



CSB @ Work

Home Buying Workshop

July 2021

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- Mortgage Terminology
- Renting vs. Buying
- Steps to Buying Your Home
- Qualifying for a Mortgage
- 4 Top Tips to Save on Your Mortgage

- **Down Payment:** the part of the home purchase price paid in cash
- **Mortgage:** a loan secured by property
- **Principal:** the balance of the mortgage loan
- **Amortization Period:** the number of years, term, it takes to repay the mortgage in full
- **Loan-to-Value (LTV):** the ratio between the loan amount and the appraised value
- **Equity:** difference between the appraised value and outstanding balances owed
- **Debt-to-Income (DTI):** the ratio between your total monthly debt payments and your gross monthly income
- **Fixed Rate Mortgage:** the interest rate stays the same for the entire term of the mortgage
- **Adjustable Rate Mortgage (ARM):** the interest rate may adjust during the term of the mortgage
- **Pre-Approval:** a lender's conditional agreement to lend a specific amount of money under a specified set of terms

Advantages of Renting:

- Fixed monthly cost (no maintenance fees, no taxes) provides peace of mind
- More choice in location
- Easier to move

Disadvantages of Renting:

- Owner could ask you to move out at any time or increase your rent
- Owner may not sufficiently maintain property
- Doesn't build equity

Advantages of Buying:

- Build equity in what is likely to be an appreciating asset
- Stable payments with a fixed mortgage
- Interest paid is tax deductible
- Psychological: “pride of ownership”

Disadvantages of Buying:

- Repair costs can be significant
- Taxes may increase (property taxes)
- Home values may decrease

STEPS TO BUYING YOUR HOME >

- What can I afford?
- Obtain a Pre-Approval
- Finding a real estate agent
- Finding a home
- Making an offer
- Home inspection
- Final approval of mortgage



The cost of home ownership includes the:

- Purchase price of the home
- Interest you pay on your mortgage
- Closing costs - appraisal, legal fees, title insurance
- Home insurance and/or Condo fee
- Property taxes
- Cost of home maintenance & repairs – a home inspector could help predict when expensive repairs (i.e. roof, furnace) will be needed



ESTIMATE OF TYPICAL CLOSING COSTS*

Purchase Price	\$350,000
Terms:	30 year fixed at 3% Annual Percentage Rate (APR) 5% Down Payment
Closing Costs	
Appraisal	\$475
Plot Plan (on SFR)	\$150
Credit Report	\$52
Title Insurance (Lender)	\$831
Title Insurance (Owner)	\$744
Attorney's Fees	\$595
Tax Services Fee	\$79
Recording Fee	\$440
Flood Certificate	\$14
Municipal Lien Certificate	\$70
Administrative Fee	\$500
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	\$3,950

Escrows (Money collected in advance)	
5 Months of Taxes	\$1500(est.)
1 Year of Home Insurance	\$1000(est.)
30 Days of Interim Interest	\$863
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	\$3,363

TOTAL FUNDS NEEDED TO CLOSE	
5% Down	\$17,500
Closing Costs	\$3,950
Escrows	\$3,363
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	\$24,813

*Your actual rate, payment, and costs could vary. You should get an official loan estimate before choosing.

- Mortgage payments are determined by:
 - the amount of the down payment
 - the loan amount
 - the mortgage interest rate
 - your payment schedule
- The advantages and disadvantages of
 - a fixed rate mortgage
 - an adjustable rate mortgage
- Buyer's Market & Seller's Market



The lender will confirm:

- Down payment amount
- Borrower's employment income
- Mortgage payment affordability
- Borrower's credit history and debt



Housing Ratio

Mortgage Payment

- + Principle and Interest
- + Property Taxes
- + Property Insurance
- + Condo Maintenance Fees*
- + Mortgage Insurance*

= Total Monthly Costs ÷ Gross Monthly Income

Up to **36%**
of Gross Monthly Income

Total Debt Ratio

Mortgage Payment

- + Principle and Interest
- + Property Taxes
- + Property Insurance
- + Condo Maintenance Fees*
- + Mortgage Insurance*
- + **Other Personal Credit Obligations***

= Total Monthly Debt ÷ Gross Monthly Income

Up to **43%**
of Gross Monthly Income

* If applicable

Housing and Debt Ratio Worksheet

MONTHLY INCOME	
Your Gross Monthly Income	\$3,000
Your Co-Borrower's Gross Monthly Income	\$2,000
Total Gross Monthly Income	\$5,000
MONTHLY INSTALLMENT AND REVOLVING DEBT	
Your Car Payment	\$300
Total Monthly Installment & Revolving Debt	\$300
HOUSING DEBT RATIO	
Your Gross Monthly Income	\$5,000
Your Housing Debt Ratio	X 36%
Estimated Monthly Housing Expense	\$1,800
TOTAL DEBT RATIO	
Your Gross Monthly Income	\$5,000
Your Total Debt Ratio	X 43%
Estimated Total Monthly Expenses	\$2,150
AVAILABLE INCOME TEST	
Your Available Total Monthly Income	\$2,150
Your Total Monthly Installment and Revolving Debt	(\$300)
Available Housing Income	\$1,850

What can a mortgage pre-approval do for you?

- Determines your maximum eligible mortgage amount
- Allows your real estate agent to show you the right selection of homes
- Having the pre-approval ready allows you to act quickly to put in an offer on a house in a competitive market
- Provides peace of mind



Choose someone who you feel comfortable with and who knows the area in which you're looking for a home.

Good realtors will:

- Be eager to help you find the right home. Do their homework. They'll offer to find you the information you need, and get back to you
- Follow-up to see if you are interested in viewing more houses
- Keep out of your way, and allow you to set the pace
- Listen to your comments and concerns, and address them, if possible
- Assist in the negotiating

It's also a good idea to self-search and narrow down your property options with user-friendly websites such as:



- The first decision you have to make upon finding a home that's right for you is whether to offer the full amount of the listing price. The answer? "It depends."
- Once you've decided on the amount, you have to present an offer. Your offer includes the purchase price, the deposit amount, the dates you plan to pay the balance (known as "closing") and move in (known as "possession"), and any conditions of the sale.
- In most cases, the offer should be subject to a home inspection and financing.
- You could also consider including a personal letter with the offer as a way to differentiate your bid.



Avoid unwanted surprises and get a home inspection by a qualified home inspection company. They will advise on the:

- Structural integrity of the home
- Condition of the roof, plumbing, electrical, heating and air conditioning systems
- State of the driveway, retaining walls, grading and drainage of the property
- Ventilation and insulation
- Effectiveness of gutters, downspouts, soffit, eaves



FOUR TOP TIPS TO SAVE ON YOUR MORTGAGE >

1. Check your credit rating



2. Make a larger down payment



3. Select a shorter amortization period



4. Make more frequent payments



TOP TIP #1: CHECK YOUR CREDIT RATING >

- Three credit bureaus rate your credit each month

EQUIFAX

TransUnion^{tu}

experianTM

- Your credit rating affects the interest rate on your mortgage
- People with a good credit rating receive better loan terms

Comparing Down Payment Amounts

	<u>Scenario #1</u>	<u>Scenario #2</u>
	20% Down Payment	5% Down Payment
Purchase Price	\$100,000	\$100,000
Down Payment	\$20,000	\$5,000
Mortgage Required	\$80,000	\$95,000
Mortgage Insurance	\$0	\$45/mo*

*PMI is based on FICO, fixed or ARM, and mortgage insurance company.
Figures provided for discussion purposes only. Subject to change.

The shorter the amortization period, the less interest you pay over the life of your mortgage.

- This table shows how much interest you would pay on a \$400,000 mortgage depending on the amortization period selected...

Amortization Period	Interest Rate	Monthly Payment (principal & interest)	Total Interest Paid (life of mortgage)	Value of Loan*
15 years	2.50%	\$2,667	\$80,088	\$580,088
20 years	2.875%	\$2,193	\$126,427	\$626,427
30 years	3.25%	\$1,741	\$226,697	\$726,697

- In the 30-year example, shortening the amortization period to 20 years and increasing your monthly payment by \$452 (~26%) will save you \$100,270 (~44%) in interest over the period of the loan

The amortization period is the number of years you repay, also called the 'term' of the loan. If you choose a shorter term, make sure the larger payment fits within your monthly budget.

*\$100,000 (20%) down payment included

TOP TIP #4: MAKE MORE FREQUENT PAYMENTS >

Mortgage Terms	Monthly (12 annual payments)	Bi-Weekly (13 annual payments)
Amount of Mortgage	\$280,000	\$280,000
Interest Rate	4.00%	4.00%
Payment Amount	\$1,337	\$724 (\$1,448 per month)
Actual Amortization Period	30 Years	23 Years
INTEREST PAID (over the amortization period)	\$201,236	\$145,532
INTEREST SAVED		\$55,704

TRUE OR FALSE?

- The amortization period is the duration of the loan

TRUE

- The interest rate is the only thing to consider when deciding to choose a fixed or a variable rate mortgage

FALSE

- Increasing the frequency of mortgage payments can save thousands of dollars

TRUE

- Learn key mortgage terminology
- Develop a budget
- Determine how much you can afford
- Ensure your credit bureau information is accurate
- Talk to a mortgage professional
- Get a pre-approval for the mortgage amount
- Find a real estate broker





THANK YOU!



<https://www.cambridgesavings.com/csb-at-work>

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