ALTERNATIVES

Heal • Restore • Transform

First Time Home Buyer Workshop

By Bessie Alcantara, *Executive Director* &
Jessica Newsome, *Sr. Director of Operations and Strategy*

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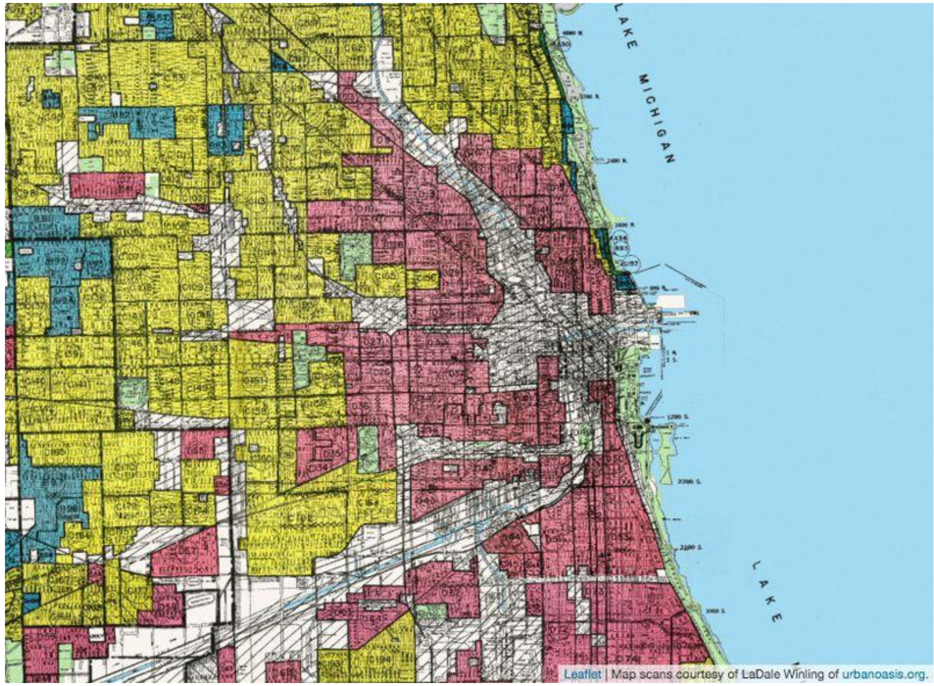
History of Racism in Homeownership

Redlining

- A term that comes from maps adopted by the Federal Housing Authority. Green, blue and yellow areas were typically eligible for government-backed loans and investment. The red areas - often with large minority populations - were not eligible, leaving them starved for resources
- Redlining has arguably led to continued racial segregation in cities and neighborhoods. Recent research shows that almost all formerly redlined zones in America remain disproportionately Black.
- Redlined areas are associated with a long-term decline in homeownership, home values and credit scores among minorities, all of which continue today.
- Formerly redlined areas tend to have older housing stock and command lower rents; these less-valuable assets contribute to the racial wealth gap.
- Redlining curbed the economic development of minority neighborhoods, miring many of these areas in poverty due to a lack of access to loans for business development. After 30-plus years of underinvestment, many non white neighborhoods continue to be seen as risky for investors and developers.
- Other effects of redlining include the exclusion of minority communities from key resources within urban areas, such as health care, educational facilities and employment opportunities.
- Today, 11 million Americans live in formerly redlined areas, estimates Kareem Saleh, founder/CEO of FairPlay. He says about half of these people reside in 10 cities: Baltimore, Boston, Chicago, Detroit, Los Angeles, Milwaukee, New York City, Philadelphia, San Francisco and San Diego.



Home Buying Today

- Today, many of the same neighborhoods that were redlined continue not only to have the highest poverty rates, but also worse health outcomes that lead to shorter lifespans. And Black Americans are nearly five times more likely to own a home in a formerly redlined neighborhood than in a greenlined, or "desirable," neighborhood, resulting in less home equity than white Americans have.
- A little over 13% of black home shoppers were rejected for a mortgage loan last year, in contrast to 4% of Latino buyers and 5% of white shoppers.
- Overall Black applicants trailed white applicants in securing mortgages. For all borrowers, the most common reason a home loan was denied in 2021 was debt-to-income ratio, followed by credit history. Among Black applicants for whom the reason for denial was reported, about 34 percent of Black applicants were rejected because of debt-to-income ratio, versus 29 percent of white applicants.
- Black borrowers also relied on high-cost loans nearly three times more often; 14 percent of Black borrowers in 2021 took out high-cost loans versus 5 percent of white borrowers.

Qualifying for a Home Loan

- Payment affordability
- Debt to Income Ratio
- Credit Score
- Down payment
- Savings
- Employment History

Monthly Payment Affordability

- A good rule of thumb is that the front-end ratio based on PITI should not exceed 28% of your gross income. However, many lenders let borrowers exceed 30%.
  - This amount can be reduced based on the debt that you have
- Monthly Payment includes:
  - Principal
  - Interest
  - Property Taxes
  - Home Insurance
  - PMI

Sample Payment Calculation	
Annual Salary	$60,000
Monthly Salary	$5,000
28%	$1,400
30%	$1,500

Debt to Income Calculation

- Most lenders recommend that your DTI not exceed 43% of your gross income.
  - The closer you are to the max, it impacts your PMI

Sample Max Debt Monthly Calculation	
Annual Salary	$60,000
Monthly Salary	$5,000
Max Debt Monthly Payment	$2,150

Monthly Payment Sample Scenario

- You subtract your total debt from your 43% allowable debt
- You take the lower of the two numbers to find out what you qualify for
  - 28% of Income ($1,400)
  - 43% DTI Max minus debt ($1,190)

Monthly Debt	Amount
Car payment	$380
Car Insurance	$150
Credit Card	$180
Student Loan	$250
Total Debt	**$960**
Subtract from Max debt allowance	**$1,190**

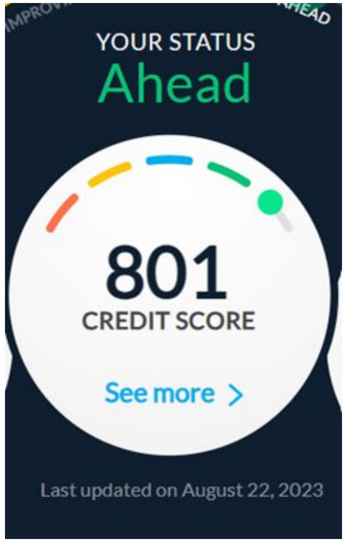
The 8.71% Rule

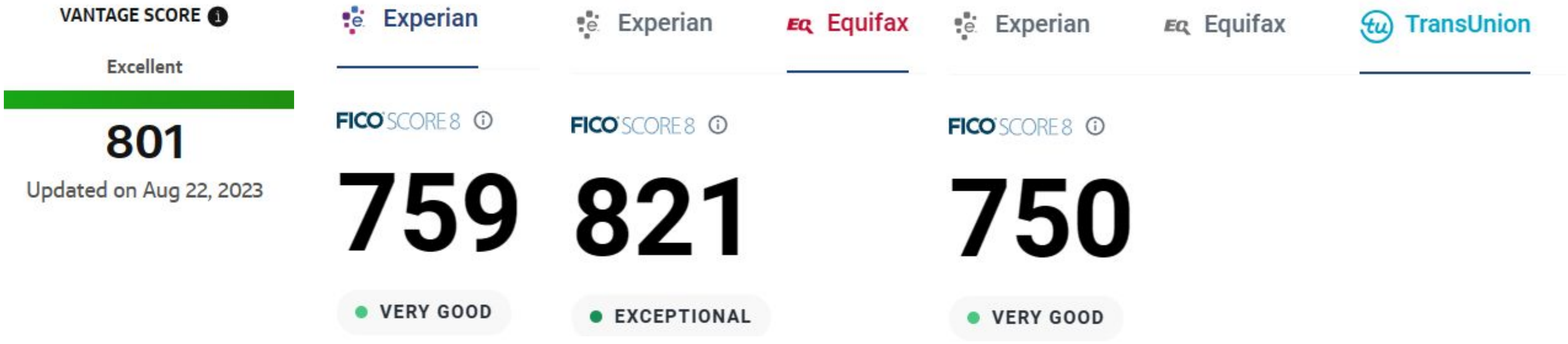
- The 8.71% rule takes into account the additional cost of homeownership, including property tax, maintenance costs, and cost of capital.
- So, let's break down the rule -- if you want to figure out the total cost of owning a home on a monthly basis, you need to take the home price, multiply it by 8.71%, and divide it by 12.
- For instance, if you have your eye on a $250,000 home, you can calculate the annual cost of homeownership by multiplying $250,000 by 8.71% (which gives you $21,775 per year).
- Now, divide that annual cost by 12, and that gives you your monthly cost of homeownership: $1,814.58 per month.

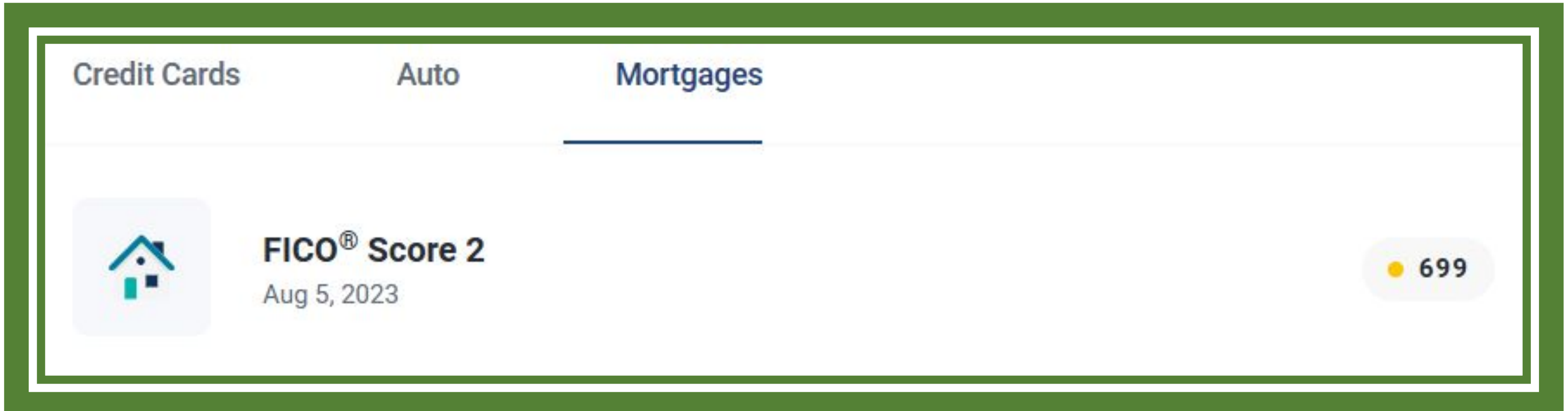
Credit Score

- Generally speaking, you'll need a credit score of at least 620 in order to secure a loan to buy a house.
  - The higher the better for your interest rates and pmi
- You want to look at your actual Credit Reports through: Experian, Transunion, and Equifax
  - An Average of all 3 is usually taken through a special calculation that doesn't show up on standard apps

Sample of Credit Scores on the same day







Down Payment: Private Mortgage Insurance

- 20% is needed to avoid **PMI** (Private Mortgage Insurance)
- The average annual cost of PMI typically ranges from 0.58% to 1.86% of the original loan amount, depending on your credit score, according to a 2022 report from the Urban Institute's Housing Finance Policy Center.
- The cost of private mortgage insurance depends on several factors:
  - **The size of the mortgage loan.** The more you borrow, the more you pay for PMI.
  - **Down payment amount.** The more money you put down for the home, the less you pay for PMI.
  - **Your credit score.** PMI will cost less if you have a higher credit score. Generally you'll see the lowest PMI rates for a credit score of 760 or above.
  - **The type of mortgage.** PMI may cost more for an adjustable rate mortgage than a fixed-rate mortgage. Because the rate can go up with an adjustable rate mortgage, the loan is riskier than a fixed-rate loan, so PMI is likely higher.

Down Payment

- Down Payment can be as low as 3% for conventional loans
  - You want to pay as much as you can while still having money for closing costs and savings
- There are down payment assistance programs out there that your lender can connect you to

Percent down	5% down	20% down
Private mortgage insurance?	Yes	No
Down payment	$17,500	$70,000
Monthly mortgage payment	$2,299	$1,806
Difference per month	**$493**	

Monthly payment breakdown

Principal and interest	$1,785	$1,503
Property tax	$198	$198
Homeowners insurance	$105	$105
Private mortgage insurance	$211	$0

Other Factors for Qualifying

- **Savings:** Lenders want to make sure that you have funds available to make your mortgage payment if your income should unexpectedly dry up. Because of this, most will want to see that you have enough money saved to cover at least 2 months of mortgage payments.

- **Employment history:** Lenders vary, but they usually like to see that you've worked at the same job, or in the same industry, for at least 2 years. They believe you're less likely to lose that job, and that stream of income, if you've built up a longer work history.

For Consideration: Closing Costs

- Closing costs vary according to many factors, including where you live, but generally range from 2% to 6% of the loan amount.
- Here's a breakdown of the main costs:
  - **Loan origination charges** are fees the lender charges to underwrite and process your loan.
  - **Discount points** are optional upfront payments you make to lower the interest rate. One discount point equals 1% of the loan amount and typically lowers the interest rate by a quarter of a percentage point.
  - The **appraisal fee** is for the lender-ordered appraisal to verify the value of the property.
  - **Flood determination and monitoring fees** cover the cost of determining if the property is in a flood zone and notifying the lender if the flood zone changes.
  - **Tax monitoring and research fees** pay for verifying the amount and payment of property taxes.
  - The **pest inspection fee** pays for the lender-ordered wood-destroying organism report.
  - The **title search fee** covers the cost of making sure the person selling the house actually owns it.
  - The **lender's title insurance premium** is for a policy to protect the lender in case there's an error in the title search and someone makes a claim of ownership on the property after it's sold.
  - The **owner's title insurance premium** is for title insurance for the home buyer. In some areas, it's customary for the seller to pay for the owner's policy.
  - **Other title service fees** may include title closing and other charges, including the cost of an attorney.
  - The **government recording fee** is for a local government to update property ownership records.
  - The **home insurance premium** is for purchasing home insurance, which is typically required by the lender.
  - **Prepaid interest** covers the amount of interest that will accrue on the mortgage between the date of settlement and the first monthly payment due date.
  - **Property tax** is for your prorated share of yearly property taxes. The seller will typically pay a share based on how long they owned the home during the tax year.
  - Initial **escrow payments** include deposits to start your escrow account, which will be used to cover property taxes, home insurance and, if applicable, private mortgage insurance. Typically you'll deposit enough money to cover two months of these costs.

Closing Cost Scenario:$250k

Total estimated closing costs

$12,551

This is a ballpark estimate of how much you'll pay in closing costs for a conventional mortgage. Your lender will provide a more accurate figure in your Loan Estimate.

Cost as a percentage of the loan's value

5.3%

Typically, you pay between 2% and 5% of the loan value.

Estimated costs you can shop for

$8,808

You can shop around for the lowest rates on some items, such as lender fees, home insurance and title insurance.

Estimated fixed costs & fees

$3,743

You can't shop around for the best deal on some items, such as taxes and government fees.

Home Buying scenario: $260k Home

Monthly cost

Estimated monthly cost
$2,330

Principal & interest	$1,660
Mortgage insurance	$156
Property taxes	$423
Home insurance	$91

- 5% Down payment
- 7.103% Interest
- $10,505 Closing Costs
- $13,000 Down Payment

Monthly cost

Estimated monthly cost
$2,011

Principal & interest	$1,342
Mortgage insurance	$156
Property taxes	$423
Home insurance	$91

- 5% Down payment
- 5.103% Interest
- $10,299 Closing Costs
- $13,000 Down Payment

Monthly cost

Estimated monthly cost
$1,899

Principal & interest	$1,271
Mortgage insurance	$115
Property taxes	$423
Home insurance	$91

- 10% Down payment
- 5.103% Interest
- $10,142 Closing Costs
- $26,000 Down Payment

Types of Home Loans

- Conventional loans are the most common type of home loan. These mortgages meet standards that allow lenders to resell them to the government-sponsored enterprises Fannie Mae and Freddie Mac. By making sure borrowers and loans fit GSE requirements, lenders can sell their loans, which gives them money to make new loans. But because of those conditions, conventional loans can have stiffer qualifications.
  - **Pro:** Down payments can be as low as 3%, though borrowers with down payments under 20% have to pay for private mortgage insurance.
  - **Con:** Can be harder to qualify for, generally requiring a credit score of at least 620 and a debt-to-income ratio that's under 36%.
  - **Best for:** Home buyers who are on solid financial footing.

Types of Home Loans

- Government-backed loans: Government-backed loans are mortgages that are insured by different federal agencies. This protects mortgage lenders, because if the borrower becomes unable to repay the loan, the agency has to handle the default. Having that backstop allows lenders to offer mortgages to a broader range of potential buyers.
  - **FHA loans**
    - **Pro:** Home loans insured by the Federal Housing Administration can allow for credit scores as low as 500 with a 10% down payment; with a credit score of 580 or higher you can make a 3.5% down payment.
    - **Con:** FHA loans require FHA mortgage insurance, which lasts for 11 years or the life of the loan, depending on the size of your down payment.
    - **Best for:** Borrowers with lower credit scores and limited down payment savings.
  - **VA loans**
    - **Pro:** Loans backed by the Department of Veterans Affairs don't require a down payment or mortgage insurance.
    - **Con:** VA loans are only available to veterans, current service members and eligible spouses.
    - **Best for:** Military borrowers.

Pre-Approval

- A mortgage pre-approval is documentation that shows you're a good candidate for receiving a home loan.
- To get pre-approved, you'll complete an application and the lender will review your financial information, which includes pulling your credit.
  - Because getting pre-approved requires a hard inquiry, completing the application can typically lower your credit score by a few points
- Once pre-approved, you'll receive a pre-approval letter with an estimate of how much money you may qualify to borrow, the types of loans available to you and the interest rate you may be able to secure.

- A mortgage pre-qualification is not the same as a pre-approval. Unlike a pre-approval, getting pre-qualified doesn't require an in-depth review of your finances or a hard credit check.
- The general guideline is to get a mortgage pre-approval at least 90 days before you plan to buy to give you enough time to find a home and close on your loan.
- It's possible to get denied a loan after receiving a pre-approval. A mortgage pre-approval doesn't guarantee a loan, but rather lets you know if you'd qualify for a loan based on the information you provide at the time of application.

The Process

1 *Pre-Approval*

2 *Looking for a Home*

Find a Realtor. Realtors are paid on commission from the seller.

3 *Submit an Offer*

There may be a negotiation period

4 Notify Your Lender

5 *Secure Lawyer*

6 Schedule Home Inspection

7 Negotiate based on Inspection

8 Clear to Close

9 *Closing*

Resource: NACA

- **NACA mortgage benefits**
  - No down payment
  - No closing costs
  - No hidden fees
  - No mortgage insurance
- **Priority Members**
  - Low-to-moderate income Members (i.e., borrowers and co-borrowers) whose combined income is equal to or less than the median family income for the MSA where they are purchasing a home.
- **Non-Priority Members**
  - Members (i.e., borrowers and co-borrower) whose combined income is greater than the median family income for the MSA where they are purchasing a home.

Resource: City of Chicago

The **Department of Housing** offers a number of programs. For more information, contact 312.744.0281.

Housing Counseling Centers Program (HCC) – Provides an eight-hour homebuyer education course. Agencies also provide personalized foreclosure prevention counseling and education to homeowners.

https://www.chicago.gov/city/en/depts/doh/provdrs/homebuyers.html

Resource: NHS

Mission: To create opportunities for people to live in affordable homes, improve their lives, and strengthen their neighborhoods.

(773) 329-4111

homeownership@nhschicago.org

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