



Rashmi Rangan, Esq.  
302-824-5219 (cell)  
Rrangan@dcrac.org

## Homeownership

NET WORTH OF A  
HOMEOWNER IS NEARLY 40  
TIMES THE NET WORTH OF  
A RENTER

# Why Buy?

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**Build Equity:** Portion of each mortgage payment goes toward the principal

**Forced saving:** You would pay for a roof over your head in any case but when you rent, you make the landlord richer

**Build wealth:** In 2019, a homeowner's net worth is 40 times the net worth of a renter

**Security—**Landlord can't kick you out--eviction; But your lender can if you don't pay mortgage on time--foreclosure

**Freedom—**you can do what you want in your own home—hang pictures, drill holes, knock down a wall, or whatever!

# Major forces

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**Interest rates—the higher the rate, lower the affordability. When rates are below 5%, please consider buying**



**Existing debt-load—the higher the debt, lower the affordability. Therefore, you want to reduce all other debt.**



**Savings—higher your savings, greater is your affordability.**



**Credit worthiness: Willingness (credit history)**

**Ability (Job stability, saving, income, & existing debt)**

**Collateral (Your investment and the value of the house)**

# Where to start?

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1. How much of a home can I afford?
2. What is my debt load?
3. What are the interest rates?
4. What programs can help?
5. What is my target date?
6. What is my credit score?
7. How much have I saved so far?

# Begin organizing

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Signed tax returns

Pay-stubs

Banks statements (all accounts)

Letters of explanation if large sums of money have been deposited in any account

Court order if child support/alimony is court ordered. Otherwise copies of canceled checks of receipt of child support/alimony.

# Begin organizing

Copies of statement of receipt of other income/canceled checks of receipt of other income.

Proof of any assets you have (stocks and bonds, life insurance face value, vehicles).

Divorce decree if applicable.

Graduation Certificate if applicable.

Proof of residency /identification.

Present and previous addresses going back six years and your telephone numbers.

Present and previous employer name, address, phone number, contact person, dates of employment.

# How much can I afford?

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DEPENDS ON YOUR INCOME, DEBTS, AMOUNT SAVED, CURRENT INTEREST RATES WHICH IN TURN DEPENDS ON YOUR CREDIT

# Gross Annual Income

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All your money—including what you pay for taxes. It is useful to calculate debt loads

1. Gross Annual Income \* 2.50 = Maximum Mortgage
2. Gross Annual Income \* 0.25 = Maximum Car Loan
3. Gross Annual Income \* 1.50 = Maximum Student Loan
4. Gross Annual Income \* 0.75 = Maximum Credit Card Debt

**Already you are in debt 5 times your Annual Income!**



# Business Income

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You normally show a lower income on which you should be taxed.

**Therefore, your affordability goes down.**

# How much can you borrow?

Ideally, your housing debt should not exceed 28% of your gross monthly income.

Ideally, your total debt should not exceed 36% of your gross monthly income.

Hence, your existing debt load becomes important

GMI 3,000

Total monthly debt  
(36%) 1,080

GMI 1,000

Total monthly debt  
(36%) 360

# General Rules on Saving Goals

About 5% of the sale price

If the sale price is \$100,000 then about \$5,000

If the sale price is \$50,000 then about \$2,500

## General Rules on Mortgage Limits

You can afford to borrow 2 ½ times your gross annual income.

|        |        |
|--------|--------|
| Income | 30,000 |
|--------|--------|

|        |        |
|--------|--------|
| Afford | 75,000 |
|--------|--------|

|        |        |
|--------|--------|
| Income | 50,000 |
|--------|--------|

|        |         |
|--------|---------|
| Afford | 150,000 |
|--------|---------|

If you want more, you must save more

# Professional you will employ

Housing counselor (FREE)

Realtor (gets paid by seller when you buy)

Home inspector (you pay)

Loan officer (could be on a commission)

Attorney (Find your own and pay)

Insurance (Find your own and pay)

# Housing Counselors

One on One Consultation

Custom Budget Plans

Generate a Timeline

Get the Facts

Non-Profit Resources

Education the Not-So-Hard Way

They know the details of down payment  
settlement programs

They know about mortgage programs

# Housing Counselors in DE

|                              |              |
|------------------------------|--------------|
| CLARIFI                      | 215-563-5665 |
| 1st State Comm. Action       | 302.856.7761 |
| HOND                         | 302.429.0794 |
| Interfaith Community Housing | 302.652.3991 |
| NCALL Research               | 302.678.9400 |
| Neighborhood House           | 302.658.5404 |
| Telamon Corporation          | 302.404.0529 |
| YWCA Delaware                | 302.224.4060 |

# Realtor

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Realtor will play a very crucial role.

Realtor is prohibited from steering you into a particular neighborhood.

There are Buyer's agents, Seller's agents, and dual agents.

They walk you through every step of the way until you close.

They will show you homes within your budget.



# Making an offer

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When you want to buy the house, you make an offer.

Contingency: Obtaining mortgage, Property Appraisal (what if the property is not appraised for the asking price?), & Home Inspection

Once the Seller accepts it, there is no going back.

Good Faith/Earnest deposit is expected when you make an offer.

# Home Inspection

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Whether you are buying a new home or an existing one, get a home inspection done.

You pay the cost of inspection.

The report is detailed and tells you the condition of everything with and within the home.

A good report also prepares you for when major repairs will need to be done—example new roof in 10 years.

You will also know how much it will cost to fix things that need to be fixed **BEFORE** you buy. **Contingency in your offer.**

# Lender

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It is a good idea to get pre-approved. You will start the process knowing how much you can borrow. Unless something changes, you know that you will be approved.

For a mortgage, you borrow from a bank or credit union.

When you apply for a loan, you get a Good Faith Estimate. Then when you go to closing, you get another GFE. The two should be similar.

Another document you should look closely is the Truth in Lending Disclosure—you get them when you apply and when you go to closing.



# Important Disclosures

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HUD Information Booklet on Real Estate Settlement Procedures Act (RESPA)

Good Faith Estimate (Not very different from what your housing counselor told you). Compare to the one you received when you applied

Truth-In-Lending Act Disclosure. Compare to the one you received when you applied

Adjustable Rate Mortgage Disclosure if you have applied for an ARM. **STAY AWAY FROM ARMS and INTEREST ONLY LOANS**, unless you know what you are doing

Balloon Disclosure if a balloon is due. **STAY AWAY**, unless you know what you are doing

Other Disclosures—depends upon the loan.

# Traditional Mortgages

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Your interest is fixed for the term of your loan.

The loan term could be 15 years or 30 years.

That means, for the next 15 or 30 years, your mortgage payments will change only if your insurance or taxes go up or if you refinance.

Your monthly payment (PITI) includes

1. a portion of your Principal (small at first),
2. a portion of the Interest (very large at first),
3. 1/12th of your property Taxes and
4. 1/12th of your homeowners Insurance.

# Watch out!

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Prepayment penalty. If you pay off the loan before a certain period of time, you will have to pay a penalty.

Is this a line of credit? A line of credit is like buying your home with a credit card.

Does the payment include taxes and insurance? If not, how will you pay them when the annual bill comes due? You could lose your home for nonpayment of taxes.

Is there a balloon? It means at some time in the near future (3 to 5 years) you have to pay back the full amount you borrowed.

Is this a simple interest loan? Unless you know what you are doing, this is not a good option.

# Closing Attorney

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A closing date is scheduled. Attorney prepares all the documents. You sign many of them. Make sure you understand a few of them:

1. Truth in Lending Disclosure: Annual Percentage Rate (APR), monthly payments, number of payments.
2. HUD-1. Read it carefully.
3. Closing costs include the cost of borrowing (fees, interest, title insurance, etc.), cost of buying (property taxes, title insurance, recording, surveys, etc.), and other transactions (seller help, earnest deposit, etc.).

# When the mortgage is paid off

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You should open a separate bank account and start putting

1. 1/12th of your property Taxes and
2. 1/12th of your homeowners Insurance.

When the bill comes due, you have the money to pay for it

We recommend that you actually continue to pay your mortgage to yourself in this account for another 5 years. Go to this account for any housing related repairs.



# Till Debt do us part

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For the next 30 years, you are expected to make your mortgage payment diligently.

On Time.

Much can happen between now and then.

When you see signs of trouble, CONTACT YOUR LENDER IMMEDIATELY.

If the Lender cannot or will not work with you, CONTACT A HOUSING COUNSELOR.

NOTE: If a foreclosure action has begun, you can stop it as late as the morning of the sheriff sale—DON'T WAIT THAT LONG.

# Know Your Rights

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## The Fair Housing Act

- No housing discrimination

## Equal Credit Opportunity Act

- No lending discrimination



# Habitat for Humanity

New Castle

302-652-0365

Kent

302-678-5118

Sussex

302-855-1153

# HOMEOWNERSHIP

Is how we build wealth

