



**MODULE 13:**

# **Buying a Home**

**INSTRUCTOR GUIDE**



**MONEY SMART for Adults**

SEPTEMBER 2018





The Federal Deposit Insurance Corporation is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system. One way we do that is by providing free, non-biased financial education materials, including this Instructor Guide. For more information about our family of Money Smart products, visit **[www.fdic.gov/moneysmart](http://www.fdic.gov/moneysmart)**.



# Contents

<b>Background Information for Instructors</b>	3
Training Preparation Checklist	3
Materials You May Need	5
Understanding the Icons	6
Module Purpose	7
Module at a Glance Table	8
<b>Module Opening</b>	10
Welcome Participants as They Arrive	10
Pre-Training Survey	10
Parking Lot and Participant Guide	11
Optional Introductory Activity	11
<b>Section 1: Getting Ready to Own Your Home</b>	12
Introduction to Section and Key Takeaway	13
Reasons for Buying a Home	13
Steps to Buying a Home	15
<i>Try It: Getting Ready to Buy</i>	17
<i>Apply It: Am I Ready to Buy?</i>	19
How Much Can You Afford?	20
<i>Apply It: What Can I Afford?</i>	23
Debt-to-Income Ratio	23
<i>Try It: Calculating a Debt-to-Income Ratio</i>	25
<i>Apply It: My Debt-to-Income Ratio</i>	27
Section Closing	28
<b>Section 2: Financing a Home Purchase</b>	29
Introduction to Section and Key Takeaway	30
Types of Loans	30
Learn About Mortgages	31
Different Kinds of Mortgages	36
<i>Apply It: My Mortgage Options</i>	40
How Mortgages Work	42
<i>Try It: Reading an Amortization Schedule and Calculating Equity</i>	43
Getting Pre-Qualified or Pre-Approved	46
Shop Around for a Mortgage	47
<i>Apply It: My Worksheet to Compare Loan Estimates</i>	48
Section Closing	48
<b>Section 3: Getting Help and Buying Your Home</b>	49
Introduction to Section and Key Takeaway	50
Putting Together Your Team and Finding a Home	50
<i>Apply It: My Home Buying Team</i>	51
Making an Offer	52
Closing on a Home	55



Getting Help When You're in Trouble .....	56
<i>Apply It: My Resources for Getting Help Paying My Mortgage</i> .....	57
Section Closing .....	58
<b>Module Closing</b> .....	59
Remember the Key Takeaways.....	59
Take Action .....	59
Post-Training Survey .....	60
Answer Key for Both the Pre- and Post-Training Surveys .....	62
<b>Money Smart for Adults Modules</b> .....	64



# Background Information for Instructors

Welcome to the FDIC's Money Smart for Adults!

This is the Instructor Guide for **Module 13: Buying a Home**. This module consists of three tools:

- **This Instructor Guide**
- **The Participant Guide**—for participants to use during training and refer to after training
- **The PowerPoint slides**—for you to use during the training

The curriculum also includes a *Guide to Presenting Money Smart for Adults*. This resource offers practical tips for marketing your training, setting up your training space, supporting participants with disabilities, and delivering the training. It also offers learning pathways to help you choose modules and perhaps sections within modules to include in the training. If you don't already have the *Guide to Presenting Money Smart for Adults*, download it at [www.fdic.gov/moneysmart](http://www.fdic.gov/moneysmart).

## Training Preparation Checklist

Use this checklist to prepare for training.

- ☐ **Review the Instructor Guide, Participant Guide, and PowerPoint slides** to learn how they work together.
- ☐ **Familiarize yourself with the topics.** The Instructor Guide includes scripting to help you explain core content. You can read the scripting as-is to participants. Or, you can present the information in your own style.
- ☐ **Review the *Try It* and *Apply It* activities in the Participant Guide.** Every module includes both types of activities. Many are designed to be included during the training session. Others are flagged with a Note to Instructor that gives you the option of reviewing, starting, or completing them during the training, or encouraging participants to complete them after training.

Activities make the training more engaging and help participants retain the material. It's generally better to cut content rather than activities if you are short on time.



- ☐ **Review the *Guide to Presenting Money Smart for Adults*** for tools and information that can help you plan and deliver training. This resource includes information on making your training accessible and welcoming to all participants, including participants with disabilities.
- ☐ **Select the materials that you plan to use.** Ideally, do so by considering the needs or goals of the participants. The *Module at a Glance Table* near the front of each Instructor Guide can help you decide whether to cover modules in their entirety or only certain sections of the modules.
- ☐ **Plan to make your training culturally appropriate.** This means communicating respectfully, and also presenting the material in a way that is relevant to the lives of participants.
  - For example, when you discuss ways to cut expenses, participants may not relate to cutting out a daily coffee purchase if they don't normally buy coffee every day. Use examples participants can relate to, which may be different from examples from your own experience.
- ☐ **Consider having each of your training sessions include:**
  - **An overview:** Welcome participants and explain the training purpose and objectives. Provide a quick orientation to materials.
  - **An introductory activity:** Energize participants with a fun activity to introduce them to one another and get them ready to learn. This can be an effective way to start training, especially if it is the first time the group has been together. See the *Guide to Presenting Money Smart for Adults* for optional introductory activity ideas.
  - **Pre- and post-training surveys:** Administer the pre-training survey before training starts and the post-training survey at the end of training. Using the surveys can help you evaluate training effectiveness and tailor your training approach for future sessions.
- ☐ **Give each participant a Participant Guide.** Consider making it available electronically if you cannot provide paper copies. Also, some participants may need it electronically as a reasonable accommodation. If you deliver only part of a module, you might want to provide only those sections of the Participant Guide. Hide the slides you won't be using. The *Guide to Presenting Money Smart for Adults* has more information on hiding slides.

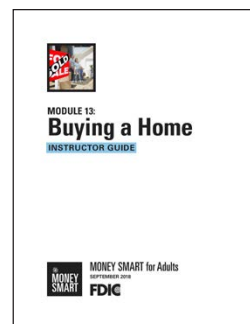


## Materials You May Need

- ☐ This Instructor Guide
- ☐ Copies of the Participant Guide
- ☐ The PowerPoint slides, and either:
  - Computer, projector, and screen for projecting the slides, or
  - Printed or electronic copies of the slides for participants
- ☐ Flip chart(s) and/or whiteboard(s)
- ☐ Markers for writing on flip chart(s) and/or whiteboard(s)
- ☐ Large self-adhesive notes (5" x 8"), card stock, or paper for making signs
- ☐ Tape that can be easily removed from the wall, such as painter's tape
- ☐ Pens or pencils for participants

### Optional Materials:

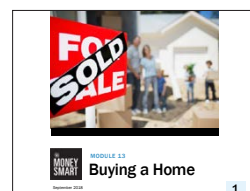
- ☐ Parking Lot for questions—Create one by writing "Parking Lot" on the top of a flip chart or whiteboard
- ☐ Supplies for the Optional Introductory Activity—Choose an activity from the *Guide to Presenting Money Smart for Adults* or use your own



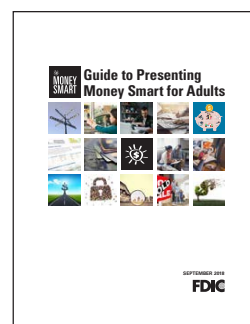
Instructor Guide



Participant Guide



PowerPoint slides












Guide to Presenting Money Smart for Adults



## Understanding the Icons

This Instructor Guide uses several icons to help you quickly navigate the training.

 <b>Do</b>	Actions you take as the instructor
 <b>Say</b>	Information you share verbally with participants
 <b>Ask</b>	Questions you pose to participants
 <b>Share Key Takeaway</b>	When you convey the primary message of a section
 <b>Lead Discussion</b>	When you facilitate discussions
 <b>Lead Activity</b>	When you facilitate activities
 <b>Present Information</b>	When you present information
 <b>Take Action and Closing</b>	When you help participants plan action steps to apply what they learned
 <b>Scenario</b>	When you use a short story to start a discussion or activity about a financial topic



## Module Purpose

This module helps participants get ready to own a home, finance the purchase, and move forward with buying a home.

This module also:

- Identifies the steps in the home buying process
- Explains how to know if you are ready to buy a home
- Identifies ways to estimate how much you can afford for housing
- Describes home financing options and key costs
- Explains how to get prequalified or preapproved for a mortgage
- Discusses how to compare loan estimates
- Explains the role of professionals who can help you become a homeowner
- Describes the processes of making an offer, negotiating with the seller, and closing the purchase
- Identifies where to get help if you're having trouble making mortgage payments



## Module at a Glance Table

You can cover all or only part of this module.

We estimate you need **2 hours and 45 minutes** to cover the entire module, not including breaks or an optional introductory activity. You can use this table to select sections based on the time you have available and the needs of participants.

The *Guide to Presenting Money Smart for Adults* includes additional information on selecting sections for specific audiences.

**Note to Instructor:** Participants who are still deciding if they should rent or buy a home may want to attend a training session on *Module 12: Making Housing Decisions* first. This Module 13 begins with an assumption that participants are seriously considering buying a home.

However, this module does **not** replace a homebuyer education course or one-on-one assistance from a housing counseling agency approved by the Department of Housing and Urban Development.

Section	Key Takeaway	Purpose / Objectives	Time
Module Opening	N/A	<ul style="list-style-type: none"> <li>■ Welcome participants</li> <li>■ Administer the pre-training survey</li> <li>■ Lead an Optional Introductory Activity (extra 5 to 20 minutes)</li> </ul>	10 minutes
Section 1: Getting Ready to Own Your Home	Buying a home is a process. Start by making sure you're ready to buy and figure out what you can afford.	Participants will be able to: <ul style="list-style-type: none"> <li>■ List major steps to buying a home</li> <li>■ Determine how much house they can afford</li> <li>■ Calculate a debt-to-income ratio</li> </ul>	1 hour and 5 minutes

*Continued on next page*



**Module at a Glance Table *continued***

Section	Key Takeaway	Purpose / Objectives	Time
Section 2: Financing a Home Purchase	Know your loan. Learn about your financing options for buying a home and shop around to get the best deal for you.	Participants will be able to: <ul style="list-style-type: none"> <li>■ Identify types of loans</li> <li>■ Define loan terms and concepts</li> <li>■ Describe how mortgages work</li> <li>■ Shop around for a mortgage</li> </ul>	55 minutes
Section 3: Getting Help and Buying Your Home	Get help with the home buying process. Interview before you hire help and ask for references. Understand what services you will receive and how much they will cost.	Participants will be able to: <ul style="list-style-type: none"> <li>■ Identify the types of professionals that can help with finding and buying a home, and their roles</li> <li>■ Explain the process of making an offer on a home and closing</li> <li>■ List ways to get help when struggling to make mortgage payments</li> </ul>	25 minutes
Module Closing	N/A	<ul style="list-style-type: none"> <li>■ Review the key takeaways</li> <li>■ Help participants think about how they will apply what they learned</li> <li>■ Administer the post-training survey</li> </ul>	10 minutes



# Module Opening

## Welcome Participants as They Arrive

Time Estimate for This Section: 10 minutes

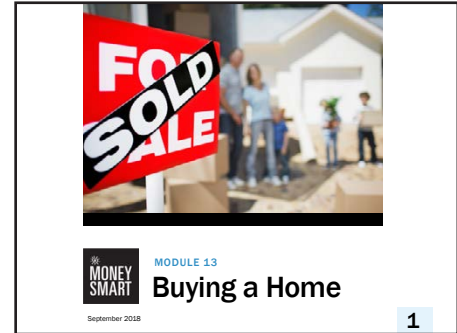
### SHOW SLIDE 1



#### DO

As participants arrive for the training, use this time to:

- Welcome them and introduce yourself
- Ask them to sign in for the training if you are using a sign-in sheet
- Ensure any requested reasonable accommodations are in place and make any necessary adjustments



### LEAD ACTIVITY

## Pre-Training Survey

See page 39 in the Participant Guide.

**Note to Instructor:** Before training starts, you can ask participants to complete the pre-training survey in the back of their Participant Guide. You may want to give them “loose” copies so they don’t have to tear them out. The knowledge questions are the same as those in the post-training survey.

The answer key is at the end of this Instructor Guide, but don’t share the answers now.

You may decide to compare pre-training surveys to post-training surveys to estimate knowledge gains of the entire group or for each participant. If you want to estimate by participant, ask them to write their last name or some other unique identifier on both their pre- and their post-training surveys so you can compare them for a given participant.



**SHOW SLIDE 2****SAY**

- Thank you for coming to this Money Smart Training called **“Buying a Home.”**
- Please complete the pre-training survey on page 39 of your Participant Guide to give me an idea of what you may already know about this topic.
  - It should take less than five minutes to complete.

**Pre-Training Survey**  
See page 39 in your Participant Guide

**Pre-Training Survey**  
Your instructor may ask you to complete this pre-training survey before the training begins.  
Please answer these questions:

1. Your real estate agent will decide what you can comfortably afford to pay for housing.	True	False
2. Comparing offers from different lenders can save you money.	True	False
3. You have to choose the lender that your realtor recommends.	True	False
4. Which of these is included in a typical mortgage payment? a. Repayment of the real estate agent's salary b. Interest c. Home maintenance costs d. Gross income e. None of the above		
5. Which of these factors affects the amount of your monthly mortgage payment?		

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **2**

**DO**

- Collect the completed surveys if you plan to review them or compare them to post-training surveys.

**PRESENT INFORMATION****Parking Lot and Participant Guide****SAY**

- I've created a Parking Lot to capture questions, concerns, ideas, and resources. You and I can add items anytime during the training, and I'll address them during breaks or at the end of training.
- You have a Participant Guide to use during and after this session. It's yours to keep, so you can take notes and write in it.

**LEAD ACTIVITY****Optional Introductory Activity**

**Adds an additional 5 to 20 minutes,** depending on the activity you select and the number of participants

**DO**

- Lead participants through an introductory activity.
- Time permitting, you may also want to show a short video related to the subject of this module or start with an “energizer” of your choice.

**Note to Instructor:**

If time permits, start the training with a fun activity from the *Guide to Presenting Money Smart for Adults* or use your own.

This is a great way to get participants energized and ready to learn!





## Section 1: Getting Ready to Own Your Home

**Training Time Estimate for This Section:** 1 hour and 5 minutes

### Objectives

Participants will be able to:

- List major steps to buying a home
- Determine how much house they can afford
- Calculate a debt-to-income ratio





PRESENT INFORMATION (1 MINUTE)

## Introduction to Section and Key Takeaway

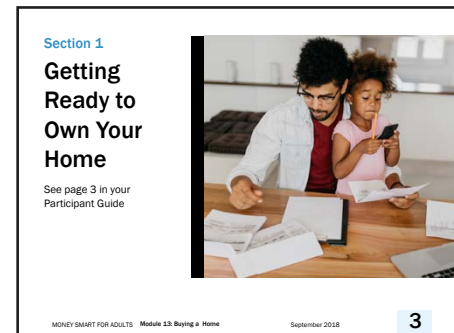
See page 3 in the Participant Guide.

### SHOW SLIDE 3



SAY

- We will discuss how to get ready to buy a home and how to figure out what you can afford.

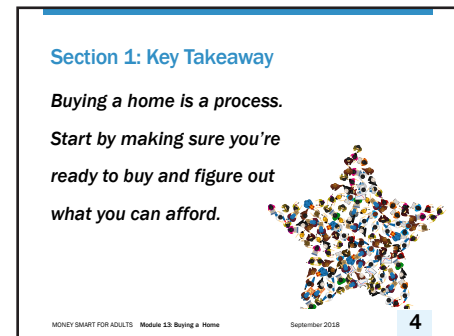


### SHOW SLIDE 4



SAY

- The key takeaway from this section is: **Buying a home is a process. Start by making sure you're ready to buy and figure out what you can afford.**



PRESENT INFORMATION (10 MINUTES)

## Reasons for Buying a Home

See page 3 in the Participant Guide.

**Note to Instructor:** The discussion questions that make up this portion of the training will get your participants engaged on the topic of owning a home. You may need to limit the length of the discussion to ensure that the discussion does not consume more of the training session than you intend.

### SHOW SLIDE 5



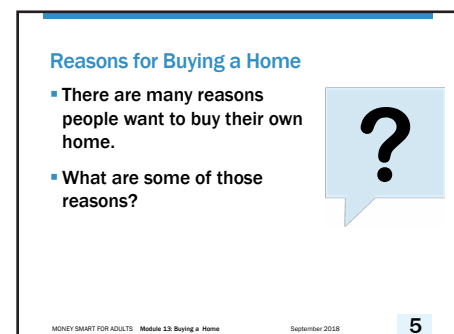
ASK

- There are many reasons people want to buy their own home. What are some of those reasons?



DO

- Let participants know they can take notes on page 3 in their Participant Guide.





- Write participant responses on a flip chart or whiteboard.
- If no one says “to build wealth,” add that at the end of the list. If someone does say “to build wealth,” then circle it.

**SHOW SLIDE 6****SAY**

- Building wealth in a home you own comes from the equity you have in your home.
- Equity generally equals the market value of your home minus what you owe on the home.
  - The current market value of your home is the price you would get for your home if you sold it today.
  - The amount of debt you owe on your home includes your mortgage.
- The market value of your home is not guaranteed to increase. It could go up, stay the same, or even go down.
  - When the value goes up, that’s called **appreciation**.
  - When the value goes down, that’s called **depreciation**.
- The amount of equity you have in your home also can vary, generally because of changes to the market value of your home or changes in how much debt you owe on the home.
  - Your equity can go up, go down, or stay the same.
- The amount of debt you owe on your home also changes over time. We’ll talk about that later.

**Equity**

- Equity equals the market value of your home minus what you owe on the home
- Can increase, stay the same or decrease

$$\text{Equity} = \begin{array}{c} \text{Home's} \\ \text{Market} \\ \text{Value} \end{array} - \begin{array}{c} \text{What You Still} \\ \text{Owe on the} \\ \text{Mortgage} \end{array}$$

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **6**

**SHOW SLIDE 7****ASK**

- What are some factors that affect the market value of a home?

**DO**

- Let participants know they can take notes on page 4 in their Participant Guide.
- Write participant responses on a flip chart or whiteboard.
- Add the following if not contributed by participants:
  - Location—how close the home is to high performing schools, access to transit, well-paying jobs, and areas experiencing high growth.

**Market Value**

- What are some factors that affect the market value of a home?

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **7**



- Prices of other homes in the area.
  - Demand for houses—for example, if there are fewer homes for sale but many potential buyers, the value may go up.
  - Or, if there are many homes for sale and fewer potential buyers, the value may go down.
  - Some updates or remodeling may increase the market value of a home; others may decrease the market value. Others may have no effect.
  - Size, layout, and condition of the home.
  - Size, layout, and condition of other homes in the area.
- For many people, it can be useful to think about a home as shelter first.
  - While buying a home is an investment, for most people it's not an investment that will make them wealthy.

**SAY**

- Buying a home is a big decision. For many people, a home is the single biggest purchase they will make in their lifetime.
- The good news is that many people have done it and many people can help you with the process. But what is that process?
- Let's talk about the key steps in your path to owning a home.



PRESENT INFORMATION (5 MINUTES)

**Steps to Buying a Home**

See page 4 in the Participant Guide.

**SHOW SLIDE 8****SAY**

- **Step 1: Get ready**
  - Decide if you are ready to buy a home
    - » You can always re-evaluate this decision later on in the process.
  - Figure out how much you can afford
    - » It will save you time and trouble down the road to have a good sense of what price range you want to focus on in your search for a home.

**Steps to Buying a Home**

- 1 Step 1: Get ready**
  - Decide if you are ready to buy a home
  - Figure out how much you can afford
  - Check your credit history
- 2 Step 2: Figure out the financing**
  - Learn about mortgages or other financing options
  - Shop around
  - Get pre-qualified or pre-approved

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **8**



- Check your credit history
  - » This is extremely important. Lenders use your credit history to determine whether they will lend you money so you can buy a home, and how much the loan will cost you.
  - » Go to **www.annualcreditreport.com** or call 1-877-322-8228 and review your credit reports. That website is the only place where you can get the free credit reports from the three nationwide credit reporting agencies that you are entitled to under the law every 12 months. Checking your own credit reports does not affect your credit.

**Note to Instructors:** Checking your credit history is an important part of getting ready to buy a home. Consider incorporating portions of *Module 6: Credit Reports and Scores* into your training, especially the *Apply It* activities on getting and reviewing credit reports.

### ■ Step 2: Figure out the financing

- Learn about mortgages or other financing options.
- Shop around.
- Get pre-qualified or pre-approved. We'll talk about the difference between those terms.

### SHOW SLIDE 9



### SAY

### ■ Step 3: Shop for your home

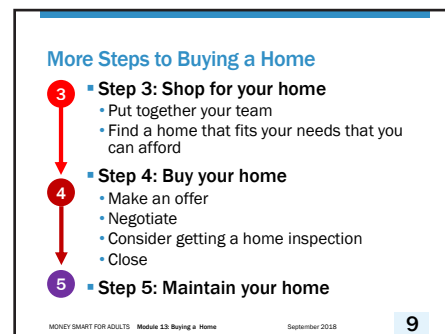
- Put together your team. Identify and consult the professionals that can help you search for, finance, and purchase a home.
- Find a home that fits your needs and that you can afford.

### ■ Step 4: Buy your home

- Make an offer on the home you find that meets your needs and that you can afford.
- Negotiate with the seller.
- Consider getting a home inspection.
- Finally, you will close. This completes the process of buying your home. It's when you become its owner.

### ■ Step 5: Maintain your home

- You worked hard to get it, so protect your investment.
- While not discussed in this module, home maintenance helps your home keep its value and reduces the risk of more costly repairs.







## LEAD ACTIVITY (15 MINUTES) – SCENARIO

***Try It: Getting Ready to Buy***

See page 5 in the Participant Guide.

**SHOW SLIDE 10****SAY**

- Many factors go into deciding whether you are ready to buy a home.
  - Some factors have to do with your income and ability to make mortgage payments on time.
  - Some have to do with what financing is available to you.
  - Factors other than money are important too, such as how long you think you will stay in the area.
- Let's look at a potential homebuyer and find out if he is ready to buy. Then you can examine your own situation in a similar way.

**DO**

- Ask participants to turn to *Try It: Getting Ready to Buy* on page 5 in their Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so.

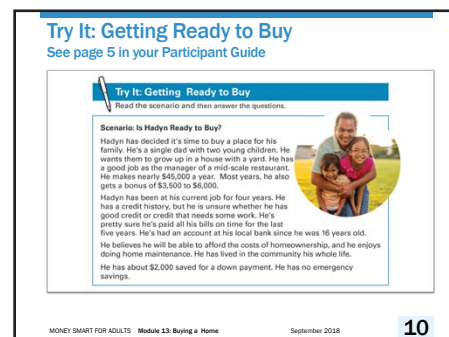
**SCENARIO: Is Hadyn Ready to Buy?**

Hadyn has decided it's time to buy a place for his family. He's a single dad with two young children. He wants them to grow up in a house with a yard. He has a good job as the manager of a mid-scale restaurant. He makes nearly \$45,000 a year. Most years, he also gets a bonus of \$3,500 to \$6,000.

Hadyn has been at his current job for four years. He has a credit history, but he is unsure whether he has good credit or credit that needs some work. He's pretty sure he's paid all his bills on time for the last five years. He's had an account at his local bank since he was 16 years old.

He believes he will be able to afford the costs of homeownership, and he enjoys doing home maintenance. He has lived in the community his whole life.

He has about \$2,000 saved for a down payment. He has no emergency savings.





**DO**

- Give participants seven minutes to work in pairs to answer the questions in their Participant Guide, shown here:

Questions	Yes	No	I don't know
Does Hadyn have reliable sources of income?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Has he received this income on a regular basis for at least the last two or three years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he have a credit history?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he have a good record of paying bills on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he think he will be able to make this mortgage payment every month in addition to the other costs of owning a home: taxes, insurance, maintenance, and unexpected expenses?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Can he cover all of the costs of housing and his other debts, bills, and living expenses?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he anticipate staying in the community for at least the next three to five years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he have money saved for a down payment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he have money saved for closing costs?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does he have some money set aside for emergencies or unexpected expenses related to housing costs?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Based on your answers, do you think Hadyn is ready to buy?**

☐ Yes      ☐ No      ☐ Maybe

**Explain your answer.**

**DO**

- After seven minutes, ask for a show of hands (or voice vote) for who answered *Yes*, *No*, and *I don't know* to the question, "Based on your answers do you think Hadyn is ready to buy?"
- Ask a few participants who answered **Yes** why they thought Hadyn was ready to buy. Write participant responses on a flip chart or whiteboard under the heading "Yes."



- Add the following if not contributed:
  - » He has reliable sources of income.
  - » He has a credit history and a good track record of paying his bills on time. If he is still not quite sure if he's paid all his bills on time, he can check his credit reports and find out.
  - » He believes he can cover all of the costs of housing, although we don't know how he reached that conclusion and whether he is correct.
  - » He anticipates staying in the community.
  - » He has money saved for a down payment.
- Ask a few participants who answered **No** why they thought Hadyn was not ready to buy. Write participant responses on a flip chart or whiteboard under the heading "No."
  - Add the following if not contributed:
    - » The scenario does not state that he has saved money for closing costs.
    - » He does not have emergency savings. That could mean an unexpected expense could jeopardize his ability to make payments on his home loan.
- Ask a few participants who answered **I don't know** why they were not able to determine if Hadyn was ready to buy. Write participant responses on a flip chart or whiteboard under the heading "I don't know."
  - Add the following if not contributed:
    - » We don't know enough about the price of the property he would buy to determine if Hadyn can afford it.
    - » We don't know what Hadyn's living expenses are. Those affect what is affordable to Hadyn.
    - » Hadyn thinks he's paid all his bills on time, but we don't know if that is true. He can check his credit reports at **www.annualcreditreport.com** to find out.



PRESENT INFORMATION (1 MINUTE) – EXERCISE

## ***Apply It: Am I Ready to Buy?***

See page 7 in the Participant Guide.

### **SHOW SLIDE 11**



**SAY**

- Turn to *Apply It: Am I Ready to Buy?* on page 7 in your Participant Guide.

**Apply It: Am I Ready to Buy?**  
See page 7 in your Participant Guide

**Apply It: Am I Ready to Buy?**

Part 1:  
Answer each question by checking Yes, No, or I don't know.

Question	Yes	No	I don't know
Do I know why I want to buy a house?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<small>Note: The value of your home can increase over time, decrease over time, or stay the same. It probably won't make you wealthy.</small>			
Do I have reliable sources of income?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have I received this income on a regular basis for at least the last two or three years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do I have a credit history?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have I reviewed my credit reports recently?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Do I have a good record of paying my bills on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have I been paying my rent regularly and on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have I been paying my utilities regularly and on time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **11**



- You can use this table after today's training to help you decide if you are ready to buy a home.

**Note to Instructors:** Time permitting, consider reviewing this activity with participants during training, using a copy from a Participant Guide. If possible, give them time now to start completing it. This can be very empowering. Consider asking participants to share what they are learning from it and provide time for questions.



PRESENT INFORMATION AND LEAD FACILITATED DISCUSSION (5 MINUTES)

## How Much Can You Afford?

See page 8 in the Participant Guide.

### SHOW SLIDE 12



#### SAY

- A big question to answer when you want to buy a home is: **How much can I afford?**
- When it comes to what is affordable for you, only you can make that decision.
- However, you can use advice or guidelines to help you decide what may be affordable.
- We're going to talk about two different ways to estimate what you may be able to afford:
  - Your **spending and saving plan**—figuring out what you have left for housing costs after you pay for everything else.
  - Your **debt-to-income ratio**—figuring out how much of your income would go to covering your monthly debt payments. This includes the monthly payment for a home loan.

#### How Much Can You Afford?

- Only YOU can decide!

There are two ways to estimate this:

1. Your Spending and Saving Plan
2. Your Debt-to-Income Ratio

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

12

### SHOW SLIDE 13



#### SAY

- One way to figure out what is affordable for you is to start with your spending and saving plan. By looking at how you spend your money now, you can figure out how much you can afford to pay for your home.

#### Spending and Saving Plan Method

$$\begin{array}{rcl} \text{Total Net} & \text{Total Monthly} & \text{Amount Left} \\ \text{Monthly} & \text{Non-Housing} & \text{for Housing} \\ \text{Income} & \text{Expenses} & \text{Costs} \\ - & & = \end{array}$$



- Can you increase your income?
- Can you decrease your expenses?
- Can you eliminate any expenses?

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

13



- However, keep in mind that even if you estimate what you should be able to afford, you may not want to spend that much on housing costs. Again, only you can decide what you are comfortable with.
- To use this method, you take your total net monthly income and subtract your total monthly non-housing expenses (meaning expenses other than what you currently pay for housing). The result is how much money you have left over for all of your costs related to housing.
- At this point, you may also want to look for ways to:
  - Increase your income
  - Decrease your expenses
  - Eliminate some expenses

**SHOW SLIDE 14****SAY**

- A mortgage is a home loan. You pay back the loan with monthly mortgage payments.
- Your monthly mortgage payments are probably going to be the biggest part of your housing costs.
- When you buy a home, your monthly mortgage payment generally has four parts, commonly referred to as PITI:
  - Principal – The amount of money you borrow
  - Interest – Interest on the principal
  - Taxes – Real estate taxes
  - Insurance – Homeowners insurance

**Monthly Mortgage Payments**

- **Principal:** The amount you borrowed
- **Interest:** Interest on your principal
- **Taxes:** Real estate taxes
- **Insurance:** Homeowner's insurance

PITI

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

14

**SHOW SLIDE 15****SAY**

- There are also other costs you have to think about when it comes to homeownership. Some of these costs are one-time or occasional costs, while others will be ongoing.
- What are examples of one-time costs? You can take notes on page 9 in your Participant Guide.

**Additional Costs of Homeownership**

- One-time costs
- Ongoing costs

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

15



**DO**

- Write participant responses on a flip chart or whiteboard.
- Add the following if not contributed:
  - Structural changes to your home to make it more accessible
  - Appliances
  - Furniture
  - Fixtures
  - Decor
  - Moving expenses for packing and transporting your belongings
  - Expenses and deposits needed to start utilities
  - Special equipment to take care of your property, such as a lawnmower if you are responsible for maintaining a yard

**ASK**

- What are examples of ongoing costs?

**DO**

- Write participant responses on a flip chart or whiteboard.
- Add the following if not contributed:
  - Homeowner or property owner association dues
  - Ground rental (if buying a manufactured home and placing it on rented land)
  - Home maintenance
  - Yard or property maintenance, such as ongoing costs of hiring someone to mow the lawn
  - Repairs
  - Utilities—electric, gas, heating oil, propane, water, sewage, and garbage pick-up, for example
    - » You may not have all of these utilities depending on your home. For example, if you have a well or spring, you will not pay for water. But, you will have to maintain your well or water pump and may need to make repairs.
  - House cleaning
  - Occasional unexpected expenses
- Conclude by noting that prospective homebuyers should estimate the full costs of owning a home, not just the monthly mortgage payments, when determining what is affordable.





PRESENT INFORMATION (1 MINUTE) – EXERCISE

## Apply It: What Can I Afford?

See page 10 in the Participant Guide.

### SHOW SLIDE 16



SAY

- Turn to *Apply It: What Can I Afford?* on page 10 in your Participant Guide.
- You can use this exercise after today's training to figure out what may be affordable for you.
- By using this method rather than a general rule of thumb about what is affordable, you are determining what is specifically affordable for you given your other expenses and priorities.
- If you find the amount of money you have left for housing is not enough, look for ways to increase your income or decrease your spending.

**Apply It: What Can I Afford?**  
See page 10 in your Participant Guide

**Apply It: What Can I Afford?**  
Use My Spending and Saving Plan to estimate what you can afford. Use information from your pay stub and other financial statements, as well as records of bills and expenses.

The spending and saving plan has three sections:

- My Net Income
- My Non-Housing Expenses
- Comparison: What's Left for Housing Costs?

You may receive income and pay expenses by week, quarter, month, or year. For this method, convert your income and expenses to monthly amounts before putting them into your spending and saving plan.

This table can help you convert your income and expenses to monthly amounts.

Frequency: How often you receive the income or pay the expense	Do this first: Then enter into the Plan
Annual (once per year)	Divide by 12
Semi-annual (twice per year)	Divide by 6
Quarterly (four times per year)	Divide by 3
Monthly (once per month)	Use as is

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **16**

**Note to Instructor:** Time permitting, consider reviewing this *Apply It* with participants, using a copy from a Participant Guide.

If you would like to give participants more practice using this method, consider using *Try It: Estimating Affordability* from *Module 12: Making Housing Decisions*.



PRESENT INFORMATION AND LEAD FACILITATED DISCUSSION (5 MINUTES)

## Debt-to-Income Ratio

See page 15 in the Participant Guide.

### SHOW SLIDE 17



SAY

- The debt-to-income ratio is another tool you can use to estimate whether you can afford to borrow the money you need to buy a home.
- Your debt-to-income ratio is a calculation.
- The formula for the debt-to-income ratio is total monthly debt payments divided by monthly gross income.

**Debt-to-Income Ratio**

Total monthly debt payments

**Divided by**

Total monthly gross income

- Shows how much of your monthly gross income (income before taxes or other deductions) goes to covering your monthly debt payments

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **17**



- The debt-to-income ratio is often written as a percentage.
- It shows how much of your monthly gross income—your income before taxes or other deductions are taken out—goes to covering your monthly debt payments.
- Your monthly debt payments include your payments on any credit card balances you may have, your payments on other loans you may have such as car loans or personal loans and perhaps student loans, and your anticipated monthly housing payment.
  - When lenders look at your debt-to-income ratio, they may have their own way of calculating it. For example, some lenders treat student loans differently from other loans. You can ask a lender how they calculate the ratio.
- So, if your debt-to-income ratio is 40%, that means 60% of your gross income is available to cover everything else.
- Different lenders set different limits for acceptable debt-to-income ratios.
  - Some lenders prefer a debt-to-income ratio of 36 percent or less. Other lenders will accept up to 43 percent depending on your credit score and other factors. Some may even accept higher debt-to-income ratios.
- For most households, keeping their debt-to-income ratio lower rather than higher provides more stability and security.
- The debt-to-income ratio shows how much of your gross income goes toward debt. But you still have other expenses.

**SHOW SLIDE 18****ASK**

- What other expenses besides debt do you pay each month?

**DO**

- Let participants know they can take notes on page 15 in their Participant Guide.
- Write participant responses on a flip chart or whiteboard.

**Other Expenses Besides Debt**



- The higher your debt-to-income ratio, the less money you have to cover these expenses

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**18**



■ Add the following if not contributed:

- Food
- Household supplies
- Gas and/or electricity
- Water and sewage
- Cell phone
- Internet
- Television
- Clothing
- Child care and/or Elder care
- Personal attendant costs
- Service animal expenses
- Health care costs
- Car insurance
- Gas and other vehicle costs
- School expenses
- Pet care expenses
- Savings
- Entertainment



**SAY**

- The higher your debt-to-income ratio, the less money you have left to cover everything else—the expenses we just mentioned.



LEAD ACTIVITY (10 MINUTES) – EXERCISE

***Try It: Calculating a Debt-to-Income Ratio***

See page 16 in the Participant Guide.

**SHOW SLIDE 19**



**DO**

- Ask participants to turn to *Try It: Calculating a Debt-to-Income Ratio* on page 16 in their Participant Guide.
- Explain that the debt payments and income are provided. The participants need to fill in the table using the provided information, calculate the debt-to-income ratio, and answer the three questions after the table.
- Give participants five minutes to complete the activity in small groups.
- After five minutes, ask a few participants to share their answers.
- Share the correct answer of **54.5 percent** (\$2,045 divided by \$3,750) using this Answer Key.

**Try It: Calculating a Debt-to-Income Ratio**  
See page 16 in your Participant Guide

**Try It: Calculating a Debt-to-Income Ratio**  
Fill in the table below using this information. Then calculate the debt-to-income ratio and answer the questions.

**Monthly Debt Payments**

- Anticipated monthly housing payment... \$1,450.00
- Monthly credit card payment... \$95.00
- Monthly vehicle payment... \$280.00
- Monthly personal loan payment... \$220.00

**Monthly Gross Income**... \$3,750.00

Item	Amount
<b>Monthly Debt Payments</b>	
Anticipated monthly housing payment	
Homeowner or property owner association dues or fees or common area maintenance fees	
Land rent (for manufactured homes)	
Monthly gross income	

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **19**



## Try It: Calculating a Debt-to-Income Ratio – Answer Key

Item	Amount
<b>Monthly Debt Payments</b>	
Anticipated monthly housing payment	\$1,450
Homeowner or property owner association dues or fees or common area maintenance fees	
Land rent (for manufactured homes)	
Monthly credit card payments	\$95
Monthly student loan payments	
Monthly vehicle loan payments	\$280
Monthly personal loan payments	\$220
Other:	
Other:	
Other:	
Other:	
<b>Total Monthly Debt Payments</b>	<b>\$2,045</b>
<b>Monthly Gross Income</b>	<b>\$3,750</b>
<b>DEBT-TO-INCOME RATIO</b> (Total Monthly Debt Payments divided by Monthly Gross Income)	$\$2,045/\$3,750 = 0.5453$ or <b>54.5%</b>

### SHOW SLIDE 20



#### ASK

- What does the debt-to-income ratio tell you in this example?

- Possible answers:
  - » More than half of the income is covering debt.
  - » The individual may want to look at lower housing costs or ways to reduce or eliminate other debt.
  - » Many lenders would not loan money to someone with a debt-to-income ratio this high.

Try It: Calculating a Debt-to-Income Ratio: Answer Key	
Item	Amount
Total Monthly Debt Payments	\$2,045
Monthly Gross Income	\$3,750
Debt-to-Income Ratio (Total Monthly Debt Payments divided by Monthly Gross Income)	$\$2,045/\$3,750 = 0.5453$ or <b>54.5%</b>

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

20



**ASK**

- **Can this person afford the house?**

- Answer: Probably not. The debt-to-income ratio is likely too high based on the preferences of most lenders.

**ASK**

- **How could this person lower the debt-to-income ratio?**

**DO**

- Write participant responses on a flip chart or whiteboard
- Add the following if not contributed:
  - Reduce other debt
  - Select a less expensive house
  - Make a larger down payment and borrow less money which would reduce the monthly mortgage payment
    - » Ask a family member for help with the down payment
    - » See if there are federal, state, or community programs to help people with down payments or closing costs
  - Increase income—maybe ask for a raise or take on another job

**PRESENT INFORMATION (1 MINUTE)*****Apply It: My Debt-to-Income Ratio***

See page 18 in the Participant Guide.

**SHOW SLIDE 21****SAY**

- Turn to *Apply It: My Debt-to-Income Ratio* on page 18 in your Participant Guide.
- You can use this table after today's training to calculate your debt-to-income ratio.
- It's the same table we just used in the previous activity.
- You can use your pay statements or other records of your income to get your gross monthly income.
- You can use your monthly bills, loan statements, credit card statements, or other records to get your monthly debt payments.

**Apply It: My Debt-to-Income Ratio**  
See page 18 in your Participant Guide

**Apply It: My Debt-to-Income Ratio**  
You can use this table to calculate your debt-to-income ratio. Knowing this information before you visit a lender can be empowering. You can also work to reduce your debt if it seems to be over the limits generally preferred by lenders.  
Use your pay statements or other records of your income to get your gross monthly income. Use your monthly bills, loan statements, credit card statements, or other records to get your monthly debt payments.

Item	Amount
<b>Monthly Debt Payments</b>	
My anticipated monthly housing payment	
My anticipated monthly homeowner or property owner association dues or fees or common area maintenance fees	
My anticipated land rent (for manufactured homes only)	
My monthly credit card payments	
My monthly student loan payments	
My monthly vehicle loan payments	
My monthly personal loan payments	

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **21**



- Calculating your debt-to-income ratio can be helpful as you figure out what may be affordable to you. But keep in mind:
  - Different lenders and loan programs vary in how they use the debt-to-income ratio and other information to determine whether to offer you a loan and on what terms. And, lenders may treat student loan payments and other debts differently when they calculate a debt-to-income ratio.
  - In addition, remember that only you can decide what is affordable for you.



PRESENT INFORMATION (1 MINUTE)

## Section Closing

See page 18 in the Participant Guide.

### SHOW SLIDE 22




#### SAY

- Remember the key takeaway from this section: **Buying a home is a process. Start by making sure you're ready to buy and figure out what you can afford.**

**Section 1: Remember the Key Takeaway**

*Buying a home is a process.  
Start by making sure you're  
ready to buy and figure out  
what you can afford.*



MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**22**





## Section 2: Financing a Home Purchase

**Training Time Estimate:** 1 hour and 5 minutes

### Objectives

Participants will be able to:

- Identify types of loans
- Define loan terms and concepts
- Describe how mortgages work
- Shop around for a mortgage





PRESENT INFORMATION (1 MINUTE)

## Introduction to Section and Key Takeaway

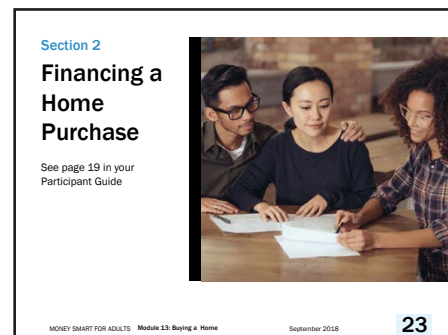
See page 19 in the Participant Guide.

### SHOW SLIDE 23



SAY

- We will discuss the basics of how home loans or mortgages work.

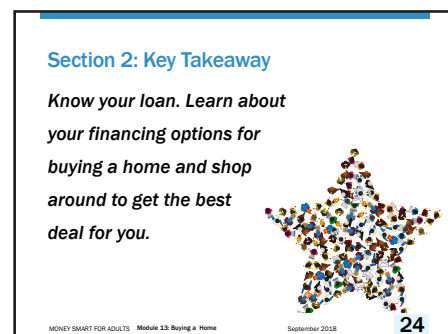


### SHOW SLIDE 24



SAY

- The key takeaway from this section is: **Know your loan. Learn about your financing options for buying a home and shop around to get the best deal for you.**



PRESENT INFORMATION (2 MINUTES)

## Types of Loans

See page 19 in the Participant Guide.

### SHOW SLIDE 25



SAY

- For most people, buying a home requires a loan. Home loans, also called mortgages, are often the largest amounts of money people ever borrow.
- Depending on the kind of housing you are buying, there may be different types of loans available for you:
  - Manufactured housing (mobile home) on rented land and/or not on a permanent foundation will generally be financed through a **personal property** or **chattel loan** (chattel means moveable property).
  - Loans to purchase a unit in a cooperative may be called a **co-op loan** or a **co-op share loan**.
  - A house, condominium, or townhouse will be financed by a **mortgage**.
- This section focuses on mortgages.

Type of Housing	Type of Loan
Manufactured housing (mobile home) on rented land and/or not on a permanent foundation	Personal or chattel loan
Unit in a cooperative	Co-op loan or Co-op share loan
House, condominium, or townhouse	Mortgage





PRESENT INFORMATION (15 MINUTES)

## Learn About Mortgages

See page 20 in the Participant Guide.

### SHOW SLIDE 26



#### SAY

- A **mortgage** is a loan to buy your house, condominium, or townhouse
- The amount of money you borrow is called the **principal**
- Some of the many costs associated with taking out a mortgage include:
  - **Interest.** Interest is the money a lender charges for letting you use its money. Interest is the cost of using money, expressed as a percentage.
  - **Points.** Points are a tradeoff between upfront costs and the monthly payment for a mortgage. By paying points, you pay more money upfront, but you receive a lower interest rate and will likely pay less money over time. Points can be a good choice for people who know they will keep the loan for a long time.
    - » One point costs 1 percent of your mortgage amount (or \$1,000 for every \$100,000).
    - » For example, if you are taking out a \$200,000 mortgage, the loan offer may require that you pay two points (\$4,000) to receive a lower interest rate than you would pay without paying points.  
 $\$200,000 \times 2\% = \$4,000$ .
    - » The effect that paying a point has on the interest rate will vary. Paying one point does not always mean that your interest rate will be reduced by one percentage point.
  - **Fees.** These can include lender charges for processing your application. They may have different names, such as application fees, processing fees, and underwriting fees.
  - **Other charges**, such as an **Appraisal** fee to determine the value of the property.
- Lenders will tell you the **Annual Percentage Rate (APR)** for a mortgage you are considering.
  - The APR represents the overall cost of the loan on an annual basis. The APR includes not only the interest rate but also the points, some of the fees you are charged, and certain other charges that you have to pay to get the loan.
  - For that reason, your APR is usually higher than your interest rate.
  - APRs can help you compare loans.

Learn About Mortgages	
<b>Mortgage:</b>	A loan to buy a home
<b>Principal:</b>	The amount of money you borrow
<b>Costs:</b>	Interest, points, fees, other charges
<b>Annual Percentage Rate (APR):</b>	Overall cost of the loan on an annual basis
<small>MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018</small>	
26	



**SHOW SLIDE 27****SAY**

- The **down payment** is the portion of the purchase price of the home that you will pay in cash
- For example, if you wanted to buy a home for \$160,000 and paid \$8,000 for a down payment, you would borrow \$152,000 (\$160,000 minus \$8,000).
- That would be a 5 percent down payment ( $\$8,000 \div \$160,000 = .05$  which is 5%).
- The higher your down payment, the less money you have to borrow.
- If you put \$20,000 down on that \$160,000 home, you would only need to borrow \$140,000.
- That would be a 12.5 percent down payment ( $\$20,000 \div \$160,000 = .125$ , which is 12.5 percent).

**Down Payment**

- Portion of home's price you pay in cash
- Example:
  - \$160,000 home with \$8,000 down payment
  - Borrow \$152,000 (\$160,000 minus \$8,000)
  - That's a five percent down payment  
 $\$8,000 \div \$160,000 = .05$  or 5%
- Higher down payment → Less money to borrow

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**27**

**SHOW SLIDE 28****SAY**

- When your down payment is less than 20 percent of the purchase price, lenders may require that you purchase **private mortgage insurance (PMI)**.
- PMI lowers the risk to the lender of making a loan to you.
  - Private mortgage insurance is different from homeowners insurance. Homeowners insurance pays for losses and damage to your property if something unexpected happens, like a fire or burglary.
- PMI increases your monthly payments.
- The lower your down payment as it relates to the purchase price of the house, the more likely you will have to pay PMI.
- The terms of your loan will specify how long you must pay PMI. Some loans require that you pay PMI until a certain percentage of your loan is paid off. Other loans may specify a time period or require it for the life of the loan.

**Private Mortgage Insurance (PMI)**

- May be required by lender when your down payment is less than 20 percent of the purchase price of the home
- Lowers the risk to the lender
- Increases your monthly payments

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**28**



**SHOW SLIDE 29****SAY**

- In addition to the APR we already mentioned, there are other considerations in comparing mortgage offers, such as:
  - **Loan amount.** This is how much money the lender will loan to you.
  - **Type of interest rate.** There are fixed interest rates and adjustable interest rates. A fixed-rate does not change throughout the life of the loan. An adjustable-rate will likely change.
  - **Loan term.** This is the length of the loan. You've probably heard of 30-year loans and 15-year loans but there are also loans with other terms.
  - **Upfront costs that you must pay at closing.** Closing is the last step when you buy a home. Closing is when the ownership of the property is transferred from the seller to you.
- Different lenders have different lending criteria, such as minimum acceptable credit scores.
- No matter the lender, the lower your credit score even within the acceptable range, the more you will likely pay for a mortgage.

**Other Mortgage Characteristics**

- Loan amount
- Type of interest rate
- Loan term
- Upfront costs you must pay at closing

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018**29**

**SHOW SLIDE 30****SAY**

- We discussed the parts of a mortgage payment earlier – principal, interest, taxes and insurance, or **PITI**. Let's talk now about taxes and insurance.
- There are two common ways to pay the real estate or property taxes and homeowner's insurance premiums:
  - As part of your monthly mortgage payment
  - Or, pay them yourself
- If you pay taxes and insurance as part of your mortgage payment, your lender or mortgage servicer will add these to your monthly payment and deposit these monthly installments into an **escrow account**.
- Then, they use the funds in that escrow account to pay your tax and insurance bills when they come due, typically once or twice per year.

**Two Common Ways to Pay for Taxes and Insurance**

- Pay them as part of your monthly mortgage payment
  - Escrow account
  - May be required by the lender
- Pay them yourself directly
  - Not as common

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018**30**



- Your property taxes and homeowner's insurance premiums can change from year to year. Your escrow payment – and with it, your total monthly payment – will then also change. If the premiums are going up, sometimes your lender will give you the choice of paying the increase in one lump sum or spreading it over your monthly payments.
- Sometimes, your lender may give you the choice of paying your taxes and insurance yourself, or having an escrow account.
- More often though, lenders will require that you pay your property taxes and homeowner's insurance premiums using an escrow account.
  - Even if you aren't required to use an escrow account, you may find it easier to have one so you don't have to worry about making the payments when they are due.

**SHOW SLIDE 31****SAY**

- There are two major types of mortgage loans based on how the interest is calculated:
  - Fixed-rate mortgages
  - Adjustable-rate mortgages, commonly called ARMs

**ASK**

- Can someone explain the difference between a fixed-rate mortgage and an adjustable-rate mortgage?

**Major Types of Mortgage Loans**

- Fixed-rate mortgages
- Adjustable-rate mortgages (ARMs)

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018
**31**

**SHOW SLIDE 32****SAY**

- A **fixed-rate mortgage** is one in which the interest rate does not change.
  - You pay the same amount each month in principal and interest for the life of the loan. Even if interest rates rise, your payment doesn't change because your interest rate stays the same. That is, it is "fixed."
  - Don't forget though – even with a fixed-rate mortgage, your monthly payment will likely increase if you have an escrow account for paying taxes and insurance premiums and either or both of those increase.

**Fixed-Rate Mortgage**

- Interest rate does not change
- Pay same amount each month
  - Unless taxes or insurance in escrow change
- May be a good choice if:
  - Interest rates are low
  - You plan to keep the mortgage for a long time

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018
**32**



- The term of a fixed-rate mortgage is often 15 years to 30 years, although there may be other term lengths available.
- This kind of mortgage may be a good choice if interest rates are low, or if you plan to keep the mortgage for a long time.

**SHOW SLIDE 33****SAY**

- With an **adjustable-rate mortgage**, the interest rate adjusts according to a schedule or based on an index.
  - Adjustable-rate mortgages may start with a lower interest rate than fixed-rate mortgages, but your interest rate and therefore your monthly payments will likely change. They could go up, sometimes by a lot.
- The rate adjusts on pre-determined dates (for example, every year, or every three years, or five years, or seven years) or because it is tied to an index. An index is a common standard interest rate.
- This is often expressed in numbers, such as a 3/1 ARM where the 3 stands for the number of years that the interest rate will stay the same and the 1 means that the interest rate could change every year after the first three years. A 3/2 ARM means the interest rate stays the same for three years and then it can change every two years.
- Ask the lender which index they use and how it has fluctuated.
- An adjustable-rate mortgage may be a good choice if you plan to keep the mortgage for a short time or if you can afford paying more in interest if rates increase and you are unable to refinance into a lower rate loan.
- It may also be a good choice if you can afford to pay more if the interest rate increases and you are unable to refinance into a lower rate loan.
- The opposite is also true. An ARM may not be a good choice for you if you cannot afford to pay more.
- If you are considering an adjustable rate mortgage, be sure to carefully review the *Consumer Handbook on Adjustable Rate Mortgages* that the lender provides to you or that you can review at **www.consumerfinance.gov**.

**Adjustable Rate Mortgage**

- Interest rate may start lower than fixed rate
- Adjusts on pre-determined dates or tied to an index
- May be a good choice if:
  - You plan to keep the mortgage for a short time
  - You can afford paying more in interest if rates increase and you can't refinance with a lower rate

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018**33**

**Note to Instructor:** Time permitting, ask participants to share their experiences with fixed-rate or adjustable-rate mortgages.




**SHOW SLIDE 34****SAY**

- Mortgage interest rates can change daily, sometimes hourly.
- A **rate lock or lock-in** on a mortgage loan means that the interest rate you are offered will not change during the time it takes to close on the home purchase, as long as you close within the specified timeframe (the rate lock period) and there are no changes to your mortgage application.
- Rate lock periods are typically available for 30, 45, or 60 days, and sometimes longer.
- If your rate is not locked, it can change at any time before closing.

**Rate Lock**

- Mortgage interest rates can change daily and sometimes hourly
- Rate lock means interest rate won't change during the rate lock period
- Rate lock periods can be 30, 45, or 60 days, and sometimes longer



MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018


**34**

**SHOW SLIDE 35****SAY**

- A **balloon payment** is a higher-than-usual one-time payment at the end of the loan term.
- Some people may prefer a mortgage with a balloon payment because their monthly payments before the high balloon payment are lower. They may expect to sell their home or refinance their mortgage before the high balloon payment comes due. However, they may or may not be able to do that. A mortgage with a balloon payment can be risky.

**Balloon Payment**

- Larger-than-usual one-time payment at the end of the loan term



MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**35**



PRESENT INFORMATION (5 MINUTES)

**Different Kinds of Mortgages**

See page 21 in the Participant Guide.

**SAY**

- Mortgages can also be classified as either conventional or government-guaranteed, which is sometimes called government-insured.



**SHOW SLIDE 36****SAY**

■ **Conventional mortgages** do not have special requirements for borrowers such as having served in the military or be living in a rural community. They are available to anyone, but they may be more difficult for some people to qualify for than other types of mortgages.

- You generally need:
  - » A credit history that is considered good by lenders
  - » Regular income
  - » A debt-to-income ratio within the lender's acceptable limits (the traditional rule of thumb was 36%, but there are exceptions and some lenders will approve loans for people with higher ratios)
  - » A down payment, which may range from 3% to 20% or more, depending on the lender and loan program

**Conventional Mortgage**

- You generally need:
  - A credit history that lenders consider good
  - Regular income
  - Debt-to-income ratio within acceptable limits
  - Down payment

MONEY SMART FOR ADULTS Module 13: Buying a Home September 201836

**SHOW SLIDE 37****SAY**

■ You may hear the term “**jumbo**” applied to mortgages. A **jumbo loan** is a mortgage that is above a certain amount and tends to be for the purchase of relatively expensive homes or in high-cost areas such as San Francisco, Boston, or New York City.

- You may also hear the term “**second mortgage**.” Sometimes, people take out more than one loan to supply the financing they need to buy a home or to make needed repairs. If there is more than one loan on a house, the loans are put in an order for repayment.
  - For example, if you can no longer pay your mortgage and your home is sold to pay off the debts, your first mortgage is paid off first, and the second mortgage is paid off second.
  - Lenders typically consider second mortgages more risky and for that reason, the terms for second mortgages may not be as favorable as the terms for first mortgages.

**Jumbo Loan and Second Mortgages**

- “Jumbo loan”
  - Mortgage above a certain amount of money
  - For relatively expensive homes or homes in a high-cost area
- “Second mortgage”
  - To supply additional financing beyond the first mortgage

MONEY SMART FOR ADULTS Module 13: Buying a Home September 201837



**SHOW SLIDE 38****SAY**

- **Government-guaranteed loans** include FHA loans, USDA loans, VA loans and HUD loans.
- The U.S. Federal Housing Administration (FHA) helps people become homeowners.
  - With an FHA loan, the lender may be able to offer you better terms than on a conventional loan, including:
    - » A down payment as low as 3.5% of the purchase price of the home.
    - » Closing costs included in the loan amount—they are financed and not due as a lump sum at closing.
    - » Lower closing costs.
  - FHA loans may be easier to qualify for, but there is a maximum loan limit, which varies by region.
  - You have to pay a mortgage insurance premium (MIP) with an FHA loan. It is similar to private mortgage insurance (PMI). With MIP, you pay part of this cost upfront at closing, and every month as part of your mortgage payment. When a borrower defaults, the FHA uses this insurance to cover the lender's loss. Borrowers must pay MIP for the full life of the loan.
  - Find an FHA lender online. Search for "FHA Lender List" to find the list available on **hud.gov**.
- The U.S. Department of Agriculture (USDA) also has a home loan guarantee program similar to the FHA program.
  - These loans are called USDA Loans or Rural Development Loans. The big difference between USDA loans and FHA loans is that USDA loans only cover properties that are in designated rural areas.
  - A down payment is not required with a USDA loan. However, they charge a 3.5% upfront fee and 0.05% annual fee for the life of the loan.
  - Visit **usda.gov** and search for "grants and loans" to find more information about USDA loans and other offerings.
- The U.S. Department of Veterans Affairs has a home loan guarantee program. These loans are called VA loans. This type of loan is only available to:
  - Active duty members of the military
  - Veterans (depending on their type of discharge)
  - Reservists and National Guard members
  - Eligible surviving spouses of members of the military or veterans

**Government-Guaranteed Loans**

- Federal Housing Administration (FHA)
- U.S. Department of Agriculture (USDA)
- U.S. Department of Veterans Affairs (VA)
- U.S. Department of Housing and Urban Development (HUD)

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

**38**



- VA loans do not require down payments, although you can choose to make one. They also do not have mortgage insurance requirements. There is an upfront funding fee. The amount of the fee varies based on:
  - » Type of military service
  - » Down payment amount, if any
  - » Disability status
  - » Whether you're buying a home or refinancing another mortgage
  - » Whether this is your first VA loan, or you've had one before.
- Visit **VA.gov** and search for "home loans" for more information.
- The U.S. Department of Housing and Urban Development (HUD), Section 184 Indian Home Loan Guarantee Program is a home mortgage product specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities.
  - With Section 184 financing, borrowers can get into a home with a low down payment and flexible underwriting. Section 184 loans can be used, both on and off native lands, for new construction, rehabilitation, purchase of an existing home, or refinance.
  - Visit **hud.gov** and navigate to the page for Buying a Home.

**SHOW SLIDE 39****SAY**

- Other forms of assistance may be available from state and local government agencies. The State Info section of **hud.gov** is a place to start exploring what is available to you.
- Home buying assistance programs may include:
  - Down payment assistance or closing costs assistance programs that can be used with an FHA, VA, or USDA loan.
  - First time homebuyer programs that offer down payment assistance, loans, or other forms of assistance to people buying a home for the first time.
  - Programs to help people in specific professions get homes in the communities where they work.
    - » For example, HUD's *Good Neighbor Next Door Program* offers homes at discounted prices for law enforcement officers, pre-kindergarten through 12th grade teachers, firefighters, and emergency medical technicians.

**Other Assistance**

- Down payment assistance
- Closing costs assistance
- First time homebuyer programs
- Help for people in specific professions
- Loan programs and other programs from your state housing finance agency

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

**39**



- Loan programs and other forms of assistance available through your state housing finance agency. Find your state housing finance agency at: [www.fdic.gov/consumers/community/mortgagelending/map.html](http://www.fdic.gov/consumers/community/mortgagelending/map.html).

**DO**

- Time permitting, ask participants to share their experiences with the types of loans and assistance programs just discussed.



PRESENT INFORMATION (6 MINUTES)

## ***Apply It: My Mortgage Options***

See page 22 in the Participant Guide.

### **SHOW SLIDE 40**

**SAY**

- Turn to *Apply It: My Mortgage Options* on page 22 in your Participant Guide.
- Take four minutes to begin answering the questions in this *Apply It*.
- If you can't complete part of it now because you don't have all the information with you, just check I don't know. You can come back to this activity after today's training.

**DO**

- Time permitting, ask participants to share what they learned completing this short worksheet. A copy of this *Apply It* from the Participant Guide is on the next page.



### Apply It: My Mortgage Options

Answer the questions below to help you determine which mortgage options could work for you.

**What kind of housing do you plan to buy?**

**Check the box that corresponds with your answer.**

Question	Yes	No	I don't know
1. Do you have money for a down payment?			
2. Will your down payment be at least 20 percent of the purchase price of the house?  If you plan to pay less than 20 percent of the purchase price as a down payment, you may have to get mortgage insurance. It will depend on the kind of mortgage you qualify for. There are mortgages that don't require a 20% down payment.			
3. Do you have steady income?			
4. Do you have a good credit history?			

If you answered "Yes" to every question, you may want to explore a conventional loan or, if you are eligible, a VA loan from the Department of Veterans Affairs.

If you answered "No" or "I don't know" to any of these questions, you may want to explore some of the government-guaranteed loans and housing options mentioned earlier.

Also explore programs available to you that offer down payment assistance, closing costs assistance, and other forms of assistance.





PRESENT INFORMATION (4 MINUTES)

## How Mortgages Work

See page 23 in the Participant Guide.

### SHOW SLIDE 41



#### SAY

- There are four factors to consider that affect the amount of your monthly mortgage payment:
  - **Amount of the loan.** The less you borrow, the less you have to pay back.
  - **Interest rate.** The higher the interest rate, the more the loan costs.
  - **Kind of interest rate.** Fixed or adjustable.
  - **Term of the loan.** 15-year, 30-year, or a different length.

### How Mortgages Work

- Amount of the loan
- Interest rate
- Kind of interest rate (fixed or adjustable)
- Term of the loan (15 year, 30 year, other)
- Amortization schedule

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **41**

### SHOW SLIDE 42



#### SAY

- Let's compare loans with different terms.
  - With a 15-year loan:
    - » You will have a higher monthly payment than with a 30-year loan.
    - » You will pay less interest over the life of the loan.
    - » You will be done paying off your loan sooner.
  - With a 30-year loan:
    - » You will have a lower monthly payment than with a 15-year loan.
    - » You will pay more interest over the life of the loan.
    - » It will take longer to pay off your loan than with a 15-year loan.
- With both a 15-year loan and a 30-year loan, or a loan of any length for that matter – you can pay off your loan early by paying more money than required each month. That saves you money because you will pay less interest and pay off your loan earlier than scheduled.

### Comparing Loans with Different Terms

15-YEAR LOAN	30-YEAR LOAN
▪ Higher monthly payment	▪ Lower monthly payment
▪ Pay less interest over life of the loan	▪ Pay more interest over life of the loan
▪ Finish paying off loan sooner	▪ Take longer to pay off loan

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **42**



**SHOW SLIDE 43****SAY**

- The amount you pay each month is **amortized**. That means the payment is calculated to ensure that you pay a portion of both principal and interest each month.
- That also means your payment will be the same each month—except when your interest rate changes with an adjustable rate mortgage.
- The amortization schedule you receive from the lender will show you how much of each payment is going toward paying down the principal and how much is going toward interest over the projected life of your mortgage.

**Amortization**

- Amount you pay each month is “amortized”
- Amortization schedule
  - Shows how much money from each payment goes toward principal and how much goes toward interest

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **43**

**LEAD ACTIVITY (20 MINUTES) – SCENARIO**

## ***Try It: Reading an Amortization Schedule and Calculating Equity***

See page 23 in the Participant Guide.

**Note to Instructor:** Reading an amortization schedule and calculating equity are topics that can help participants develop a stronger understanding of how mortgages work and relate to building equity. However, if your time with participants is limited, you can omit this activity.

**SHOW SLIDE 44****DO**

- Ask participants to turn to *Try It: Reading an Amortization Schedule and Calculating Equity* on page 23 in their Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so.

**Try It: Reading an Amortization Schedule and Calculating Equity**  
See page 23 in your Participant Guide

**Try It: Reading an Amortization Schedule and Calculating Equity**  
Read the scenario and then answer the questions below each amortization table.

**Scenario: Lucia Uses an Amortization Schedule and Calculates Equity**  
Lucia is ready to buy a home. She has \$10,000 for a down payment. She thinks she has pretty good credit and has had regular employment for the last 12 years. She is not sure if she will qualify for a mortgage. Her friends told her she has to have great credit and a 20% down payment to get a mortgage. She's not sure that's true. She had a bankruptcy 11 years ago, and has credit card debt and student loan debt.

She does some research and finds out about Federal Housing Administration (FHA) loans. She also learned about several other loan options that could allow her to qualify for a mortgage with less than a 20 percent down payment. An FHA loan seemed like a good option so she applied for one. Lucia buys a house that costs \$180,000. She uses her \$10,000 for a down

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **44**





### SCENARIO: Lucia Uses an Amortization Schedule and Calculates Equity

Lucia is ready to buy a home. She has \$10,000 for a down payment. She thinks she has pretty good credit and has had regular employment for the last 12 years.

She is not sure if she will qualify for a mortgage. Her friends told her she has to have great credit and a 20% down payment to get a mortgage. She's not sure that's true. She had a bankruptcy 11 years ago, and has credit card debt and student loan debt.



She does some research and finds out about Federal Housing Administration (FHA) loans. She also learned about several other loan options that could allow her to qualify for a mortgage with less than a 20 percent down payment. An FHA loan seemed like a good option so she applied for one.

Lucia buys a house that costs \$160,000. She uses her \$10,000 for a down payment. She was approved for a \$150,000 mortgage. The interest rate is fixed at 4.75%. The mortgage has a 30-year term. The bank gave Lucia an amortization schedule.



#### SAY

- Working with a partner, take ten minutes to answer the questions below each of the two amortization tables in your Participant Guide.



#### DO

- After ten minutes, ask each question and review the answers with the participants using the Answer Key.

## Try It: Reading an Amortization Schedule and Calculating Equity – Answer Key

Amortization Table 1

No.	Payment Date	Beginning Balance	Scheduled Payment	Principal	Interest	Ending Balance
1	2/1/19	\$150,000.00	\$782.47	\$188.72	\$593.75	\$149,811.28
2	3/1/19	\$149,811.28	\$782.47	\$189.47	\$593.00	\$149,621.81
3	4/1/19	\$149,621.81	\$782.47	\$190.22	\$592.25	\$149,431.59
4	5/1/19	\$149,431.59	\$782.47	\$190.97	\$591.50	\$149,240.62
5	6/1/19	\$149,240.62	\$782.47	\$191.73	\$590.74	\$149,048.90
6	7/1/19	\$149,048.90	\$782.47	\$192.49	\$589.99	\$148,856.41



**How much will she pay each month?**

Answer: \$782.47

**How much of her payment goes to principal in her first payment?**

Answer: \$188.72

**How much of her payment goes to interest in her first payment?**

Answer: \$593.75

**How much of the \$150,000 she borrowed does she still owe after her sixth payment?**

Answer: \$148,856.41

It is five years later. Lucia is still regularly paying her mortgage. Use Amortization Table 2 to answer the remaining questions.

**Amortization Table 2**

No.	Payment Date	Beginning Balance	Scheduled Payment	Principal	Interest	Ending Balance
54	7/1/23	\$138,895.56	\$782.47	\$232.68	\$549.79	\$138,662.88
55	8/1/23	\$138,662.88	\$782.47	\$233.60	\$548.87	\$138,429.28
56	9/1/23	\$138,429.28	\$782.47	\$234.52	\$547.95	\$138,194.76
57	10/1/23	\$138,194.76	\$782.47	\$235.45	\$547.02	\$137,959.31
58	11/1/23	\$137,959.31	\$782.47	\$236.38	\$546.09	\$137,722.93
59	12/1/23	\$137,722.93	\$782.47	\$237.32	\$545.15	\$137,485.61
60	1/1/24	\$137,485.61	\$782.47	\$238.26	\$544.21	\$137,247.36

**How much of her payment goes to principal in payment number 60?**

Answer: \$238.26

**How much of her payment goes to interest in payment number 60?**

Answer: \$544.21

**How much of the \$150,000 she borrowed does she still owe after payment number 60? Does this surprise you?**

Answer: \$137,247.36

**After five years, Lucia gets her home appraised. It is now worth \$171,500. How much equity does she have in her home after making payment number 60?**

Answer:  $\$171,500.00 - \$137,247.36 = \$34,252.64$

Her equity is the market value of her home minus what she still owes on the mortgage.





PRESENT INFORMATION (3 MINUTES)

## Getting Pre-Qualified or Pre-Approved

See page 26 in the Participant Guide.

### SHOW SLIDE 45



#### SAY

- **Pre-qualification** is an informal way to get an estimate of how much money you can borrow.
  - You can be pre-qualified by giving the lender some basic information over the phone, including:
    - » Employment information
    - » Income information
    - » Down payment information
    - » Outstanding debts
    - » Social Security number
  - No paperwork is required. There is no obligation. The pre-qualified amount is not exact. It is only an estimate.
  - **Most importantly, pre-qualification is not an approval for a loan.**
- **Pre-approval** is a commitment from the lender to lend you money under some conditions they specify. It helps to get pre-approval before you look for houses.
  - The pre-approval process lets you know how much money you can borrow and tells sellers you are prepared to buy a home.
  - To obtain pre-approval, you need to assemble financial records and fill out an application. You will usually need documents such as:
    - » Pay stubs for the last two or three months.
    - » W-2 forms for the last two years.
    - » Tax returns for the last two years.
    - » Information about your assets and debts.
    - » Recent bank statements.
    - » Proof of any additional income—You do not need to disclose alimony or child support payments unless you want the lender to consider them as income available to you to repay the loan.

#### Getting Pre-Qualified or Pre-Approved

- **Pre-qualification**
  - Estimate of how much money you may be able to borrow
  - **Not an approval for a loan**
- **Pre-approval**
  - Commitment from lender to lend you money under some conditions they specify

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

45

**Note to Instructor:** If participants are interested in learning more about what lenders look for when deciding to loan money, consider including portions of *Module 7: Borrowing Basics* in your training.





PRESENT INFORMATION (2 MINUTES)

## Shop Around for a Mortgage

See page 26 in the Participant Guide.

### SHOW SLIDE 46



#### SAY

- Now that you know the basics about mortgages, you can shop around. This is important, yet almost half of all people who get mortgages don't do it.
- Shopping for a mortgage can save you money over the life of the loan.
- Get **Loan Estimates** from several different lenders.
  - A Loan Estimate is a three-page form that you receive after applying for a mortgage.
  - It gives you important details about the loan you have requested.

#### Shop Around for a Mortgage

- Shopping around can save you money
- Loan Estimates: Three-page form you receive after applying for a mortgage
- Gives you important details about the loan
- Get one from several lenders (they're free)
- Ask questions

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

46

**Note to Instructor:** Consider providing copies of a sample Loan Estimate to participants during training. You can find a sample at [consumerfinance.gov](http://consumerfinance.gov). Search on "loan estimate explainer."

- Your real estate agent may suggest at least one lender, but also get written estimates from at least two other lenders. Ask other real estate professionals, friends, colleagues, or family members for recommendations.
  - If you have a relationship with a financial institution, don't forget to consider getting an estimate there as well.
- Contact the lenders you are considering and tell them you are ready to request a Loan Estimate. You don't need to provide written documentation yet. You generally just need to provide six key pieces of information to begin your loan application:
  1. Your name
  2. Your income
  3. Your Social Security number (so the lender can check your credit)
  4. The address of the home you plan to purchase
  5. An estimate of the home's value (typically, the sale price)
  6. The loan amount you want to borrow (the home price minus your down payment amount)



- There is no fee for the Loan Estimate, but a lender may charge a credit report fee.
- Ask questions to make sure you understand the information they are providing.



LEAD ACTIVITY (6 MINUTES) – EXERCISE

## ***Apply It: My Worksheet to Compare Loan Estimates***

See page 26 in the Participant Guide.

### **SHOW SLIDE 47**



#### **SAY**

- Turn to *Apply It: My Worksheet to Compare Loan Estimates* on page 26 in your Participant Guide.
- With a partner, spend four minutes reviewing this *Apply It*. Circle anything you don't understand.



#### **DO**

- After four minutes, ask participants to share anything they circled.
- Explain those items using information from earlier in the training.

**Note to Instructor:** If you wish to review this *Apply It* with participants, use a copy from a Participant Guide. This *Apply It* is not included in this Instructor Guide.



PRESENT INFORMATION (1 MINUTE)

## **Section Closing**

See page 28 in the Participant Guide.

### **SHOW SLIDE 48**



#### **SAY**

- Remember the key takeaway from this section: **Know your loan. Learn about your financing options for buying a home and shop around to get the best deal for you.**





## Section 3: Getting Help and Buying Your Home

Training Time Estimate: 25 minutes

### Objectives

Participants will be able to:

- Identify the types of professionals that can help with finding and buying a home, and their roles
- Explain the process of making an offer on a home and closing
- List ways to get help when struggling to make mortgage payments





PRESENT INFORMATION (1 MINUTE)

## Introduction to Section and Key Takeaway

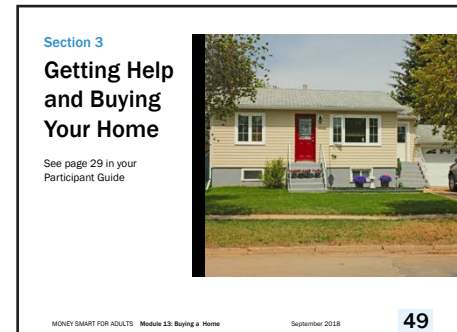
See page 29 in the Participant Guide.

### SHOW SLIDE 49



SAY

- We will discuss how to put together a team of professionals to help you buy a home, the major steps to buying a home, and where to get help if you find you are struggling to make payments on your mortgage.

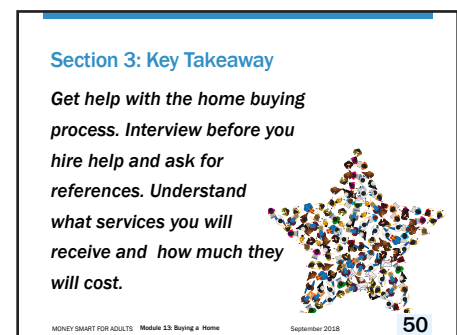


### SHOW SLIDE 50



SAY

- The key takeaway from this section is: **Get help with the home buying process. Interview before you hire help and ask for references. Understand what services you will receive and how much they will cost.**



LEAD DISCUSSION (4 MINUTES)

## Putting Together Your Team and Finding a Home

See page 29 in the Participant Guide.



SAY

- There are many professionals who can help and guide you in the home buying process.
- One such professional, **a real estate agent**, can help you find a home that meets your needs and wants.
- Who else might play a role in helping you buy a home?



DO

- Write participant responses on a flip chart or whiteboard.



**SHOW SLIDE 51****DO**

- Add the following if not contributed:
  - **Appraiser.** Provides an estimate of the home's value. You can learn more about appraisers and what they do by searching on "understanding residential appraisals" at [www.usa.gov](http://www.usa.gov).
  - **Lender.** Qualifies you for a loan and lends you the money to help you buy the home.
  - **Housing counselor.** Provides you with education and counseling on the home buying process. U.S. Department of Housing and Urban Development (HUD)-approved housing counselors provide advice on buying a home. They provide assistance at any stage of the home buying process, and contacting them early may help you get connected to down payment assistance and other resources. For that reason, it may be helpful to consult with a housing counselor before working with a lender. Visit [www.hud.gov/findacounselor](http://www.hud.gov/findacounselor) or call or 1-800-569-4287.
  - **Housing inspector.** Identifies key problems with the home before you buy it. For more information on home inspections, go to [www.usa.gov](http://www.usa.gov) and search for "home inspection." Include your state's name in the search for state-specific information.
  - **Attorney.** A few states require that an attorney write the real estate contract, search the title, and conduct closings instead of real estate agents and title insurance companies.
  - **Title insurance agent.** Researches the title of the property to make sure the seller has the right to sell it.
  - **Insurance agent.** Determines whether the property can be covered by insurance, and recommends how much insurance you need and how much it will cost.



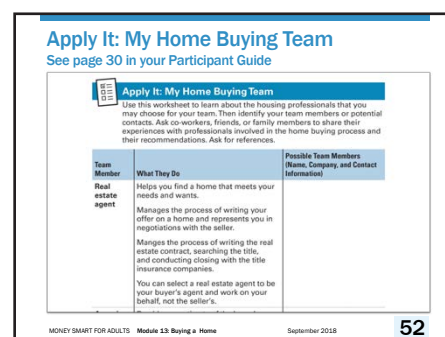
PRESENT INFORMATION (1 MINUTE)

***Apply It: My Home Buying Team***

See page 30 in the Participant Guide.

**SHOW SLIDE 52****SAY**

- Turn to *Apply It: My Home Buying Team* on page 30 in your Participant Guide.





- You can complete this worksheet after today's training to learn about the housing professionals that you may choose for your team. Then identify your team members or potential contacts.
- Ask co-workers, friends, or family members to share their experiences with professionals involved in the home buying process and their recommendations.

**Note to Instructor:** If you wish to review this *Apply It* with participants, use a copy from a Participant Guide. This *Apply It* is not included in this Instructor Guide.



PRESENT INFORMATION (10 MINUTES)

## Making an Offer

See page 31 in the Participant Guide.

### SHOW SLIDE 53




#### SAY

- Making an offer on a home can be both complicated and exciting.
- Once you find a house that you want to buy, you will make an offer. This is when you tell the seller: "I want to buy your home. And this is how much I am going to pay."
- Your real estate agent or attorney will write your offer.

**Making an Offer**

- Can be complicated; definitely exciting!
- Your offer says:  
*"I want to buy your home. And this is how much I am going to pay."*
- Your real estate agent or attorney will write your offer



MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**53**

### SHOW SLIDE 54



#### SAY

- What's in an offer? Your offer to the seller will generally include the following items:
  - The address and description of the property
  - The sale price
  - How much money you are offering to pay
  - Your target date for closing
  - Amount of earnest money you are offering to pay—this shows you are making an offer in good faith
  - How taxes and utilities will be handled

**What's In an Offer**

- Address and description of property
- Sale price
- How much money you are offering to pay
- Target date for closing
- Amount of earnest money you are offering
- How taxes and utilities will be handled

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**54**




**SHOW SLIDE 55****SAY**

- Description of **who pays for things like title insurance, termite inspections, and property surveys.**
- **A walk-through clause** stating that you have the right to walk through the property one more time before the sale is finalized. This is generally preferable after the seller has moved out and right before closing.
- **The date your offer expires.** If the seller wishes to accept your offer, they must do so before this date.
- **Contingencies.** These are statements that must be true or the offer is void. This could include you getting financing and the results of the inspection.
- **Special requests.** For example, the buyer could request that all appliances be included in the home purchase.
- **Other terms** required by the laws in your state or you and your real estate agent think are important to include in your offer.

**What Else Is In an Offer**

- Who pays for title insurance, termite inspections, property surveys, etc.
- Walk-through clause
- Date the offer expires
- Contingencies
- Special requests
- Other terms



MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **55**

**SHOW SLIDE 56****SAY**

- You've made an offer. Here's what can happen:
  - The seller accepts your offer and negotiations end. Your offer plus the seller's acceptance become a legally binding sales contract.
  - The seller rejects your offer and makes a counteroffer back to you.
    - » You can walk away from the transaction – there is no legally binding contract.
    - » You can accept or reject that counteroffer.
    - » You could also make a counteroffer to that counteroffer.
  - The seller rejects your offer and does not make a counteroffer back to you.
    - » You can walk away from the transaction – there is no legally binding contract.
    - » Or you could present a new offer to the seller, and the process starts again.

**You've Made an Offer...**

In response, the seller can:

- Accept your offer
- Reject your offer and make a counteroffer
- Reject your offer and not make a counteroffer

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **56**



- As you can see, this can become complicated pretty quickly. That's why it's important to have professionals help you through the process.
- If the seller accepts your offer or you accept a counteroffer from the seller, you will move forward with the financing and closing process.

**SHOW SLIDE 57****SAY**

- Consider including a requirement in your offer that says it depends on results from a **home inspection**. This is a type of contingency. This means your offer is contingent on (or depends on) getting the results from the home inspection and you deciding at that point if you still want to purchase the home.
- The home inspection will give you detailed information about the condition of the home before you buy it.
- This is one of the most important steps in protecting you and your investment in the home buying process. This is because significant issues with the property may not be apparent without a home inspection.
- While you can get recommendations for a home inspector from your real estate agent, make sure you are getting someone who will put your interests first, not those of the real estate agent.
- In a home inspection, a qualified inspector takes an in-depth, unbiased look at your potential new home to:
  - Evaluate the physical condition: structure, construction, and mechanical systems.
  - Identify items that need to be repaired or replaced.
  - Estimate the remaining useful life of the major systems, equipment, structure, and finishes.
- In some cases, you may need secondary inspections. For example, if the property you wish to purchase has an unusual heating and cooling system or it has well water, you may need to have those items inspected separately. If there could be foundation issues, you may need to consult a structural engineer.
- In markets where homes are selling very quickly, some buyers may decide to waive a home inspection. They may be willing to take the risk of buying a house that has a potentially unknown amount of needed repair work so that their offer is more attractive to the seller.

**Home Inspection**

- It's one of the most important steps in protecting you and your investment
- In-depth, unbiased look at the home:
  - Evaluates the physical condition
  - Identifies items that need repair or replacement
  - Estimates remaining useful life of major systems, equipment, structure, and finishes

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

57



- It is your decision whether to require a home inspection as a contingency to your offer. Either way, you should know your rights and what you are giving up if you choose not to get one.



PRESENT INFORMATION (5 MINUTES)

## Closing on a Home

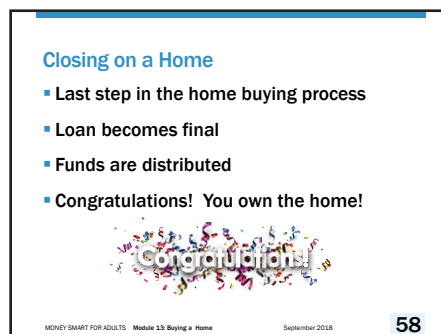
See page 33 in the Participant Guide.

### SHOW SLIDE 58



#### SAY

- Closing is the last step in the home buying process.
- At closing, the loan becomes final.
- Funds are distributed to the seller and other professionals who receive payment at closing.
- This is also when you will become the owner of the home.
  - The title to a property gives you the right to use and sell the property.
  - The deed or deed of trust is the actual legal document that transfers the title to you and is recorded with the county government.

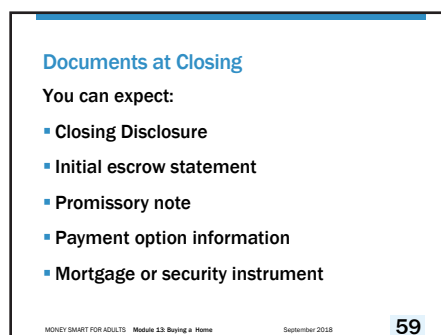


### SHOW SLIDE 59



#### SAY

- You can expect to get the following documents at closing:
  - **Closing Disclosure.** This is the form that lists the final terms of the loan, final closing costs, and the details of who pays and receives the money at closing. Your lender must send this document to you at least three business days before the closing.
  - **Initial escrow statement.** This lists the costs the lender expects to pay from your escrow account. This includes estimated taxes, insurance premiums, and other charges during the first year of your loan. If there will not be an escrow account (as we talked about earlier, there isn't always an escrow account), this statement will be blank.





- **Promissory note.** This is the document that details your loan. It includes:
    - » The amount of money you borrowed and must pay back.
    - » The interest rate of the mortgage loan.
    - » The dates when you must make the payments on the loan.
    - » The term or length of the loan.
    - » The total amount of money you will pay over the term of the loan.
    - » Whether and how the payment amounts can change.
    - » Where you must send the payments.
  - **Payment option information.** You may receive information on how to arrange for your mortgage payments to be automatically deducted from a bank account.
  - **Mortgage or security instrument.** This document explains your rights and responsibilities as a borrower. The mortgage grants the lender or servicer the right to foreclose on your home if you fail to make payments as you've agreed.
- You will not receive a **Notice of the Right to Rescind** because once the loan closes, you do not have the right to cancel it. However, you will receive this notice if you are refinancing a mortgage under certain circumstances.
  - There may be other documents required by state or local law. Your lender may give you additional documents.



PRESENT INFORMATION (2 MINUTES)

## Getting Help When You're in Trouble

See page 33 in the Participant Guide.

### SHOW SLIDE 60



#### SAY

- **It is important to get help if you are unable to make your mortgage payments.** This could be the result of a one-time issue. For example, you could have large unexpected expenses that use up your money for a month or two. Or it could be a longer-term issue. For example, you or someone else in your household loses a job. Or your hours are cut at your job.

#### Getting Help When You're in Trouble

- **Important to get help if you are unable to make your mortgage payments**
- **Contact:**
  - Your lender
  - The home preservation hotline
  - HUD-approved housing counseling agency
  - State housing finance agency

MONEY SMART FOR ADULTS Module 13: Buying a Home

September 2018

60



- **As soon as you anticipate trouble making mortgage payments, get help. The number one mistake most people make is waiting too long to get help.**
- **Ways to get help include:**
  - **Contact your lender.** Your lender may be able to offer you a loan modification so you can afford the payments.
  - **Contact the home preservation hotline.** You can call them 24 hours a day at 1-888-995-HOPE™ (4673) or visit [www.995hope.org](http://www.995hope.org).
  - **Contact a HUD-approved housing counseling agency.** These professionals are trained to help people manage payment problems and identify possible resources and solutions. [www.hud.gov/findacounselor](http://www.hud.gov/findacounselor) or 1-800-569-4287.
  - **Contact your state housing finance agency.** They will be able to point you to state resources. Find your state housing finance agency at: [www.fdic.gov/consumers/community/mortgagelending/map.html](http://www.fdic.gov/consumers/community/mortgagelending/map.html).



PRESENT INFORMATION (1 MINUTE)

## ***Apply It: My Resources for Getting Help Paying My Mortgage***

See page 34 in the Participant Guide.

### **SHOW SLIDE 61**



#### **SAY**

- Turn to *My Resources for Getting Help Paying My Mortgage* on page 34 in your Participant Guide.
- You can complete this worksheet after today's training. Keep it handy to have a contact list of people who can help if you are struggling to make your mortgage payments.

**Apply It: My Resources for Getting Help Paying My Mortgage**

See page 34 in your Participant Guide

**Apply It: My Resources for Getting Help Paying My Mortgage**

Complete this list of potential sources of help and use it if you are having trouble paying your mortgage or think you might have trouble soon. Getting help early may keep you from losing the home you worked so hard to get.

Contact your lender.

My lender's name: \_\_\_\_\_

Email: \_\_\_\_\_

Phone: \_\_\_\_\_

Recommendations from my lender: \_\_\_\_\_

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

61

**Note to Instructor:** Before the training, you can research resources in your community that can help homeowners who are struggling to make their mortgage payments. Time permitting, you can give that information to participants now, so they can start filling in their contact list. Doing this during training emphasizes the importance of getting help. You may also want to review this *Apply It* with participants using a copy from a Participant Guide.





PRESENT INFORMATION (1 MINUTE)

## Section Closing

See page 35 in the Participant Guide.

### SHOW SLIDE 62




#### SAY

- Remember the key takeaway from this section: **Get help with the home buying process. Interview before you hire help and ask for references. Understand what services you will receive and how much they will cost.**

**Section 3: Remember the Takeaway**

*Get help with the home buying process. Interview before you hire help and ask for references. Understand what services you will receive and how much they will cost.*



MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018

**62**



# Module Closing

**Training Time Estimate:** 10 minutes



LEAD ACTIVITY (5 MINUTES)

## Remember the Key Takeaways

See page 36 in the Participant Guide.

**Note to Instructor:** Only mention key takeaways for sections you included in the training.



**SAY**

- Remember the key takeaways. These are also listed on page 36 in your Participant Guide. Let me know if you have questions about any of them.

Section	Key Takeaway
1: Getting Ready to Own Your Home	Buying a home is a process. Start by making sure you're ready to buy and figure out what you can afford.
2: Financing a Home Purchase	Know your loan. Learn about your financing options for buying a home and shop around to get the best deal for you.
3: Getting Help and Buying Your Home	Get help with the home buying process. Interview before you hire help and ask for references. Understand what services you will receive and how much they will cost.

## Take Action

See page 36 in the Participant Guide.

**SHOW SLIDE 63**



**SAY**

- You are more likely to take action if you commit to taking action now.
- Consider writing down what you intend to do because of what was covered during this training session.

**Take Action**  
See page 36 in your Participant Guide

- What will I do?
- How will I do it?
- Will I share my plans with anyone? If so, who?

Visit [fdic.gov/education](https://www.fdic.gov/education) to learn more

MONEY SMART FOR ADULTS Module 13: Buying a Home March 2022

**63**



- Take a few minutes now to answer the questions under *Take Action* on page 36 in your Participant Guide:
  - What will I do?
  - How will I do it?
  - Will I share my plans with anyone? If so, who?

### DO

- Time permitting, ask participants if they want to share what they are going to do or how they are going to do it.
- Remind participants about the activities in their Participant Guide they can complete after today's training.
- Refer participants to *Where to Get More Information or Help* on page 37 in their Participant Guide for a list of online resources.
- If this is the end of your training, thank participants for attending and administer the post-training survey.



LEAD ACTIVITY (5 MINUTES)

## Post-Training Survey

See page 41 in the Participant Guide.

**Note to Instructor:** After training ends, you can ask participants to complete the post-training survey in the back of their Participant Guide. You may want to give them “loose” copies so they don’t have to tear them out. The knowledge questions are the same as those in the pre-training survey.

The answer key is at the end of this Instructor Guide.

You may decide to compare post-training surveys to pre-training surveys to estimate knowledge gains of the entire group or for each participant. If you want to estimate by participant, ask them to write their last name or some other unique identifier on both their pre- and their post-training surveys so you can compare them for a given participant.



**SHOW SLIDE 64****SAY**

- Thank you for attending this Money Smart Training called **“Buying a Home.”**
- Before you leave, please take a few minutes to complete the Post-Training Survey on page 41 of your Participant Guide.
- I can look at the surveys to tell if I helped you add to your knowledge and to make changes and improvements to future trainings.
  - It should take less than five minutes to complete.
  - Let me know if you have any questions.

**DO**

- Collect the completed surveys if you plan to review them or compare them to pre-training surveys.
- Review the answers to the knowledge questions using the Answer Key on the next page.

**Post-Training Survey**  
See page 41 in your Participant Guide

**THANK YOU**

**Post-Training Survey**  
Your instructor may ask you to complete this post-training survey training ends.

Please answer these questions:

1. Your real estate agent will decide what you can comfortably afford to pay for housing.	True	False
2. Comparing offers from different lenders can save you money.	True	False
3. You have to choose the lender that your realtor recommends.	True	False
4. Which of these is included in a typical mortgage payment? a. Repayment of the real estate agent's salary b. Interest c. Home maintenance costs d. Gross income e. None of the above		
5. Which of these factors affects the amount of your monthly mortgage payment?		

MONEY SMART FOR ADULTS Module 13: Buying a Home September 2018 **64**



## Answer Key for Both the Pre- and Post-Training Surveys

1. Your real estate agent will decide what you can comfortably afford to pay for housing.  
The answer is **false**.
2. Comparing offers from different lenders can save you money.  
The answer is **true**.
3. You have to choose the lender that your real estate agent recommends. The answer is **false**.
4. Which of these is included in a typical mortgage payment?  
The answer is **b**.
  - a. Repayment of the real estate agent's salary
  - b. **Interest**
  - c. Home maintenance costs
  - d. Gross income
  - e. None of the above
5. Which of these factors affects the amount of your monthly mortgage payment?The answer is **e**.
  - a. The amount of the loan
  - b. The interest rate
  - c. The kind of interest rate
  - d. The term of the loan
  - e. **All of the above**
6. You become the owner of the home at which event?  
The answer is **a**.
  - a. **Closing**
  - b. When you make an offer
  - c. When your mortgage rate adjusts
  - d. When you refinance your mortgage
  - e. None of the above

*Continued on next page*



**Note to Instructor:** There are no “right” or “wrong” answers to the remaining questions, which appear in the post-training survey and not in the pre-training survey.

### About the Training

Check the box that best describes your agreement or disagreement with each of these statements.

	Completely agree	Somewhat agree	Somewhat disagree	Completely disagree
7. I would recommend this training to others.				
8. I plan to apply what was discussed in this training to my life.				
9. The instructor used engaging training activities that kept me interested.				
10. The instructor was knowledgeable and well prepared.				
11. The Participant Guide is clear and helpful.				



## Money Smart for Adults Modules

Thank you for presenting this module. Consider providing training on other Money Smart for Adults modules, as shown below. Visit [www.FDIC.gov/moneysmart](http://www.FDIC.gov/moneysmart).

Module Number	Module Name	Module Focus
1	<b>Your Money Values and Influences</b>	Internal values and goals, external influences, and their relationships to financial decisions
2	<b>You Can Bank On It</b>	Financial products, services, and providers
3	<b>Your Income and Expenses</b>	How to track income and expenses
4	<b>Your Spending and Saving Plan</b>	How to develop a spending and saving plan, and how to prioritize spending when money is short
5	<b>Your Savings</b>	Saving money for expenses, goals, and emergencies
6	<b>Credit Reports and Scores</b>	Credit reports and scores, building productive credit histories, and repairing and improving credit
7	<b>Borrowing Basics</b>	Options for borrowing money and the costs
8	<b>Managing Debt</b>	Different kinds of debt and ways to manage it
9	<b>Using Credit Cards</b>	How credit cards work and how to manage them
10	<b>Building Your Financial Future</b>	Ways to build assets, including buying a car and getting training and education
11	<b>Protecting Your Identity and Other Assets</b>	Ways to recognize, respond to, and reduce the risks of identity theft, along with strategies for protecting other assets
12	<b>Making Housing Decisions</b>	Different types of safe and affordable housing, including specific information on renting
13	<b>Buying a Home</b>	The home buying process, including mortgages
14	<b>Disasters—Financial Preparation and Recovery</b>	How to financially prepare for, and recover from, disasters



PAGE INTENTIONALLY  
LEFT BLANK



Visit the FDIC's website at **[www.fdic.gov/education](http://www.fdic.gov/education)** for more information and resources on banking-related issues. For example, FDIC Consumer News provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

**You can also call the FDIC for information and assistance at  
877-ASK-FDIC (877-275-3342).**



**MONEY SMART for Adults**

**INSTRUCTOR GUIDE  
Module 13: Buying a Home**

**September 2018  
[www.fdic.gov/education](http://www.fdic.gov/education)**