



Educator Guide

Financial Readiness: Shopping For A Mortgage

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Objectives for this Lesson:

- Explain How to Choose a Financial Institution
- Determine Your Mortgage Options

Resources for this Lesson:

- Educator Guide: *Home Buying Process: Shopping For A Mortgage*
- PowerPoint Presentation: *Home Buying Process: Shopping For A Mortgage*
- Content Guide: *Home Buying Process PDF*
- Work Sheets:
 - *Choosing A Financial Institution Work Sheet*
 - *Mortgage Shopping Work Sheet*

Client Packets Should Include:

- PowerPoint Presentation Handout (3 slides per page): *Home Buying Process: Shopping For A Mortgage*
- All Worksheets Listed Above

Key Points**For Educator: What to Say****For Learner:**

Slide #1: Home Buying Process: Shopping For A Mortgage	Introduce yourself.	Participant Introductions
Slide #2: Objectives: <ul style="list-style-type: none">• Explain How to Choose a Financial Institution• Determine Your Mortgage Options	Explain: By the end of this session, you will be able to explain how to choose a financial institution that best meets your needs and determine your options when shopping for a mortgage. These objectives cover two very important decisions you will have to make as a home buyer. The financial institution you choose will greatly affect your home buying experience, and the type of mortgage you apply for will have a big impact on your financial success. Let's begin by choosing a financial institution with which to do business.	

Key Points

For Educator: What to Say

For Learner:

Slide #3:

Financial Institutions

Where do I start when looking for a financial institution?

- Current bank
- Better Business Bureau
- Friends
- Neighbors
- Family members
- Recent home buyers

Explain: Home buyers often ask themselves, “Where do I start when looking for a reputable financial institution to offer me a mortgage?” We suggest starting with a list of recommendations.

Question: *To whom would you turn for recommendations?*

Instructor Note: The bulleted suggestions will appear upon a second mouse click after the class discussion.

Explain: You have many options when looking for a mortgage loan. Begin with your current bank. Determine what loan products they have and if they meet your needs. Locally, you also can visit the Better Business Bureau, or ask friends, neighbors, family members and recent home buyers. These individuals can tell you about their experiences with various institutions.

Discussion: Participants offer suggestions of whom to ask about financial institutions.

Slide #4:

Questions to Ask

- Did your loan close on time?
- Did your loan officer seem knowledgeable?
- How long did it take to have your questions answered?
- Did you ever feel rushed?
- Would you do business with them again?

Explain: When talking to individuals about their experiences with an institution, ask them questions like:

Instructor Note: Read the questions listed on Slide #4.

Question: *What other questions might you have for an individual who has done business with an institution you are considering?*

Instructor Note: Create a list of questions developed by the participants.

Discussion: Participants share additional questions to ask recent home buyers concerning their choices of financial institutions. Instructor will create a list of questions on the board.

Key Points

For Educator: What to Say

For Learner:

Slide #5:

Researching an Institution

How do I research a financial institution?

- Better Business Bureau
- Consumer Reports
- J.D. Power and Associates
- NM Financial Division
www.rld.state.nm.us/FID/index.htm.

Transition Statement: You may also ask yourself, “How do I research a financial institution?”

Question: *What can you do to determine if an institution is reputable?*

Instructor Note: The bulleted suggestions will appear upon a second mouse click after the class discussion.

Explain: The Better Business Bureau can determine if any recent complaints have been filed about an institution. *Consumer Reports* rank larger mortgage companies. J.D. Power and Associates also ranks mortgage lenders. This information is all available online or at the local library. You also can visit or call your state’s financial institution division to determine if a financial institution has a license to do business. In New Mexico the contact information is:
www.rld.state.nm.us/FID/index.htm.

Participant response.

Slide #6:

Financial Institutions

What are my options?

- For-Profit Institutions
- Not-For-Profit Organizations

Transition Statement: Now that you know where to start when looking for a financial institution and how to determine if an institution is reputable, you also should familiarize yourself with institutional options.

Explain: There are “For-Profit” institutions and “Non-Profit” institutions.

Let’s start by looking at the “For-Profit” options that home buyers have.

Key Points

For Educator: What to Say

For Learner:

Slide #7:

“For Profit” Financial Institutions

Commercial Banks

- Companies that cater to customers with established credit histories.

Mortgage Brokers

- Companies that represent many mortgage lenders.

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(Slide #7 Continued)

Explain: Commercial banks cater to customers with established credit histories.

- Offer consumer loans, credit cards, debit cards and mortgage loans.
- Make short-term loans to good customers.
- Often require items for security
- Offer interest rates that vary according to the loan type.
- Offer rates that may be lower than other lenders because they take fewer risks and have money from customers’ savings to lend.

Explain: The second type of “For-Profit” Financial Institution is a Mortgage Broker.

Question: *What role does a mortgage broker play?*

Explain: Mortgage brokers represent many mortgage lenders.

- They help compare different mortgage companies.
- They try to find the best mortgage loan for your needs.
- They receive a fee from the lender you choose for your loan.
- Most are very reputable, but it is important to research the broker. Some will encourage you to take the loan from the institution that pays them the highest fee.

Participant response.

Key Points

For Educator: What to Say

For Learner:

Online Mortgage Companies

- Companies that offer services similar to those of local providers, but require careful research.

Explain: The last of the three “For-Profit” Financial Institutions is on-line mortgage companies. These companies offer many of the same services that local companies provide.

Question: *What might be some advantages and disadvantages of using an on-line mortgage company?*

Instructor Note: Create a list of advantages and disadvantages on the board.

Explain: On-line mortgage companies can be risky.

- Consider that rates may be lower, but there may be additional fees not charged by local lenders.
- Consider whom you would contact if you did business with an on-line company. Who will you call to answer your questions? Will you have one main contact or many customer service representatives?
- Consider how you will file or handle complaints.
- Consider the disadvantages of not meeting one on one.
- Research on-line companies very well!

Discussion: Participants share advantage and disadvantages of on-line mortgage companies. Instructor will create a list of each on the board.

Key Points

For Educator: What to Say

For Learner:

Slide #8:

“Not-For-Profit” Organizations

Credit Unions

- Lend to members.

Non-profit Housing Organizations

- Help people with all income levels.

Rural Development (USDA)

- Offers special loan programs for purchasing in a rural area.

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(Slide #8 Continued)

Explain: There are also “Not-For-Profit” Organizations available that offer mortgage loans.

Explain: Credit Unions lend to members. Most people in a geographical area can become members.

- Offer consumer loans, credit cards, debit cards and mortgage loans.
- Rates may be lower than other lenders because they loan members’ money, are eligible for federal tax exemptions and generally take fewer risks.

Explain: Non-profit housing organizations help people of all income levels. They often offer:

- Programs that require little or no down payment.
- Programs offering 0% interest for the full term
 - Self-help programs
 - Home-rehab programs
 - Programs for rural areas
 - Programs for low to moderate income households.
- Certified housing counselors that provide free one-on-one assistance for the purchase of a home.

Explain: Rural Development is a program offered through the U.S. Department of Agriculture. If you are planning to buy a house in a rural area, you may qualify for this special loan program.

Key Points

For Educator: What to Say

For Learner:

Housing Authorities (HA)

- Offers local housing ownership programs if you qualify.

Habitat for Humanity International

- Offers self-help housing and seeks to eliminate sub-standard, housing and homelessness.

Explain: The Housing Authority (HA) is responsible for the management and operation of local public housing programs. It provides special homeownership opportunities to qualified families.

Explain: Habitat for Humanity International is a Christian housing ministry that seeks to eliminate sub-standard housing and homelessness from the world. This ministry is made up of volunteers who help a few qualified low-to-moderate income families build a house each year. The homes are sold to the partner families through no-profit, no-interest mortgages. The house payments that families make are then "recycled" to build more homes for others in need.

Explain: Both "For-Profit" Financial Institutions and "Not-For-Profit" Organizations offer different loan options. It is VERY important to realize that not all institutions offer the SAME programs.

Activity: Now that you are familiar with several types of financial institutions, you are ready to compare their services to your needs and wants.

After getting recommendations and researching your options, we suggest visiting at least three of your selected institutions. If you did not receive this *Choosing A Financial Institution* Work Sheet during the Money Management sessions, you should fill it out now to help you compare your options.

Activity: Distribute *Choosing a Financial Institution* Work Sheet.

Key Points

For Educator: What to Say

For Learner:

Slide #9:

Financial Institutions

They vary by:

- Flexibility
- Interest rates
- Fees
- Credit requirements
- Down payment requirements
- Income levels
- Reputation of lender

Explain: Loans are offered with a range of options.

- Flexibility – Some loan programs offer more flexibility for people with low-to-moderate income levels or first-time home buyers.
- Interest rates – Some have higher or lower interest rates with different loan options. One loan may be offered at 6% interest, while another is 7.5%.
- Fees – Lenders have a variety of fees that are charged for different services.
- Credit requirements – Institutions have different credit requirements. Some will qualify people with poor credit, usually offering a loan with a higher interest rate.
- Down payment requirements – Some loan programs offer low or no down payment. Others require a certain percentage of the loan as a down payment (possibly 10 - 20 %.)
- Income levels – With some loans, your payments are determined by your income levels at different times of life (college student versus full-time employee) (Ex: balloon mortgage).
- Reputation – Strongly consider the lender. Does this institution have a reputation of delivering quality loan products or not? Research the company, as discussed earlier.

Slide #10:

Shopping For A Mortgage

- Financial Institutions
- Mortgage Options

Transition Statement: As discussed earlier, there are two important decisions you will have to make when shopping for a home loan. First, “With which financial institution will you do business?” (which we just discussed) and second, “For what type of loan will you apply?” Let’s discuss mortgage loan options.

Key Points**For Educator: What to Say****For Learner:****Slide #11:****Mortgages**

- The house becomes the security for the loan until you pay off the mortgage, and then you retain full ownership of the house.
- If you fail to make payments, the lender has a legal right to take possession of the house.
- Loan usually is repaid in monthly installments over a set period of time from 15 to 30 years.

Explain: Unless you pay cash for a house, you will need to obtain financing. The most common way to purchase a house is financing it through a mortgage.

When you obtain a mortgage, your house becomes the security for the loan until you pay off the mortgage. Then you retain full ownership of the house.

If you fail to make payments, the lender has a legal right to take possession of the house.

Mortgage loans are repaid in monthly installments over a set period, and are typically 15- to 30-year loans.

Slide #12:**Mortgages**

What types of mortgages are available?

- Fixed-Rate Mortgage
- Adjustable-Rate Mortgage
- Balloon Mortgage

Explain: There are many choices available when financing your house. The most common types of mortgage loans are fixed-rate mortgage loans, adjustable-rate mortgage loans and balloon mortgage loans.

The determining factor for which mortgage you choose depends on your financial situation and/or your stage of life. Someone who is just getting out of college and needs a consistent mortgage will want a fixed-rate mortgage, while someone who is willing to take risk and allow the rates to fluctuate with the market may be interested in an adjustable rate mortgage.

Transition Statement: Let's discuss these three types of mortgages in detail, beginning with fixed-rate mortgages.

Key Points**For Educator: What to Say****For Learner:****Slide #13:
Fixed Rate Mortgages**

Most common type of loan.

- Interest rate is fixed for the term of the loan.
- Taxes and insurance rates can fluctuate.
- Usually 15- to 30-year terms
- 30-year term has lower monthly payments, but usually has higher interest rates.

Explain: The fixed-rate mortgage loan is the most common type of loan.

Instructor Note: Highlight the four points listed on Slide #13.

**Slide #14:
Fixed Rate Mortgages**

	15-Year Term	30-Year Term
Loan Amount	\$100,000	\$100,000
Interest Rate	6.5%	6.5%
Payment	\$871	\$632
Total Cost of Loan	\$156,799	\$227,545

Difference: \$70,746

Explain: During the life of a loan, you will pay much more interest with a 30-year mortgage than with a 15-year mortgage. This chart illustrates the difference of a \$100,000 loan paid off monthly with a 15-year loan and a 30-year loan.

You can see that on a \$100,000 loan with a 15-year term you will pay a total of \$156,799, considering that you make no additional payments throughout the term. With a 30-year loan, the total payback will be \$227,545. The difference in the two loan options is \$70,746!

You can calculate the total cost of your loan by using the amortization calculator on the *Home of My Own* Website.

Key Points**For Educator: What to Say****For Learner:****Slide #15:****Fixed-Rate Mortgages**

Minimize Interest Paid:

- Make more than the minimum monthly payment.
- Make payments as if it were a 15-year term loan.
- Make an extra payment each year.
- Pay an extra 1/12 each month.

Explain: Even though you can expect to pay more interest throughout the life of the 30-year term, it is sometimes the best option because the monthly payments are lower. There are also a couple of things you can do to minimize the total interest paid.

- Make more than the minimum monthly payment, if prepayment is allowed.
- Make payments as if it were a 15-year term. This allows you to pay off your loan in 15 years. But if something happens and you cannot make the higher payment, you can make the 30-year term payment until you get back on track.
- Make an additional payment each year.
- Pay an extra 1/12 each month, which adds up to an extra payment each year.

Question: *Are there any questions about fixed-rate mortgages?*

Transition Statement: The next type of mortgage is an adjustable-rate mortgage.

Question: *What do you think an adjustable-rate mortgage will offer a homeowner?*

Participant questions.

Participant response.

Key Points**For Educator: What to Say****For Learner:****Slide #16:****Adjustable Rate Mortgage**

- Interest can increase or decrease during the term of the loan.
- Interest rate is adjusted on the loan's anniversary date.
- Monthly payment increases and decreases with the change of the interest rates.
- Loan has periodic and lifetime interest caps.

Explain: Adjustable-Rate Mortgages often are called ARMs. With this loan option the interest rate can increase or decrease during the term of the loan.

- The loan may have a low rate at the beginning of the term, but the rate can increase significantly throughout the term of the loan. The rate also can decrease over the period of the loan.
- An example: A 3/1 ARM loan would have a fixed rate for the first three years and be adjusted once a year thereafter.

Instructor Note: Highlight the four points listed on Slide #16.

Explain: ARMs are not right for every homeowner. A person who plans to stay in a house only a few years may consider an adjustable rate mortgage. It is possible to get a low interest rate for the first three years, then sell the house before the rates are adjusted. In this case, the borrower could finance more house for his/her money.

However, the typical homeowner planning to live in the house for many years should be very cautious about an adjustable rate mortgage. Interest rates can vary greatly, and this type of loan is only for those who are willing to take risk.

Key Points**For Educator: What to Say****For Learner:****Slide #17:****Balloon Mortgage**

- Small payments during the first few years (5-10 years).
- At the end of the determined years, borrower must pay the outstanding balance with a lump sum payment or refinance the loan.

Explain: A third loan option is a balloon mortgage.

This loan offers the buyer the option to pay small monthly payments for the first several years and, at the end of the initial time period, pay off the outstanding balance with a lump sum payment or refinance the loan. The usual strategy is to refinance before the balloon note becomes due.

Again, balloon mortgages are not right for every homeowner. This mortgage might be an option if you plan to stay in the house only for a few years and are confident you can resell the property when you move out. You also may consider a balloon mortgage if you are expecting a large increase in income in the next few years. However, it is very important to research your loan options, and before taking any loan, make sure it best meets your needs.

Transition Statement: In addition to these three common mortgages, you also may qualify for special loan programs or government-insured loans. Some of you may be familiar with these special loan programs.

Participant response.

Key Points**For Educator: What to Say****For Learner:****Slide #18:****Special Loan Programs**

- Federal Housing Administration (FHA)
- Veterans Administration (VA)
- U.S. Department of Agriculture (USDA)
- HUD Office of Public and Indian Housing (PIH)
- New Mexico Mortgage Finance Authority (MFA)

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(Slide #18 Continued)

Question: *This is a list of some of the organizations that offer special loan programs. Can anyone guess who these loan products are designed for?*

Explain: The Federal Housing Administration, also known as FHA, provides loan programs for first-time homebuyers as well as low-to-moderate income level families. FHA also insures mortgages on single family and multifamily homes, including manufactured homes and hospitals. FHA is the largest insurer of mortgages in the world.

The Veterans Administration, or VA, provides loan programs for eligible veterans for the purchase of a home for their own personal occupancy.

U.S. Department of Agriculture, or USDA, provides homeownership opportunities to rural Americans.

The Department of Housing and Urban Development, or HUD, Office of Public and Indian Housing provides homeownership programs for Native Americans.

Offered only at the state level, the New Mexico Mortgage Finance Authority (MFA) provides affordable housing in New Mexico by issuing tax-exempt mortgage revenue bonds. Proceeds from bond sales are used to fund below-market interest rate loan programs for single-family homebuyers and for developers of affordable multi-family dwellings.

Key Points**For Educator: What to Say****For Learner:**

	<p>Explain: Although none of these organizations make loans directly to consumers, they do work with local financial institutions so the local institutions can offer more affordable and flexible loan options.</p> <p>It is important to realize that not all lenders work with these special programs. For more information, you can contact any of these organizations directly and find out what lenders they work with in your area. You also can call your local loan officer to see in which programs he/she participates.</p>	
<p>Slide #19: Real Estate Contract</p> <ul style="list-style-type: none"> • Seller remains the legal owner of the house until the full price is paid. • Used when buying directly from a seller. • If buyer defaults, the seller can evict the buyer and forfeit all the payments. • Advantage: Credit history • Disadvantage: Higher interest rates and fee 	<p>Transition Statement: There is another option when buying a house if you choose not to finance your house through a mortgage. You also can purchase the house using a real estate contract. This is not nearly as common as mortgages, but is an option and is sometimes used when buying directly from the seller.</p> <p>With a real estate contract, the seller remains the legal owner of the house until the full price is paid. If you default during the period specified in the contract, the seller can evict you and you will forfeit all the payments on the principal that you have made.</p> <ul style="list-style-type: none"> • An advantage of a real estate contract is that the owner may not be as concerned about your credit history as a financial institution may be. • A disadvantage is that the contract may have a higher interest rate and fees than a traditional mortgage. 	

Key Points

For Educator: What to Say

For Learner:

Slide #20: Loan Options

What is the best option for me?

- Research YOUR options.
- Do NOT allow a lender to put you in the wrong loan program.
- Do NOT risk losing your home due to your failure to research the options.

Transition Statement: You may be wondering, “What is the best loan option for me?” It is important to understand that all loan options have the potential to be good loans. The problem comes when the customer agrees to a loan product that does not meet his/her current and/or future needs.

Explain: First, to determine the best loan option, you will have to do your homework. Most importantly, research your options.

Activity: You can use this *Mortgage Shopping Work Sheet* to compare the loan products of different lenders. Remember, it is very important that you visit at least three institutions and compare the options available.

Explain: Second, a lender can qualify you for a loan that does not meet your needs and try to lock you into the wrong loan option. Do NOT allow a lender to put you into a loan program that you do not understand completely. Ask lots of questions and be sure to research the loan. Choose a product that meets your current and future needs.

Finally, understand that there have been times that people have had to give up their houses because they were not placed in the right type of loan program. Do not take this risk. Make sure you understand the product

Activity: Distribute the *Mortgage Shopping Work Sheet*. Participants can use this work sheet to compare mortgage options.

Key Points**For Educator: What to Say****For Learner:****Slide #21:
Summary**

- Explained How to Choose a Financial Institution
- Determined Your Mortgage Loan Options

Lesson Summary:

Congratulations! You have completed *Financial Options* in this Home Buying Process series of classes.

Today we have explained how to choose a financial institution and determine what your mortgage loan options are.

Question: *Are there any questions?*

Participant questions.