



What we'll cover

1. Getting ready for homeownership
2. Mortgage basics
3. What you need to buy a home
4. Finding the right home
5. Resources



Are you financially ready for homeownership?

- To understand if buying a home fits into your financial plan, ask yourself:
 - Is owning a home an achievable goal given my current financial situation?
 - Would buying a home put me in a tight financial position?
 - Do I have room to adjust my budget to allow flexibility?
 - If I bought a home, would I still be able to save?



Advantages and disadvantages of homeownership

Below you will find some of the advantages and disadvantages of owning a home. It's important to weigh both the pros and cons before you decide to buy.

Advantages	Disadvantages
Tax benefits ¹	Maintenance and repairs
Build equity ²	Long-term commitment to a location
Pride of ownership	Property taxes
Stability	Homeowners insurance
Mortgage payments could total less than rent over time	Down payment and closing costs

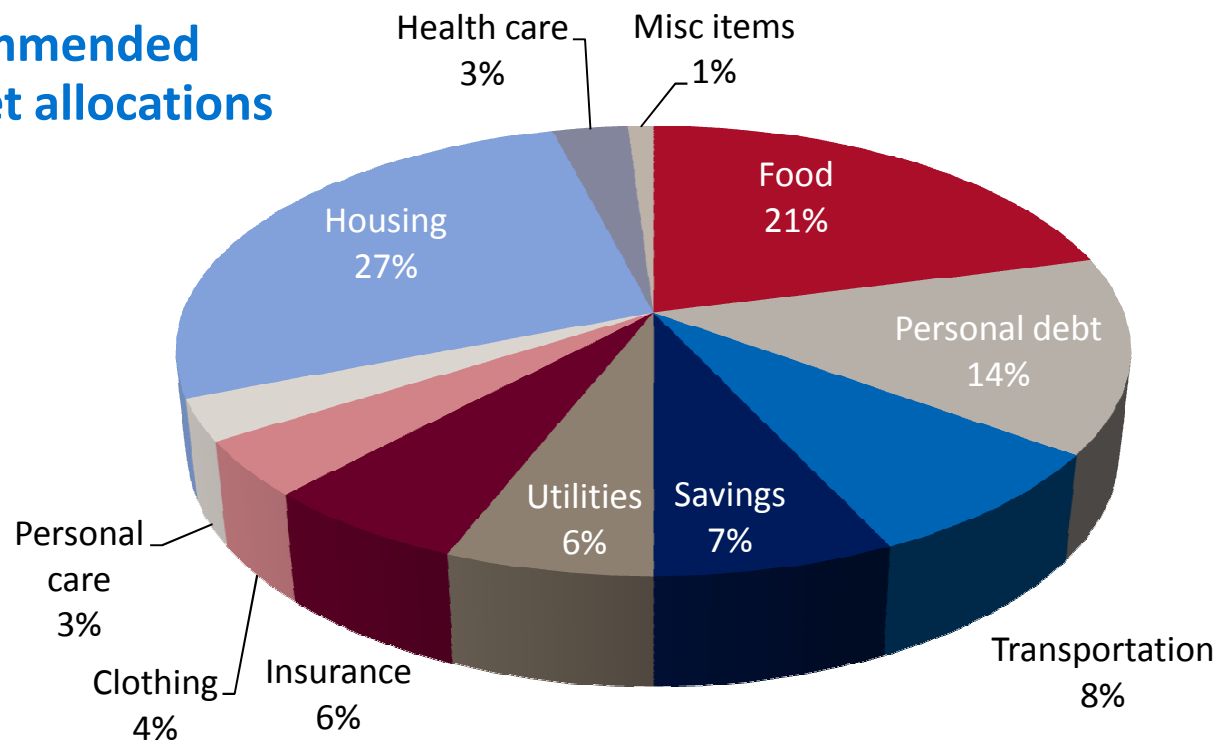
¹Please consult your tax advisor for details about the potential tax benefits of homeownership.

²Increase in equity may result from an appreciation in the property value and/or the amortized repayment of the mortgage loan balance.

Budgeting for homeownership

- Start with a realistic savings and spending plan
- A budget will help you:
 - Prepare for homeownership
 - Save for upfront costs and unexpected expenses

Recommended budget allocations

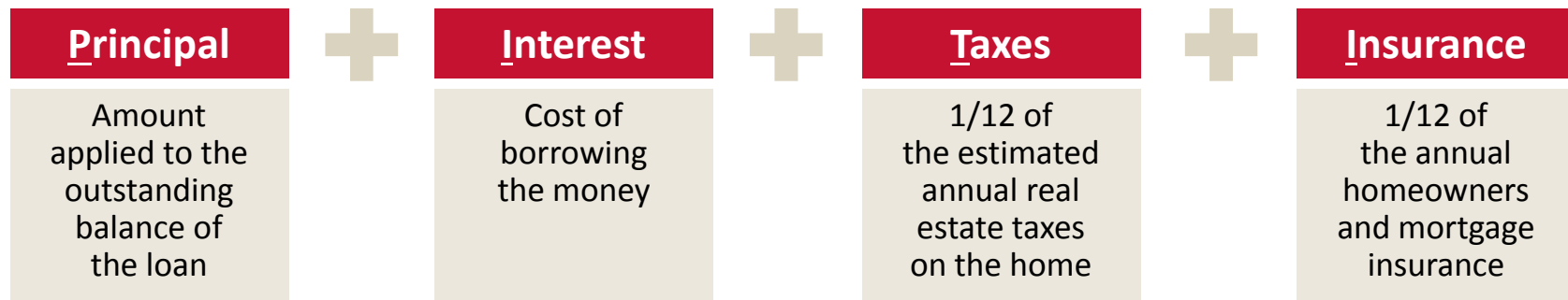


Source: [Alexis Holloway. "How do you feel about your savings plan?" Blogging for Change. Money Management International. April 16, 2010.](#)



What makes up a mortgage payment

A monthly home loan payment includes four costs known as PITI:



The costs of buying a home

Mortgage interest rate and annual percentage rate:

- Mortgage interest rate
 - Cost for the use of a loan, usually expressed as a percentage of the loan, paid over a specific period of time. The interest rate does not include fees charged for the loan.
- Annual percentage rate (APR)
 - The annual cost of a loan to a borrower. Like an interest rate, the APR is expressed as a percentage of the loan amount. Unlike an interest rate, however, it includes other charges or fees to reflect the total cost of the loan.

Mortgage loan options

- Fixed-rate mortgage
 - The interest rate will remain the same through the entire term of the loan
- Adjustable-rate mortgage (ARM)
 - The interest rate on the loan will periodically change based upon a financial index
- Federal Housing Administration (FHA) loan
 - Offers down payments as low as 3.5%,¹ allows gift funds and is available for both fixed- and adjustable-rate loans
- Department of Veterans Affairs (VA) loan
 - Has loans up to \$471,000 nationwide with higher limits in high-cost areas,² no down payment required with full entitlement, available for both fixed- and adjustable-rate loans

Other options are available as well.

¹ Minimum credit scores apply. Not all applicants will qualify. Maximum loan amount varies by county

² Maximum loan amount varies by county. VA loans require a VA funding fee at closing. The fee is higher with a zero down payment. If a down payment of 5% or more is made, the fee is reduced. The VA funding fee is non-refundable.

Mortgage loan steps

- Step 1: Application
 - Employment, credit history, assets and debts, and income information is collected
 - Lender reviews and determines if you qualify
- Step 2: Conditional Approval
 - You will receive an information packet and conditional approval letter
 - Conditions may include an appraisal of the home you are interested in buying
- Step 3: Final approval
 - After all conditions have been met, you will receive a commitment letter
 - You will then be ready to close
- Step 4: Closing
 - The date and time for closing is established by your lender
 - Review and sign all of your loan documents
 - Pay for down payment, closing costs, prepaid interest, taxes and insurance
 - Funds will be released to the seller
 - If required, you will set up an escrow account to pay property taxes and homeowners insurance with your monthly mortgage payment



Good credit

- What is credit?
 - Credit is borrowing money with the promise to pay it back in the future
 - How you handle credit is reflected on your credit report and credit score
- What is good credit?
 - A history of paying what you owe on time
 - Using credit responsibly
 - High credit score
- Why is good credit important when buying a home?
 - Used to qualify you for a mortgage loan
 - Your credit also helps determine the mortgage interest rate for your loan
 - A higher credit score can help give you a lower interest rate



Employment and verifiable income

- You must be able to prove you have the resources to repay the loan
- A lender will verify a borrower's:
 - Current income or assets
 - Employment status
 - Credit history
 - Monthly mortgage payment and any other mortgage-related obligations and loans associated with the property
 - Other debt
 - Monthly debt-to-income (DTI) ratio

Money for upfront costs

- Down payment
 - The required amount depends on the mortgage loan program
 - It can range from 3.5% to 20% of the purchase price
 - If your down payment is less than 20% you may be required to purchase private mortgage insurance, typically 0.15% to 2.5% of the loan amount
- Closing costs and other fees
 - Including upfront fees, origination fee, third-party closing fee, initial escrow deposits
 - Typically 3% to 7% of the loan amount



Assistance with upfront costs

- Affordable housing assistance programs created by state and local government agencies, nonprofit organizations, and employers can help with down payment and closing costs*
- Available for eligible first-time homebuyers and households with modest income
- Eligibility for assistance can include:
 - Type of mortgage
 - Income
 - Property location
- Program Types:
 - Mortgage credit certificates
 - Down Payment Assistance Programs
 - Deed restrictions
 - Grants
 - Section 8 for homeownership
 - Employer Assisted Housing Programs

How housing assistance helps homebuyers



Carlos, a first-time homebuyer with modest income, is interested in purchasing a new home

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To help qualify for a mortgage loan, Carlos needs:

- Steady income
- Good credit
- Cash for closing costs
- Cash for down payment

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Carlos currently has:

- \$49,000 steady annual income
- Good credit
- \$5,220 in savings for closing costs

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He does not have money for a down payment. His lender is requiring 5% of the purchase price or **\$8,700** as down payment for an FHA loan.

How housing assistance helps homebuyers

Carlos may be ready to buy a new home sooner than he thinks. After confirming he has met all qualifications, Carlos is able to use a down payment assistance program to provide his entire down payment on an FHA loan.

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\$165,300 loan
from Lender

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\$165,300 loan
from Lender



\$8,700 down payment
assistance from non-profit

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Set a price range

- An important question to ask yourself is: “How much **should** I borrow?” instead of, “How much **could** I borrow?”
- Meet with a lender to:
 - Prequalify and assess your eligibility for a loan¹
 - Determine the loan amount you qualify for
 - Discuss down payment, closing costs and assistance programs
- Homeownership costs to consider:
 - Monthly mortgage payment
 - Insurance
 - Taxes
 - Utilities
 - Maintenance and repairs
 - Homeowners Association (HOA) dues

¹Prequalification is neither preapproval nor a commitment to lend; you must submit additional information for review and approval.

Search

- Create a wish list for what you want in a home, such as:
 - Cost
 - Location
 - Neighborhood
 - Specifics of the home
 - Type of residence
- Where to look
 - “For sale” signs
 - Newspaper ads
 - Internet
- Choose a real estate professional
 - Ask for recommendations and conduct interviews
 - Your real estate professional will let you know about available homes that meet your criteria



Select

- Evaluate the homes you see
 - Inspect each home
 - Compare the houses you find to the criteria on your wish list
 - Take pictures and notes
- Making an offer
 - Your real estate professional will prepare a purchase contract, which should include:
 - Legal names of all buyers and sellers
 - Property address
 - Closing date
 - Price
 - Home financing contingency
 - Home inspection contingency
 - A holding deposit (earnest money) written out to the seller, which is kept in the trust of the real estate company handling the listing
 - Be prepared to negotiate

Inspect

- Professional home inspection
 - Once your offer has been submitted and accepted, a professional home inspector should evaluate the home
 - The inspection can identify any flaws the home or property might have before you purchase the home
 - If material problems are discovered, you can ask the seller to pay for repairs
- Costs involved with inspection are the responsibility of the buyer






Resources

- Find a Nonprofit Housing Counseling Agency at [HUD.gov](https://www.hud.gov); on the site select “Resources,” then select “HUD Approved Housing Counseling Agencies”
- To find out more about the home loans process, prequalify for a mortgage loan or talk to a Bank of America loan expert:
 - Visit the Home Loan Guide at bankofamerica.com/homeloaneducation
- For additional online financial education:
 - Visit Better Money Habits at bettermoneyhabits.com
- Have more questions about what you learned today? Email us at homebuyereducation@bankofamerica.com



* Down payment assistance programs may not be available in your area. Down payment assistance amount may be due upon sale, refinance, transfer, repayment of the loan, or if the senior mortgage is assumed during the term of the loan. Some programs require repayment with interest and borrowers should become fully informed prior to closing. Not all applicants will qualify. Minimum credit scores may apply. Sales price restrictions and income requirements may apply. Homebuyer education may be required. Owner-occupied properties only. Maximum loan amounts may apply.

Credit and collateral are subject to approval. Terms and conditions apply. This is not a commitment to lend. Programs, rates, terms and conditions are subject to change without notice. Bank of America, N.A. Member FDIC.  Equal Housing Lender ©2013 Bank of America Corporation. All rights reserved.
11-2013 ARXD7P6T PRES-08-13-1109

