Homebuyer Education

Homeownership Study Course

I. UNDERSTANDING THE MORTGAGE CONTRACT

A. The Note

The mortgage note is the buyer's promise to pay the lender according to agreed upon terms. The note also details the penalties that will be assessed if: (1) the buyer fails to make payments on the loan; (2) if they sell without written consent of the lender; or (3) if the terms of the note are violated.

B. The Mortgage

The mortgage (or deed of trust) is the legal document that secures the note and gives the lender a claim against the house if the buyer defaults on the terms of the note. The mortgage also states the responsibilities of the borrower to pay the principal, interest, and taxes.

C. Responsibilities of the Home Owner

Home owners are responsible for keeping up with their mortgage payments. When they are unable to make payments for whatever reason (loss of employment, illness, etc.) they are responsible for seeking the necessary assistance to help them.

Homeowners are also responsible for maintaining the value of their property and carrying adequate hazard insurance. This includes making repairs to their home and maintaining the appearance of the home (painting, lawn care, keeping the property free from debris).

D. Payment Due Date

Most mortgage payments are due by the first of the month. (For the date your payment is due, refer back to your mortgage contract.) Payments should also be made in a manner that can be easily traceable (personal check, cashiers check or money order). Your mortgage account number should always be written on the payment. It is also a good idea to develop a filing system where all records pertaining to your home will be kept.

E. Assessment of Late Charges

If the homeowner fails to make mortgage payments on time, the lender may charge a late payment fee. Many lenders grant a grace period (i.e. 15 days) beyond the payment due date before a late fee is charged. This grace period should only be used in extreme emergency situations. Make your payment on or before your due date to avoid damaging your payment history, and adding negative entries on your credit report.

F. Definition of Delinquency and Default

When a mortgage payment is not paid on time, it is considered delinquent. When the payment is more than 30 days late, it is considered to be in default. A mortgage can also be considered to be in default when the homeowner fails to property taxes and insurance. When a mortgage is in default, the lender has the right to demand that the entire loan be paid in full and at once. Mortgage delinquency and default affect your credit rating negatively.

II. HOMESTEAD EXEMPTION

A. Filing for Homestead Exemption

Check with your local tax or property appraiser's office for information on your state's Homestead Exemption laws and filing requirements. Homestead Exemption is the exclusion of home owners from a percentage of their property taxes. Home owners usually have to file for their own homestead exemption. The exemption must be filed within a specific filing period, usually the year following the property purchase. In most states this filing period is between January and March.

III. UNDERSTANDING ESCROW ACCOUNTS AND ESCROW ANALYSIS

A. Escrow Analysis

When a home is purchased, most lenders establish a separate account into which money is deposited to pay property taxes and insurance.

Home owners should receive an annual loan statement that details how much has been paid on the principal, interest, property taxes and insurance during the preceding year. This statement shows the balance on the mortgage principal from the beginning to the end of the year as well as the amount of interest paid. The interest paid is reported to the Internal Revenue Service by the lender and can be used by the home owner in filing their income taxes if they itemize deductions.

This statement also details how much money was collected for property taxes and insurance, and how much was paid out to the local taxing authority and insurance company.

B. How to Handle Escrow Overages and Shortages

Escrow overages and shortages result when there are changes in property taxes and the cost of insurance. Escrow shortages are usually added to the mortgage payment at the end of the year. This amount may be paid in a lump sum or may be divided into payments over a period of time. Your lender may have specific policies regarding escrow shortages, check with them for details.

Escrow overages may be refunded to the home owner or applied to the mortgage. If applied to the mortgage, state in writing that you want this amount to be applied against the principal.

IV. BUDGET AND MONEY MANAGEMENT

A. How Not to Become Overextended

You have taken on a big responsibility so the most important thing is to stop and think first, prior to making a purchase. Use credit wisely and pay close attention to the interest rates and fees credit cards charge.

Do not take on additional debt until your new budget is well established and effective. Do not go out and furnish the house completely with new furniture. Check with family and friends to get you by until you are comfortable with your new responsibilities. Do not purchase a new car.

Learn how to say no to lender or solicitors offering products such as: new siding, time share products and home improvement loans (etc.). If you need help, call someone to help you set up a workable budget, then stick with it.

B. Home Maintenance and Repairs

You are totally responsible for all maintenance and repairs on your home. To prepare for unexpected as well as planned repairs, a small amount of money should be budgeted monthly for general home maintenance. This will include items such as painting, lawn care, plumbing repairs and pest control. If something does need to be repaired, try to do it as soon as possible to keep your costs down. Attend classes at local home improvement stores to learn how to do simple home maintenance projects. Again, don't be afraid to ask for help.

C. Property Taxes and Home Owners Insurance

Home owners are responsible for home owner's insurance and property taxes. VA and FHA loans require an escrow account for these payments. With conventional loans, these items are usually, but not always, escrowed by the mortgage company. However, it is still the homeowner's responsibility to ensure that the right amounts are escrowed into the account. If you feel there is a problem, call your lender to get it worked out.

Unless you pay cash for your home, you will be required to have a valid homeowner's insurance policy until your home is paid off. This will protect you and the lender from Casualty (structure), liability (personal injury) and Personal Property (contents). Make sure your have enough insurance to rebuild your home if it were destroyed.

V. HOMEBUYER EDUCATION GLOSSARY

Actual Cash Value: An amount equal to the replacement value of damaged property minus depreciation.

Adjustable-Rate Mortgage (ARM): Also known as a variable-rate loan, usually offers a lower initial rate than fixed-rate loans. The interest rate can change at specified time periods based on changes in an interest rate index that reflects current finance market conditions, such as the LIBOR index or the Treasury index. The ARM promissory note states maximum and minimum rates. When the interest rate on an ARM increases, the monthly payments will increase and when the interest rate on an ARM decreases, the monthly payments will be lower.

Adjustment Period: The time between interest rate adjustment dates for an ARM. They are usually the initial period between the time the ARM is originated and the first interest rate change date, and subsequent adjustment periods between each interest rate change after the first interest rate change.

Amortization: A term used to describe the process of paying off a loan over a predetermined period of time at a specific interest rate. The amortization of a loan includes payment of interest and a portion of the outstanding principal balance during each payment cycle.

Amortization Schedule: Provided by mortgage lenders, the schedule shows how over the term of your mortgage the principal portion of the mortgage payment increases and the interest portion of the mortgage payment decreases.

Annual Percentage Rate (APR): The cost of credit expressed as a yearly rate. The APR includes the interest rate, points, broker fees and certain other credit charges that the borrower is required to pay.

Application Fee: The fee that a mortgage lender charges to apply for a mortgage to cover processing costs.

Appraisal: A professional analysis, including references to sales of comparable properties, used to estimate the value of the property. Appraiser: A professional who conducts an analysis of the property, including references to sales of comparable properties in order to develop an estimate of the value of the property. The appraiser's report is called an "appraisal."

Appreciation: An increase in the market value of a home due to changing market conditions and/or home improvements.

Assets: Everything of value an individual owns.

Bankruptcy: Legally declared unable to pay your debts as they become due. Bankruptcy can severely impact your ability to borrow money. Talk to a credit counselor as soon as you realize you are having problems paying your bills on time to try to prevent bankruptcy.

Capacity: Your ability to make your mortgage payments on time. This depends on your income and income stability, your assets and reserves, and the amount of your income each month that is available after you have paid for your housing costs, debts and other obligations.

Closing (Closing Date): When the real estate transaction between buyer and seller is completed. The buyer signs the mortgage documents and the closing costs are paid. Also known as the settlement date.

Closing Agent: A person that coordinates closing-related activities, such as recording the closing documents and disbursing funds.

Closing Costs: The costs related to complete the real estate transaction. These costs are in addition to the price of the home and are paid at closing. They include points, taxes, title insurance, financing costs and items that must be prepaid or escrowed and other costs. Ask a lender or real estate professional for a complete list of closing cost items.

Collateral: Property which is pledged as security for a debt. In the case of a mortgage, the collateral would be the land, the house, and other buildings and improvements.

Commitment Letter: A letter from your lender that states the amount of the mortgage, the number of years to repay the mortgage (the term), the interest rate, the loan origination fee, the annual percentage rate and the monthly charges.

Credit: The ability of a person to borrow money, or obtain goods with payments over time, as a consequence of the favorable opinion held by a lender as to the person's financial situation and reliability.

Credit Bureau: A company that gathers information on consumers who use credit and sells that information in the form of a credit report to credit lenders.

Credit History: A credit history is a record of credit use. It is comprised of a list of individual consumer debts and an indication as to whether or not these debts were paid back in a timely fashion or "as agreed." Credit institutions have developed a complex recording system of documenting your credit history. This is called a credit report.

Credit Report: A document used by the credit industry to examine an individual's use of credit. It provides information on money that individuals have borrowed from credit institutions and a history of payments.

Credit Score: A computer-generated number that summarizes an individual's credit profile and predicts the likelihood that a borrower will repay future obligations.

Creditworthy: Your ability to qualify for credit and repay debts.

Debt: A sum of money owed from one person or institution to another person or institution.

Debt-to-Income Ratio: The percentage of gross monthly income that goes toward paying for your monthly housing expense, installment debts, alimony, child support, car payments, and payments on revolving or open-ended accounts such as credit cards.
Deed: The legal documents conveying title to a property

Deed of Trust: A legal document in which the borrower conveys the title to a 3rd party (trustee) to hold as security for the lender. When the loan is paid in full the trustee re-conveys the deed to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.

Default: Failure to perform a legal obligation; a default includes failure to pay on a financial obligation, but may also be a failure to perform some action or service that is non-monetary.

Depreciation: A decline in the value of a house due to changing market conditions, decline of a neighborhood or lack of upkeep on a home.

Down Payment: A portion of the price of a home, usually between 3-20%, not borrowed and paid up front.

Earnest Money Deposit: The deposit you make to show that you are committed to buying the home. The deposit will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not satisfied.

Equity: The value in your home above the total amount of the liens against your home. If you owe $100,000 on your house but it is worth $130,000, you have $30,000 of equity.

Escrow: The holding of money or documents by a neutral third party prior to closing. It can also be an account held by the lender (or servicer) into which a homeowner pays money for taxes and insurance.

Fixed-Rate Mortgage: A mortgage with an interest rate that does not change during the entire term of the loan.

Foreclosure: A legal action that terminates all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

Good-Faith Estimate: A written statement itemizing the approximate costs and fees for the mortgage.

Gross Monthly Income: The income you earn in a month before taxes and other deductions. Under certain circumstances, it may also include rental income, self-employed income and income from alimony, child support, public assistance payments, and retirement benefits.

Home Inspection: A professional inspection of a home to review the condition of the property. The inspection should include an evaluation of the plumbing, heating and cooling systems, roof, wiring, foundation and pest infestation.

Homeowner's Insurance: A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances.

Housing Expense Ratio: The percentage of your gross monthly income that goes toward paying for your housing expenses.

HUD-1 settlement statement: A final listing of the costs of the mortgage transaction. It provides the sales price, and down payment, as well as the total settlement costs required from the buyer and seller.

Individual Retirement Account (IRA): A tax-deferred plan that can help build a retirement nest egg.

Inquiry: A request for a copy of your credit report. An inquiry occurs every time you fill out a credit application and/or request more credit. Too many inquiries on a credit report can lower your credit score.

Interest: The cost you pay to borrow money. It is the payment you make to a lender for the money it has lent to you. Interest is usually expressed as a percentage of the amount borrowed.

Liabilities: Your debts and other monetary obligations.

Lien: A claim or charge on property for payment of some debt. With respect to a mortgage, it is the right of the lender to take the title to your property if you do not make the payments due on the mortgage.

Loan Origination Fees: The fee paid to your mortgage lender for processing the mortgage application. This fee is usually in the form of points. One point equals 1% of the mortgage amount.

Market Value: The current value of your home based on what a willing purchaser would pay. The value determined by an appraisal is sometimes used to determine market value.

Mortgage: A loan secured by a lien on your home. In some states the term mortgage is also used to describe the document you sign to show that you have granted the lender a lien on your home; other states use a deed of trust document instead of a mortgage. It may also be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage is usually the purchase price of the home minus your down payment.

Mortgage Broker: An independent finance professional that specializes in bringing together borrowers and lender to facilitate real estate mortgages.

Mortgage Insurance (MI or PMI): Insurance needed for mortgages with low down payments (usually less than 20% of the price of the home).

Mortgage Lender: The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

Mortgage Rate: The cost or the interest rate you pay to borrow the money to buy your house.

Net Monthly Income: Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

Points: 1% of the amount of the mortgage loan. For example, if a loan is made for $50,000, one point equals $500.

Pre-approval Letter: A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you are a serious buyer.

Predatory Lending: Abusive lending practices that include making a mortgage loan to an individual who does not have the income to repay it or repeatedly refinancing a loan, charging high points and fees each time and "packing" credit insurance on to a loan.

Pre-qualification letter: A letter from a mortgage lender that states that you are pre-qualified to buy a home but does not commit the lender to a particular mortgage amount.

Principal: The amount of money borrowed to buy your house or the amount of the loan that has not yet been paid back to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan at any given time. It is the original loan amount minus the total repayments of principal you have made to date.

Private Mortgage Insurance: see Mortgage Insurance

Property Appreciation: see Appreciation

Radon: A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

Rate Cap: The limit on the amount that the interest rate on an ARM can increase or decrease during any one adjustment period.

Real Estate Professional: An individual who provides services in buying and selling homes. The real estate professional is paid a percentage of the home sale price by the seller. Unless you have specifically contracted with a buyer's agent, the real estate professional represents the interest of the property seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers, but are generally not involved in the lending process.

Refinance: Obtaining a new mortgage with all or some portion of the proceeds used to pay off the original mortgage.

Replacement Cost: The cost to replace damaged personal property without a deduction for depreciation.

Title: The right to, and the ownership of, land by the owner. Title is sometimes used to mean the evidence or proof of ownership of land; although another term used for that is "deed."

Title Insurance: Insurance that protects lenders and homeowners against loss of their interest in the property because of legal problems with the title.

Truth-in-Lending Act (TILA): Federal law which requires disclosure of a truth in lending statement for consumer loans. The statement includes a summary of the total cost of credit such as the APR and other specifics of the loan.

Underwriting: The process a lender uses to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

Uniform Residential Loan Application: A standard mortgage application that your lender will ask you to complete. The form request your income, assets, liabilities and a description of the property you plan to buy, among other things.

Warranties: Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.

VI. SUMMARY

The most important thing in owning your own home is to enjoy it and take pride in it. If by any chance something should happen that would prevent you from making your payment on time, the best thing to do is immediately get in touch with your lender. Explain the situation and they will most likely work with you to solve the problem. Remember, you have to keep them informed. Above all- Enjoy, Appreciate and Take Pride in Your New Home! Best of Success and KEEP YOURSELF INFORMED.

VII. RESOURCES

www.AmericanFamilyFunds.com (Education Section)

www.homebuyingguide.org (Fannie Mae Homebuyer Guides) or Call 1-800-611-9566 (To order Free Fannie Mae Guides by mail)

www.freddiemac.com/homebuyers (Freddie Mac Homebuyer Education)

www.gehomebuyerresources.com (Homebuyer Resources)

www.hometips.com (Expert Advice for your Home & Maintenance)

www.homedepot.com (Project Index – Home Improvement/Maintenance)

HOMEBUYER ACKNOWLEDGMENT

I hereby acknowledge that I have Read and Understand the contents of this course material in its entirety. I am also Committed to Becoming and Remaining a Prideful and Successful Homeowner and will Continue to further Research and Learn about the Responsibilities and Benefits of Homeownership.

______________________________	______________________________
Print Name – Homebuyer	**Print Name – Co-Homebuyer**
X______________________________	X______________________________
SIGNED - Homebuyer	**SIGNED – Co-Homebuyer**

Homebuyer Contact Phone Numbers:

Home:__________________ Office:__________________ Cell/Other:__________________

Completion Certificate Instructions:

- Fax your Initialed & Signed Copies to **251-344-4480**
- Schedule your personal Certification Review to obtain your certificate, Call the Homebuyer Education Department of American Family Funds @ **888-869-0420**.

Additional questions regarding this Homebuyer Education material, please contact American Family Funds, Inc. @ **888-869-0420**.