

Minnesota
Homeownership
Center

Homebuyer Handbook

For Artists and Independent Workers
in Minnesota

*We'd like to buy a
home but we're on a
limited budget...*

*...and we're
not sure how
to start.*



Fact 1:
Borrowers completing
Minnesota's
homebuyer education
program have a default
rate under 1%*.

Fact 2:
99% of participants
would recommend
homebuyer education
to their friends
and family.

Let's check it out.
hocmn.org



**As measured by the default rate on a first-time buyer mortgage program that requires Home Stretch.*

Buying a home may seem like a challenge, but...

Local home-ownership counselors can help you figure out if owning a home makes sense for you.

And this help is free!

The Homebuying Process

1

Contact A Home- Ownership Counselor

Together we will:

Check your credit

Discuss your financial reality by looking at your credit, history, income and assets

Make your homebuying plan

Create a budget and determine how much you can afford

Develop a plan to fix your credit and/or maintain a strong credit score

2

Start Saving

You'll need to save for your:

Downpayment

Closing costs

Emergency reserves

The more you save the better!

3

Pre-Qualify

Work with a counselor to:

Choose a lender

Apply for mortgage approval

4

Assemble Your Homebuying Team

Your Homeownership Counselor

Lender

Real estate agent

Home inspector

5

Choose and Finance Your Home

Find the right neighborhood

Which home type? Single family, co-op, condo, 2 to 4 family?

Find an affordable mortgage

Find an affordable home

6

Offer

Work with your Real Estate agent to make an offer

Be prepared to renegotiate the offer with seller

7

Inspection

Contact a certified home inspector

Have the home inspected

Renegotiate the price if necessary

8

Mortgage

Contact your lender to turn your preapproval into an actual mortgage application, commitment letter, and a good faith estimate.

9

Closing

Close on your loan

Congratulations, you own a home!

10

Life As A Homeowner

Live within your budget

Maintain your home and make your mortgage payments your highest priority.

Homeownership Counseling can help you:

**Address your
credit issues
and prepare your
finances for
homeownership**

**Guide you
through the
mortgage and
homebuying
process**

**Determine how
much home you
can afford**

**Help you
access grants
and loans for
downpayment
and closing
costs**

Preparing

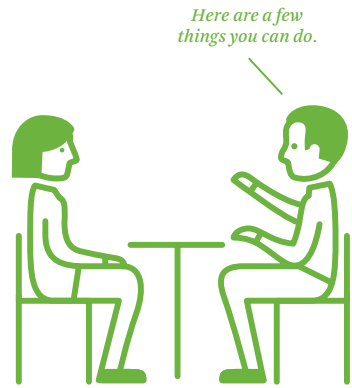
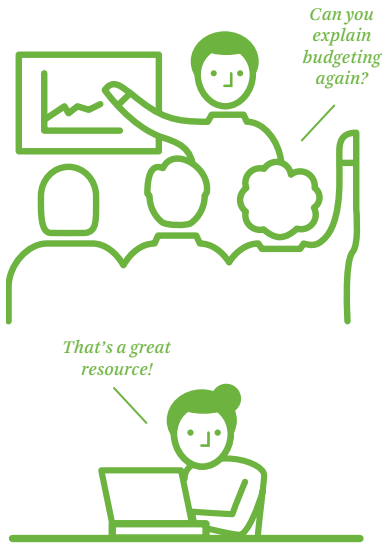
Homebuyer Education

You will learn about important topics like credit, savings, budgeting – and you will gain a clear understanding of the steps to homeownership and being approved for a mortgage loan. Available in person and online.

Meet with a Homeownership Counselor

Experienced, certified counselors help by:

- Analyzing income, debt and financial situations
- Providing credit reports and scores for three credit bureaus
- Establishing or improving credit history
- Determining mortgage readiness
- Reviewing affordable mortgage loans and grants
- Assisting with mortgage application

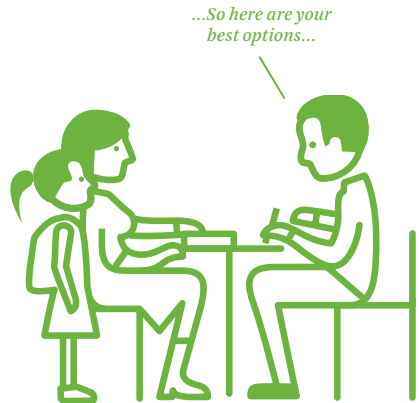


Applying

Affordable Mortgage Loans

Many lenders offer mortgage products for low to moderate income borrowers, with low down-payment requirements and flexible credit standards. Here are some general guidelines:

- Fixed rate mortgage to avoid the potential risk associated with adjustable rates
- Loans are typically 30 years; shorter terms may be available based on eligibility
- Minimum credit score and credit history will vary by program, but lenders generally want to see 12 to 24 months of clean credit
- Require borrowers complete homebuyer education
- Generally 3-5% down payment
- Full documentation of income, including two years IRS taxes and recent pay stubs
- Your homeownership counselor will help you navigate through this process



Buying

Downpayment and Closing Cost Grants and Loans

Grants and loans are available from a variety of sources to help with downpayment and closing costs. Some basic guidelines:

- Most programs are limited by income and/or location
- Help is available, but usually for only part of the costs. You'll likely need to cover most of costs yourself
- Grants generally don't have to be repaid if you live in your home for a certain number of years
- The application process depends on the program
- Some loans are forgiven after a certain number of years in the home, but many need to be repaid if you sell the home or once you pay off your first mortgage
- Again, your homeownership counselor will help you navigate this process
- Look for other resources for repair and improvements at www.springboardforthearts.org



Downpayment and entry cost assistance programs are available throughout Minnesota. Speak with a homeownership counselor to learn more!

Making it Work

Along with the advantages of homeownership there are many responsibilities. Homeownership counselors also provide post-purchase counseling.

Post-purchase guidance includes:

- Foreclosure prevention
- Outreach and education for those targeted by predatory lenders
- Refinance counseling
- Information on personal money management

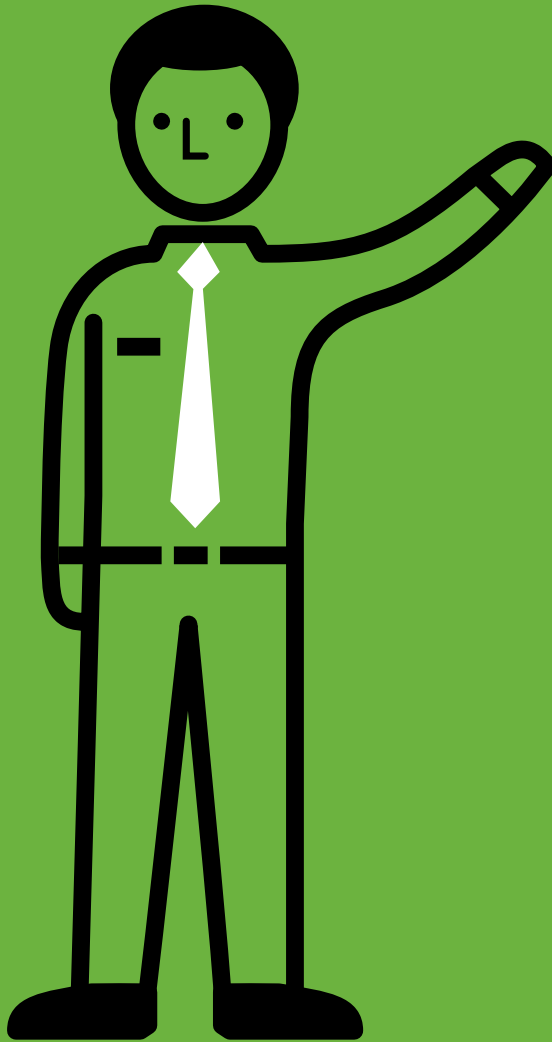
My partner and I are having trouble paying.



Ok, let's look at your account.



Easy steps to start right now:



Step 1: Understand Credit Ratings and...

If you have ever used a credit card, or made a large purchase like a car using a loan, you probably have a credit rating. Your credit rating allows lenders to assess your payment habits....and/or credit.

Your credit rating is a history of:

- How much you've borrowed
- Who you borrowed from
- How well you paid back your debts
- How you are handling your ongoing debts

Debt to Income Ratio (DTI)

The DTI is the maximum monthly amount you can spend for a house payment (principal/interest/taxes/insurance) plus all other creditor debts. This percentage ranges from 36%–41% depending on loan type.

Your gross income \times DTI = how much you can spend on your house payment.

A high level of debt will reduce affordability and/or make you ineligible for loans. The more monthly debt payments you have, the smaller the amount you can spend on your home purchase. You may need to reduce debt before you apply for a mortgage loan.



Step 2: Check Your Credit

When you apply for credit—whether for a credit card, a car loan, or a mortgage—lenders want to know what risk they'd take by loaning money to you. A credit score measures the likelihood you'll repay what you owe; it is based on information in your credit report.

There are many varieties of credit scores available to lenders. But the most widely used for large loans are FICO scores, which are based on a scoring system developed by Fair, Isaac & Co. and which are provided to lenders by the three national credit bureaus Equifax, Experian, and Trans Union.

You Need A Good Credit Score:

To get approval for credit for mortgages, car loans, installment loans, and credit cards; to obtain a preferable interest rate on a loan; to obtain lower cost home owner's and car insurance. Employers and landlords can reject applications based on credit worthiness. There is no quick fix for credit repair, but you can develop your own plan for improving your score. Here are some ways to improve your score:



Step 3: Improve Your Credit

Order a copy of your credit report then review it and correct it.

You are legally entitled to one free report a year. You can go to annualcreditreport.com and order your free credit report. When you get your report, review it and inform the credit bureau of any mistakes. Then be a bit patient. Changing a mistake on your report (like a mislabeled late payment) can take 30 days to 4 months or longer. Since corrections can make a big difference in your overall score it's important to remember that the sooner you correct your report, the faster your score will improve!

Pay your bills on time.

Your payment history counts for 35% of your overall credit score. Therefore paying on time is the most important thing you can do to create credit score improvements. Also a recent missed payment is more likely to lower your score than an isolated late payment from way back. SO if you are prone to forgetting to pay your bills, use tools; set up autopay to pay the minimum balance on time. Scared of autopay? Then set a date every month that is credit day and really stick to paying your bills on that date.

*I'll get my free credit report on annualcreditreport.com
Oh my!..I've got a little work to do.*



*Time to pay the bills!
Good credit...
Here I come!*



Don't open a lot of new accounts over a short time.

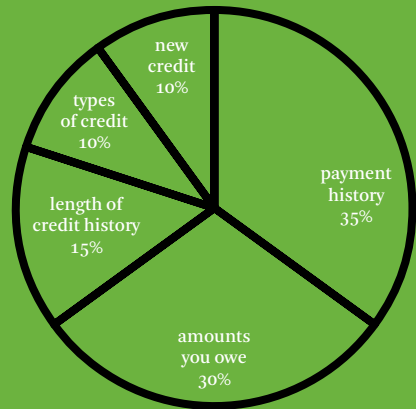
When you open new credit the banks think you're about to go on a spending binge and are therefore a higher credit risk. Avoid sending that signal. But...

If you have a questionable credit history, open a few new credit accounts, use them responsibly and pay them off on time.

This feels a bit scary given that you're also being told to not open new lines, BUT payment history is 35% of your score, so if you've hurt your credit, establishing a good payment history is key to getting your credit score back together. Also remember to keep your credit balance below 25% of your credit limit per-card (see page 16).

Use the credit cards you have responsibly and as frequently as is prudent.

If you don't use your cards the banks will sometimes close them or lower the limit. So it is important for them to stay active, but this is not a license to go wild. Use for small purchases and stay current on payments. Try to pay off the entire balance in full each month. Avoid carrying a balance from month-to-month.



Don't close old accounts.

Credit history (how long you've had the card) counts for 15% of your overall score, so closing cards sets you back. Also, you should aim to keep your debt below 25% of your credit limits. If you close accounts, you give up some of your credit—which makes your existing debt a bigger proportion of your remaining credit.

For example: You owe a total of \$2,000 on four credit cards, each with a \$2,000 limit. Your total limit is \$8,000, and your balance (\$2,000) is 25%. If you transfer all your balances to two cards and cancel the other two, your total credit limit is now \$4,000 and that same \$2,000 balance is now 50% of the limit. This would lower your score.

Pay down your credit card debt

30% of your credit score is based on outstanding debt, so paying down your balances will have a big and positive impact. Plus, lowering your overall debt greatly assists you on your path to homeownership and helps you qualify for better mortgage terms.

If you need extra help getting your debt under control, our homeownership counselors can also refer you to additional services.

Find your local homeownership counselor at www.hocmn.org

If I'm going to buy a home I'm really going to have to sort out my credit



Hi, I'd like to meet with a homeownership counselor!



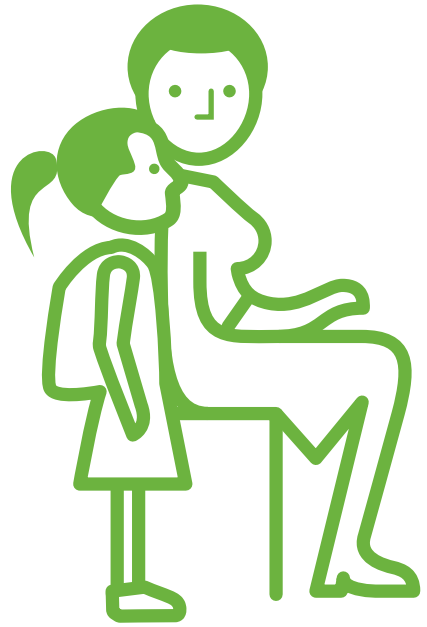
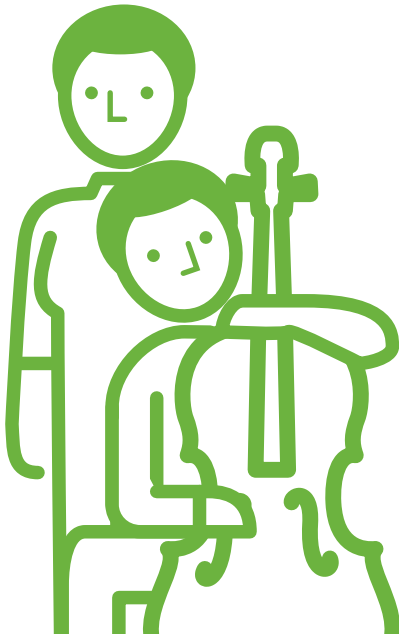
Testimonials

a. Artist KR in St. Paul purchased her first home a few years ago: “The homebuyer education program demystified the real estate transaction for me—what order things happen in and what I needed to be prepared for at each juncture—and made me realize that I too could own a home!”

b. TR in St. Paul, who purchased her first home with the help of a homeownership counselor: “This was such a big accomplishment for me and it shows my kids that anything is possible.”

c. SS in Roseville, who is returning to homeownership after falling into foreclosure several years ago: “I wish I would have had this Home Stretch Workshop ten years ago on my first home!”

d. PR in Minneapolis, a recent immigrant to the US: “I think this is a very important workshop; it should be required for home buyers.”



FAQs

Q: How long does it take to meet with a homeowner-ship counselor?

A: The first meeting with a home-ownership counselor is generally less than an hour. The goal is to determine if you are mortgage ready. This is done by analyzing your income, expenses and debt; reviewing your credit and determining how much you can afford to pay each month for a home. Based on this information, you will work with the counselor to develop a homebuying plan.

Q: Why should I complete homebuyer education?

A: Homebuyer education teaches you the basics of buying a home and is required by many lenders who offer affordable mortgage loans. You take an in-depth look at the steps to homeownership, including finding a home, being approved for a mortgage loan and loan closing. Homebuyer education is available both in person and online. For an approved agency, contact the Minnesota Homeowner-ship Center.

Q: How much does it cost to meet with a counselor?

A: There is no charge for meeting with a homeownership counselor, other than the cost of pulling your credit report. Depending on the agency, the cost for homebuyer education will range in price but is generally less than \$50.

Q: How many people have you helped?

A: Since 2004 members of the Minnesota Homeownership Center's network of housing counseling agencies have provided homeownership education and counseling services to more than 32,000 households throughout the state.

Credits

irrigate

This MN handbook was developed as a part of Irrigate, an artist-led creative placemaking initiative spanning the six miles of the Central Corridor Light Rail line in Saint Paul, MN during the three years of its construction. This artist-led community and economic development approach emphasizes cross-sector collaboration with local private and non-profit sectors.

Irrigate is a partnership of:



The Most Livable
City in America



Irrigate is supported by:

- ArtPlace
- Central Corridor Funders Collaborative
- F.R. Bigelow Foundation
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- Rosemary H. and David F. Good Family Foundation
- The Kresge Foundation
- The McKnight Foundation
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ARTPLACE

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For more information about successful homeownership in Minnesota, contact the Minnesota Homeownership Center:

www.hocmn.org

Phone: 651-659-9336

or Toll Free: 866-462-6466

