Sarae Kurth:	00:00	Hello, you're listening to the Clear Money Program's online radio show. I am your host, Sarae Kurth, Community Relations Coordinator at Denver Community Credit Union. Denver Community is a not-for-profit financial cooperative serving the people of Denver, Arapahoe and Adams County. On this show, I'd like to welcome Miss Lindsay Gafford, a home buyer education instructor who was also the special projects coordinator with Brothers Redevelopment. Brothers Redevelopment is a key player in housing solutions across the age spectrum from free home buying education classes to affordable housing communities for seniors, and supportive programs for homeowners in between. Brothers is relied upon to meet housing needs of low income seniors and disabled residents in its fifth decade of service. This non-profit continues to focus on safe, affordable, and accessible housing, and housing services through home maintenance and repair, the annual paint-a-thon, foreclosure prevention counseling, including oversight of the Colorado foreclosure hotline and management of 13 affordable housing communities. Today we'll be discussing how to prepare for the home buying process. Hi Lindsey.
Lindsay Gafford:	00:00	Hi Sarae.
Sarae Kurth:	01:09	Let's start out by having you tell us a little bit about yourself and what you do at Brothers Redevelopment.
Lindsay Gafford:	01:14	Well, I'm kind of one of those people who wear a lot of hats at work. I fill in places where things are needed. I've done everything from home buyer education and that's been pretty consistent over the past two and a half years that I've been here. So I'm basically the person that fills in the gaps wherever it's needed.
Sarae Kurth:	01:34	Awesome. So there are a lot of things that can be done in advance to prepare for and simplify the home buying process. What would be the first steps that you would recommend someone take with regards to their personal finances to make sure that they're on the right track?
Lindsay Gafford:	01:49	Well, as I'm sure most people know, you definitely want to make sure that you're in a solid financial situation before you pursue home-ownership because even now when rent prices are higher and your mortgage payment may be a lot lower than your rent, you're going to have a lot of new expenses, primarily home maintenance related things to account for that you haven't had to account for before. So the first thing you really want to look at is your debt. Um, not only will paying down debt

put you in a better situation to purchase a house, but it may also be a necessary action required by your lender. Most mortgage loans require that you don't have a higher than a 43 percent debt-to-income ratio to qualify for that mortgage, and what that means is your debt-to-income ratio, or you may hear your lender call it tour DTI, is calculated by looking at the debt that appears only on your credit report. Nothing like childcare or anything like that, only the debt on your credit report in relationship to your gross monthly income. So really to be prepared to buy a house and to qualify for buying a house, that can't be more than 43 percent of your gross monthly income. Now, when you're working on paying down your debt, which is a good enterprise, no matter what I think will agree, you're already working on the second point, which is to make sure your credit is in good shape, without going into too many specifics, because that could take an hour in itself. Um paying down a loan or a credit card. Debt is one of the quickest and most effective ways to raise your credit score and which that's a great thing because in most cases you're going to need a FICO score, and that's your credit score, of 640 or higher to qualify for a mortgage loan. And really, if you want to get the best rates that are out there, and right now they're still really great, um, you really want to have a 720 or higher to get those great rates. And then on top of all that, you want to make sure you have a really healthy emergency savings account prior to purchasing a home because you just never know what's going to immediately come up during that process. And most people don't realize you have to have a good amount of money to put in up front in the home-buying process, which can add up pretty quickly and you don't want to be caught off guard.

Sarae Kurth: [04:12] That makes sense. So if your debt is under control and your credit is in good shape, what other financial steps should you take to make sure you're prepared for the mortgage process?

Lindsay Gafford: [04:23] Well, like I said, you want to have that healthy emergency savings account, but really you want to have a good amount of money set aside beyond that as well. If you're looking into using an FHA loan, which um most most people do, look into using an FHA loan because it's available to a mid to lower income purchasers. Um, you'll need to have a minimum of 3.5 percent of the purchase price of the house set aside for a down payment which can add up pretty quickly. Um, that doesn't include the money you'll need to have readily available, almost kinda like cash as earnest money deposit, which is your skin in the game. You're showing that you're committed to this house. Um, home inspection, which can range from $200 to $400, and that's if you don't get any extra inspections on top of that. And really one thing that most people don't think about is you need to have money set aside for changing the locks the minute you close on that house and get those keys. So there are downpayment assistance programs that can be used to help out with that 3.5 percent or maybe even more, and attending one of the CHAFA/HUD approved home buyer education classes throughout the metro area is a really great way to find out about those. And typically a home buyer is expected to have at least a thousand dollars minimum to contribute towards the process. And that's not including inspection fees and those other things we talked about earlier. Um, one of the most important things when you're considering purchasing a home is to determine how much home you can actually afford. And this is where people, I think get a little overwhelmed because there's math involved. When you're shopping for a mortgage and a lender is determining how much mortgage you can afford, they're going to be looking at your gross monthly income and that means they're looking at your income prior to any deductions, like taxes or insurance being taken out, what you as the buyer want to be looking at is how much house you can afford based on your net monthly income or the amount of money that actually comes through the door after all those deductions. And I don't know about you, but that's a pretty significant difference in my paycheck. So I'm sure it is for most home buyers out there to typically an affordable housing ratio or that's also all that means is how much of your income are you going to be spending on your house versus your total income. So an affordable housing ratio is considered to be 31 percent or less of your gross monthly income. But like I said, you want to make that calculation based on the your net monthly income, not your gross. So here's just kind of a quick example. Let's say your gross monthly income is $4,500 and your net monthly income is $3,200. So 31 percent of $4,500 is 1395, whereas 31 percent of $3,200 is $992 and that is so that's a $400 difference which can make or break somebody's budget and um, and that's also a big difference in what your purchase price is going to be on that house because you have to remember you want some wiggle room, there's not a landlord coming around to fix fixings for free anymore and you're going to have to be doing that yourself. Do you want to have the ability to do that.

Sarae Kurth: 07:54 Yeah, that's great advice. Um, so when you are budgeting for mortgage, it's important to know what is and isn't included in a mortgage payment. So what I'd like to ask is what is covered and what is not covered by a standard mortgage payment?

Lindsay Gafford: [08:09] This is where a lot of those, um, confusing bank terms seem to come into play. So let's break it down a little bit. When you're talking about a mortgage payment, you're going to hear a couple of terms in particular thrown around. One is PI, which stands for principle and interest, and the other is PITI, which stands for principle interest, taxes and insurance. So most most mortgage loans that are issued these days are going to be PITI. So what that means is the principal and interest is what is actually being paid toward the balance owed on your home. The longer you stay in a home, the less interest you'll be paying each month, so for about the first five years that you are in a house, you're likely going to be paying more interest than principal per month, but that that flips around after about that five years and then your taxes refers to the property taxes that are paid each year and the mortgage servicer will calculate what will be owed, and then divide that evenly up over the year to be included with your mortgage payment. And insurance is referring to hazard insurance or homeowners insurance, which the homeowner is responsible for obtaining this policy and then maintaining it and making sure it stays up to date for as long as they live in the home. It's important to shop around in these cases because in Colorado, especially with the flooding and the wildfires, we've seen those rates go up a little bit, so shopping around is definitely recommended by pretty much any housing counselor you'll talk to, um, and then so they'll pay for the policy and then divide that up over the year again with your mortgage payments and you may hear taxes and insurance referred to as the amount that's in escrow after you have your mortgage as well. And then one more term that you might hear is mortgage insurance, MI, and if you have an FHA loan, MI, or mortgage insurance, will be another expense you'll have added into your mortgage and [inaudible} mortgage payment each month.

Sarae Kurth: [10:21] Good to know. Um, do you have any tips about estimating the full cost of home ownership, including some of the things you mentioned, like upkeep, maintenance, Hoa fees, utilities and so forth, so that home buyers can accurately budget for a mortgage and the associated costs of owning a home?

Lindsay Gafford: [10:40] Yeah, I mean we mentioned earlier that your housing payment should account for about 31 percent or less of your monthly budget. So if you're considering moving into a condo that has an associated HOA or Home Ownership Association fee, uh, that should be considered as part of your 31 percent monthly payment. So that may mean you qualify or you want to shop for a condo or a house that costs a little less so you can account for that HOA fee. Um, as far as utilities go, you know, most home sellers are willing to share that information so you can, you can get your real estate agent to ask their real estate agent to get that information, what do utilities, average and all of that. And another thing would be when you are attending your home inspection, um, get the inspector to point out things that can make your home more energy efficient and may help you save money in the long run, long run like that. And beyond your normal savings, which I know all your listeners are already doing. Um, a good rule of thumb is to save one percent of your home's value per year for home maintenance repair and you may not even access all that money, but when it comes time for a big expense like, I don't know, replacing a roof which can cost you $10,000, you'll have that money set aside. You're not going to be strapped for cash and feel like you're in a position where you might start falling behind on your mortgage payments and the really, really the best thing a potential home buyer can do to prepare themselves for this process and to get an idea of what the expense is going to be is again, to utilize one of the many home buyer education classes that are available throughout the metro area. At the very beginning of the process, like right when you're starting to think about it, um, the number one comment we get is, "I wish I had done this sooner." So those certificates are good for nine months and it's a free class. So definitely that is one of the best things you can do in addition to sitting down with a financial coach, um, like you have at Denver Community Credit Union, to really take an in-depth look at your spending plan and your expenses and make sure you're ready for such a large purchase, and that you can handle it.

Sarae Kurth:	13:00	Great advice. Thank you so much for your time and expertise. Lindsey, could you please share your contact information so that listeners can reach you if they have any questions?
Lindsay Gafford:	13:08	No problem. The best way to contact me is via email, which is Lindsey and that's spelled L-I-N-D-S-A-Y at Brothers Redevelopment dot o r, g (lindsay@brothersredevelopment.org), or you can call the offices of Brothers Redevelopment at 303-265-9397. And we'd love to talk to anyone who wants some more information about this whole process.
Sarae Kurth:	13:34	Thanks again. Follow Denver Community on Twitter or Facebook for personal finance tips and community news. For more information about this topic, feel free to email education@denvercommunity.coop. Our website is denvercommunity.coop/education. Thanks for listening.