Foundation Communities' Financial Coaching Guide for Homebuyers

Do you want to know if you are ready to buy a home? The following guide will help you determine whether homeownership is right around the corner, or years down the road. This guide includes information about budgeting, saving, credit, debt, first-time homebuyer assistance programs and homebuyer education classes. Use the checklist below as you work through the packet to determine your readiness to buy a home.

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

Foundation Communities
Financial Coaching Program
www.foundcom.org/get-financially-stable/financial-coaching
512-610-4026
FinancialCoach@foundcom.org

Budget for Homeownership

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

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

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

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

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

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

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

Estimate the added costs of owning a home vs. renting

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

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

Create a homeowner budget

A great exercise is to take the estimates you made in steps 1 and 2 above and create a homeowner budget that compares your current housing costs and your estimated homeowner costs. Take the difference between your current housing budget and your homeowner budget and put it into savings each month. If you can get by without drawing from savings or borrowing to make ends meet, chances are your budget is ready for homeownership!
Find budget templates on our Financial Coaching web page: www.foundcom.org/get-financially-stable/financial-coaching. Just look for the Financial Toolkit and click "Budgeting."

○ *I have completed this step*

Saving for Homeownership

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

Plan to save for down payment, closing costs and other expenses. The days of "$0 down payment" are over, but the down payment can be as little as 3.5% of the loan. That means that for a $150,000 loan, the down payment will be about $5,250. In addition, you will face closing costs, the cost of moving and utility deposits. Those costs will vary depending on your situation, just be sure you are prepared.

Check to see if you are eligible for a Matched Savings program.

For Foundation Communities' residents: In Foundation Communities' Matched Savings program, you could be eligible to get $2 for every $1 you save. Over three years, you can have up to $5,400 saved up for your down payment ($1,800 of your funds, plus $3,600 in matching funds).

Eligibility Requirement	**What does that mean?**
1) Be a Foundation Communities resident	You must live in a property run by Foundation Communities. See the list of Austin properties here: www.foundcom.org/get-housing/austin-communities/.
2) Have earned income	Someone in your household must have income from a job or self-employment.
3) Have less than $10,000 in assets	The value of your household assets (i.e. 2nd vehicle, stocks, bonds, 401k, other investments) cannot exceed $10,000.
4) Meet the income limits	Maximum income for an individual is $23,340; for a 4-person household it's $47, 700.

For more information on eligibility and how to apply, visit our web site: www.foundcom.org/get-financially-stable/IDA-matched-savings.

For other Austin residents: The City of Austin has a matched savings program

- The City of Austin will provide a match of $4 for every $1 saved
- The maximum savings that will be matched is $1000
- The minimum time to save is six months
- Total savings can be used for higher education, purchasing a home, or small business development/expansion

Am I eligible?

- I am eligible for TANF OR
- My household income is at or below 200% Federal Poverty and/or I qualify for EITC
- I have income from employment
- I have the ability to utilize my entire savings within two years of application
- I have completed HousingSmarts (for home buyer assistance)

To sign up for an orientation, please call 512-974-3100 or email nhcdcs@austintexas.gov. For more information on eligibility and how to apply, visit the City's web site: austintexas.gov/department/match-my-savings.

○ *I have completed this step*

***Plan to save in an emergency fund*.** An emergency fund is even more important when you are a homeowner. As inevitable home repairs, or other unexpected expenses arise, an emergency fund can help you avoid incurring debt for those costs. There is no magic number that dictates how much you should save for emergencies, but even a few hundred dollars will be better than no fund at all.

Consider saving for emergencies with a Safety Net Savings Account. Safety Net Savings is designed to encourage clients to establish and contribute to a savings account specifically intended to be used towards emergencies. In the 12-month program, participants receive a variety of cash and gift-card incentives for meeting certain benchmarks.

Gift Card Incentives

- $25 HEB gift card for opening a Safety Net Savings Account
- $25 HEB gift card for setting up direct deposit

Cash Incentives (deposited directly into participant's account)

- $5/month for maintaining a balance between $125 - $249
- $10/month for maintaining a balance between $250-$374
- $15/month for maintaining a balance of $375 – $499
- $20/month for maintaining a balance of $500 or higher
- $100 if you allocate a minimum of $100 of your tax refund to savings, by direct deposit and form 8888

Ask your Financial Coach about how you can enroll in Safety Net Savings.

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

○ *I have completed this step*

Credit and Homeownership

Your credit score can make a big difference in your mortgage interest rate and payment.

How your credit score affects your mortgage payment

The chart below shows how your interest rates and monthly payments can change depending on your FICO score. The numbers are based on a typical $150,000 mortgage loan in Texas. If you are married, this applies to both you and your spouse. Remember that the Monthly payments below only reflect the Principal and Interest (PI) portion of your mortgage. Your mortgage payment will also include Taxes and Insurance (TI). Refer to the Budgeting section for more information.

30 Yr fixed mortgage | 15 Yr home equity loan | 36 month auto loan

FICO® score	APR [?]	Monthly payment
760-850	3.105%	$641
700-759	3.327%	$659
680-699	3.505%	$674
660-679	3.719%	$692
640-659	4.150%	$729
620-639	4.697%	$778

Location Texas Loan amount 150,000

RECALCULATE

Source: Informa Research Services

Interest rates accurate as of April 9, 2013.

Source: www.bankrate.com

What is your credit score?

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

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

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

○ *I have completed this step*

Debt and Homeownership

A typical debt to income ratio for buying a home is 30%. That means that no more than 30% of your gross monthly income can be allocated to debt payments. Debts that will be paid off in the next 10 months are not included in this calculation. In addition, as your debt to income ratio decreases, loan amount you can be approved for increases.

How much is your debt-to-income ratio? What can you do to make sure it gets or stays under 30%? Can you get it lower than 30%? The case study below can help you understand how debt can make a big difference.

Loan Approval does not mean the loan is affordable

A lower debt to income ratio may get you approved for a higher loan amount. However, that does not necessarily mean that you can afford the higher loan amount. Use your budget, not the amount you were approved for, to determine how much you can afford.

Case Study

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

SCENARIO ONE

The monthly payments on their debts total $759. **Their debt to income ratio is 23%.**

CREDITOR	BALANCE	MONTHLY PAYMENT	MONTHS REMAINING
Macy's	$800	$46	n/a
The RoomStore	$2,100	$53	40
UFCU Auto Loan	$3,245	$295	11
Visa	$1,600	$58	n/a
Target	$1,200	$48	n/a
Bank of America Auto Loan	$6,457	$259	25

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

SCENARIO TWO

Terrance and Wilma opt to take $590 from their savings and make two payments on the car loan to UFCU, leaving them with less than 10 months of payments left on that debt. This debt can then be discounted (not counted) when determining how much they are approved for. Now their monthly debt payments total $464. **Their debt to income ratio is now 14%.**

*Now the loan officer tells the Murphy's they can be **approved for a $119,000 loan**. More than enough to for a home in the area they like.*

CONCLUSION

The Murphy's made a great move by reducing their debt. They now have a chance at buying a home. However, they had already worked out their budget and used Bankrate's mortgage calculator to determine that they can afford to buy a house for up to $100,000. If they decide to borrow the full $119,000, they may leave themselves with little room in their budget for their mortgage, all their monthly expenses, plus unexpected expenses that come up.

○ *I have completed this step*

Down Payment Assistance Programs

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

City of Austin down payment assistance

http://austintexas.gov/department/down-payment-assistance
512-974-3100
The Down Payment Assistance Program (DPA) provides qualified, first-time homebuyers, with a zero interest loan to assist with purchasing a home located within the Austin City Limits. DPA funds cover the down payment and eligible closing costs and pre-paid expenses associated with buying a home.

Texas State Affordable Housing Corporation

http://www.tsahc.org/homeownership/loans-down-payment-assistance
512-477-3555
The Professional Educators, Homes for Texas Heroes, and Home Sweet Texas Home Loan Programs provide 30-year fixed rate mortgage loans to eligible homebuyers wishing to achieve the American dream of homeownership. In addition to a low interest rate, these programs offer down payment and closing cost assistance in the form of a grant.

Texas Home of Your Own (HOYO)

http://centraltx.easterseals.com/site/PageServer?pagename=TXCA_CHShoyo
512-472-9195
HOYO works one-on-one with people with disabilities, helping them become homeowners. Eligible households can quality for $3,000 to $20,000 in down payment and closing cost assistance.

Neighborhood Assistance Corporation of America (NACA)

www.naca.com
210-826-2828
NACA is a non-profit, community advocacy and homeownership organization whose mission is to make homeownership possible for individuals who would otherwise face buriers (like bad credit). NACA pays the down payment & closing costs and offers interest rates at below-market rates. The closest office is San Antonio.

○ *I have completed this step*

Homebuyer Education

Now it's time to learn about the ins and outs about the process of buying a home. You have already done a lot to get your finances in order, but there is much more to learn. One of the organizations below can help you navigate it all.

Foundation Communities Homebuyer Education

http://www.foundcom.org/get-financially-stable/homebuyer-education/
512-610-7385

Cornerstone Financial Education

http://www.csfedu.org/pre-purchase-education.html
512-263-0532

The City of Austin, Housing Smarts

http://www.austintexas.gov/housingsmarts
512-974-3100

Frameworks CDC

http://www.frameworkscdc.org/register.html
512-385-1500

Austin Habitat for Humanity--Housing Counseling

http://www.austinhabitat.org/housing-counseling
512-472-8788 x150

○ *I have completed this step*