

Free Curriculum

Financial Sense to White Picket Fence: Budgeting, Borrowing, Buying, and Beyond

This financial literacy course is available free to all California community colleges. The fully developed curriculum includes a syllabus and lesson plans for four 90-minute sessions covering “Budgeting, Borrowing, Buying, and Beyond,” plus a full selection of multimedia support materials.

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Online Resources

California Bureau of Real Estate
www.calbre.ca.gov

California Financial Literacy
www.californiafinancialliteracy.org

U.S. Department of Housing and Urban Development
www.hud.gov

Internal Revenue Service
www.irs.gov

California Department of Business Oversight
www.dbo.ca.gov

California Bureau of Real Estate Appraisers
www.orea.ca.gov

California Association of Realtors®
www.car.org

California Community College Real Estate Education Center
www.ccreec.org

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FINANCIAL SENSE TO WHITE PICKET FENCE

A Financial Literacy Reference Guide



How to Find a Qualified Real Estate or Loan Professional

Hiring a professional to help you with the purchase of your home can be a daunting task. Here are some tips on finding a reputable and ethical professional.

- Request a copy of their errors and omissions (E&O) insurance policy (E&O insurance is recommended, not required).
- Verify a public license by going to CalBRE’s website, www.calbre.ca.gov.
- Ask to view his or her résumé and get a list of references to contact.
- Request personal references and contact them.
- Find out if they have any additional professional designations, titles, or professional membership positions.
- Ask for a presentation of why you should hire them.
- If the agent has disciplinary action on his or her license, carefully consider the type of discipline and how long it has been since the action.
- Check with the Better Business Bureau and a chamber of commerce, and do an online search for ratings and complaints.
- Ask about their experience, and thoroughly evaluate if they are the right fit for you.

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Debt-to-Income Ratio

Understanding your debt-to-income ratio is a key factor in figuring out which purchase price you can qualify for. Debt-to-income ratio is calculated by dividing your total monthly payments for debts divided by your gross monthly income. For example:

\$900 PITI (principal, interest, taxes, and insurance)
+ \$100 homeowner’s association dues (HOA assessments)
\$1,000 total housing payment
\$150 credit card payment
+ \$250 auto loan
+ \$100 student loan
+ \$1,000 housing payment
= \$1,500 monthly payments
\$4,000 gross monthly income
$1,500 \text{ (monthly payments)} \div 4,000 \text{ (gross monthly income)}$
= 37.5% debt-to-income ratio

Lenders use debt-to-income ratios to qualify you for a loan and have different loan programs with varied underwriting standards (qualifying requirements). A low debt-to-income ratio—it generally should not exceed 41 percent—increases your ability to qualify for a loan, so be mindful of increasing your debt prior to buying a house.

Budgeting

A budget outlines an individual's or family's financial goals and should be realistic and sustainable. It should be reviewed on a yearly basis, and, ideally, total expenses, including your house payments, property taxes, and insurance, generally should not exceed more than 41 percent of your total pretax income. Below is an example of a monthly budget:

EXPENSES	INCOME
Mortgage \$2,325	Borrower I \$5,500 (before tax)
Car \$400	
Insurance \$225	
Utilities \$240	Borrower II \$3,000 (before tax)
Food/Entertainment \$300	
Gas \$150	
Total expenses: \$3,640	Total income: \$8,500 (before tax)

In this example, the borrowers have a debt-to-income ratio of 43 percent ($\$3,640 \div \$8,500$), which could prove to be problematic in obtaining a loan. If these borrowers had waited to buy a car, their debt-to-income ratio would be a more acceptable 38 percent.

To access free online budget analysis resources, go to www.californiafinancialliteracy.org.

Do You Have a Handle on Your Monthly Budget?

Your monthly expenses may add up to more than you realize. For example, food and entertainment costs are often underestimated. Keep all of your food and entertainment receipts in a designated envelope. Mark on the envelope how much you estimate you spend per month on this category. Collect all food/entertainment receipts for 30 days, keeping them in the labeled envelope. After 30 days have passed, tally up the receipts and see where you stand. You may be surprised to see the results!

Borrowing

One of the most complicated tasks when buying a home is the process of borrowing through a home loan—a transaction in which you promise to repay money you have borrowed and also give the lender a mortgage on your home to secure repayment.

Since taking out a home loan is a large and complex financial obligation, take time to understand exactly what your loan commitment involves.

- Before house hunting: Figure out what you can afford and what will keep you within budget.
- Get your loan preapproved by applying for a loan through a lender or mortgage broker. If you have an issue with your credit, debt, or income, the lender or broker can help you fix the problems that hinder your ability to obtain a loan.
- Be aware that mortgage payments not only include principal and interest on the loan, but can also include taxes, insurance, homeowner association dues, and monthly mortgage insurance.
- Ask your loan professional to review the loan terms with you. This should be carefully examined prior to getting into a contract so there are no surprises at escrow time.
- Be prepared to give your mortgage representative a number of documents when you apply for a loan, such as:
 - Most recent paystubs
 - Two years of W-2 forms and tax returns
 - Most recent bank statements
 - Two forms of valid identification
 - Letters of explanation for credit lates, judgments, or bankruptcy
 - Social Security/pension award letters

Buying

When seriously considering purchasing a home, there are many factors to consider before, during, and after the home-buying process.

- Prior to your search, create a list of features and attributes that you are looking for in a home.

- If the home is part of a common interest development (like a condominium or a community that maintains the roads or has a clubhouse within the community), there will be monthly assessments paid to the homeowners' association (HOA). For more information, see CalBRE's publication entitled *Residential Subdivisions Buyer's Guide*, which you can find online at www.bre.ca.gov/files/pdf/ResidentialSubdivisionBuyersGuide.pdf.
- If you are considering a home with property tax special assessments, have your loan professional re-analyze your qualifications to ensure you are approved for a higher monthly payment.
- Read the contract and do not sign anything you do not understand. If English is your second language, request a neutral interpreter.
- Never sign blank documents.
- Get all agreements in writing—handshakes don't count!
- Create a homebuyer calendar with your real estate agent, making note of important dates such as:
 - Appraisal inspection
 - Pest/home inspection
 - Loan document signing
 - Closing date
- Make an effort to be present at the appraisal, pest, and home inspections.
- Don't wait until the last minute to research insurance. Common types of homeowners' insurance will cover fire, flood, and, sometimes, earthquakes.
- Always request copies of important reports and documents, including:
 - Credit report
 - Appraisal report
 - Termite/home inspection
 - Loan documents
 - Purchase agreement
 - Estimated closing agreement

Learn about local home-buying programs by going to www.hud.gov/local/ca/homeownership/buyingprgms.cfm.

Common Real Estate Acronyms

Automated underwriting system (AUS): Used by some lenders/brokers to qualify borrowers.

Debt-to-income (DTI): Calculated in the home loan qualifying process.

Good faith estimate (GFE): Describes the cost and expenses of obtaining a loan. In 2015, the GFE was replaced by a "loan estimate" and includes not only the cost and expenses of the loan, but the terms and conditions as well.

Homeowners' association (HOA): Maintains the common areas of a common interest development.

Letter of explanation (LOE): Explains unusual issues in order to help a borrower qualify for a loan.

Loan-to-value (LTV): Used in the loan-qualifying process and is the loan amount divided by market value of the home.

Principal, interest, taxes, insurance (PITI): Mortgage amount that is the total monthly house payment.

U.S. Department of Housing and Urban Development (HUD): Oversees home mortgage lending practices.

And Beyond

Your obligations and efforts do not end after buying your home. When understanding the true costs and responsibilities of owning a home, consider the following:

- Estimate 1.75 percent of your purchase price for annual property maintenance and general upkeep. Avoid deferring property maintenance (like painting, roof repairs, and leaks) or it will end up costing you more in the long term.
- Create a list of regular upkeep items to include in your annual budget, such as house painting or fence repairing, air filters, carpet/floor cleaning, lawn fertilizer, and plantings.
- Subscribe to your neighborhood newsletter, and stay up to date on local real estate legal updates and events.
- Know your neighbors and community by getting involved locally by volunteering at a local library, animal shelter, community/senior center, or neighborhood watch group.
- Attend homeowner association meetings to understand what is happening in your neighborhood.