



HANDBOOK FOR HOMEBUYERS

Introduction

The decision to purchase a home is an exciting, but often intimidating, process. Learning the ins and outs of finding and financing a home can be overwhelming. That is why the Tennessee Housing Development Agency (THDA) offers homebuyer education opportunities to walk you through the process. In fact, THDA believes so deeply in homebuyer education that participation in an approved homebuyer education course is a mandatory requirement for THDA's mortgage loans.

Maybe you are just beginning to think about homeownership. That is okay! This handbook will provide you with the important information you need to know about the steps in the home-ownership process as well as a straightforward explanation of the Great Choice and Freddie Mac HFA Advantage® Mortgage Loan Programs.

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This handbook will:

1. Help you determine if you are ready to own a home
2. Discuss various loan types and payment structures
3. Offer an explanation of THDA's Great Choice, Great Choice Plus, HFA Advantage, and HFA Advantage Plus mortgage loans
4. Explain down payment and closing costs
5. Outline the first steps in the mortgage process

As a State Agency, THDA has a vested interest in seeing Tennesseans succeed and, when ready, realizing their dreams of homeownership. For more information about THDA's homeownership programs, please visit www.GreatChoiceTN.com or call THDA's Homeownership Hotline at 615-815-2100.

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Are You Ready to Own a Home?

Ultimately, only you can answer that question. There are pros and cons to buying a home, and only you can determine if the positives outweigh the negatives. However, the following list represents some starting points to help determine if homeownership is right for you. These points are adapted from NeighborWorks® America's *Realizing the American Dream* manual.

Advantages:

1. **Stable Housing Costs-** A fixed rate mortgage (discussed in next section) provides long-term, predictable housing costs. This makes budgeting much easier. Homeowners with fixed rate mortgages know their principal and interest portions will remain the same for the life of the loan. The only way a payment could change is with an increase or decrease in property taxes and insurance costs.
2. **Tax Benefits-** Income taxes may decrease because loan interest and property taxes you pay each year are deductible on your income taxes.
3. **Equity-** Paying a mortgage is an investment. Over time, you should accumulate equity in the home, which represents your ownership of the house. When you choose to sell, you may have equity in the home depending on how long you have paid on the mortgage and whether or not your house value has appreciated or depreciated. Many financial experts believe that homeownership is one of the best ways to build long-term wealth.
4. **Control over your Environment-** Your home means your rules. You can have pets and make changes to your home that landlords at rental properties may otherwise not allow.
5. **Stability-** Having your own home often produces feelings of permanence, pride and community involvement.

Disadvantages:

1. **Monthly Costs-** Sometimes the monthly costs of a mortgage, utilities and maintenance are higher than the cost of renting. However, in many communities, the opposite is true.
2. **No Guarantees-** There are no guarantees your house will increase in value. Markets can crash; neighborhoods can decline. If your home depreciates in value and you try to move before the loan is paid off, you will have to pay the difference between your net proceeds from the sale of the house and the balance on your mortgage to the lender.
3. **Maintenance and Repairs-** When you rent, it is your landlord's responsibility to maintain the house. When you purchase a home, all of those preventative and emergency maintenance tasks- from repairing the roof to mowing the grass- are your responsibility.
4. **Decreased Mobility-** When you own a home, it is not a simple process to pack up and move. Owning a home makes you responsible for the home. If you stop making your monthly payments, the lender may foreclose on the house and force the sale of the property to repay the loan. This not only will affect your credit for years, but you will also lose your entire down payment and any equity you have earned.

- 5. Fewer Features-** Some apartments have amenities and facilities- like pools and weight rooms- that your home may not have (unless you pay extra to provide them yourself).

Ultimately, homeownership is a decision you and the members of your household must make on your own. The rest of this manual offers some definitions of key concepts and explains how the Great Choice Loan Program can help qualified first time, repeat and military homebuyers secure a mortgage in Tennessee.

Fixed Rate VS. Other Loan Types

THDA's Great Choice Loan Program is a 30-year fixed rate mortgage. The benefit of the fixed rate mortgage is that the interest rate remains the same ("fixed") throughout the entire lifespan of the loan. These are the most common types of loans for first-time homebuyers.

Some other loan types, not offered under the Great Choice Loan Program, include:

Adjustable-Rate Mortgages (ARMs) - Start at a low rate which adjusts following a set schedule. If you are training in a career that pays more money after training is completed, you might choose a lower payment to get started in your home, expecting to have the house payment increase regularly in the future.

Balloon-Payment Mortgages - Low monthly payments, but require refinancing or pay off at the end of the initial term, sometimes three years. If you will be selling at the same time your balloon mortgage is due, this might be an option for you.

You should approach ARMs and Balloon-Payment Mortgages with caution and care. They come with additional risk and are not designed for first-time homebuyers in low or moderate-income ranges.

Government-Insured and Conventional Loans: How they work with Great Choice or HFA Advantage

The Great Choice Loan Program works in conjunction with many of the loan types you commonly hear about. For instance, government-insured loans like FHA, VA, and USDA-RD can work with Great Choice, as do uninsured conventional loans with a maximum loan to value of 78%. Insured conventional loans, up to a 97% loan to value, can work with the HFA Advantage Loan Program. Explanations of these loan types, adapted from NeighborWorks® America's *Realizing the American Dream* manual, are outlined below:

1. **FHA Loans** - FHA stands for Federal Housing Administration; the FHA is an arm of the Department of Housing and Urban Development (HUD). Any qualified buyer may apply for an FHA-insured loan with an approved lender. An FHA down payment requirement is normally 3.5% of the purchase price. Due to the low down payment, borrowers are required to pay a monthly mortgage insurance premium (MIP) for the life of the loan.
2. **VA Loans** - VA loans are only for veterans of the U.S. armed forces and eligible spouses. VA loans are popular because the veteran does not need down payment assistance. Veterans may have to pay some closing costs and a VA funding fee. If you are a veteran and are interested in a VA loan, you can take your eligibility certificate to a local lender and learn more about the loan program.
3. **USDA-RD Loans** - The USDA-Rural Development (RD) Rural Housing Service offers government-guaranteed loans in rural areas directly through local RD offices and through approved lenders. USDA-RD loans do not have a required down payment. These loans are only available in designated rural areas for low and moderate-income buyers. Instead of a monthly mortgage, insurance premium a funding fee is added to the loan amount.
4. **Uninsured Conventional Loans** - An Uninsured Conventional Loan is secured by investors, not insured by the FHA or guaranteed by VA. Both fixed rate and adjustable rate loans are available with conventional financing. Uninsured conventional loans require a 22% down payment.
5. **Insured Conventional Loans** - An Insured Conventional Loan is insured by Private Mortgage Insurance (PMI) companies. Insured Conventional Loans require as little as 3% down payment. Due to the low down payment, borrowers are required to pay the PMI premium. It can be paid upfront at closing or paid monthly, included in the mortgage payment. Monthly PMI is paid until the loan amount drops below 80% of the loan to value. Insured Conventional Loans are available through the HFA Advantage THDA program.

Want to learn more about mortgage loan types and how to obtain a mortgage loan? THDA-approved homebuyer education classes are available across the state, as well as online. Our online course is offered through eHome America and is \$99 per household. The classes utilize the *Realizing the American Dream* book (referenced above) produced by NeighborWorks® America. To find a THDA-approved homebuyer education course in your area, please [click here](#). To register for the online course, please [click here](#).

If you think a Great Choice or HFA Advantage loan might be the right option for you, please talk with a THDA-approved lender in your area. You can find a complete list of lenders by [clicking here](#).

Great Choice Loan Program Explanation

The Great Choice Loan Program offers 30-year, fixed rate mortgages to qualified first-time, repeat and military veteran homebuyers. Great Choice is used in conjunction with FHA, VA, USDA-RD and uninsured conventional loans. Borrowers must meet the minimum qualifications: satisfactory credit history, income that does not exceed the maximum income limits and a home whose purchase price does not exceed the maximum acquisition price limits. Additionally, all Great Choice Plus and Homeownership for Heroes homebuyers must participate in a THDA-approved homebuyer education course. To find a THDA- approved homebuyer education course in your area, please [click here](#). To register for the online course, please [click here](#).

Great Choice currently requires a 640 minimum FICO credit score. To find out your credit score, contact one of our approved lenders in your area. If the lender lets you know that your score is too low, our homebuyer education counselors can help you with strategies to raise your credit score.

Great Choice loans are designed to help low to moderate income Tennesseans purchase modest homes. Income limits are based on the size of your household and county in which you desire to live.

To see a list of maximum income limits by county, please [click here](#).

To see a list of maximum purchase price limits by county, please [click here](#).

The Great Choice Loan Program consists of two parts: **Great Choice** and **Great Choice Plus**.

- **Great Choice** is the 30-year, fixed rate mortgage loan referenced above.
- **Great Choice Plus-Amortizing** is a 30-year second mortgage to provide homebuyers with down payment assistance of 6% of the purchase price of the home.
- **Great Choice Plus-Deferred** is a 30-year second mortgage to provide homebuyers with down payment assistance in the amount of \$6,000.

Borrowers do not have to receive a Great Choice Plus loan in order to receive a Great Choice loan. However, any borrower receiving down payment assistance through a Great Choice Plus loan MUST receive a Great Choice loan.

How does Great Choice Plus work and what is the difference between amortizing and deferred?

The Great Choice Plus- Amortizing is a second mortgage, with a monthly payment over a 30-year term. It is considered amortizing since regular monthly payments are being made to pay off the loan over the 30-year term. The loan may be used for down payment and/or closing cost. The amount of the loan is 6% of the sales price. The interest rate will be the same rate as the first mortgage. If you choose to sell your home prior to the end of the loan term, or refinance your first mortgage loan, the second mortgage balance would be due.

The Great Choice Plus-Deferred is a second mortgage with deferred payments for \$6,000 loan amount over a 30-year term. Deferred means there are no payments being made monthly for the term of the loan. The loan is also forgiven at the end of the 30-year term. If you choose to sell your home prior to the end of the loan term or refinance your first mortgage loan, the second mortgage balance will be due.

Freddie Mac HFA Advantage® Loan Program Explanation

The HFA Advantage Loan Program offers 30-year, fixed rate mortgages to qualified buyers. Homebuyers do not have to be a first time homebuyer. HFA Advantage is used in conjunction with an insured conventional loan. Borrowers must meet the minimum qualifications: satisfactory credit history, income that does not exceed the maximum income limits and a home whose purchase price does not exceed the maximum acquisition price limits. Additionally, all homebuyers must participate in a THDA-approved homebuyer education course. To find a THDA- approved homebuyer education course in your area, please [click here](#). To register for the online course, please click here.

THDA currently requires a 660 minimum FICO credit score. To find out your credit score, contact one of our approved lenders in your area. If the lender lets you know that your score is too low, our homebuyer education counselors can help you with strategies to raise your credit score.

HFA Advantage loans are designed to help low to moderate income Tennesseans purchase modest homes. Income limits are based on the income of the qualifying borrower only, unlike Great Choice, which is based on total household income.

To see maximum income limit for borrower, use [Freddie Mac Home Possible Eligibility Tool](#).

The HFA Advantage Loan Program consists of two parts: HFA Advantage and HFA Advantage Plus.

- HFA Advantage is the 30-year, fixed rate mortgage loan referenced above.
- HFA Advantage Plus- Amortizing is a 30-year second mortgage to provide homebuyers with down payment assistance in the amount of 6% of the purchase price of the home.
- HFA Advantage Plus-Deferred is a 30-year second mortgage to provide homebuyers with down payment assistance in the amount of \$6,000.

Borrowers do not have to receive a HFA Advantage Plus loan in order to receive a HFA Advantage loan. However, any borrower receiving down payment assistance through HFA Advantage Plus loan **MUST** receive a HFA Advantage loan.

How does HFA Advantage Plus work and what is the difference between amortizing and deferred?

The HFA Advantage Plus- Amortizing is a second mortgage, with a monthly payment over a 30-year term. It is considered amortizing since regular monthly payments are being made to pay off the loan over the 30-year term. The loan may be used for down payment and/or closing cost. The amount of the loan is 6% of the sales price. The interest rate will be the same rate as the first mortgage. If you choose to sell your home prior to the end of the loan term, or refinance your first mortgage loan, the second mortgage balance would be due.

The HFA Advantage Plus-Deferred is a second mortgage with deferred payments for \$6,000 loan amount over a 30-year term. Deferred means there are no payments being made monthly for the term of the loan. The loan is also forgiven at the end of the 30-year term. If you choose to sell your home prior to the end of the loan term or refinance your first mortgage loan, the second mortgage balance will be due.

Down payment and Closing Cost Assistance

Before you begin looking for a home, you must understand some of the costs associated with homebuying that are not covered in the loan amount. Borrowers are not only asked to bring some money at the time of closing in the form of down payment, but other fees, called closing costs and pre-pays, may be required as well.

Down payment- Some loan types, like FHA loans, require as little as 3.5% of the purchase price of the home as down payment from the borrower. For instance, if you use an FHA loan to purchase a \$100,000 home, you must have a minimum of \$3,500 as a down payment on the loan. Other loan types may require little to no down payment (example: VA loans) while others may require significantly more (example: uninsured conventional loans).

Closing Costs- There are one-time taxes and fees required in making a mortgage. Some of these costs are charged when applying for a mortgage; others are charged at closing when the loan becomes official and title to the property has been transferred to the borrower. If not added to the loan, closing costs are paid by the buyer or seller at closing (depending on the terms negotiated in the sales contract). Exact closing costs will depend on fees charged in your local area, how much is borrowed, the mortgage financing and the closing date (i.e. where it falls within the month). Closing costs are **in addition to the down payment** and generally are about 3-5% of the loan amount. If you are considering a home in a neighborhood with a homeowners' association, you should check if there is an annual fee. Group ownership of amenities and exterior maintenance of condominiums can also add to costs. Any costs related to this type of ownership should be considered when budgeting.

A sample list of closing costs:

- Loan application fee
- Credit report
- Property appraisal
- Hazard insurance
- Private or federal mortgage insurance premium
- Survey fee
- Inspection fees (Structural & Mechanical, Termite)
- Loan origination fee (covers administrative costs of lender)
- Discount Points
- Recording fees
- Buyer's attorney's fees
- Deposit for appropriate escrow items (insurance, taxes, mortgage insurance, etc.)
- Transfer fees
- Recording fees (local government office)
- Pro-rated interest until the first regular payment
- Title search and title insurance fees

First Steps in the Mortgage Process

Adapted from *Realizing the American Dream* (NeighborWorks America 4th Edition, 2010, pp. 6-9)

1. Prepare for Homeownership

The fact you are reading this handbook demonstrates you are actively engaging in the first step to homeownership. Now that you are interested in homeownership, what is the next step? Taking a THDA-approved homebuyer education course is a great place to start the journey. Workshop style classes are taught by approved THDA homebuyer education trainers and counselors. An approved online course is offered through eHome America. All approved courses offer comprehensive education and information about:

- a. The “pros and cons” of homeownership
- b. Working with a lender
- c. Choosing a Realtor®
- d. Budgeting and managing finances
- e. Contracts, appraisals, home inspections, taxes and insurance
- f. Avoiding/preventing default and foreclosure
- g. Homeowner’s rights and responsibilities
- h. Home maintenance

[Click here](#) to read more about choosing a homebuyer education course.

[Click here](#) to find a THDA-approved homebuyer education course in your area.

[Click here](#) to read more about and register for the online course.

2. Determine Your Budget

It is important to determine how much of your monthly budget you can afford to spend on a mortgage payment. To do this, you must take into account both the monthly mortgage payment and the amount needed in savings to cover the down payment and closing costs. Potential buyers should consider routine maintenance and repair costs in the budgeting process. Make sure you are not spending all of your available income on the mortgage itself, as there will be preventative and emergency repairs that will require available funds. NeighborWorks® America recommends that borrowers save 1% of the total mortgage value per year to cover repairs. That means for a \$100,000 mortgage, you should save at least \$1,000 over the course of every year (roughly \$83/month) specifically designated to home maintenance and repairs.

One other thing to consider is housing cost burden. The U.S. Department of Housing and Urban Development (HUD) discourages homeowners from spending any more than 30% of their income on housing costs. Please keep this in mind when determining how much home you can afford. For assistance with the budgeting process, THDA-approved homebuyer educators and counselors are a great resource.

3. Get a Pre-Approved Loan

After determining your budget, and ideally after completing a homebuyer education course, it is important to find a reputable lender and loan product that suits your needs. Calling banks, visiting bank websites and speaking with loan officers are great ways to gather and compare information about different mortgage products. Once you find a loan product that fits your needs, talk to the lender who represents that institution in order to gain pre-approval. Pre-approval involves applying for the loan BEFORE finding the home. After providing all the necessary information to the lender, he or she will process your application to determine if they will lend you money for a home and how much they will lend. Gaining pre-approval will provide you with confidence during home negotiations knowing that the lender will loan you the agreed upon amount, assuming you buy a home within a certain time period and the house appraises for the amount of money for which you are qualified.

THDA has lending partners across the state who are familiar with the Great Choice Loan Program. [Click here](#) to find a complete list of all approved lenders.

4. Shop for a Home

This is the fun part of the process! This is your chance to determine which home meets the needs of your household. Many homebuyers choose to utilize a real estate professional or Realtor® to assist in this process. For a list of THDA-approved real estate professionals, [click here](#).

This handbook is meant to provide a brief summary of some of the important concepts and first steps in the homeownership process. If you are a low or moderate income Tennessean looking to purchase a home, THDA would be glad to serve you. Whether it is your first home or your next home, the THDA Mortgage Loan Program might fit your needs. Please visit www.GreatChoiceTN.com for more information and to see if you qualify for a THDA mortgage loan.