



Homebuyer Education

A Roadmap to Buying a Home

UMCU FINANCIAL EDUCATION TEAM



Rent vs. Buy?



Renting

Advantages

1. More options for where to live
2. Financial flexibility - one year lease is typical
3. Maintenance and repairs handled by the landlord
4. Nice amenities?
5. No down payment required (except a security deposit)
6. Overall housing costs may be lower (taxes, insurance, upkeep)

Buying

Advantages

1. Building wealth (via home equity)
2. “Fixed” housing costs (30 or 15 year term)
3. Can customize 😊
4. Roots in the community (schools, church, neighbors)
5. Potential tax advantages (mortgage interest)
6. More room (lot size, square footage)

Buying a Home – How do
we *prepare 6-12 months*
in advance?



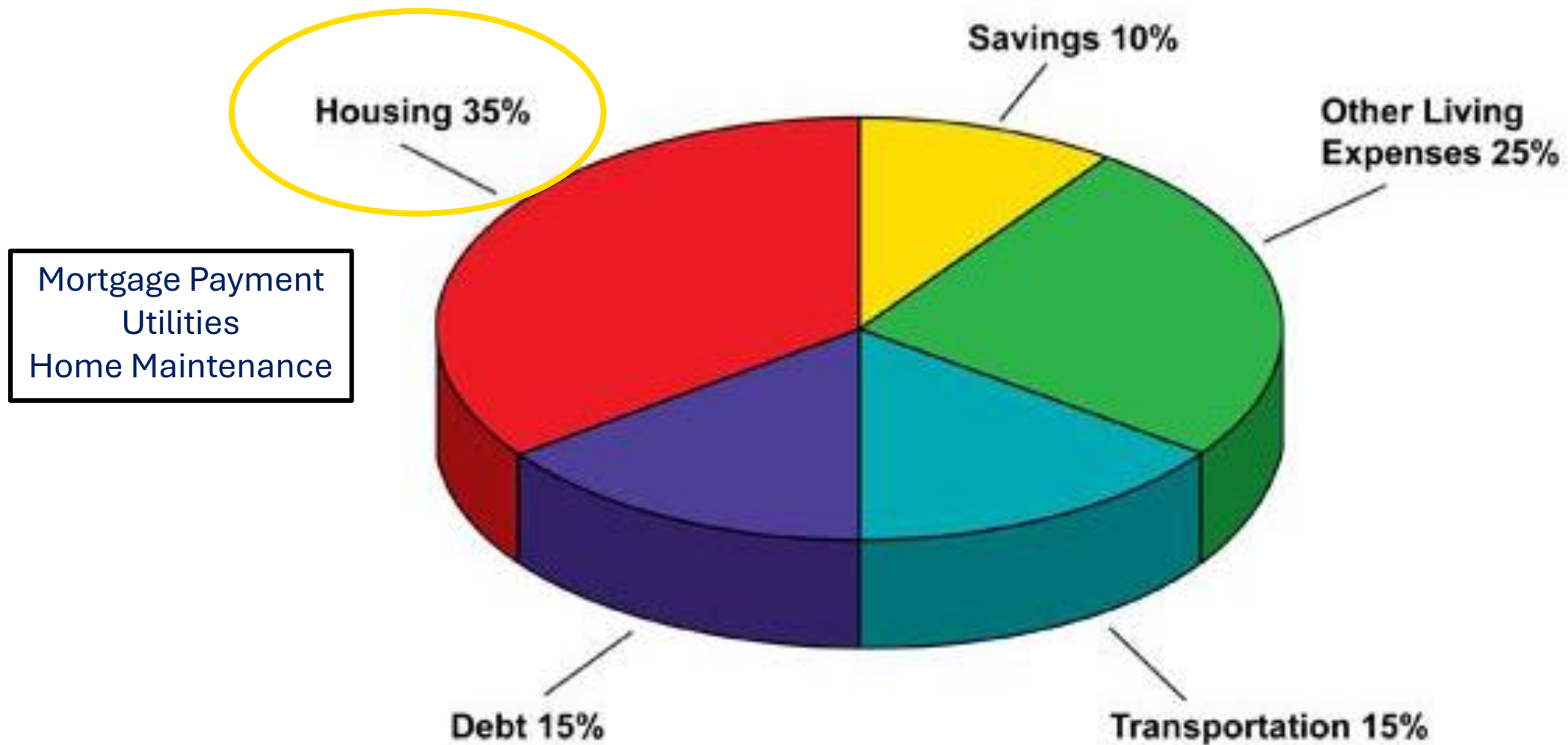
Focus On the Areas *Within Your Control*

- Create a monthly spending plan: what can I/we comfortably afford?
- Credit score(s): Fair? Good? Excellent?
- Down payment?

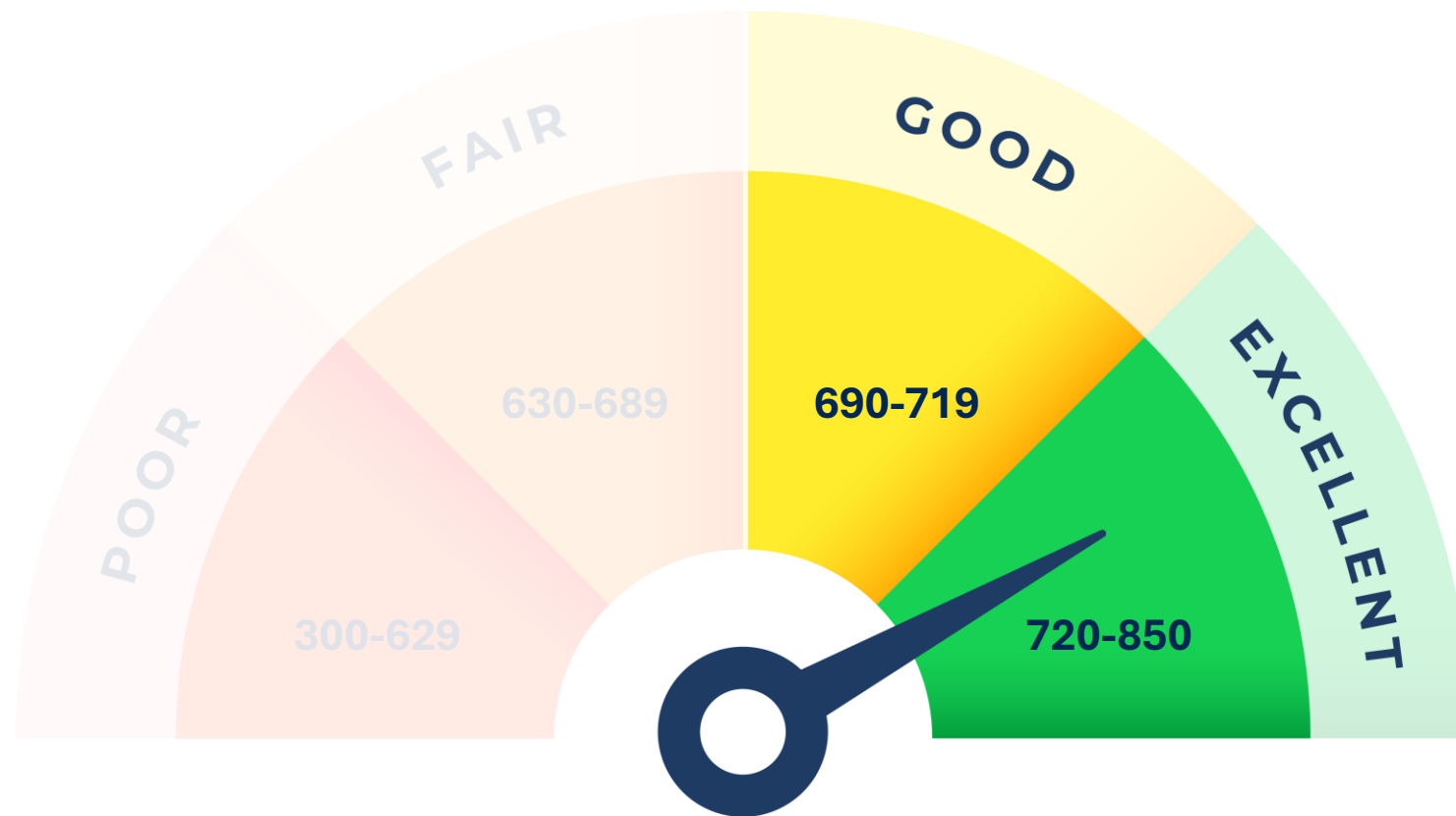


- Inventory challenges
- Interest rates
- Rising home values (which will also impact property taxes)





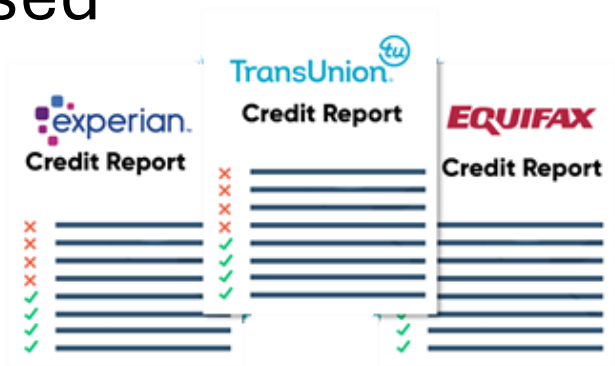
Spending Plan Pie Chart – Using Net Pay



The Credit Scoring Range

Joint Mortgage Application

- Both incomes considered
- All three credit reports pulled for both people: the lower of the two middle credit scores will be used



Credit Scores Matter!
\$300,000 loan, 30 year fixed rate

| Credit Score | Interest Rate | Monthly Payment (not including taxes and insurance) | Total Repay |
|--------------|---------------|--|-------------|
| 675 | 7.0% | \$1,996 | \$718,524 |
| 730 | 6.5% | \$1,896 | \$682,637 |

Difference of \$35,887

Down Payments

- Range of 3% - 20%
- Usually personal savings or gifts (parents)
- Some states have first-time homebuyer programs (down payment assistance)
 - www.Michigan.gov/mshda





Down Payment – Where Should I Keep It?

KNOWLEDGE CHECK

While everyone's home budget is a little different, what is the recommended percentage (range) of your **net income** that you should allocate towards your overall monthly housing spend?

Answer: 35-40%

Mortgage Approvals

- What happens if I have other debt?
- Underwriting -- a target **debt-to-gross income** ratio of 45% or less



Mortgages – Decision Points

Types

- Conventional or Government?

Terms

- Fixed-Rate or Adjustable?
- Repayment Length?



Current UMCU Mortgage Rates

Fixed-rate

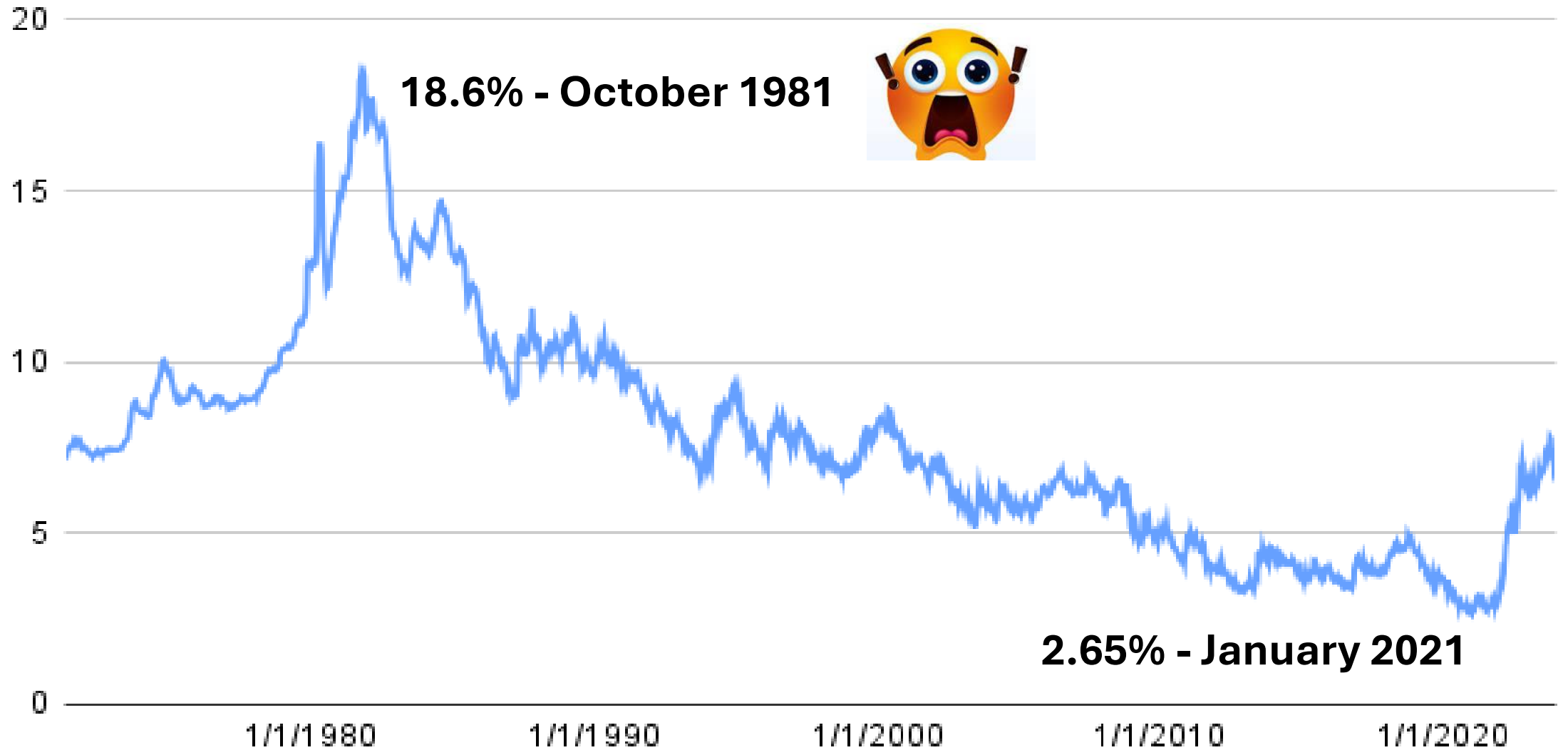
- 30 year term - **6.625%**
- 20 year term
- 15 year term - **5.875%**
- 10 year term

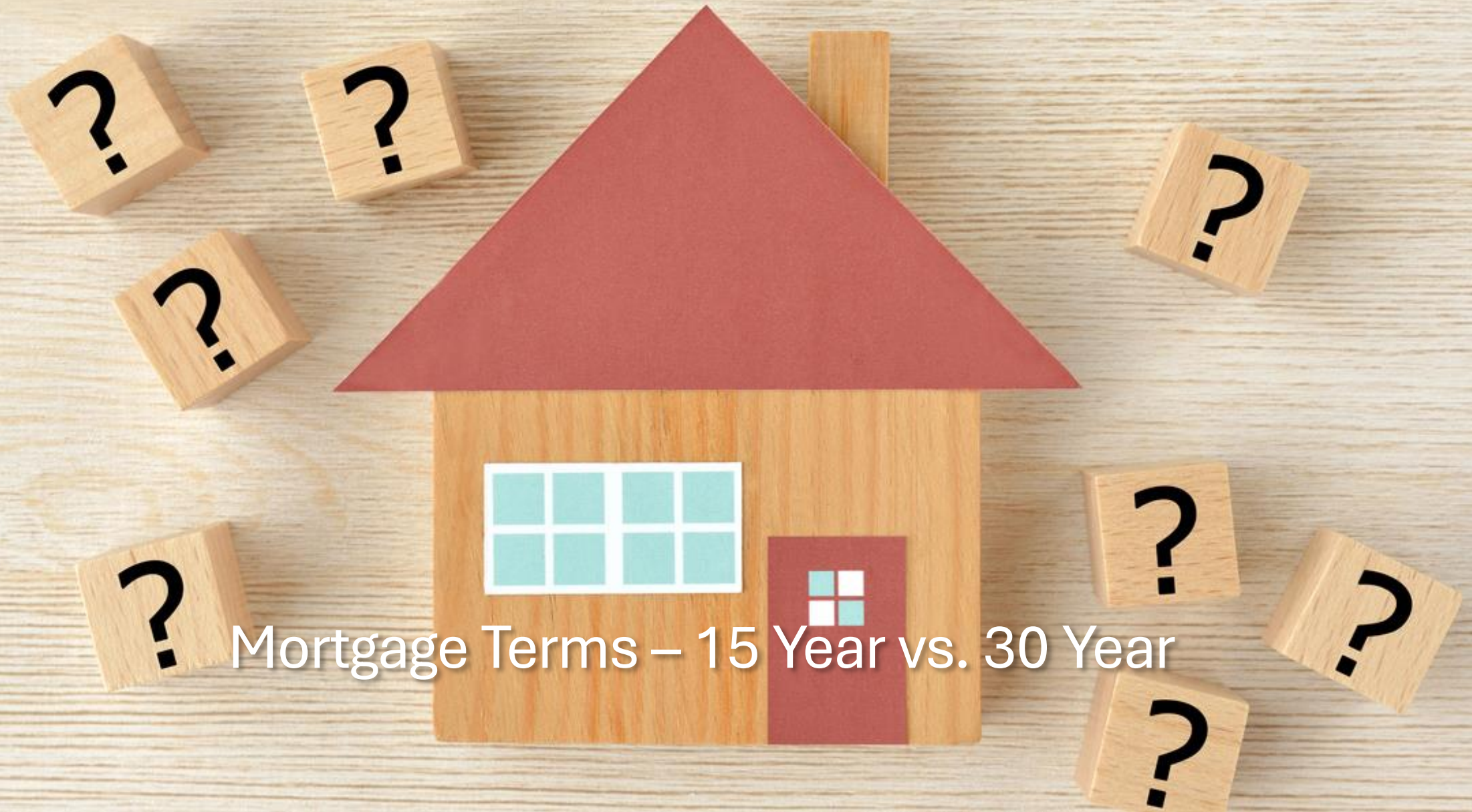


KNOWLEDGE CHECK

Overall, have mortgage rates gone up or down over the last 50 years?

Historical 30-Year Mortgage Rates: 1971-2024





Mortgage Terms – 15 Year vs. 30 Year

We Found a Home!

- Purchase price = \$300,000
- Down payment = \$15,000 (5%)
- Mortgage = \$285,000



\$285,000 Mortgage

- Property taxes = \$4,000/year
- Insurance = \$1,200/year



| Mortgage Term | Interest Rate | Monthly Payment | Total <i>Principal</i> Paid Over Term | Total <i>Interest</i> Paid Over Term |
|---------------|---------------|-----------------|---------------------------------------|--------------------------------------|
| 30-Year | 6.625% | \$2,258 | \$285,000 | \$371,956 |
| 15-Year | 5.875% | \$2,819 | \$285,000 | \$144,442 |



- Location: Ann Arbor (48103)
- Price: \$565,000 (1,969 sqft)
- Property Taxes: \$8,472 annually



- Location: Ypsilanti Township (48197)
- Price: \$500,000 (2,053 sq ft)
- Property Taxes: \$7,500 annually

KNOWLEDGE CHECK

Almost 90% of all purchasers choose the 30-year fixed rate mortgage because of the lower monthly payment. Are borrowers allowed to pay more than required if they choose?

Answer: Yes!

A Mortgage Payment – P.I.T.I.

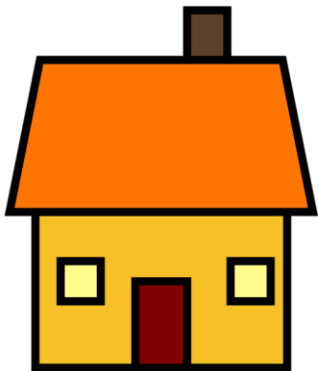
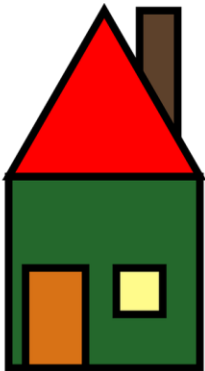
Four parts to every payment:

- Principal
- Interest

Collected monthly by your mortgage servicer to repay your loan

- Taxes
- Insurance

1/12th collected monthly by your mortgage servicer and held in an **escrow account**



A close-up photograph of three onions on a dark brown wooden surface. The central onion is in sharp focus and has its outer skin partially peeled back, revealing the inner layers. To its left, another onion is slightly out of focus. To its right, a third onion is also partially visible. The lighting is warm, highlighting the texture of the onion skins and the wood grain.

Let's Peel Back The Layers of a Mortgage Payment

Example

- 30-year term
- \$285,000 loan
- 6.625% rate
- \$2,258 per month payment

PAYMENT #1:

- \$504 to principal –
- \$1,321 to interest
- \$333 for property taxes
- \$100 for home insurance



What is Private Mortgage Insurance (PMI)?



PMI is Added to Your P.I.T.I. Payment

| Private Mortgage Insurance | Homeowners Insurance |
|--|---|
| WHO IT PROTECTS Your mortgage lender in the event you default on your loan. | WHO IT PROTECTS You and your assets in the event of natural disaster, theft, and vandalism, etc. |
| LOANS IT'S USED FOR Conventional mortgages. Other kinds of mortgages usually have their own insurance requirements. | LOANS IT'S USED FOR Any type of mortgage , including conventional, FHA, VA, and adjustable-rate mortgages. |
| WHEN IT'S REQUIRED Typically, if you put less than 20% down . You can cancel it once you reach 20% equity in your home. | WHEN IT'S REQUIRED Most lenders require it to get a mortgage . But it's a good idea to keep it even after you've paid off your mortgage. |



What does it mean to
“refinance” a mortgage?

What is the difference between pre-qualified and pre-approved?



Pre-qualified



Pre-approved



Are We Ready to Look at Houses?

- ✓ Our budget (income & expenses) is set – we know what we are comfortable (\$\$) with
- ✓ We have our pre-approval letter from our mortgage company
- ✓ Consider hiring a **buyer's agent** to assist





Defining that “Dream Home”

What is Important to You?

| | |
|------------------------------|---------------------------------|
| Urban or rural? | How many bedrooms? |
| Lot size? | Finished basement? |
| Built since 1950? | Location? Specific city? |
| Commute to work? | School district? |
| How many bathrooms? | Main road? Side street? |
| Subdivision? Privacy? | Style of home? Ranch? Bi-level? |
| Recent updates? Projects OK? | Attached garage? |

1. I'm very flexible ... don't really care 😊
2. Would be nice ... but not a deal breaker
3. Super important!



Your Home Will Need Some TLC! ♥

HOME MAINTENANCE & REPAIRS

- Hot water heater
- Appliances
- Furnace
- Plumbing / Pipes
- Roof



HOME IMPROVEMENTS

- Landscaping
- New Kitchen Cabinets
- New Lighting
- Painting
- Windows
- Flooring



Set-Up Your Home Maintenance Fund

To figure out how much you should ideally be setting aside each month, follow these steps:

- 1. Take your monthly mortgage payment amount
- 2. Multiply it by 2
- 3. Divide that by 12



How Long Will Your House Last?

A part-by-part guide to the life expectancy of the pieces and systems in your home



A Home Inspection
is VERY important!



1,800 Square Foot House, 3 Bedrooms, 2 Bathrooms

| ITEM | COST |
|---------------------------------|----------|
| 1. New Washer and Dryer | \$1,300 |
| 2. New Carpeting | \$3,000 |
| 3. Interior Painting (Bedrooms) | \$400 |
| 4. New Water Heater | \$1,500 |
| 5. New Roof | \$10,000 |
| 6. New Windows | \$13,000 |
| 7. Exterior Mulch (Landscaping) | \$250 |
| 8. New Furnace | \$6,000 |

\$250, \$400, \$1,300, \$1,500, \$3,000, \$6,000, \$10,000, \$13,000



Great Job!

Happy to Help

Mark Munzenberger
Financial Education Manager
education@umcu.org



Thank you!

