

Homebuyer Orientation Packet

Southeast Texas Housing Finance Corporation (SETH) is the administrator of several Down Payment and Closing Cost Assistance Programs within the Houston-Galveston Area. These funds are available to assist eligible homebuyers associated with the acquisition of an affordable home within the counties of Austin, Brazoria, Chambers, Fort Bend, Galveston, Liberty, Matagorda, Walker, Waller, Wharton and the Cities of Tomball, Baytown, Deer Park, La Porte, Pasadena, and Shoreacres.

SETH has developed this homebuyer orientation booklet to educate perspective homebuyers. If you receive this booklet, it is because you have contacted our office and inquired about buying a home. The manual is intended to give you a brief overview of some of the many aspects in buying a home. It is not intended to replace our current Homebuyer Education Program or any other provider. Anyone interested in buying a home should take a homebuyer education class from a nonprofit or government-sponsored provider as soon as possible.

SETH has been providing homebuyer education classes for everyone who goes through our down payment assistance program since 1998. We average 300 attendees per year. We are the second largest provider within the Houston –Galveston Area. You may register for the class on-line at www.sethfc.com or by calling our office at 281-484-4663.

Because SETH receives no operating assistance to run its homebuyer program, we charge applicants and persons seeking homebuyer education. The fee you pay is based on the program you will be using. There are two types of programs SETH administers:

All Bond Programs	\$175
All HOME Programs	\$ 75
All Housing Trust Funds	\$ 50

A minimum investment of \$500 by the borrower is required in the purchase of the home. This can include earnest money, appraisal fees, credit report fees, or amounts required to be brought to closing. There may be other investment requirements from the lender.

Home buying is often the largest purchase of the buyers’ life and thus should be approached with care. Over the next few pages 10 suggestions for success in the homebuyer process will be discussed. The 10 Things Most Important to Consider when buying a home are:

1. Advantages and Disadvantage	6. Consider what Location works best for you
2. Get Pre-approved or Pre-Qualified	7. Get a Home Inspection
3. Think Credit	8. Understand Grants and Gift Programs
4. Consider Taxes and Insurance	9. Understand What You Sign
5. Know Everyone’s Role	10. Save

1. Advantages and Disadvantage

Owning your own home is the number one dream of many Americans and is the largest investment most people will make. Therefore, before you decide to purchase a home you should consider the pros and cons of homeownership.

Advantages

There are several advantages of homeownership. First of all when you own your own home, except for any deed restriction, you are free to do what you want. You do not have to ask permission from a landlord. Second, the home is yours, you are paying for it. It is an investment. When you rent, you are helping payoff someone else's investment. As you payoff your loan on the home, you build "equity", that is the difference between what you owe on the home and how much it is worth. Third, there are tax advantages to owning your own home that are not available to renters. For more information on tax breaks, please go to <http://www.irs.gov/faqs/faq3-6.html>.

Disadvantages

There are some drawbacks to homeownership. Many new homeowners find that even though your house payment may be lower than your previous rent, your housing cost maybe more because you as a homeowner will be responsible for paying taxes, insurance, utilities, and upkeep expenses. If this is of concern, please read carefully Section 4, Consider Tax and Insurance. If you do not pay your taxes, house payment, and any homeowner dues (if you buy a home that belongs to a homeowners association) you can be in foreclosure. You may lose all the equity you had built up in the house. As a homeowner, you are less able to move than renters because the home you bought is your asset and your responsibility.

2. Get Pre-approved or Pre-qualified

SETH recommends speaking to a lender about getting pre-approved or pre-qualified for a mortgage as soon as you become serious about buying a home. You do not have to be pre-approved or pre-qualified to sign up for a homebuyer education class from SETH or any other reputable counseling provider. You do not have to be either pre-approved or pre-qualified to start looking at houses. But before you start looking at homes, you should know what you could afford by speaking with a lender first about being pre-qualified. Both pre-approved and pre-qualified have advantages, depending on where you are in the quest for a home.

To become pre-qualified, you submit general information about yourself and your finances to a broker or lender. Based on this unconfirmed data, the lender will issue a pre-qualification loan amount for you. This is not to be mistaken for a letter of approval with a fixed loan amount. That comes later, when you allow the lender access to your confidential financial data. When you are ready to start viewing homes with the idea that you would like to make an offer, or proceed to settlement within a few weeks, then you are ready to become pre-approved.

In the pre-approval process you agree to a loan, you give the broker or lender a check to cover the cost of a credit report. The lender may ask for other information such as your last two or three bank statements, W-2s, and pay stubs. Once the credit report is back, the lender should be able to provide a loan rate, lock the loan in if you wish, and provide a truth-in-lending statement. This will outline the costs of the loan and what would be required once closing on the home is near.

There are three advantages of being pre-approval; first you can have a loan without having a specific property in mind. All you have to do after that is find the right home. Second, because you are pre-approved and other buyers with whom you are competing are not, you will be taken more seriously. When it is time to choose a real estate agent or present offers on properties, your offer will be more attractive to a seller over an equal offer by another buyer. The seller will know that you have already finished with the time-consuming process of choosing a lender and a loan, and that you are ready to proceed to other aspects of the transaction. The fewer contingencies sellers have to deal with, the better they like it. Finally, once you find that right home you can move more quickly. All you would need at that point to close the loan is an appraisal, inspection, and title reports. Thus making closing in a matter of weeks rather than months.

3. Think Credit

Get a copy of your credit report as soon as you decide you are going to buy a home within the next year. A good idea is to check your credit yourself before you apply for pre-approval. A good source is www.myfico.com to see where you stand. If there is a problem, you can work to get it resolved. You will still have to pay a fee to get the credit report when you apply for pre-approval, but at least you won't apply with a cloud on your credit. Be cautious of companies or services that offer free credit reports, there is nothing free in this business.

Potential lenders will view your credit history - how much debt is accrued, how many accounts are open, whether the payments are made on time, etc. - to determine whether they'll give you a loan. There are three credit reporting companies: Equifax, Experian, and Trans Union. Get a report from each company to ensure it's accurate. Clear up any problems before you apply for a loan or make an offer on a house. Avoid credit repair companies, as they will first charge you for a service you can do on your own. They do not try to resolve credit issues but only contest any negative issues on your report. What happens is they raise your credit score temporarily without resolving the negative issues.

Get realistic about what you can afford. While a lender may approve you for a certain amount, it doesn't necessarily mean you can afford it. Be sure to factor in other debts and expenses and long- and short-term savings goals like college for the kids and retirement for you.

4. Consider Taxes and Insurance

While the most popular mortgages are fixed mortgages (the amount you pay every month is the same) what you pay on taxes and insurance can affect your monthly payment a great deal. Insurance premiums have been on a steady increase over the past few years. The amount of property taxes has increased because property values have also been increasing.

Taxes

It is very important for new homeowners to file a homestead exemption on their home. Homestead exemption will reduce the property tax bill and provide some protection from court action and creditors. When you sell or buy a home, the taxes for the year will generally be prorated at the closing. This doesn't actually change your tax liability; the tax assessor will calculate that later in the year. The proration at closing will be based on estimated taxes due. Be aware of the rules regarding homestead exemptions so that you are prepared if your actual tax liability turns out to be different. Go to http://www.window.state.tx.us/taxinfo/proptax/remedy04/remedy04_2.html.

When you buy a home with an exemption on it, the exemption stays in place for that entire tax year. The final taxes for the year will reflect the exemption. However, you will have to qualify for the exemption by filing an application for the following year. It is automatically carried over each year while you own your home. Be aware that the value of the home and the taxes may increase substantially in the year following the year you purchase it, if there was more than one type of exemption on the home, or you buy a new home. This is because your cap won't take effect until the second year after you purchase the home.

If you buy or sell a home in the first quarter of each year, the appraisal district develops a list of all properties with a prior year homestead exemption, which, during that same year were sold to a new owner. Then, as required by law, the district cancels the old exemption as of January 1 of the new year and mails the new owner an exemption application form. However, you should act to protect your rights by ensuring that the county has transferred ownership on the new home, and you have filed the homestead exemption application in a timely fashion.

Insurance

Begin thinking about homeowners' insurance now. Again, make sure your credit report is accurate. Credit histories are sometimes used to determine whether a company will insure you, and, if so, at what rate. Many people think that all homeowner insurance policies are the same, but they are not. The Texas Department of Insurance (TDI) governs all insurance companies in Texas and offers a free web page at www.Helpinsure.com. This site provides information about homeowners' insurance needs, provides consumers a listing of current providers of homeowners insurance in Texas, and their contact information. Now you can begin shopping around for the best possible deal. The site provides an extensive learning center to answer consumer questions regarding homeowners insurance. This includes TDI's 2004 rate guide, smart shopping tips, advice, information columns, and complaint information.

Go to http://www.tdi.state.tx.us/apps/perlroot/u_cp_homerate/rghome.html for the rate guide. The rate guide will give you information on insurance prices.

5. Know Everyone's Role

You should know the role of everyone involved in your home purchase. The three most important are the real estate professional, lender, and title company.

Real Estate Brokers and Agents: Are persons who sell, buy, or negotiate the purchase or exchange of real estate and its improvements. These professionals are compensated usually from the commission of the sale. To perform these activities in Texas real estate brokers and their agents must have an active real estate license. To verify an active license go to <http://www.trec.state.tx.us/licenseeLookup/search.aspx> and type in the name of the person to ensure their license is active. SETH recommends starting interviewing agents as soon as possible so you'll have a good one when the time comes to start looking. Get referrals from family and friends. Select someone who knows your market and the neighborhoods you prefer. If you are going to need down payment and closing cost assistance, ask potential agents if they know about the programs.

A good agent, at first contact with you, will explain brokerage services to you. Information About Brokerage Services explains how real estate brokers and their agents operate. This form is optional, but the information that is covered is a requirement of the state.

SETH recommends all first time homebuyers to have a Buyers' Agent represent them in the purchase of their home. A good agent will do more than just give you a printout of homes that are available in your prospective area. The agent will notify you as soon as a home that fits your criteria becomes available. The agent will daily stay on top of the listings and keep in contact with you throughout the home buying process. They will also assist you in the different hurdles you will encounter until you close on the house.

Lender: Are persons or institutions that provide funds to borrowers. In the purchase of homes the loans are mortgages offered by banks, credit unions, savings and loans, mortgage brokers, and mortgage companies. They will directly or indirectly provide the loan needed to purchase the home. The lender will accept your application for a loan and will usually want the most recent check stubs, past years W-2s, past income tax returns, and copies of bank statements. The reason for asking for these copies is they need proof of down payment and continuous income to cover housing expenses.

Most people, when selecting a lender, call various lending institutions to check on rates and generally go with the lender with the lowest rates. We strongly recommend that you look at the rate that is offered and the charges that the lender will collect. It may vary from lender to lender. Also try to go with a lender who has been referred either by your agent or by someone who has actually gone through the entire loan process with that lending institution and loan officer. Most lending institutions offer the same basic loan programs (conventional fixed rate, FHA, and VA, etc.), but rate and fees may differ between lenders. Meet with the loan officer as soon as possible in the process to review and ensure that you understand every aspect of the loan process. One of the best strategies we can offer is to obtain pre-approval. It is simple to do and can save you thousands of dollars in the negotiation on a new home. Most lenders can get you approved for a loan even before you have selected a home.

Title Company: The title company, while often overlooked plays several important functions in the purchase of your new home. First, they will conduct a title search for you and provide the buyer with title insurance. When you buy a home you want to make sure that the people selling it actually have full and legal title. Title insurance is issued if it is an "insurable risk" based on the review and opinion of the title company's underwriter. The title insurance protects against loss arising from a dispute over ownership of the property. An owner's policy protects the buyer. A lender's policy protects the lender. Title companies also collect and disburse the funds needed in the selling and buying of the property. Finally, title companies will ensure all documents are executed and filed correctly with the county courthouse.

6. Consider what Location works best for you

Location

When considering where you want to purchase a home, look at different factors that dictate what is the best place for you. Do not base where to buy on what free government money is available. While down payment assistance is very much needed for many homebuyers especially first-time

homebuyers, it is not wise to base your decision on what funds are available. You will find there are plenty of programs available in most of the Houston-Galveston area.

Where to buy and raise your family is a very important decision. There are many factors to consider. Some of those factors are:

1. Where is your place of employment located and how much commute time will be spent driving?
2. Where is your children's school or location of child-care provider?
3. Where do you spend your free time (entertainment, social activities, church)?
4. How long do you anticipate living where you buy?
5. How are the current prices in the area? Are they on the rise? Because these are good indicators of future values.

If you make your decision on where to buy based too heavily on the assistance you might receive, you may regret it. It will cost you later. There is no such thing as free money. All government programs have "strings attached" to the assistance. For example, if you receive assistance you will probably be required to live in that home for an extended period of time (usually 5 to 10 years), or be required to repay all, or a portion of the funds you received you thought were free. Avoid future difficulties by not buying a home if it is not convenient for you. The Houston area has some of the worst traffic and air quality in the country, minimizing the commute is the best way of reducing both.

Home Price

Finally, keep an open mind. It's easy to start looking at houses and get discouraged, because you don't see anything that matches your vision of the perfect house. Only new homes are near perfect. Remember you can paint walls and replace carpet. Consider things that can't be easily changed -- the floor plan, the size of the house, back yard, and the neighborhood. Then look beyond the old appliances and unappealing flooring. Try to truly see the house's potential.

Get realistic about what you can afford. While a bank may approve you for a certain amount, it doesn't necessarily mean you can afford it. Be sure to factor in other debts and expenses and long- and short-term savings goals like college for the kids and retirement for you. Start browsing through the newspaper and on the Internet - get an idea of what you like, and more importantly, what you can afford. Make a list of what you need not want in your first home. Remember the more you spend, the more everyone involved in your purchase earns so make sure you make a sound investment.

Beware of predatory lending and predatory sellers, as you will spend more on your loan or the house than you should. For more information on predatory lending and predatory sellers, please go to <http://www.recenter.tamu.edu/tgrande/vol11-3/1684.html>.

7. Get a Home Inspection

All homeowners should get the home they wish to purchase inspected. This way a professional can let you know the condition of the home prior to purchase. A home inspection typically includes an examination of heating and central air conditioning systems, interior plumbing,

electrical systems, the roof, attic, visible insulation, walls, ceilings, floors, windows, foundation, appliances, and outdoor plumbing.

Once the inspector examines the house, a report with findings will be written. If there are any major problems, you'll need to negotiate with the seller to either lower the sale price of the home, or determine how the problem will be fixed. Try to get an option on the property that will give you an opportunity to cancel the contract in case the inspection reveals costly repairs you as the buyer would have to spend.

The best method of looking for an inspector is by referrals. Ask your realtor, lender, appraiser, or friends for a recommendation. Make sure the Real Estate Commission licenses the inspector in Texas. Go to <http://www.trec.state.tx.us/licenseeLookup/search.aspx> and type in the name of the inspector or their firm to ensure their license is active. SETH recommends you also interview several inspectors before choosing one. Some of the questions you should ask include:

- What does the inspection cover?
- How long have you been in the profession? How many homes have you inspected?
- Are you specifically experienced in residential inspection? The answer should be “yes”. If someone says they have specialized training in something like construction or engineering but not in residential inspection, move on to the next candidate.
- Does the inspector's company offer to do repairs or improvements based on the inspection? The answer should always be “no”. This would be a conflict of interest.
- How long will the inspection take? The average for a single inspector is two to three hours for a typical single-family house; anything less may not be enough time to do a thorough inspection. Some inspection firms send a team of inspectors. The time frame may be shorter.
- How much will it cost? Costs vary depending on the region, size of the house, scope of services, and other factors. A typical range might be \$150-\$500, but consider the value of the home inspection in terms of the investment being made.
- Does the inspector prepare a written report? The answer should be “yes”. Ask to see samples then determine whether you understand the report.
- Does the inspector encourage the client to attend the inspection? This is a valuable educational opportunity to learn how things work around what could be your house. The inspector may point out items that don't quite merit a mention in the report, but which you should watch. An inspector's refusal to allow you to be present should raise a red flag.
- Finally, once you've found an inspector you like, ask them for references. Then follow up and contact those clients.

If you can't get an inspection or you are looking for a guide on detecting defects go to this link, http://db.inman.com/inman/defects/inman_new/.

8. Understand Grants and Gift Programs

Many buyers agree to programs or strategies to help them achieve their dream of homeownership without fully understanding the consequences of their decisions. Below is a general description of some of the types of programs that are available within the Houston-Galveston Area.

Grant Programs (no such thing as free money)

Most of the programs described as “grant programs are not really free money” and in all cases there are requirements that have to be met. There are strings attached.

- The first requirement is your income. There are income restrictions. Your household has to be below the income limit in order to receive assistance based on your family size, city, and county you wish to purchase.
- The second is property conditions. The home under contract has to have an inspection performed. All repairs have to be completed prior to receiving the assistance.
- The third requirement is location, which is based on the city and county where you purchase. The funds are available only if you applied, and/or your lender has access to funds within that city or county. Not all lenders have access to all funds everywhere.
- The fourth condition is the potential new owner must take a homebuyer education class. Just because you take the class, does not mean you automatically receive “grant” assistance. Remember you and the property have to be eligible.
- The fifth condition is the information supplied must be certified to be correct. If found to have provided false information, you will be required to repay the assistance provided.
- The sixth condition is the potential new homeowner must agree to live in the property over an extended period of time, usually 5 – 10 years, but it could be more. If you sell your home early, you might have to repay all or part of the assistance received.
- The seventh is the “grant” assistance provider will place a second lien on the home. If you want to refinance or get a loan using your home as collateral, it might not be possible or you may have to repay all or part of the assistance received.
- Finally, while your home has a second lien on it, it is subject to periodic inspections and regular compliance monitoring. This means you may have to allow monitors or inspectors into your home a long time after you close. So in reality, it is not a “grant”. It is a loan you are paying back by meeting the requirements of the program. It is like you are applying for two separate loans - one to the lender and one to the assistance provider. Be sure you know what the requirements and consequences are in advance.

Bond Programs

Bond programs are Mortgage Revenue Bonds (MRB) issued by the state or local issuers such as SETH. These programs are available only through participating lenders. But because of the popularity of these funds, they are not always available. It has a fixed interest rate. Sometimes it offers down payment and closing cost assistance that is really a “grant”. It is not necessary to repay what is received. There are income and purchase price limits. If a SETH program is used, you are required to take a homebuyer education class. Unless you buy in a “target area”, you have to be a first time homebuyer. You have to occupy the home as your principal residence. There is no prepayment penalty, but there is what is called a ‘recapture tax’. If you sell the home you purchase using this program during the first nine years, make a profit, and have an increase in income that exceeds 5% per year, you may be subject to tax upon preparation of your income taxes. For more information go to www.irs.gov, look up form 8828, and the subsequent instructions.

Gift Programs

Most loan types in the market today allow for a gift from a relative and nonprofit organization. The easiest way to get help with your closing costs is to ask the seller to contribute to the closing cost. Over the past few years there have been non-profit organizations marketing their ability to help homebuyers with the down payment and closing cost through a gift program. The seller makes a “contribution” to the nonprofit. Then that nonprofit gives the buyer the same amount of money as help for the down payment and maybe the closing costs. The nonprofit usually charges a fee for their role. The requirement for this is the seller has to be willing to make the “contribution”. There are administration procedures that the nonprofit has setup and must be followed. The problem with this method of assistance is that sometimes the sales price of the home is higher because the seller is reducing the profit in order to fund your down payment.

9. Understand What You Sign

You will be asked to sign numerous documents in the home buying process. Remember most of the people in the home buying process are professionals and do this for a living. The only one who does not go through the process regularly is you. First, try to get referrals from persons whose judgment you trust, and they have had success with a particular realtor, lender, appraiser, title company, inspector, and insurance agent. Second, is read and thoroughly understand everything before you sign. If you are being pressured to sign a document, with which you are not comfortable, then you need to reconsider the people with whom you are dealing.

10. Save

If you are serious about buying a new home - start saving now and not just money. Save check stubs, income tax returns, bank account statements, and evidence of rental payments, utility bills, and information on debts such as loans, credit cards, names, and addresses. All this information may be needed in your search for a loan and to determine the budget for your mortgage. Also, save your credit by not making any major purchases.

Even though you may be looking for assistance with the down payment and closing costs, the odds are you will still need some of your own money. The house you select may need repairs that the seller may be unwilling to make. Your choice may be you spend the money for repairs, or you may not be able to purchase that particular house. Lenders want to see your bank statement to review if you are able to save money over an extended period of time - so start saving now. Lenders also want to make sure you have funds to close on the property in your bank account as well as some reserves in case of unexpected expenses.

The above information was collected from a variety of sources and is a brief summary of the most important topics perspective first time homebuyers should know early in the homebuyer process. This orientation manual is not intended to replace a more intensive homebuyer education program. SETH recommends you take a Homebuyer Class as soon as you become serious about becoming a first time homebuyer.