



RIHousing Homebuyer Education:

FINANCING YOUR FIRST HOME





WHO WE ARE. WHAT WE DO.

Are you ready to open the door to your new home?

RIHousing's homeownership loan programs can help. If you are a first-time homebuyer, RIHousing and our Participating Lenders have a program that's right for you.

In our 50+ year history, we've helped more than 85,000 first-time homebuyers invest in their future and achieve the dream of homeownership. With a network of 35+ Participating Lenders and the RIHousing Loan Center, we work to meet the needs of first-time homebuyers. Our range of options will give you the peace of mind that comes with borrowing from a local, trusted lender who will work with you through the life of the loan.

Whether you work with our Loan Center or through our network of Participating Lenders, we will make sure you have the tools and information you need to make informed decisions, now and in the future.

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ARE YOU READY FOR HOMEOWNERSHIP?

PLANNING FOR THE FUTURE

Buying a home is an exciting venture and a long-term commitment. It is important to build a strong financial safety net. As you think about purchasing a new home, consider:

- How much space you will need—do you anticipate your family will grow over the years?
- How important is the neighborhood, school system, access to public transportation and general community?
- What are your spending habits? Does your budget account for unexpected home repairs?

CHECKING YOUR FINANCIAL STATUS

One factor that lenders consider is your ‘financial status.’ This includes your debt-to-income ratio, which is your monthly debt payments divided by your gross monthly income. Lenders look at how you pay your obligations, how much you owe and any credit problems included on your credit report.

CREDIT

One of the first steps in understanding your current financial status is evaluating your credit. You can request your credit report for free from each of the three nationwide credit reporting companies: *Equifax*, *Experian* and *TransUnion*.

To obtain all three, visit annualcreditreport.com, which will provide a secure means to order the reports.

Your credit score, referred to as a FICO, is determined using 5 factors:

- Payment History
- Amounts Owed
- Length of Credit History
- New Credit
- Types of Credit Used

Once you have your credit report, check for discrepancies or incorrect information. Be sure to verify that all of the accounts listed on the report are yours. If you think that you have been a victim of identity theft, contact the credit bureaus immediately.

Most lenders will request a credit report from all three credit bureaus, often referred to as a “merged report.” Be aware that negative information can stay on your report for a period of up to seven years. If any credit issues of a temporary nature appear on your credit report, a letter of explanation may be required. You may also be required to pay past due balances before you close on your home.

DEBT

There are two basic types of debt:

INSTALLMENT DEBT is money owed to a creditor, who expects repayment over a fixed period of time. A mortgage or car loan is an example of installment debt.

REVOLVING DEBT is money owed to a creditor, who sets monthly payments based on the current balance. Credit cards are an example of revolving debt. Interest accrues on the outstanding balance and can add up if the balance is not paid in full each month.

AS YOU BEGIN YOUR SEARCH, ASK YOURSELF THE FOLLOWING:

- Do I have an established credit history with the credit bureaus?
- Do I pay bills on time?
- Would I be able to manage a mortgage payment along with my other debts and expenses?

ADVANTAGES OF HOMEOWNERSHIP

- Investment potential— historically, real estate is a great source of wealth creation
- Personal satisfaction of having a place of your own
- Independence
- Stability
- Greater sense of community

NOT SURE WHERE YOU SPEND YOUR MONEY?

Keep track of all purchases and expenses for one week. You may be surprised at how your “small” expenditures become bigger budget issues over time. When considering buying a home, compare your current spending with the proposed monthly mortgage payment.



BUDGETING

For many people, the word “budget” has a negative connotation. However, it is simply a way to plan how to spend your income wisely and control your day-to-day finances.

A WORD ABOUT CREDIT CARD DEBT:

If you routinely make only the minimum payments, you’ll be adding interest costs to what you owe. It could take years to pay off the original debt and could end up costing you a lot more. Take a look at a payment calculator to determine your true cost. When possible, pay more than your monthly payment.

HOW MUCH CAN YOU AFFORD TO BORROW?

Use a mortgage calculator to get an idea of your principal & interest mortgage payment.

<https://www.RIHousing.com/Buyers/>

You also need to know how lenders look at your debt-to-income ratio:

- **FRONT RATIO** is your proposed housing payment (principal, interest, taxes & insurance; condo fees if applicable) ÷ your monthly gross income
- **BACK RATIO** is your proposed housing payment, total monthly debt ÷ your monthly gross income





OPTIONS FOR
PROSPECTIVE BUYERS



RIHOUSING PROGRAMS

FIRST-TIME HOMEBUYER PROGRAMS

RIHousing offers several loan options for first-time homebuyers. Whether you are planning to purchase a home that is in move-in condition or one in need of renovation, these fixed-rate loans are a great option.

THESE LOANS OFFER:

- 100% financing
- Down payment and closing cost assistance
- Personal, local service and support for the life of the loan

LOAN CENTER + PARTICIPATING LENDER DETAILS

Whether you obtain your RIHousing mortgage through our Loan Center or one of our Participating Lenders, you will receive the same great service and support!

We offer a suite of loan options specifically designed to meet the needs of today's homebuyer.

Visit: rihousing.com/buyers for program details and information.



*Purchase Price, Loan Amount
and Income Limits are online at*

[RIHousing.com/Interest-Rates](https://rihousing.com/Interest-Rates)

TAKE THE NEXT STEP:

Contact the Loan Center or a Participating Lender today:

- RIHousing Loan Center:
[RIHousing.com/RIHousing-Loan-Center](https://rihousing.com/RIHousing-Loan-Center)
- Participating Lenders:
[RIHousing.com/Buyers/Participating-Lenders/](https://rihousing.com/Buyers/Participating-Lenders/)

STEPS TO HOMEOWNERSHIP

GET EDUCATED!

Register for and complete classes early in the homebuying process at:

RIHousing.com/HomeBuyer-Education

THE PATH TO HOMEOWNERSHIP

has several steps and detailed requirements. Whether you work with our Loan Center, or through our network of Participating Lenders, we will make sure you have the tools and information to make safe and informed decisions.

Here are the steps you'll need to take to become a successful homeowner.

1. ATTEND A HOMEBUYER EDUCATION CLASS

- Homebuyer education classes are a resource provided by RIHousing and other community groups.
- Classes help buyers become more informed about the overall process.
- Classes are available in-person and online to meet the needs of every homebuyer.
- Customers planning to purchase a two- to four-family property are also required to take a Landlord-Tenant Education series, in addition to our Homebuyer Education Class. The Landlord-Tenant series is offered by the Housing Network of Rhode Island housingnetworkri.org/homeownership-connection/ or online through *Arch Mortgage*. Visit: rihousing.com/landlord-property-owner-education/ for more information.
- Customers purchasing a home using 203k financing also need to take our 203k Homebuyer Education Class
- Contact us at 401-457-1280 or visit rihousing.com/homebuyer-education to register for a class today!

3. FIND A HOME

- We recommend you work with a real estate professional to find a home that fits both your needs and your budget.
- Use resources such as *RILiving.com* and *HousingSearchRI.org* to help you find the home of your dreams and make informed decisions.
- Make a smart purchase. Choose a home that is within your financial reach.

WHAT DO YOU NEED?

When choosing a home, consider your future needs. Find a home that meets your needs today and in the future.

2. GET PRE-APPROVED

Having a pre-approval from a lender tells the seller you are serious about buying a home. Many real estate agents require a pre-approval letter to accompany the offer to purchase.

- Apply for mortgage pre-approval with RIHousing or consult with a Participating Lender.
- Work one-on-one with a trained mortgage expert.
- Provide documentation of your income, assets and employment history.
- Discuss and understand disclosures with your mortgage expert.

4. MAKE THE OFFER

Once you have selected your future home and have arranged for financing, you are ready to make a formal written offer to the owner. If the seller accepts it, it becomes a contract to which you are bound.

Your offer should include the following:

- Total price you agree to pay for the home
- Amount of your down payment, identifying the RIHousing assistance program, *if used*
- Amount of the “earnest money”* deposit accompanying the offer
- Time needed to arrange financing after the offer is accepted, as well as the type of loan for which you will be applying
- Time the title will transfer—when “closing” will occur
- Date you would like to take possession of the property
- Provisions for inspections
- Date and time your offer expires

* WHAT IS “EARNEST MONEY DEPOSIT” ...AND WHY IS IT NEEDED?

“Earnest money deposit” is an important part of the homebuying process. **It tells the seller you’re a committed buyer and helps fund your down payment.**

Without earnest money, you could make offers on many homes, essentially taking them off the market until you decide which one you like best. Sellers rarely accept offers without a deposit. If your offer is accepted by the seller, the earnest money will go toward the down payment.



HOME INSPECTIONS

Most contracts provide for the home to be inspected prior to closing. It is important to have the inspections done by a qualified home inspector. An inspection contingency (condition) in the contract allows you to withdraw your offer if there are unfavorable inspection results. Your realtor can provide you with a list of local home inspectors or you can search online with the **American Society of Home Inspectors** at [ashi.com](https://www.ashi.com). Structural, mechanical (plumbing, electrical and gas), roof, furnace and wood-boring insect inspections should be requested.



5. SIGN A CONTRACT

- Make sure you review and understand your Purchase and Sale Agreement. It's a binding contract. You may want to consult an attorney before signing.
- Schedule time to meet with your mortgage professional to finalize your application.
- Select an attorney to ensure you receive proper title to the property at closing.
- Proof of insurance is required during the process (premiums are typically paid at closing).

Perform and review specified home inspections within 10 days of signing the Purchase and Sales Contract.

6. SUBMIT A MORTGAGE APPLICATION

- Discuss and understand loan disclosures with your mortgage expert. Submit supporting documents, such as pay stubs and tax returns.
- An appraisal and title exam will be ordered by your lender.
- Finalize homeowners insurance, as proof of insurance is required at closing.

FINAL CLOSING COSTS

RIHousing offers a low-interest loan to help qualified customers pay for closing costs, with a term of 15 years. The Extra Assistance loan may finance items such as the credit report, appraisal, title examination, title insurance, attorney fee, escrow deposits for homeowners insurance, real estate taxes, and recording fees.



HOME APPRAISAL VS. HOME INSPECTION

Home inspections and appraisals play key, but separate, roles in the homebuying and selling process.

- An **INSPECTION** is primarily intended to protect you, the buyer, from purchasing a home with structural defects and other major problems. You hire and pay for the home inspector, who will determine if the home needs repairs and if there are any health or safety concerns.
- A property is **APPRAISED** to determine its market value and takes into account the home's location, square footage, condition and recent selling prices of similarly-sized and located homes. The lender orders the appraisal; the borrower pays for it.

PURCHASE AND SALE : CONTINGENCIES

• **FINANCING CONTINGENCY**—

The Purchase and Sale Agreement is contingent on your being able to secure financing. If that financing is not available, you may cancel the contract and get your deposit back. The date you must notify the seller of financing approval and the closing date is part of the financing contingency.

• **INSPECTION CONTINGENCY**—

Any inspection you request, as well as a time frame of no more than 10 days for completing those inspections, must be indicated in this section. The home inspection is used to identify problems before you purchase a home. If a home inspection reveals major problems, you may be able to rescind the contract, get your deposit back, renegotiate the purchase price or get the seller to make needed repairs.

Other inspections to consider:

- **LEAD INSPECTION**—Any home built before 1978 may contain lead paint either outside or inside the home. A lead inspection will determine how much of a hazard, if any, lead paint may pose to homeowner
- **WOOD-BORING INSECT INFESTATION**—The buyer usually pays for this inspection. If the property is infested, it is usually the seller's responsibility to treat it and repair any damages.
- **RADON TEST**—Radon, an odorless, colorless gas, is a health hazard because it is radioactive. It is found in areas that have a lot of rock and ledge and can leak into houses. If a high level of radon is present, you may ask the seller to install a mitigation system.
- **WELL WATER TEST**—If purchasing a home with a well, most lenders will require a test to ensure that the water is fit for consumption.
- **SEPTIC INSPECTION**—If purchasing a home that does not have a municipal sewer system, an inspection is required to ensure the septic system meets state requirements. Your town may have assistance available for septic systems. See [Loans.RIHousing.com/SepticSewer/](https://loans.rihousing.com/septicsewer/).

CLOSING COSTS

Closing costs vary, depending on where you live and the property you buy. Typically, homebuyers pay between 2 to 5 percent of the purchase price of their home in closing fees. As an example, if your home costs \$150,000, you might pay between \$3,000 and \$7,500 in closing costs.

Closing costs often include:

- Credit report and appraisal fee
- Loan origination fee
- Title insurance, which protects the lender in case the title isn't clear
- Owners Title Insurance, which protects the buyer
- Title search fees
- Deed recording fee, which is paid to a city or town in exchange for recording the new mortgage records
- Processing fee, which covers the cost of evaluating a mortgage loan application
- Homeowners insurance
- Escrow deposit for a few months' property taxes and Private Mortgage Insurance (PMI)
- Attorney fees
- Survey fee, which covers the cost of verifying property lines

IT TAKES TIME.

Getting to the closing can take time. Renters should take this into consideration when providing notice to their landlords.

You should also stay in touch with the Realtor and Lender to ensure dates listed on the Purchase and Sales Agreement are met.

7. PREPARE FOR THE CLOSING

- Conduct a final walk-through of the property to ensure all the items agreed on in the contract are present and any work that was to be completed by the seller has been done (usually done the day prior to closing).
- Prior to the closing (or at the closing), you will need to present proof of homeowners insurance and have paid the first year in advance.
- Contact your lender or closing attorney to determine how much money you need to bring to the closing.

8. CLOSE AND BECOME A HOMEOWNER

Generally, the buyer, seller, attorneys, and real estate agents attend the closing.

- Work with the lender's attorney to schedule your closing.
- Review the closing disclosures and all legal documents with your attorney.
- Perform a final walk-through of the property.
- Sign the loan documents for the home sale. You can also sign up for automatic monthly payments at this time.

CONGRATULATIONS! YOU NOW LEGALLY OWN THE HOME!



9. AFTER THE CLOSING

You will receive a Welcome Letter from your lender providing critical loan payment information, which includes details for online, automatic and after-hours payments.

- Receive your first monthly mortgage statement. A detailed itemization will include the principal, interest, and tax and insurance escrows.
- Contact your city or town hall to inquire whether you qualify for any local property tax exemptions.
- Enjoy the benefits of RIHousing's personalized, local service.

RIHousing offers several convenient ways to pay your mortgage, both available 24/7:

- Automatic Payments
- Online Payments
- Pay by Phone/Automated
- Pay by Phone- Customer Service
- Pay by Mail

Our customer service staff is available to answer your questions and may be reached at 401-457-1180

Homeowner information and answers to frequency asked questions are available on our website at:

RIHousing.com/Mortgage-Customers



FAIR HOUSING

The Fair Housing Act was adopted in 1968. This act provides that it is illegal to discriminate against any person on the basis of race, color, religion, sex, familial status, national origin, military status, disability or ancestry in the following areas:

- In the sale or rental of housing or residential lots
- In advertising the sale or rental of housing
- In the financing of housing
- In the appraisal of housing
- In the provision of real estate brokerage services
- Information on the Fair Housing Act can be found online at HUD.gov

RESPONSIBILITIES OF HOMEOWNERSHIP

YOU'VE UNPACKED YOUR BOXES AND SETTLED INTO YOUR NEW HOME... NOW WHAT? HERE ARE A FEW IMPORTANT ITEMS TO REMEMBER:

Buying a home is a major achievement, but successful homeownership does not begin and end when closing documents are signed.

- Contact your insurance carrier after closing and confirm the closing date.
- Make certain your insurance carrier has RIHousing listed as the mortgage company and your account is listed as mortgagee billed. This will ensure RIHousing receives future communication from your insurance carrier, including renewal bills or other critical information
- Forward all insurance and/or property tax bills you may receive during the first year of ownership to RIHousing. This will provide you with peace of mind knowing your mortgage company has the information it needs.
- Pay your mortgage on time. Late payments can seriously hurt your credit score. We offer an auto-pay option to facilitate this practice.



If you have questions about your mortgage after your closing, feel free to contact our Customer Service department at 401-457-1180.

We've helped you buy a home, and we're committed to helping you keep it.

RIHousing also offers loan options to help finance a variety of expenses for homeowners.

Our line of **COMMUNITY LENDING PROGRAMS** Help ensure Rhode Island homeowners can live in and maintain their current homes.

Visit [RIHousing.com/Owners](https://rihousing.com/Owners).

HELPFUL RESOURCES FOR RI HOMEOWNERS

RIENERGY

www.rienergy.com

tips on ways to save on energy

RIHOUSING

[RIHousing.com/Owners](https://rihousing.com/Owners)

information on homewoner programs





CESSPOOL LAW

As the result of a law passed in 2015, cesspools must be removed within 12 months of the sale or transfer of real estate. There are resources available to help homeowners, including low-interest loans for septic system replacements and sewer tie-ins.

In partnership with the **Rhode Island Infrastructure Bank** and the **Department of Environmental Management**, RIHousing administers the **Community Septic System Loan Program (CSSLP)** and the **Sewer Tie-In Loan Fund (STILF)**, in various municipalities in the state.

To learn more, visit RIHousing.com/Septic-Sewer.

SOME OTHER TIPS FOR NEW HOMEOWNERS

- Contact your local taxing authority to learn whether you may qualify for homestead exemption (if available).
- Budget for emergencies.
- Stay informed on ways to budget and save in home maintenance costs to preserve the value of your home.





GLOSSARY OF TERMS

HERE ARE SOME OF THE MORE COMMON REAL ESTATE-RELATED TERMS YOU WILL HEAR ALONG YOUR HOMEBUYING JOURNEY.

APPRAISAL – written estimate of the value of something. In real estate, it is a professional opinion of the market value of property on a given date. An appraisal is typically ordered and prepared for the mortgage lender and paid for by the borrower.

ASSESSMENT – value assigned to real property (house and land) used to determine property taxes.

BUYER'S AGENT – someone who acts on behalf of, and represents, a buyer in a real estate transaction.

CLOSING DISCLOSURE – statement of final loan terms and closing costs for the purchase of the home. It includes the loan terms, your projected monthly payments, and how much you will pay in fees and other costs to get your mortgage (closing costs). The lender is required to give you the Closing Disclosure at least three business days before you close on the mortgage loan. This three-day window allows you time to compare your final terms and costs to those estimated in the Loan Estimate that you previously received from the lender. The three days also gives you time to ask your lender any questions before you go to the closing table.

CLOSING – delivery of a deed, financial adjustments, signing of a note, and disbursement of funds necessary to consummate, or “close,” the sale or loan transaction. “Settlement” is another term for closing.

CLOSING COSTS – costs outside a property's sale price that must be paid to cover the cost of the transaction, such as a loan origination fee, discount points, insurance fees, survey fees and attorney fees. Closing costs vary from location to location but must be described to you when you submit your mortgage loan application.

CREDIT BUREAU – organization that compiles the data contained in a consumer's credit report based on information provided by creditors, financial institutions, public records and businesses.

CREDIT REPORT – record of your personal credit history compiled by credit bureaus/credit reporting agencies based on information submitted by lenders and contained in public records. Contains very extensive information on your credit history and is probably the single most important document creditors use when deciding whether to grant you credit. There are three major credit reporting agencies -- Equifax, Experian and TransUnion -- and they are all regulated by the federal Fair Credit Reporting Act. You can receive free copies of your credit report at www.AnnualCreditReport.com.

EARNEST MONEY DEPOSIT – deposit you pay to the seller of real property to show your good faith and intentions of getting a mortgage to buy the property. Depending on circumstances, you may or may not be able to get this money back if you decide not to complete the purchase.

ESCROW – non-interest bearing account where money is placed with a third party, for “safekeeping.” During a real estate purchase, the buyer's earnest money deposit or portion of their down payment is typically required to be held in an “escrow” account until the closing. After the home is purchased, a portion of each mortgage payment is typically held in an “escrow” account to pay for the property's taxes and insurance.

FHA (FEDERAL HOUSING ADMINISTRATION) – provides mortgage insurance on loans made by FHA-approved lenders throughout the United States. It is the largest insurer of mortgages in the world; the majority of RI Housing lending is FHA insured.

FLOOD INSURANCE – required if the property you are buying is located in a flood zone.

HAZARD INSURANCE (HOMEOWNERS) – insures the house against physical damage, personal property, theft and liability arising out of injury to a third party on your property.

HOME INSPECTION – physical examination of a home to evaluate its plumbing, electrical, and heating and cooling systems, as well as its appliances, roof, foundation and structural stability. The inspection, typically ordered and paid for by the buyer, should be completed before you purchase a home, and your offer contract should state that the purchase would be contingent on the home inspection results.

MORTGAGE CONTINGENCY – date the buyer is to notify the seller of financing approval.

MORTGAGE COMMITMENT – commitment letter issued by the mortgage lender indicating the loan has been approved specifying the terms of the loan.

MORTGAGE DEED – legal document that secures the note and gives the property you are buying to the lender as collateral for the loan. The mortgage will state your responsibilities to make payments and pay taxes and other municipal assessments. The mortgage also outlines the potential consequences, should you fail to comply with the provisions as outlined.

PRE-APPROVAL – written commitment from a mortgage lender verifying that you qualify for a mortgage loan up to a certain loan amount based on the information provided. Pre-approval assures the seller that a buyer's offer is valid. It also speeds up the buying process as, once an offer is made, there is no need to wait while the buyer finds a loan.

PRIVATE MORTGAGE INSURANCE (PMI) – insurance written by a private company protecting the mortgage lender against financial loss by a borrower defaulting on the mortgage. PMI is typically required for loan amounts that are higher than 80% of the purchase price or appraised value of the property. If PMI is required, the monthly PMI premium will be included in your mortgage payment.

PROMISSORY NOTE – note of your promise to pay the lender and also indicating the amount of loan, terms, amount of principal and interest payments, and interest rate of the loan.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA) – federal law requiring disclosure of all known and/or estimated settlement costs a homebuyer will have to pay. You will get this information after you apply for a loan and again when you go to settlement.

SELLER'S AGENT – agent who acts on behalf of the seller of real property.

UP-FRONT COSTS – fees and other costs that a buyer must pay before closing on a home. These fees can include an appraisal fee, credit report fee, hazard insurance, flood insurance and other inspection fees.



For more than 50 years, RIHousing has been making it easier for people to call Rhode Island home. We offer an extensive line of loan options for first-time homebuyers, current homeowners and those looking to improve their home. We understand the pride that comes with being a homeowner and how important it is to have the resources necessary to maintain that home.

At RIHousing, we encourage homebuyers to carefully select a home they can afford.

Benefits of borrowing from RIHousing:

- Personal, local service
- Great loan options
- Competitive interest rates and closing costs with no hidden fees
- Assistance available to help first-time buyers afford down payments, closing costs and more

Now that you have learned a little bit about us, we hope you will explore our website to learn even more, and of course, contact one of our Mortgage Specialists or Participating Lenders today if you would like to discuss in greater detail any of our programs or services.

Whether you are ready to get started or don't know where to begin, we are here to help get you home. Visit RIHousing.com today for more information.

