Home Buying Guide

Kentucky Housing Corporation

Leading the way home...

Dear Potential Home Buyer:

Kentucky Housing Corporation is pleased to serve you through our home buying services. As the state's housing finance agency, our mission is to provide safe, decent and affordable housing opportunities. We want to help you purchase a home. You have already taken the first step by receiving this Home Buying Guide.

The information in this guide will take you through the home buying process and give you many of the tools you need when you go to your lender to ask for a low-rate Kentucky Housing loan.

Becoming a homeowner is part of the American Dream – and we are happy to do all we can to make this dream a reality for you. We want to help you select the loan that best suits your needs.

Our variety of loan products, low interest rates and excellent customer service have helped more than 78,000 Kentucky households become homeowners since 1972.

Congratulations on taking this first step!

Sincerely,
The Kentucky Housing Team

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Benefits of Homeownership

Homeownership can offer many benefits to you if you are a single person or to you and your household. It is usually a household's first step towards the creation of wealth. If you take good care of your home, its value increases over time. This is called equity, which you can use to buy more goods and services, start your own business, pay for a college education, take a dream vacation or spend however you wish. Additionally, homeownership typically offers income tax benefits, that can save you money annualy.

Homeowners are good for communities – they care about the future of the community because they have a long-term stake in it. Homeowners provide support for the local school system, fire and police departments and city government.

What real benefits do homeowners have?

Being a homeowner can give you a sense of stability and permanence in addition to establishing equity. It gives you the flexibility to make home improvements wherever and whenever you want. You are not subject to periodic rent increases and the interest you pay may be tax deductible (in some cases up to 100 percent!) Consult a tax specialist for more information.

ARE YOU READY TO BUY A HOME?

Buying a home is a big step. In addition to recognizing the financial commitment, you will want to take a few minutes to assess:

- Your job history and your income.
- How you have paid your bills (your credit history) and how much you owe.
- How much money you have saved for a down payment.

These are all considerations when preparing to buy a home. If you are unsure of your strengths in these areas, talk to a Kentucky Housing Corporation-approved lender. If you need to work on your budget or credit, you can enroll in one of Kentucky Housing's homeownership education classes with one of our approved homeownership counselors.

If you are ready to buy, the best way to find out about Kentucky Housing's home loans is to contact an approved lender. We partner with approved lenders and banking institutions across the state to provide you with the best mortgage loan options. To find a Kentucky Housing partner lender, visit **www.kyhousing.org** or call toll-free (800) 633-8896 or (502) 564-7630, extension 222, or TTY 711.

The lender can tell you more about Kentucky Housing's rates and guidelines. If you are not sure how much you can afford to pay for a house, the lender can help you develop an estimate. The lender will evaluate your assets, debts and sources of income. Based on this preliminary analysis, they will tell you the amount for which you would qualify (prequalification). Once you find the home you want to purchase, your lender will verify that the information you provided and received during your prequalification is accurate during the application process.

LIVING ON A BUDGET

Budgeting helps you control your financial future. A budget helps you prepare for large expenses and helps you see items that are costing too much. Having a solid budget allows you to control your finances rather than letting your finances control you. Budgeting forces you to look at your financial situation the way it really is. You can then make the best decisions.

Budgeting is an important part of preparing yourself for the purchase of a home. It helps you to save for the up-front costs and strengthens your loan application. If you stick to your budget, you will be able to save the money needed for the down payment, closing costs and any emergencies that may come up, without sacrificing your ability to pay your bills. Because you have established a regular savings plan as part of your monthly budget, it becomes automatic to save for the future.

Be sure to save enough to cover the many expenses facing the new homeowner. These can include moving, utility hook-ups, tools, maintenance supplies, furniture and even window treatments.

OBTAINING FINANCING – CREDIT

For most of us, a home is the largest single purchase we will ever make. Obtaining financing for a home is a more complex process and takes more time than buying a car.

You will first need to prove that you have enough income to make your monthly mortgage payment without neglecting your other monthly financial obligations. This is called “qualifying” for the mortgage loan. Making sure you qualify for a home loan before you purchase protects you and your credit after you purchase.

Once you apply for a mortgage loan, you undergo a very thorough credit investigation and verification. The lender needs information regarding your employment and your payment history. This is why it is important to establish a good credit record early. The lender also verifies all the information either in writing or by telephone.

After you have passed the credit review, the lender looks at your total financial picture to determine if you are a good credit risk for the mortgage. If the answer is yes, you can proceed with finding a home and contacting a closing attorney to meet the legal requirements to purchase the home. If the answer is no, the lender provides you with specific information about why the loan was declined and what must be done to correct the areas of concern.

Here are some suggestions to receive favorable mortgage credit:

- Start building good credit records from the beginning by always making your monthly payments (car loans, rent, utilities, etc.) on or before the due date.

- Research and educate yourself on mortgage terms and different types of mortgage financing.

- **Do not sign anything** without a full explanation that you understand. You have the right and responsibility to ask questions.

MONTHLY PRINCIPAL AND INTEREST

Loan Amount	6.0%	6.25%	6.50%	6.75%	7.0%	7.25%	7.50%	7.75%
$ 80,000	$480	$493	$506	$519	$533	$546	$560	$574
$100,000	$600	$616	$632	$649	$665	$683	$700	$717
$120,000	$719	$739	$758	$778	$799	$819	$840	$860
$140,000	$839	$862	$855	$908	$932	$956	$979	$1,003
$160,000	$959	$985	$1,011	$1,038	$1,065	$1,092	$1,119	$1,147
$180,000	$1,079	$1,108	$1,138	$1,167	$1,198	$1,228	$1,259	$1,290
$200,000	$1,199	$1,231	$1,264	$1,297	$1,331	$1,365	$1,399	$1,433
$220,000	$1,319	$1,355	$1,391	$1,427	$1,464	$1,501	$1,539	$1,577
$240,000	$1,439	$1,478	$1,571	$1,557	$1,597	$1,638	$1,679	$1,720
$260,000	$1,559	$1,601	$1,643	$1,686	$1,730	$1,774	$1,818	$1,863

Many factors will be considered during the home buying process, but none as critical as your ability to make your monthly mortgage payment. Above is a table to help you get an estimate of how much house you can afford and what your monthly house payment could be.

ESTIMATING YOUR MONTHLY PAYMENT

To estimate your monthly home loan payments use the chart above. A worksheet is provided on the next page. First, find the loan amount that is close to the amount you think you will need for a home. For this exercise, we assume the loan amount is the same as the purchase price. Move across the columns to find the interest rate for your loan. Your lender can tell you what Kentucky Housing's current interest rate is or you can visit our Web site for current rates at **www.kyhousing.org**. The dollar amount in the box where your loan amount and interest rate meet is the amount of the principal and interest included in your proposed house payment.

Estimate your total monthly payment using the worksheet below:

	Example	Your Estimate
Estimated monthly principal and interest (from chart) (for a $120,000 loan at 6.75 percent interest)	$ 778	$ ________
Estimated monthly taxes and insurance (purchase price x 0.0016 – local requirements vary)	+ 192	+ ________
Estimated monthly mortgage insurance (loan amount X 0.005 divided by 12 months)	+ 50	+ ________
Total estimated monthly mortgage payment	$ 1,020	$ ________

(Note: Monthly mortgage insurance is required with FHA loans and will vary with conventional loans, depending on amount of down payment and credit score. The Kentucky Housing-approved lender will tell you about the insurance requirements.)

DEBT-TO-INCOME RATIO

One of the most important factors in the loan approval process is the amount of debt you hold compared to your gross income (income before taxes and deductions). The relationship between the amount owed and the amount of income is called a debt ratio. The lender uses two types of debt ratios in deciding whether to approve a loan:

1) the ratio of the proposed house payment to monthly gross income, and

2) the ratio of total monthly debt and proposed house payment to monthly gross income. The following example will help you estimate your debt ratios.

STEPS

a) Enter your monthly gross household income, including all nontaxable income and stable child support. $__________(1)

b) Enter your total estimated monthly mortgage payment from previous worksheet. $__________(2)

c) Enter your total of all monthly payments on debts including the proposed house payment. This will include such items as car loans, credit cards, child support payments, student loans, etc. **Do not** include expenses such as utilities, child care expenses and food. $__________(3)

d) Now calculate the house payment to monthly income ratio.

$________divided by $________equals _______________%

(2) (1) (should not exceed 29%)

e) Now calculate the total debt to monthly income ratio.

$________divided by $________equals _______________%

(3) (1) (should not exceed 41%)

If you exceed the 29 percent or the 41 percent ratios, you may need to consider a lower-priced home. Please keep in mind that low ratios do not always lead to loan approval and slightly higher ratios do not always lead to loan denial. There are other factors that are considered including your credit record, job stability, savings ability and potential increases in income.

Caution: The calculation of ratios **does not** include the other expenses incurred on a monthly basis. These expenses include food, child care, car insurance, utilities, etc. Ratios are based on your gross income (before taxes are taken out). Be sure your proposed house payment will not create budget difficulties.

Step 3 – Finding a Lender to Suit Your Needs

KENTUCKY HOUSING-APPROVED LENDERS

It is often suggested that a home buyer should begin the process of buying a home by speaking with a lender. By doing this, the buyer will know how much house they can afford based on their income and debts. Many real estate agents prefer customers do this before looking for a home because it helps define the search criteria based on what the buyer can afford.

For all Kentucky Housing loans, a home buyer must apply through a lender that has been approved to handle our loans. The lender will take you through the qualifying guidelines and the application process.

The lender will help determine how much home you can purchase, analyze your credit and give you a Good Faith Estimate. This details all the costs associated with your loan including down payment, closing costs and prepaid items. Additionally, the lender will be able to recommend any Kentucky Housing down payment assistance program for which you may qualify.

AVOID PREDATORY LENDERS

Predatory lending can happen even before you buy your home. If you enter an agreement with an unreliable lender, you could end up with unusually high interest rates and unnecessary costs. If you receive an offer suggesting that slow repayments or bad credit is not a problem, you should not call them.

ALWAYS remember if you have any questions or suspicions that are left unanswered, walk away. Talk to someone you trust about your financial situation before you sign anything.

Do Your Homework—Shop Around.

Learn the warning signs of a predatory loan. If it sounds too good to be true, it probably is. Sometimes, though, it may be hard to tell. Here are some signs you may be dealing with a predatory lender:

1. Ads promising, "No credit … No problem."
2. Unusually high-interest rates, high fees and high closing costs.
3. Aggressive sales techniques.
4. No Good Faith Estimate provided.
5. Prepayment penalties.

The Kentucky Predatory Lending Prevention Committee has established a toll-free hotline so that consumers can ask questions about what they are signing. Counselors will help you determine whether loan terms are reasonable or risky.

DON'T BORROW TROUBLE®

KENTUCKY

Call toll-free **(866) 830-7868**

ADJUSTABLE RATE MORTGAGE

An adjustable rate mortgage, called an ARM for short, is a mortgage with an interest rate that is linked to an economic index. The interest rate and your payments, are periodically adjusted up or down as the index changes.

The terms below are associated with ARMs.

Index – An index is a guide that lenders use to measure interest rate changes. Common indexes used by lenders include the activity of one, three and five-year Treasury securities, but there are many others. Each ARM is linked to a specific index.

Margin – Think of the margin as the lender's markup. It is an interest rate that represents the lender's cost of doing business plus the profit they will make on the loan. The margin is added to the index rate to determine your total interest rate. It usually stays the same during the life of your home loan.

Adjustment Period – The adjustment period is the period between potential interest rate adjustments.

Other Considerations for ARMs

Although payments can go up, many people still consider ARMs. The initial interest rate for an ARM is lower than that of a fixed-rate mortgage, where the interest rate remains the same during the life of the loan. A lower rate means lower payments, which might help you qualify for a larger loan.

For many people, the length of time they plan to own the home is a major factor of consideration. The possibility of rate increases is typically not a concern if you plan to sell the home within a few years.

Sometimes home buyers are in a position where they know their income will increase within the next few years. If so, the extra funds might cover the higher payments that result from rate increases.

Some ARMs can be converted to a fixed-rate mortgage. However, conversion fees could be high enough to take away all of the savings you saw with the initial lower rate.

While you cannot dictate which index a lender uses, you can choose a loan and lender based on the index that will apply to the loan. Ask the lender how each index used has performed in the past. Your goal is to find an ARM that is linked to an index that has remained fairly stable over many years.

When comparing lenders, consider both the index and the margin rate being offered.

OPTION ARM

An option ARM is an adjustable-rate mortgage that typically lets borrowers choose one of four different payments each month. From smallest to largest, they are: (1) a minimum monthly payment, (2) an interest-only payment, (3) full principal and interest amortized over 30 years or (4) full principal and interest amortized over 15 years.

Those who choose the interest-only payment pay no principal that month, but they pay the full amount of interest due, so their loan balance stays the same.

Those who choose the minimum payment pay no principal and less interest than what accrues on the loan. The unpaid interest is added to the loan balance, resulting in what is known as negative amortization.

If borrowers continue to make the minimum payment, their loan balance will grow, and if interest rates rise, it will grow even faster. When the balance reaches a certain point – usually 110, 115 or 125 percent of the original balance, depending on the loan – the loan is “recast” and the minimum payment goes up.

The loans are often pitched as a good option for people with variable incomes – such as the self-employed and those who get year-end bonuses – because they can adjust their monthly payments.

However, option ARMs are also being used by people to buy more house than they could otherwise afford, which is likely to cause default and foreclosure on the home if interest rates rise.

INTEREST ONLY

With an interest-only mortgage loan, the borrower only pays the interest on the mortgage in monthly payments for a fixed term. After the end of that term, usually five to seven years, they either refinance, pay the balance in a lump sum or start paying off the principal, in which case the payments jump skyward.

Like with the option ARM, the interest-only mortgage allows a borrower to buy more house than they can afford and can result in default and foreclosure after the end of the initial term.

BALLOONS

If you know you will be moving in five to seven years, and you would like a lower-interest rate but are uncomfortable with an adjustable rate, the balloon mortgage may be for you. These loans often have a lower interest rate than a conventional 30-year mortgage, but the loan is due in five to seven years. If you are still in the house at the end of the term, you will have to go through the loan approval process all over again to find another mortgage to pay off the first one.

FIXED RATE

Fixed-rate mortgages are the traditional loans that have a fixed-interest rate over the life of the loan, typically 30, 20, 15 or 10 years. With these loans, your monthly payment for interest and principal never changes (your escrow expenses, such as property taxes and insurance, may change from year to year). Down payments required on these loans can be as low as 3 percent. In some cases a down payment is not required. If you want predictable payments over the life of your loan and do not mind paying a bit more for this assurance, the fixed-rate mortgage may be the best option for you.

KENTUCKY HOUSING CORPORATION

In addition to the stability of having a 30-year, fixed-rate mortgage, Kentucky Housing does not sell loans like other mortgage companies. If you choose to get a Kentucky Housing loan, your mortgage payment will always remain the same (although your insurance and taxes may vary), which gives you stability and security that your loan will always be serviced by Kentucky Housing Corporation.

SELECTING A REAL ESTATE PROFESSIONAL

Once you know how much house you can afford, you can start looking for a home to buy. Although you can choose to look on your own, it is very beneficial to utilize the services of a real estate professional, an expert who knows which homes can meet your requirements and desires.

If a seller is using a real estate agent to sell their home, the seller has already entered into a listing contract for that agent's assistance. The seller typically pays the fees for the real estate agent's assistance.

Just because the seller is using an agent to represent them in the sales transaction, it does not obligate you to use that agent to represent you. You can find a real estate agent on your own to help you find a home, help you in negotiating the sales price and assist you in understanding the process. Your agent can provide you with information about the different neighborhoods where you might want to live, as well as suggestions that you may not have considered. Your agent can give you practical advice about what you should look for in a home.

Your agent can also help you in other ways, too. They can help you find homeowner's insurance, help with the transfer of your utilities and help with home inspections. They can help educate you through the entire process. All of these services add value to the process.

A real estate professional plays a very important role in the home buying process and should be selected with care. Before selecting your agent, ask for recommendations from family and friends and interview several agents to have a better idea of what each one is like and what each offers you. The relationship between a real estate professional and a buyer should be one of mutual respect and trust, similar objectives and, frequently, a written agreement specifying the terms and conditions of the agent's representation of the buyer.

The ideal real estate professional:

- Understands your needs and objectives.
- Is professional and dedicated to doing a good job.
- Knows the area where you want to live.
- Knows how much you can spend on a home.
- Has a valid real estate license or certificate.
- Has excellent references from other clients.
- Treats you with the respect that you deserve.

WHAT IS A REALTOR®?

Some people think that all real estate agents are "Realtors®," calling agents by that name generically without realizing that not every agent can legally use the title.

A REALTOR®, is a real estate agent or affiliated real estate professional who is a member of the National Association of REALTORS®, called NAR for short. REALTORS® are located in all parts of the world.

REALTOR® CODE OF ETHICS

When agents become REALTORS®, they must agree to conduct their business in a way that adheres to the NAR's Code of Ethics. The REALTOR® code covers ethical requirements that deal with all aspects of the job, from working with consumers and fellow agents to writing truthful advertising. For more information, visit **www.realtor.org**.

WHAT TO LOOK FOR IN A HOME

Before you begin searching for a home, it is important that you decide what characteristics you want in your home. Use the Home Comparison Data Chart provided on the next page to write down the desired characteristics of your first home and use it to evaluate how the different homes you look at meet your desires. Make several copies of the chart and carry them with you as you search for a home, keeping in mind which characteristics you consider essential in the home you purchase. If you fill in the information as you look at homes, you will be able to remember the different homes you see and can evaluate the homes fairly, using the same criteria regardless of when you see them.

Once you have decided which characteristics you want your home to have and in which neighborhoods you are interested in living, you should begin to view homes for sale with your real estate agent. During this period, it is important that you make a thorough evaluation of the properties that you visit.

Get accustomed to viewing properties with a critical eye. Inspect each home thoroughly, making sure you look at and evaluate each area that you consider important in your home. Feel free to take pictures or video so that you can remember what you liked or disliked in each home and make sure that you keep detailed notes on your Home Comparison Data Chart *(on the following two pages)*.

OTHER DETAILS TO CONSIDER

Here are some additional important house hunting tips to consider as you search:

- Read a sample of the purchase contract very carefully. Ask the real estate agent to explain all items you do not understand.

- If you make an offer to purchase a house, make it contingent (conditional) upon your ability to obtain satisfactory loan financing. This means you are not obligated to buy the house if you cannot secure an acceptable loan.

For example: “This transaction is contingent upon receiving financing through Kentucky Housing Corporation.”

- When making an offer on a house, you must make an “earnest money” deposit. This shows your good faith intention to purchase the house. Pay the minimum amount of earnest money possible.

HOME COMPARISON DATA CHART

	HOME 1
LOCATION INFORMATION AND DIMENSIONS	
Address	
Sales Price	
Type of Housing (single-family, condo, townhouse, ranch, two-story, etc.)	
Lot Size	
Type of Neighborhood	
Deed Restriction/Covenants	
Community (schools, shopping, commute)	
EXTERIOR	
Style/Age and Condition	
Yard/Landscaping	
Garage	
Siding or Brick	
Driveway	
Windows/Doors	
Roof	
INTERIOR	
No. of Bedrooms	
Kitchen	
Dining Room	
Appliances	
No. of Bathrooms	
Living Room	
Deck/Patio	
Basement/Attic Storage	
Other	
EQUIPMENT AND MECHANICS	
Heating System	
Water Supply	
Sewer or Septic Tank	
Plumbing	
Electrical (amps)	
Insulation	
Air Conditioning	
Other	

	HOME 2	HOME 3

It is typically not cashed until the loan closing and added to the overall amount of money you borrow.

- Arrange for an acceptable home inspection by a qualified inspector. An inspector will check for defects and safety-related issues of your potential new home, including utilities, roof, quality of construction, wiring, plumbing, etc. An inspection usually costs between $200 and $300, but is well worth the money spent on it.

- Decide up front who will pay for the repairs and include this agreement in the purchase contract. Please remember that an appraisal is only an estimate of property value. It does not mean the property is free of defects. If you receive down payment and closing costs assistance from Kentucky Housing, the seller must pay for all repairs.

- **Buyer Beware**: While you have the right to expect that your home is built in accordance with all applicable local, state and federal building codes and ordinances, it is up to you – the buyer – to question and verify these are, in fact, true. Research your purchase before you buy.

The Difference Between Home Inspection and Appraisal

A home inspection is an examination of a property to determine the condition of the structure and mechanical systems. A home inspection is not required, but is recommended to buyers. The inspection gives valuable information on the home's structural condition and mechanical systems and only takes two to three hours to complete. It is recommended that a home buyer include a home inspection contingency in their Offer to Purchase contract. By making the offer contingent on an acceptable home inspection, a buyer has the option to withdraw the Offer to Purchase if the inspection reveals problems that neither the buyer or the seller is willing to correct.

An appraisal is an estimate of the value of a home and is required by the lender. An appraisal does <u>not</u> indicate if a home needs repairs.

INFORMATION NEEDED

You are only a few steps away from realizing your dream of homeownership. Once you have found a house and made an offer to purchase, it is time to apply for your loan and get the loan process started. You will probably want to work with the Kentucky Housing approved lender that pre-qualified you. If not, look for a Kentucky Housing approved lender on the "***Homeownership***" page of Kentucky Housing's Web site, and schedule an appointment with a loan officer.

INITIAL FUNDS NEEDED

There will be certain expenses that must be paid upfront when purchasing a home.

<u>**Earnest Money or a Good Faith Deposit**</u> – You might be asked to put down a cash deposit (several hundred dollars to several thousand depending on the value of the home and the market) towards the down payment that shows your commitment to buying the home. Ask your real estate agent how much money is needed for a deposit and use your prequalification certificate to back up your offer to the seller. It is typically not cashed until the loan closing and added to the overall amount of money you borrow.

<u>**Credit Report**</u> – While we realize that many people do not have *perfect* credit, a home buyer must have good credit in order to get a loan. Credit standards vary depending on the loan type. Your lender will pull your credit report from all three major credit reporting agencies.

<u>**Appraisal**</u> – All homes are required to be appraised. This is a report made by a qualified person, which states his opinion as to the value of a property.

CHECKLIST

To be approved for a loan, a lender must research your sources of income, your debts and your credit history. You have already given the necessary information to pre-qualify you for a loan. Now is the you must formally apply for a loan, filling out a complete application and supplying the documents that verify the information that you have given. Having the proper documentation makes the loan process much quicker and easier for everyone. Use this checklist when gathering your documentation.

- ☐ Personal check to pay for credit report and appraisal. Contact your lender in advance to get an estimate of these costs.
- ☐ Evidence of Social Security number for each applicant.
- ☐ W-2s for the past two years.
- ☐ Tax forms for the past two to three years.
- ☐ Completed purchase contract signed and dated by the buyer, the seller and any real estate agents involved.
- ☐ Seller's Disclosure of Property Condition (if real estate agent is involved).
- ☐ Copy of signed, court-entered divorce decree and property settlements with verification of child support or maintenance paid or received (if applicable).
- ☐ Copy of bankruptcy discharge papers and a written explanation from applicants of the reasons for filing bankruptcy (if applicable).
- ☐ Landlord's name(s), address(es) and phone number(s) for the last two years.
- ☐ Name(s) and address(es) of ALL employers for past two years for each applicant.

- [ ] Paycheck stubs covering the past 30 days.
- [ ] Any proof that you are receiving other sources of income.
- [ ] Most recent two months' bank statements for accounts (savings, checking, etc.).
- [ ] If applying for a VA loan, copy of DD-214 and VA Certificate of Eligibility.
- [ ] If a family member will be giving you money (gift funds) to be used in purchasing a home, provide the amount and source of the gift.
- [ ] Other items requested by lender.
    - [ ] ______________________________
    - [ ] ______________________________
    - [ ] ______________________________

Step 7 – Loan Process

REVIEWING THE APPLICATION

Once you complete the application form and the lender has the requested information, the process moves ahead.

Good Faith Estimate – At the time you apply for a loan, or within three days, the lender gives you a form called a Good Faith Estimate. This is an estimate of what your home loan will cost you. These costs include down payment, closing costs and prepaid expenses. If you do not have enough money saved to cover those costs, you can apply for a Kentucky Housing DAP (down payment and closing costs assistance) loan.

Verifying Information – The lender verifies all the information on the loan application by contacting your employers, landlords and financial institutions. Also, the lender orders a copy of your credit report, which provides the lender with your credit score. The lender will additionally order an appraisal of the home you want to buy.

Underwriting – Final assessment regarding ability to repay – Next, the lender gives your loan file to a loan underwriter for review. The underwriter looks at all the information provided and then decides whether to approve the loan.

During the underwriting stage, three areas are reviewed:

- Your ability to repay the loan
- Your credit record
- Appraised value of the property

The underwriter reviews your income and compares it to your expenses and debts to determine if the new loan payment fits your budget.

Once the underwriter reviews all the information, he or she decides whether to approve your loan. If the loan is approved, the lender prepares for the loan closing.

If the underwriter does not approve your loan, the reasons why are stated. It is important that you find out why the loan was not approved so that you can work to change the situation and try again at a later time. Kentucky Housing Corporation also offers credit counseling that helps applicants whose loans were denied due to credit and/or budget issues.

LOAN CLOSING

The loan closing is a meeting where the buyer and the seller sign the loan documents with an attorney present. There are several items to address prior to the actual closing day.

Final Repair Inspection/Walk-Through – You or your real estate agent should inspect the house again before the loan closing. If the inspection requires that repairs be made to the house, they must be completed prior to the loan closing. In most cases, an inspection by a third party will be required once repairs are completed.

Survey, Title Search, Termite Inspection – The lender may order a survey to identify the true boundaries of the property, the placement of the house on the property and any easements or encroachments. A title search is made to ensure no other liens (debts) exist on the property at closing and to ensure that proper transfer of the title can occur. A termite inspection may also be ordered, although not required unless the inspector finds possible infestation or damage. If termites are found, the house must be treated. If damage exists, repairs may need to be made.

Homeowner's Insurance – You must purchase homeowner's insurance (hazard insurance) and bring the policy to the loan closing, along with a receipt showing payment. Ask the lender how much insurance coverage is required. If the property is located in a flood area, flood insurance is also required.

Before the Closing – Remember that you may ask for a copy of closing documents in advance. This will give you a pressure-free opportunity to review and understand the terms of your financing. If you have any questions, you can consult your real estate agent, your lender or your attorney prior to closing.

<u>Closing Day</u> – The lender schedules the closing date with a local attorney. The attorney prepares the loan documents, including the mortgage, note, settlement statements, etc. The closing typically takes one or two hours.

The three most important documents you will sign are the note, the mortgage and the deed. The note represents your promise to pay Kentucky Housing Corporation, according to the agreed terms, including the dates on which your home loan payments must be made and the location to which payment must be sent. The mortgage is a contract that makes your home the security on the loan or guarantees its repayment. The deed is the document that transfers ownership of the property from the seller to the buyer.

MAKE SURE the terms are what you expect. This is not the time to find out about a change in rate, loan type, etc. This is probably one of the biggest decisions many people will make in their lifetime, so it is okay to ask questions.

At the closing, you must provide funds to pay for the down payment, closing costs and prepaid fees. You may pay these with your own funds, with a Kentucky Housing Corporation DAP loan and/or a gift from a relative. For these, you will need to obtain a certified or cashier's check. The lender will let you know in advance how much money to bring to closing.

When the closing is finished and all the papers are signed, **YOU ARE A NEW HOMEOWNER!** Congratulations!

Step 8 – Protecting Your Investment

MAKING YOUR PAYMENTS

While your local lender handled your Kentucky Housing loan transaction, Kentucky Housing Corporation provides the money for the loan and you will make your monthly payments to Kentucky Housing. At the loan closing, you will receive instructions on how and when to make your payments. Soon after the closing, you will receive a letter from Kentucky Housing along with a coupon book to use in making all future payments.

You will **not** receive a monthly bill for your loan payment. It is your responsibility to plan for each monthly payment. Mortgage payments are generally due on the first day of each month.

WHAT YOUR PAYMENTS INCLUDE

Each month, your mortgage payment includes principal, interest, taxes and insurance (PITI). The principal portion of your payment reduces the amount borrowed. Interest is the cost of borrowing the money. The tax and insurance portion of your payment is held each month in a separate account called an escrow account to accumulate the money needed to pay your annual property tax, annual homeowner's insurance and annual mortgage insurance. Kentucky Housing makes these annual payments for you using the funds in your escrow account.

WHEN PROBLEMS OCCUR

Loan Servicing – If you encounter any problems, such as unemployment or other loss of income, which may affect the timeliness of your payment, your first call should be to Kentucky Housing's Loan Servicing Department - **(800) 341-5622**. Loan servicing representatives will work with you on a solution to enable you to keep your home. Remember, that it is very important to make your payments on time and for at least the amount due if you want to protect your credit.

Insurance – If your home is damaged by a fire or by some other occurrence that is covered in your insurance policy, call your insurance agent and fill out a claim immediately. A claims adjustor will do an inspection of the property to determine the cash value of the damages. Once this has occurred, the insurance company will issue a check to you and to your mortgagor.

Other Obligations – Your loan requires that you maintain your property. This requirement exists to protect your investment and to increase the value of your property. When you make any repairs or improvements, make sure to always use a licensed contractor, plumber, electrician, etc.

Additional Costs – When you buy a home, be prepared for certain additional costs that all homeowners have, such as electricity, gas, trash collection, water and sewer service, home maintenance and landscaping. Also, make sure to have savings to quickly repair or replace fixtures, appliances, heaters, air-conditioning, plumbing and structural damages, if needed.

Predatory Lending Tactics – After You Move In

Recent news reports have focused on the growing number of people being victimized by predatory lending practices.

While this may not be on your mind right now, it pays to be prepared for the money-lending offers you may begin to receive by telephone, door-to-door solicitors and mail offers after buying your home.

The scenario is often the same. A struggling homeowner or retiree needs money for an unexpected emergency. Sometimes, it may be only $1,000. However, because of credit history or a current financial situation, they are not able to borrow from their bank and end up at a lender where credit history is “no problem.” Needing extra money for emergencies is a reality for most people, but the details of any borrowing arrangement should be reveiwed carefully so that you do not become a victim.

Examples of predatory lending practices include:

- Loans to homeowners based on the value of the home and ***not*** their ability to repay.
- Unusually high interest rates.
- Excessive costs to close without lowering the interest rate.

Review all documents before signing them. If you have any questions, ask the attorney or call the *Don't Borrow Trouble Kentucky* toll-free hotline – (866) 830-7868.

TAKE PRIDE IN YOUR HOME. Buying a home is the largest, most important, single purchase most people ever make. Take pride in your home by taking care of it and always make your monthly payments on time to keep your good credit record.

We are committed to serving your housing needs. We look forward to hearing from you soon.

If you have more questions about the home buying process, call toll-free **(800) 633-2296** or **(502) 564-7630**, extension 222, or TTY 711.

Glossary of Terms

Abstract of Title: A written history of the property title from its origin to the present.

Accrued Interest: The amount of interest due since the last payment.

Adjustable Rate Mortgage (ARM) Loan: A mortgage in which the interest rate changes periodically according to a predetermined index.

Agreement of Sale *(purchase contract, purchase agreement, sales agreement)*: A written document by which a buyer agrees to buy and a seller agrees to sell a property.

Amortization: The payment of a debt in equal installments that results in the retirement of the debt.

Amortization Schedule: A list of each payment due on a mortgage loan, which shows the amount applied to the principal, the amount applied to interest and the remaining principal balance.

Annual Percentage Rate (APR): A percentage of the amount of the home loan that represents the total annual cost of the loan, including finance charges.

Application: The forms used and the process of asking for a home loan.

Application Fee: A fee to cover the costs of processing the application, documentation and verification.

Appraisal: The report made by a qualified person, in which he gives his opinion as to the value of a property.

Appreciation: An increase in the value of real estate (property).

Balance Sheet: A statement of assets, liabilities and net worth.

Balloon Payment: This is a large payment usually at the end of the loan term often after a series of low monthly payments, applicable only with this certain type of home loan.

Borrower *(and Co-Borrower)*: The individual(s) borrowing money from the lending institution.

Cap: A limit on the maximum that interest rates can rise on an adjustable rate mortgage during a specified period and over the life of the loan.

Closing Agent/Attorney: The closing agent or closing attorney develops various documents required for the closing of the mortgage loan. They conduct the closing and are responsible for explaining the documents to the borrower and the seller. The closing agent also does a title search of the property to ensure that clear title can be transferred to the borrower. They obtain needed signatures and record the transaction with the appropriate local government agency.

Closing/Settlement: The conclusion of the transfer of ownership on a property.

Closing Costs: Costs associated with the transfer of ownership of a property. These include costs such as attorney's fee, title search, appraisal fee, filing of the mortgage deed, points and annual fees. Before closing the loan, the lender must provide the borrower with a detailed list of the actual closing costs.

Credit Report: A report carried out by a credit reporting agency and used by the lender to determine whether an applicant is eligible for credit.

Depreciation: The loss of value in real estate (property).

Discount or Discount Points or Points: Finance charges paid at the beginning of a loan. One point equals one percent of the loan amount.

Down Payment: The portion of the amount for the purchase of real estate that is given in cash and in advance by the borrower.

Earnest Money or Good Faith Deposit: The deposit made by the person buying a property to a third agency, which is held until the transaction is completed.

Finance Charge: The total dollar amount you pay to use credit.

First Mortgage: A mortgage having priority over all other liens.

Fixed Rate: You make equal monthly payments of principal and interest until the debt is paid in full.

Home Buyer Educator/Homeownership Counselor: Professional home buyer educators and homeownership counselors who help people obtain and/or retain homeownership. Home buyer educators conduct classes or other group educational experiences for potential and new homeowners. A homeownership counselor works with clients one-on-one to advise them throughout the home buying process and assists them with individualized credit and financial management.

Homeowner's (or Hazard) Insurance: An insurance policy whereby, for a premium, an insurer agrees to insure a property in case of a loss.

HUD-1 Settlement Statement: Itemizes the charges to the buyer and the seller and shows how the money is paid out.

Interest Rate: The percentage of an amount of money that is paid for the use of that money over a period of time.

Judgment Lien: A judgment by the court and placed as a lien against a property.

Lender: The bank, savings and loan, mortgage company, credit union, etc., that makes mortgage loans available.

Loan Amount: The dollar amount of the credit that is provided to the borrower. This includes any cash the borrower receives, as well as the amounts the borrower may pay to other creditors and fees paid by the borrower or the lender.

Loan Officer: The loan officer works to pre-qualify the borrower or take the loan application.

Loan Processor: The loan processor is the person who verifies the information the borrower gave the loan officer, obtains an appraisal and credit report and packages the loan file for review.

Loan Servicer: After the loan closes, the borrower sends the monthly mortgage payment to the loan servicer. The loan servicer may be the lender that made the loan, or they may release the servicing of the loan to another organization. The lender will notify the borrower of the correct address for sending payments.

Loan to Value (LTV) Ratio: The relationship between the value of property and the loan amount.

Loss Payee Clause: The clause in an insurance policy indicating who is to be paid in the event of a loss.

Margin: The percentage a lender adds to the index rate to determine the new interest rate.

Maturity: The due date of a note.

Monthly Payment Amount: The dollar amount due each month to repay the loan.

Mortgage: A legal document that transfers interest in a property and serves as a security for payment of a debt.

Mortgage Banker: A firm dedicated to real estate loans.

Mortgage Banking: The packaging of mortgage loans to be sold to a permanent investor.

Mortgage Investor: the borrower is not likely to meet your mortgage investor, but it is good to know what they do. About three out of four mortgage loans are sold to mortgage investors. Some mortgage investors include Fannie Mae, Freddie Mac and Kentucky Housing Corporation. Selling loans gives the lender more money for future lending activities. If the loan is sold to an investor, it will not affect the terms of the mortgage.

Mortgage Insurance: Insures the lender against loss caused by the borrower's failure to make the payments.

Mortgage Note: A written promise to repay stated amount of money at a stated interest rate over a stated period of time.

Origination Fee: A fee charged by a lender to cover the cost of the process of making a mortgage loan.

PITI: The acronym for Principal, Interest, Taxes and Insurance, usually the four parts of the monthly mortgage payment.

Points: *See Discount.*

Principal: The amount of a debt.

Private Mortgage Insurance (PMI): *See Mortgage Insurance.*

Purchase Contract: *See Agreement of Sale.*

Release of Lien: An instrument that discharges a lien.

RESPA: Real Estate Settlement and Procedures Act. A law that requires the lender to disclose information to the borrower, including a Good Faith Estimate of the borrower's closing costs.

Security Instrument: The mortgage or deed of trust of the property.

Service Fee: A fee charged to process the monthly payment associated with the loan.

Subordination: The act of acknowledging that a lien will have a position after a mortgage loan. This is accomplished by recording a Subordination Agreement.

Tax Lien: A lien against a property for unpaid taxes.

Term: The period of time over which a loan is paid.

Title Deed/Deed: A legal document evidencing ownership of a property.

Title Insurance Policy: A policy that protects the lender in the event of a loss due to a defect in the title. The owner's policy protects the owner in this same way.

Truth-In-Lending Disclosure: Outlines the costs of a loan and discloses the APR and other terms of the loan, including the finance charge, the amount financed, the payment amount and the total payments required. The lender is required to present the final version of a Truth-In-Lending disclosure at or prior to the closing meeting.

Underwriter: Reviews your loan file for the lender and approves it or turns it down.

Underwriting: The risk analysis of a borrower's loan application.

Kentucky Housing Corporation

Leading the way home...

1231 Louisville Rd. | Frankfort, KY 40601 | (800) 633-8896 | www.kyhousing.org

Notes

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