



Qualifying for Your Mortgage

Understanding Mortgage Basics

One of the first questions home buyers ask themselves when buying a home is “Can I afford it?” Most people do not have enough cash to purchase a home outright, so they borrow money from a lending institution in the form of a mortgage loan. Another concern buyers have is whether they have enough cash for their down payment. With Homewise, the buyer generally contributes a minimum of 2-5% of the sales price toward the down payment, and the mortgage loan and any financial assistance cover the balance of the cost of the home. Other loan programs may have different down-payment requirements. Through mortgage financing, the buyer gives the lender a mortgage lien on the property. This lien secures the debt and gives the lender the right to foreclose if payments are not made on the loan as agreed.

Your monthly mortgage payment

$$\underline{\hspace{2cm}} + \underline{\hspace{2cm}} + \underline{\hspace{2cm}} + \underline{\hspace{2cm}} = \text{PITI}$$

Key Terms

- P** _____ The amount borrowed, or unpaid balance.
- I** _____ The fee charged for borrowing money.
- T** _____ In New Mexico, this is paid to the County.
- I** _____ Financial protection for you and/or the lender (Including the two types listed below).
 _____ A type of insurance policy that combines liability coverage and hazard insurance.
 _____ Insurance that protects lenders against loss if a borrower defaults.
 _____ The holding of money in an account by a lender into which a homeowner pays money for taxes and insurance; also, the holding of documents and money by a neutral third party prior to closing.

Where do Your Payments Go?

Look at an Amortization Schedule!

This chart is part of an amortization schedule for a \$200,000, 30-year, fixed-rate mortgage at 5% interest. The monthly payment is \$1,073.64. The chart shows how much of your monthly payment repays the principal and how much goes to pay the interest.

Annual Interest Rate: **5%**

Loan Amount: **\$200,000**

Payment Amount (P&I): **\$1,073.64**

Total Interest: **\$186,511**

Number of Monthly Payments: **360**

Payment Number	Principal Portion	Interest Portion	Principal Balance
1	\$240.31	\$833.33	\$200,000.00
2	\$241.31	\$832.33	\$199,518.38
3	\$242.32	\$831.33	\$199,276.06
4	\$243.33	\$830.32	\$199,032.74
5	\$244.34	\$829.30	\$198,788.40
6	\$245.36	\$828.28	\$198,543.04
7	\$246.38	\$827.26	\$198,296.66
8	\$247.41	\$826.24	\$198,049.25
9	\$248.44	\$825.21	\$197,800.81
10	\$249.47	\$824.17	\$197,551.34
11	\$250.51	\$823.13	\$197,300.83
12	\$251.56	\$822.09	\$197,049.27
(Payments 13 through 348 are not shown)			
349	\$1,021.39	\$52.26	\$11,520.08
350	\$1,025.64	\$48.00	\$10,494.44
351	\$1,029.92	\$43.73	\$9,464.52
352	\$1,034.21	\$39.44	\$8,430.31
353	\$1,038.52	\$35.13	\$7,391.79
354	\$1,042.84	\$30.80	\$6,348.95
355	\$1,047.19	\$26.45	\$5,301.76
356	\$1,051.55	\$22.09	\$4,250.21
357	\$1,055.93	\$17.71	\$3,194.27
358	\$1,060.33	\$13.31	\$2,133.94
359	\$1,064.75	\$8.89	\$1,069.19
360	\$1,069.19	\$4.45	\$0.00

Making Payments Work for You: Prepayments

Prepayment Chart

This table illustrates how both the total amount of interest paid and the length of time it takes to pay off a mortgage of \$200,000 at 5% interest can be significantly reduced by making extra payments toward the principal of that mortgage. This is referred to as 'prepayment'. For example:

To pay off a \$200,000 Mortgage

Prepayment	Years to Payoff	Total Interest	Interest Savings
None	30 years	\$186,511	\$0
\$75 Per Month	25 years + 11 months	\$157,128	\$29,883
One Extra Mortgage Payment Per Year	25 years + 2 months	\$151,330	\$35,181

HELPFUL TIP

1) Always pay your mortgage by the first of the month. 2) Consider Automatic Payments so you'll never be late. 3) Prepayments—make additional payments on your mortgage so that your principal decreases more quickly. When making a prepayment use a separate check and write 'For Principal Only' in the check's note section. Always check with your lender for details on how to do this correctly!



Making Payments Work: Private Mortgage Insurance (PMI)

Beware of companies that charge a fee for their assistance with cutting your interest payments through bi-weekly payments. By paying bi-weekly, you'll make 26 half payments, or 13 full payments each year – one more full payment than you would make by sending the lender one monthly payment in order to pay down your principal balance more quickly. However, some companies charge a fee to set up this service, or add a fee to your bi-weekly payments. Evaluate whether the benefits of this service will outweigh the added costs, and be sure to read the fine print to understand the terms of any agreement that changes the payment of your mortgage loan. It is always your responsibility to make sure your payments are made and received on time.

A No-Added-Cost Option Available to You. Instead of the option above, you can contact your lender or loan servicer on your own and send in prepayments as it is convenient for you, or inquire about whether they have a bi-weekly payment plan without having to hire the services of any outside company to arrange that for you.

Saving Money On Private Mortgage Insurance

Private Mortgage Insurance (PMI) is required on most Conventional Loans with down payments of less than 20%. On a \$200,000 home, you would be required to pay PMI if your down payment was less than 20%, or \$40,000 ($\$200,000 \times 0.20 = \$40,000$). The relationship between the down payment and PMI payments on a \$200,000 home is as follows:

Down Payment	PMI Monthly Payment
\$40,000	-0-
\$30,000	\$ 87.83
\$20,000	\$ 93.00
\$10,000	\$148.83

PMI may be canceled on Conventional Loans once your equity has reached 20% and you've met certain other conditions. Keep an eye on your amortization schedule, prepay as often as possible, and contact your lender to request PMI cancellation when you believe your equity has reached 20%. The lender will consider your equity and the current market value of the home when determining whether to cancel PMI. PMI or your Mortgage Insurance Premium works differently for government loans, such as FHA, VA, or RDS/RHS loans. Talk to your lender for further details.



HELPFUL TIP

Homewise may be able to offer financial assistance to help you eliminate or reduce PMI payments. This financial assistance, made in the form of a second mortgage, counts toward part of your down payment for the purpose of eliminating or reducing added PMI payments on your loan.

Mortgage Qualification: The Four Cs

Lenders look at the following factors to determine whether you qualify for a mortgage loan and how much you qualify to borrow. These factors are often referred to as 'the Four Cs' of mortgage loan qualification.

1. Capacity

2. Credit History

3. Cash

4. Collateral

Qualifying Ratios are guidelines applied by lenders to determine the allowable loan amount to grant a potential homebuyer. Lenders use the following qualifying ratios:

_____ **% Housing Ratio or Front-end Ratio (PITI):** The maximum percentage of a borrower's gross monthly income that can be used to make the monthly mortgage payment.

_____ **% Total Debt-to-Income or Back-end Ratio (PITI and debt combined*):** The maximum percentage of a borrower's gross monthly income that can be used for the house payment, plus all other debts.**

* Debt includes only the minimum monthly payment amounts on revolving charge accounts, installment accounts, child support, and alimony.

** Qualification standards vary for different types of loans. Some lending programs have more flexible qualifying standards. However, one should watch out for lax qualifying criteria; these loans may have higher interest rates.

HELPFUL TIP

Debt affects how much you can borrow. Work with a Homewise Home Purchase Advisor to develop a debt reduction plan and keep paying down your debts – even after you've become 'buyer-ready' – to increase your purchasing power and options.



How Much Can the Martinez Family Afford?

Name: Henry and Gail Martinez

Family Size: 3

Gross Annual Family Income: \$50,000

Gross Monthly Family Income: \$4,166.67

Add all monthly payments on installment loans, credit cards, child support, etc.:

Car Loan 1: \$350

Credit Card 1: \$45

Car Loan 2: \$

Credit Card 2: \$35

Bank Loan: \$

Credit Card 3: \$

Student Loans: \$125

Other: \$

Child Support: \$

Other: \$55

TOTAL MONTHLY DEBT \$ _____

	Mortgage Purchasing Power with Current Debt	Mortgage Purchasing Power with No Current Debt
1. Total Monthly Debt	\$ 610	
2. Gross Monthly Household Income	<u>\$ 4,166.67</u>	<u>\$ 4,166.67</u>
3. Housing Expense Ratio (Front-End Ratio)		x 33% (or 0.33)
4. Debt-to-Income Ratio (Back-End Ratio)	x 43% (or 0.43)	
5. Maximum Mortgage Payment (PITI) with minimal or no current debt		<u>= \$ 1,375.00</u> (Multiply line 2 x line 3)
6. Maximum Total Debt	<u>= \$ 1,791.67</u> (Multiply line 2 x line 4)	
7. Total Monthly Debt (line 1 above)	<u>\$ -610.00</u>	
8. Maximum Mortgage Payment with current debt	<u>= \$ 1,181.67</u> (line 6 minus line 7)	
9. Estimated Taxes & Insurance Payments	-\$200.00	-\$200.00
10. Maximum Principal & Interest Payment (with & without debt)	<u>= \$ 981.67</u> (line 8 minus line 9)	<u>= \$ 1,175.00</u> (line 5 minus line 9)
11. Mortgage amount for which you would qualify (with & without debt) match amounts on line 10 to mortgage amounts on page 13.	<u>= \$</u> _____	<u>= \$</u> _____

Fixed Interest Rate Table

(Based on a 30-Year Term)

Mortgage Amount	Interest 4.00%	Interest 4.50%	Interest 5.00%	Interest 5.50%	Interest 6.00%	Interest 6.50%
\$120,000	\$572.90	\$608.02	\$644.19	\$681.35	\$719.46	\$758.48
\$125,000	\$596.77	\$633.36	\$671.03	\$709.74	\$749.44	\$790.09
\$130,000	\$620.64	\$658.69	\$697.87	\$738.13	\$779.42	\$821.69
\$135,000	\$644.51	\$684.03	\$724.71	\$766.52	\$809.39	\$853.29
\$140,000	\$668.38	\$709.36	\$751.55	\$794.90	\$839.37	\$884.90
\$145,000	\$692.25	\$734.69	\$778.39	\$823.29	\$869.35	\$916.50
\$150,000	\$716.12	\$760.03	\$805.23	\$851.68	\$899.33	\$948.10
\$155,000	\$739.99	\$785.36	\$832.07	\$880.07	\$929.30	\$979.71
\$160,000	\$763.86	\$810.70	\$858.91	\$908.46	\$959.26	\$1,011.31
\$165,000	\$787.74	\$836.03	\$885.76	\$936.85	\$989.26	\$1,042.91
\$170,000	\$811.61	\$861.37	\$912.60	\$965.24	\$1,019.24	\$1,074.52
\$175,000	\$835.48	\$886.70	\$939.44	\$993.63	\$1,049.21	\$1,106.12
\$180,000	\$859.35	\$912.03	\$966.28	\$1,022.02	\$1,079.19	\$1,137.72
\$185,000	\$883.22	\$937.37	\$993.12	\$1,050.41	\$1,109.17	\$1,169.33
\$190,000	\$907.09	\$962.70	\$1,019.96	\$1,078.80	\$1,139.15	\$1,200.93
\$195,000	\$930.96	\$988.04	\$1,046.80	\$1,107.19	\$1,169.12	\$1,232.53
\$200,000	\$954.83	\$1,013.37	\$1,073.64	\$1,135.58	\$1,199.10	\$1,264.14
\$205,000	\$978.70	\$1,038.70	\$1,100.48	\$1,163.97	\$1,229.08	\$1,295.74
\$210,000	\$1,002.57	\$1,064.04	\$1,127.33	\$1,192.35	\$1,259.06	\$1,327.34
\$215,000	\$1,026.44	\$1,089.37	\$1,154.17	\$1,220.75	\$1,289.03	\$1,358.95
\$220,000	\$1,050.31	\$1,114.71	\$1,181.01	\$1,249.14	\$1,319.01	\$1,390.55

How Much House Can YOU Afford?

Name: _____ Family Size: _____
 Gross Annual Family Income: \$ _____ Gross Monthly Family Income: \$ _____

Add all monthly payments on installment loans, credit cards, child support, etc.:

Car Loan 1: \$ _____ Credit Card 1: \$ _____
 Car Loan 2: \$ _____ Credit Card 2: \$ _____
 Bank Loan: \$ _____ Credit Card 3: \$ _____
 Student Loans: \$ _____ Other: \$ _____
 Child Support: \$ _____ Other: \$ _____

TOTAL MONTHLY DEBT \$ _____

	Mortgage Purchasing Power with Current Debt	Mortgage Purchasing Power with No Current Debt
1. Total Monthly Debt	\$ _____	
2. Gross Monthly Household Income	\$ _____	\$ _____
3. Housing Expense Ratio (Front-End Ratio)		x 33% (or 0.33)
4. Debt-to-Income Ratio (Back-End Ratio)	x 43% (or 0.43)	
5. Maximum Mortgage Payment (PITI) with minimal or no current debt		= \$ _____ (multiply line 2 x line 3)
6. Maximum Total Debt	= \$ _____ (multiply line 2 x line 4)	
7. Total Monthly Debt (line 1 above)	\$ _____	
8. Maximum Mortgage Payment with current debt	= \$ _____ (line 6 minus line 7)	
9. Estimated Taxes and Insurance Payments	- \$200	- \$200
10. Maximum Principal and Interest Payment (with and without debt)	= \$ _____ (line 8 minus line 9)	= \$ _____ (line 5 minus line 9)
11. Mortgage amount for which you would qualify (with and without debt). Match amounts on line 10 to mort- gage amounts on page 13.	= \$ _____	= \$ _____



Credit and Budgeting Tools for Homebuyers

A Homewise Home Purchase Advisor can work with you to develop an action plan and work through credit, debt, and budgeting issues to help you do what you need to do to buy a home!

Credit Basics

Credit is your ability to borrow money. Your credit history is used by lenders to determine your ability and willingness to pay back a mortgage loan. The lender will review your credit report to see how you use credit and if you pay your bills on time. Unless you have had repeated and serious financial trouble in the past, lenders usually concentrate on the one or two most recent years of your history.

_____ The financial institution or business that extends you credit with the agreement that you pay them back with interest (they also have terms and conditions that you agree to meet). Examples are Visa, MasterCard, car loans, retail stores, etc.

_____ Companies that collect information on consumers' credit histories.

Knowing and understanding what is in your credit report is one of your most important consumer rights. You should order a credit report each year to check for and correct any mistakes or problems.

ORDERING YOUR CREDIT REPORT

Under the Fair & Accurate Credit Transactions Act, consumers can obtain one **FREE*** copy of their credit report every 12 months from each of the three credit bureaus at: **www.annualcreditreport.com**, by calling (877) 322-8228, or by writing to:

Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281.

You can also pay for a copy of your report by contacting one of the following credit bureaus:

www.Equifax.com (800) 685-1111

www.TransUnion.com (800) 916-8800

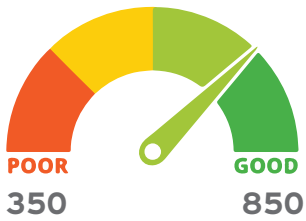
www.Experian.com (888) 397-3742

* A credit report will cost between \$10 and \$20 through one of these credit bureaus, so do get the free ones first!

What information do Credit Bureaus collect on a consumer's credit report?

- Name, previous names, and employment history
- Account history on installment loans (car loans, student loans, etc.)
- Account history on revolving accounts (credit cards)
- Unpaid bills that have been referred to a collection agency
- Public records (liens, judgments, child support owed, etc.)
- Bankruptcy
- Any accounts co-signed by you
- Inquiries from companies you have authorized to have access to your credit report
- Credit Score

Credit Score Information



Factors lenders consider when examining your credit report:

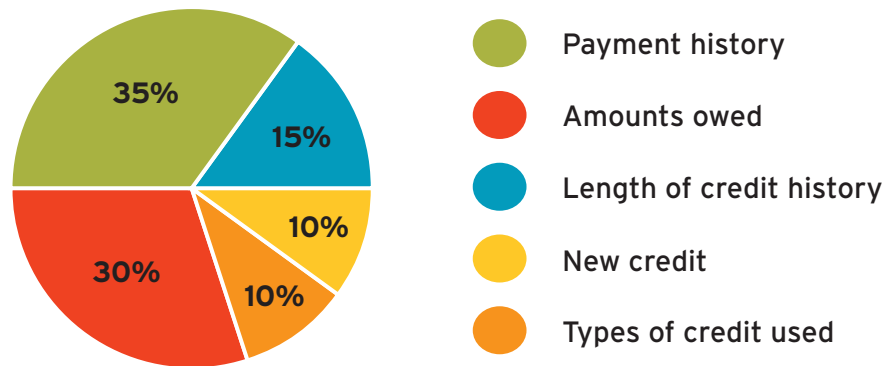
- Unresolved derogatory credit: collections, charge-offs, late payments (30, 60, 90 days late)
- A 'pattern and practice' of derogatory credit is evaluated more harshly than a period of time that can be explained by an unusual circumstance (loss of job, hospitalization, etc.)
- Credit score
- Lack of credit history
- Recent bankruptcy or previous foreclosure
- Public records (interest in pending legal disputes: divorce, lawsuit, etc.)
- Inquiries within the last 12 months

Understanding Your Credit Score

A **credit score** is a three-digit number between 350 and 850 that is generated by a computer. Based on the information in a consumer's credit report, including your debt profile and bill-paying history, this number tells a lender how likely you are to repay a loan or to make credit payments on time. (A credit score can also be referred to as a FICO or BEACON score.) Each lender will weigh your score in a slightly different way. The higher the score, the better your eligibility for a lower-interest 'A Paper' loan.

Credit Score Formula

All three credit bureaus generally use the following formula to calculate your credit score:



Credit Score Tips

Scores automatically improve as one's overall credit picture gets better. Here are a few tips to help you manage your credit obligations:

- Always pay your bills on time. Mail them before the due date.
- Try to pay off credit card balances every month, or if you do have a balance, pay more than the minimum monthly payment and keep balances low (well below 30% of your limit for each credit card).
- Apply for credit sparingly; borrow only what you need and can comfortably afford.
- Check your credit report periodically for any inaccuracies.
- Minimize the number of times you give creditors permission to check your credit record.
- Remember that no credit score is forever. You can always improve it.



HELPFUL TIP

Even if the Home Purchase Advisor has told you that you are ready to buy a home, make sure you continue to strengthen your credit score by paying your bills on time and keeping your balances low. Continuing to pay down debt will boost your purchasing power and open up more options for you.

Here are some ways to protect yourself and your privacy...

1. **Opt out of unwanted business solicitations.** Credit bureaus can sell your name and address to companies who want to solicit your business. You have the right to opt out of having all three credit bureaus sell your information by calling one national number: **(888) 5-OPT-OUT**
2. **Protect yourself from unwanted phone calls from predatory lenders and other telemarketers.** As of 10/01/03, the Federal Communications Commission (FCC) established the National Do-Not-Call Registry. Telemarketers may not call registered telephone numbers or they will be subject to large fines. The registry will not prevent calls from organizations or businesses with whom you have an established relationship (for example, your phone provider), calls that are not commercial, or calls from nonprofit organizations. To register, call **(888) 382-1222** or go to www.donotcall.gov. You must call from the telephone number you wish to register.
3. **Know where to turn for help if you suspect you may be the victim of identity theft.** Fraud alerts can help prevent an identity thief from opening any more accounts in your name. If you are the victim of identity theft, contact the toll-free fraud number of any of the three credit bureaus below to place a fraud alert on your credit report. You need to contact only one of the three bureaus to place an alert. The bureau you call is required to contact the other two, which will place an alert on their own versions of your report. If you do not receive a confirmation from all three credit bureaus, contact the company you have not heard from directly to place a fraud alert.

Equifax: (800) 525-6285; **Experian:** (888) 397-3742; **TransUnion:** (800) 680-7289.

You should also file a complaint with the Federal Trade Commission's Identity Theft Hotline, to provide important information that can help law-enforcement officials across the nation track down identity thieves and stop them. Call toll-free: (877) ID-THEFT (438-4338); TTY: (866) 653-4261; visit www.IdentityTheft.gov; or write Identity Theft Clearinghouse, Federal Trade Commission, 600 Pennsylvania Avenue NW, Washington, DC 20580.

4. **Understand your rights under the Fair Credit Reporting act.** The Fair Credit Reporting Act allows credit-reporting agencies to list negative credit and public record information for seven years from the date of delinquency, charge-off, or placement for collection; or for ten years from the date of filing bankruptcy.
5. **Beware of scams that, for a fee, promise to dispute and clear credit issues for you.** Many states have laws regulating the practices of companies that claim they can 'repair' your negative credit information for a fee. No one can have accurate information removed. Check with your Attorney General or local consumer-protection agency before contracting or paying for credit-repair services.



HELPFUL TIP

For more information on credit and credit scoring:
www.bankrate.com
www.cardtrak.com
(for comparisons of costs and features)
www.consumersunion.org
www.fairisaac.com
www.ftc.gov

Correcting Credit Issues

If there are mistakes in your credit report or if you would like to dispute something in the report, take one of the following actions:

Dispute Problem Online

In order to help consumers protect themselves from identity theft, the Federal Government has established a website, www.annualcreditreport.com, for you to obtain your free credit report from the three credit bureaus (Equifax, TransUnion, and Experian). No credit score will be provided, but you don't need it! At this site you can dispute any errors online; just follow the instructions for disputing errors. Each bureau has 30 days to resolve the issue for you.

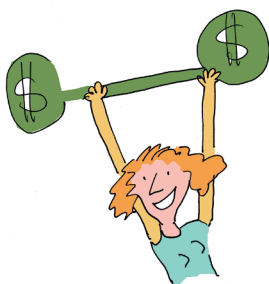
Should you have a problem disputing errors through www.annualcreditreport.com, you can always dispute errors online by visiting the credit bureaus through their own websites: www.equifax.com, www.experian.com, and www.transunion.com. These sites provide directions on how to 'Dispute online.' Depending on which bureau(s) your creditor reported the account error to, you might need to go to only one or two bureaus. In disputing your credit report, make sure you refer to the **Reference Number** on the first page of the credit report you obtained for free at www.annualcreditreport.com. After you are finished with the process, your request will be submitted in seconds. Each credit bureau has 30 to 45 days to investigate your request. The results of the investigation will be mailed to you, along with a copy of your credit report.

By Phone

Call **(877) 322-8228** to request a free credit report from any or all three credit bureaus. The report will arrive 7 to 15 days after requested. Once you have received a credit report, look for a phone number provided for investigations or filing a dispute. You will need the Confirmation Number or Report Number listed at the top of the report (this is an ID number unique to your report). You will be able to talk to a customer-service representative **to place an investigation** on any account that the report indicates has an incorrect status. That phone number will be good for only 30 days after the date of your request. As with disputing online, credit bureaus have 30 to 45 days to investigate and will send you the results by mail.

By Mail

You can send a request letter to each of the credit bureaus that is reporting the item you want to dispute. See the sample dispute letter on the next page. Your Homewise Home Purchase Advisor is also here to help.



HELPFUL TIP

It is important to build a good relationship with your credit and not overextend your borrowing practices. At the first sign of trouble with any creditor, contact the creditor and try to work out a reasonable payment plan to avoid late payments, fees, and referrals to collection agencies.

Sample Letter to Credit Bureaus

DATE

YOUR NAME

YOUR ADDRESS

Santa Fe, NM 87507

Complaint Department
Trans Union Consumer Assistance
PO Box 1000
Chester, PA 19022
(800) 916-8800

Complaint Department
Experian National
PO Box 4500
Allen, TX 75013
(888) 397-3742

Complaint Department
Equifax
PO Box 740241
Atlanta, GA 30374
(800) 685-1111

Dear Sir or Madam:

I am writing to dispute/correct the following information in my file. The items I am disputing/correcting also are encircled on the attached copy of the report I received.

1. (Identify item(s) disputed by **name of source**, such as creditors or tax court, and identify **type of item**, such as credit account, judgment, etc.)
2. **This/these item(s) is/are** (inaccurate or incomplete) **because** (describe what is inaccurate or incomplete and why.) (Or, I do not know what these charges are for and have no record of owing this/these amount(s). Please provide more details on your investigation of the items in question.)

I am requesting that the item(s) be deleted (or request another specific change) to correct the information. Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) **supporting my position**.

Please investigate this/these matter(s) and (delete or correct) the disputed item(s) as soon as possible. In addition, please send me a free copy of my updated credit report reflecting this/these change(s).

Sincerely,

Your Name

Enclosures: (List what you are enclosing)

Sample Credit Report

CREDIT AGENCY: CREDIT PLUS ID :
 REPOSITORIES : XP/TU/EF LOAN NUMBER:
 PREPARED FOR : HOMEWISE INC - MORTG ORDER DATE : 2/21/2019
 1301 SILER RD STE D REPORT DATE: 2/21/2019
 SANTA FE, NM 87507 RQD' BY :

APPLICANT:
 SSN :
 ADDRESS :

TRADE SUMMARY

	#	BALANCE	HIGH CREDIT	PAYMENT	PAST DUE
MORTGAGE	0	0	0	0	0
AUTO	1	0	0	0	0
EDUCATION	0	0	0	0	0
OTHER INSTALLM	21	9819	13466	438	0
OPEN	0	0	0	0	0
REVOLVING	3	246	2600	33	0
OTHER	1	336	336	0	336
TOTAL	26	10401	16402	471	336

SECURED DEBT	0	HIGH CREDIT	16066
UNSECURED DEBT	10401	REV CREDIT UTILIZATION	9%
OLDEST TRADE	08/05	TOTAL DEBT/HIGH CREDIT	65%

DEROGATORY SUMMARY

CHARGE OFFS	0	30 DAYS	0	INQUIRIES	1
COLLECTIONS	1	60 DAYS	0	DISPUTES	0
BANKRUPTCY	0	90 DAYS	0		
PUBLIC RECORDS	0	OTHER	0		

SCORE MODELS

EQUIFAX/FICO CLASSIC V5 FACTA 664
 00040 - DEROGATORY PUBLIC RECORD OR COLLECTION FILED
 00020 - LENGTH OF TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION IS TOO SHORT
 00014 - LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED
 00006 - TOO MANY CONSUMER FINANCE COMPANY ACCOUNTS
 FA - NUMBER OF INQUIRIES ADVERSELY AFFECTED THE SCORE, BUT NOT SIGNIFICANTLY

TRANSUNION/FICO CLASSIC (04) 655
 040 - DEROGATORY PUBLIC RECORD OR COLLECTION FILED
 020 - LENGTH OF TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION IS TOO SHORT
 006 - TOO MANY CONSUMER FINANCE COMPANY ACCOUNTS
 008 - TOO MANY INQUIRIES LAST 12 MONTHS
 FA - INQUIRIES IMPACTED THE CREDIT SCORE

EXPERIAN/FAIR, ISAAC (VER. 2) 654
 40 - DEROGATORY PUBLIC RECORD OR COLLECTION FILED
 Page: 1/9

APPLICANT:
 SSN :
 ADDRESS :

20 - TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION IS TOO

Savings (Cash) You'll Need to Buy a Home

Home buyers need to budget for the following to buy a home:

- Down payment (minimum of 2 - 5% of sales price of home) when working with Homewise. You may need more, including closing costs, if you're using another lender.
- Costs to be paid prior to closing, such as the appraisal fees at the time of loan application, and a home inspection that you pay for directly.
- Reserve savings for surprise expenses (such as medical bills, home maintenance, car repairs, and other unexpected bills), or 1-2 months of mortgage payments put aside for a rainy-day emergency.
- New expenses related to owning a home (appliances, necessary furniture, landscaping, moving costs, and setup charges for connecting utilities, etc.).

New homeowners need to budget for the following as well:

- A higher monthly payment – a monthly house payment may be more than your current rent.
- Future large expenses and emergency reserves (home maintenance and repairs)
- Meeting additional savings goals (retirement, education, necessary purchases, etc.)

PAY YOURSELF FIRST!

Whether you are a budgeter or non-budgeter, the most important step you can take to build financial security in your life is to develop a savings habit and build a savings reserve to protect yourself from having to borrow from higher-cost credit cards or loans later on. Pay yourself first by **making automatic deposits into a savings account each month!** Make these funds easy to put in and hard to get out – don't combine them with a checking account, or any account that gives you easy access to it through an ATM card or transfer option. Where you deposit your money and how much you save will depend on your current goals and financial situation, but starting the process of paying yourself first is key to building a lifelong savings habit.

Note: Try to save at least the difference between your current rent and the amount your mortgage will be to test your ability to pay it.

Mortgage amount will be	\$1,500
Current rent is	<u>-\$1,200</u>
Amount to save each month	\$300



HELPFUL TIP

- Use your Action Plan or Buyer Ready Certificate as a guide until your loan closing.
- Keep in mind that you may need to save for a down payment or reserves.
- Continue to pay down credit card balances; do not add new debt.
- Inform Homewise as soon as possible of any changes in your income, new credit lines, or decrease in savings.

Budget to Meet Your Goals

A budget is a plan for how you make, spend and save your money.

How do I create a successful budget?

- Establish your savings goals.
- Know your net monthly family income (what you take home after taxes) and base your budget on this income amount.
- Know what your expenses are by tracking fixed and changing expenses.
- Make a one month budget (include savings – remember to pay yourself first!).
- Track your expenses and income for one month to see if the amount you budgeted equals what you actually spent.
- Evaluate your spending choices and decide whether you need to increase or decrease your budget in particular areas.
- Continue to refine your budget so that the budgeted amounts and the money actually spent are more consistent over time, and you are more in control of your spending and savings.
- Develop a yearly budget customized to your family needs to meet your savings goals.



Keys to Successful Budgeting

- Include the whole family when deciding how the money will be spent, who will pay the bills, and who will maintain the budget.
- Pay yourself first! Develop savings goals and establish a savings habit. Try to save 10% or more of your income. If you can't manage 10% right away, save a smaller amount on a regular basis.
- Decide which are your family's most important goals. Think about the difference between WANTS and NEEDS for you and your family. Use the time-cost analysis to evaluate spending choices. For example, if you make \$10/hour net and want to buy a \$30 item, you will need to work three hours to pay for this item. Is the item worth three hours of your time?
- Pay down debt and don't let it build up again.
- Remember to include savings reserves in your budget for unexpected expenses (as a homeowner, you'll need reserves for home maintenance).
- Keep good records, but make the process as simple as you can.
- Budgeting is a long-term process. It will take time to make it work for you and your family. If you are determined and patient, you will succeed!



Need more tools and tips on creating and following a budget? Come to our next free Financial Fitness workshop. Call us 983-9473 to sign up, or register online at www.homewise.org/classes.

Budgeting Worksheet

FAMILY BUDGET	Budgeted Amount	Actual Amount	Proposed Change
NET MONTHLY INCOME			
Head of Household #1			
Head of household #2			
Other Income			
Child Support			
Total Income			
MONTHLY EXPENSES			
Housing: Rent/Mortgage			
Savings			
Groceries: Food, Household Products			
Water			
Gas			
Electric			
Sewage/Garbage			
Telephone			
Cable TV/Internet			
Home Maintenance: Repairs, Yard, etc.			
Day Care/Baby Sitter			
School Loan/Tuition			
School/Work Lunches			
Child Support			
Car Payment(s)			
Car Insurance			
Car Maintenance			
Car - Gas			
Health and/or Life Insurance			
Medical: Physicians, Dentist, Eye, etc.			
Clothing, Laundry, Dry Cleaning			
Entertainment: Movies, Concerts, Restaurants			
Haircuts			
Family Advancement: Piano, Gymnastics, etc.			
Credit Card			
Credit Card			
Credit Card			
Credit Card			
Cash/ATM			
Gifts: Birthdays, Anniversaries, Holidays			
Furniture			
Vacations			
Other:			
Other:			
Other:			
Other:			
TOTAL EXPENSES			

Case Study: How to Budget for a Home Purchase

Henry and Gail Martinez have one child. Their savings goals are to buy a home in one year and to set aside a reserve savings account to cover two months' worth of essential expenses in case of an emergency. They already have \$3,500 set aside in savings. They need the following to meet their savings and homeownership goals:

Savings Goals:

\$3,500	For down payment and closing cost contribution
\$4,000	Reserves
\$7,500	3,500 savings put aside = \$4,000 needed

Income: Henry is a manager at Acme Tires, and Gail is a staff writer at the local newspaper. Together, they net \$3,450 a month.

Expenses: Gail and Henry have tracked their monthly expenses for several months. Their expenditures are \$3,450 and are listed on the following page.

Consider some of the following issues:

Food and childcare: Henry and Gail spend \$600 on food items each month. They often purchase frozen food and pre-cooked items. Their child care bill, including daily lunches for their child, is \$400 monthly.

Debt: Henry and Gail have a total balance of \$3,000 on their Visa, MasterCard, department-store credit cards, and furniture loan. The interest rates are around 18.9% on each account.

Car payment debt: They also have a car payment of \$200 with 14 payments left.

Cable TV: They have premium cable TV channels that cost \$120 monthly.

Entertainment: Gail and Henry go out to dinner twice a month (\$80).

Magazines: Gail buys four magazines each month and Henry buys two (monthly total: \$30).

Miscellaneous Spending: Henry and Gail have \$200 in pocket cash each month between them.

Additional expenses are listed on the budget attached. Review all expenses carefully.

How will you help Gail and Henry meet their savings goals?

The Martinez Family's Budget Worksheet

FAMILY BUDGET	Budgeted Amount	Proposed Changes	Savings Difference
NET MONTHLY INCOME			
Head of Household #1	\$1,878		
Head of household #2	\$1,572		
Other Income	\$0		
Child Support	\$0		
Total Income	\$3,450		
MONTHLY EXPENSES			
Housing: Rent/Mortgage	\$1,000		
Savings			
Groceries: Food, Household Products	\$600		
Water	\$30		
Gas	\$35		
Electric	\$40		
Telephone	\$140		
Day Care	\$400		
Child Support			
Cable TV	\$120		
Sewage/Garbage			
Life Insurance			
Car Insurance	\$60		
Car Maintenance			
Car Payment	\$200		
Gas: Car	\$160		
Medical: Physicians, Dentist, Eye, Prescriptions			
Health Insurance			
Clothing	\$50		
Laundry: Dry Cleaning			
Entertainment: Movies, Concerts, Restaurants, etc.	\$80		
Credit Card: Visa	\$35		
Credit Card: MasterCard	\$25		
Credit Card: Department Store	\$15		
Student Loan	\$110		
Pocket Cash: Misc. Spending	\$200		
Home Maintenance and Landscaping			
School Lunches			
Gifts: Birthdays, Anniversaries, Holidays	\$30		
Family Advancement: Piano, Gymnastics, etc.			
Haircuts	\$40		
Furniture: Installment Account	\$50		
Vacations			
Other:			
Other: Magazines	\$30		
TOTAL EXPENSES	\$3,450		

Here is a list of ideas to help you save money. Keep in mind that not every idea will work for every person. See if you can fit a few of these ideas into your life. Add your own ideas to the list.

- Pay yourself first: Auto-pay from your paycheck into a savings account every month. Whether you save 10% of your paycheck or \$10, you will be developing a savings habit. If your goal is to use your savings to buy your home or to meet financial life goals, make sure you save in an account that is easy to put money into and difficult to withdraw money from.
- Catch coins – collect your spare change in a jar.
- Keep your credit cards someplace secure where they are not easily accessible.
- Explore different cell-phone plans or providers.
- Review insurance coverage/deductibles—if you raise your deductibles, your premiums will go down. Evaluate whether you are adequately insured and explore options.
- Review your W-4 exemptions.
- Use consignment shops or shop at garage sales.
- Save on utilities by conserving energy and water.
- Consider 'Budget Billing' on your utilities which gives you a consistent monthly bill throughout the year.
- Barter or trade.
- Budget for occasional bills, such as car insurance, vacations, and holiday gift giving.
- Note which habits cost you money and re-evaluate their importance.
- Plan and limit your ATM withdrawals.
- Eliminate charges for non-sufficient funds by using a budget. Know which checks pay which bills so you never have to pay a late fee.
- Establish a gift-giving agreement with friends and family for the holidays.
- Circulate kids' toys.
- Call your credit card company and request a lower rate.
- Use the library instead of bookstores.
- Use a list when shopping for groceries.
- Have separate checking and savings accounts.
- Treat yourself to small rewards.
- Replace your light bulbs with compact fluorescent or LED bulbs.

