors to consider when choosing a home.

Please place it next to you now. Your instructor will briefly go over it with you.

# Real Estate Agents

- While looking for a home you'll likely want to involve a real estate agent.
- These agents work on a commission.
- Their fee is based on the selling price and is paid by the *seller*.
- Understand that the agent usually works for the *seller*.

## **Agents can be helpful because they:**

1. Know the market;
2. Belong to a *multiple* listing service that publishes directories of houses for sale;
3. Usually have information about schools, taxes, water & sewer fees, public transportation; and,
4. Other services.

# Real Estate Agents (continued)

- Your agent will consult the multiple listing directory and determine which properties meet your specifications.
- He or she will arrange to show you these houses.
- There are a number of ways you can find a real estate agent:
  - You can ask a friend or relative;
  - You can meet agents by going to open houses;
  - You can contact real estate firms that are advertising properties that you are interested in.
  - Usually, it is best to consult one agent & work with them until you find the home you want.

# Real Estate Agents (continued)

- Here is how the process works:
- The seller “Lists” the home with the agent and agrees to pay the agent a commission if the house is sold.
- During the “listing period”, the agent will try to sell the property by advertising and having open houses.
- The “Listing Period” varies, but usually is 6 months or more.
- If a different agent finds a buyer, the two agents will “split” the commission.



Homebuyer Training Guide



# Deciding To Buy

- Look at several houses before deciding to buy;
- It is important not to buy too quickly just because you've waited a long time;
- If you've found the neighborhood you like, try to get a feel for real estate values, or prices.
- Do your homework;
- Check out the taxes, school system, cost of utilities, quality of community services (like fire & police) and any other things that will affect your life;
- When you find a home you like, take some time to think *before* you make an offer to purchase.

**You are making a big investment; make an *informed* decision!**

# Offer To Purchase

- ✓ When you are ready to buy, you'll meet with the real estate agent and complete the Offer to Purchase form together.
- ✓ You may want to write your offer with the help of an attorney.
- ✓ An Offer to Purchase includes detailed, complex information, so it is not recommended to try this by yourself.

- ✓ When you are ready to make the offer, get a copy of the state's form from the agent and look it over carefully.
- ✓ Have the agent, or your attorney, thoroughly explain every item on the form so that you understand exactly what you are committing to *before* you actually make the offer in writing!

# Making The Offer

## There Are Many Things That Influence The Amount You Offer:

- How much you have to spend;
- How much you really want the house;
- How many *other* buyers are interested in the home;
- How bad the seller wants to sell;
- How much work might need to be done on the house;
- How the property compares with other similar ones.

**It is rare to offer the seller's asking price, but you may be in competition with other interested buyers.**



# Contingencies:

- Contingencies are conditions that must be met or you will not be required to go through with the purchase contract after the seller accepts your offer.
- Most buyers make their Offer contingent upon their being able to obtain mortgage financing. Without this contingency, you could lose your earnest money.
- **Common contingencies:**
  1. Getting a satisfactory home inspection;
  2. Obtaining a termite/pest inspection;
  3. Getting good well and septic system tests;
  4. Requiring evidence the property meets building & safety codes;
  5. The appraisal reflecting a value *not less than* the offering price;
  6. Getting an attorney's review of your *Offer to Purchase*.

# Home Inspections

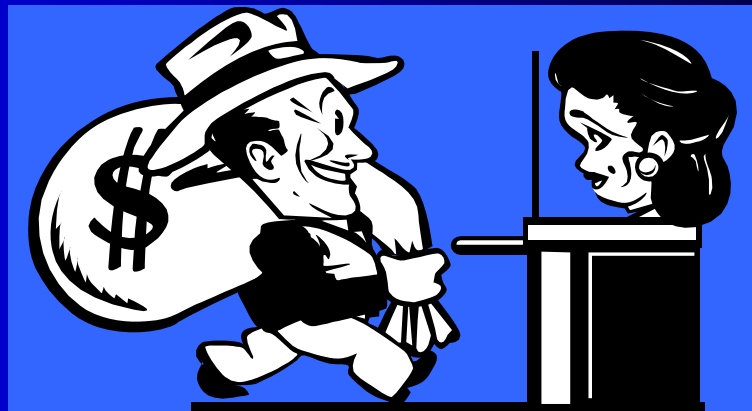
- Don't confuse a home inspection with an appraisal.
- An appraisal is an estimate of value prepared by a professional appraiser.
- *A home inspection is an examination of the property to determine structural and mechanical systems.*
- You should probably include a home inspection contingency in your Offer to Purchase.
- You have the option to withdraw your offer if the inspection shows major problems that neither you nor the seller is willing to fix.
- You may want to have the inspection done *before* you apply for a loan.

# Home Inspections (Continued)

- **Generally, it is your responsibility as buyer to pay for an independent home inspection.**
- **The inspection provides you with valuable information about the structural and mechanical condition of the house.**
- **Things like foundation, electrical, roof, furnace, plumbing, water supply, attics, insulation, etc.**
- **A qualified home inspector has training in engineering, architecture or construction.**
- **You may want to look for a person who is a member of the American Society of Home Inspectors (ASHI) .**
- **All ASHI members must subscribe to the society's code of ethics & do annual continuing education.**

# Earnest Money (Deposit)

- When you make your Offer to Purchase, be prepared to make a deposit (*earnest money*).
- This money is held by the real estate agent in an escrow account to show good faith on your part that you are sincere about buying.
- If the sale happens, the earnest money (*your deposit*) is subtracted from the amount you owe the seller at closing.
- If the seller rejects your offer, or if one of your contingencies is not met, your earnest money should be returned.



# Counteroffers

- The seller has the option to accept your offer, or reject it and make a *counteroffer*.
- For example, the seller may *counter* with a sales price somewhere between the amount they were asking for and the amount you actually offered.
- They may want to change or delete some of your contingencies.
- If you receive a *counteroffer*, you have the option to accept or reject it – or make another *counteroffer*.

# Summary Time Again

## We have covered the following:

- **Preparing to buy;**
- **Using the Home Buyer Checklist;**
- **How Real Estate Agents can help;**
- **For whom the agent works;**
- **What contingencies are;**
- **Types of contingencies;**
- **You should have an attorney review your offer to purchase;**
- **What counteroffers are;**
- **Importance of getting a home inspection;**
- **Problems you might overlook if you don't have a professional inspection;**
- **Who pays for the home inspection.**

**Now let's learn about getting your home loan!**