University Neighborhood Housing Program

2006 Affordable Housing Forum

The State of Homeownership in the Bronx

Homeownership Guide

Home Buying Basics

Are You Ready?

When you want to buy a home, you will be faced with many decisions. The first should be whether you are actually ready to buy. When you take out a loan to purchase a home, you sign documents that say you promise to pay back the loan to the lending institution (bank), known as a **mortgage**. To decide if you will be able to repay the loan, the lender will look at many different pieces of information about you. These pieces show how well you have repaid your debts in the past, whether you are likely to repay your debts in the future, and your current ability to repay a mortgage. The following questions will give you a better idea of whether this is the right time for you to buy a home, based on your credit history, existing debt, and savings.

How steady is your job history? Having a steady job helps you to keep your promise to pay back a mortgage loan (if you have been working continuously for two years or more, you are considered to have steady employment). This will be a major factor in whether you qualify for a loan, but you do not have to have held the same job for two years in order to be approved for the loan. You may have moved to a better paying job, or you may have been laid off due to a plant closing or an illness. However, if you have been fired, have long gaps in your employment record, or have drops in your income level, you should probably delay buying a home until you have a stable work history.

Do you pay your bills on time each month? This gives a lender an indication of how you can be expected to pay them in the future. You will need to list all your debts, and your lender will order a credit report to verify the information and to check on how well you have paid your debt. If your credit report shows you do not have a good credit history, you should probably delay buying a home and improve your credit.

Do you have a credit history? If you have never had any credit cards or taken out a loan, you may not have a traditional credit history. However, if you pay your rent, phone and utility bills, you may be able to use these records to demonstrate a "non-traditional" credit history.

Do you have money saved for a down payment? You will need money saved for a down payment and "closing costs," usually around 5% of the purchase price. If you do not have this money, it would be a good idea to open a savings account and start adding to it so that one day you can buy a home.

Can you afford to pay a mortgage each month? The amount of your monthly payment depends upon the amount you borrow, the interest rate, and the repayment period. It is important to know your income and how much you already spend each month, in order to calculate whether you will be able to afford monthly payments.

If after addressing these questions you have been able to respond that you have a history of paying your bills on time, a job history that indicates continued employment, the ability to handle debt, and money saved, then you are ready for the next step: choosing the mortgage that's right for you.

Choosing the Right Mortgage

Before you begin shopping for a mortgage loan, it is important to have some basic knowledge. All mortgages have two features. The first is the mortgage **principal**, which is the actual amount of money you borrow. The second is the mortgage **interest**, which is the money you pay for use of the money you borrow. Over time, you will repay your mortgage through monthly payments of principal and interest that are fixed so that at the end of a set period of time you will own your home debt-free. This type of repayment is called amortization. Sometimes the lender will roll your estimated taxes and insurance into your mortgage payment. In that case, your payment will be referred to as **PITI** (principal, interest, taxes and insurance).

It is important to keep in mind four factors that will influence what house you can afford. The first is a **down payment** – money you have saved that immediately goes to the price of the home. Most lenders in the New York area will offer you mortgage loans with as little as 5% down. Saving enough money for the down payment is usually the hardest part of getting ready to buy a home. Make sure you factor other expenses into the size of a down payment you are comfortable paying, such as **closing costs**. You don't want to move into your new home with no more savings.

The second factor is how large a monthly mortgage payment you can afford. This will depend on the amount you borrow (your mortgage principal). A household should usually spend no more than 28% of its gross monthly income (before taxes) on housing expenses, and no more than 36% on housing and other long term debt (such as car and credit card payments). Use your current total gross monthly income to calculate how large a monthly mortgage payment you can afford.

The third factor is what **interest rate** you can expect. Getting the best interest rate is very important because the lower your interest rate, the lower your monthly payments. You can choose a mortgage with an interest rate that is either fixed or which adjusts. A **fixed-rate** loan gives you the security of knowing that your interest rate will never change, while an **adjustable-rate** mortgage (ARM) has an interest rate that will vary, with the possibility of both increases and decreases to the interest rate. As interest rates can change while you are shopping for a loan, it is important to ask if the mortgage lender will offer you a rate lock-in, which will guarantee you a specified interest rate. Locking in a quoted rate when rates are rising may save you thousands of dollars, but if rates are falling, it may be best to wait before locking in.

Finally, the length of your mortgage repayment period will directly impact your monthly mortgage payments. A 30-year loan will keep your monthly payment low, but the total interest you'll pay over the life of the loan will be more. On the other hand, shorter loans may raise your monthly payments, but keep the total interest you pay lower.

In finding the best mortgage for you, you must make specific choices. Do you want a longer repayment plan with lower monthly payments, or a shorter plan, which usually offers a lower interest rate, but with higher monthly payments? Right now you should be wary of ARMs, which can lull you into initially low payments that may dramatically rise with the market; in this time of rising interest rates, you will most likely want a fixed interest rate. These are all decisions you must make in light of where you fit with all of the above mentioned factors.

One last point is that having **good credit** is essential to getting a good loan. If you don't have good credit, you may still be able to get a loan, but a lender may give you a loan with a larger down payment requirement or a higher rate of interest. To determine your credit, a lender will look at your credit report, which is a record of how you have paid your past debt, as well as any debt you currently have. Using a credit report, creditors assign a credit score to an individual, which is used to predict how likely one is to repay a new loan. Paying bills on time is one of the best ways to build good credit. If done wisely, you can also use a credit card to show that you can manage credit well. Just be sure to pay the credit card off every month or keep the balance very low.

When people pay bills late often, it can hurt their credit. If you are having problems paying your debts, call your creditors to discuss your options. Call them *before* you miss a payment. If you owe money to many businesses, it may be time for expert help. Consider going to a nonprofit credit-counseling organization. These groups can work with you and your creditors to set up a repayment plan. Finally, stay away from "credit-repair" companies. Credit-repair companies (not to be confused with nonprofit counseling organizations) will offer to fix your credit history for a fee. It can't be done. Only you can repair your bad credit by repaying your debts and paying your current bills on time.

Finding the Right Home

Once you have a better understanding of mortgages and credit, and if you're ready to buy a home, you can begin the process of actually embarking on the home buying journey. It is important to first have an idea of where you want to live. Select a community that will allow you to best live your daily life, and where you can feel comfortable. Also, make a "wish list," which expresses what type and size of home you are looking for. Include any special features you would like (a garage, a porch, a second bathroom, etc.). This will help you narrow down your search. While you can start looking at homes on your own using word of mouth, "for sale" signs, and ads, the most efficient way to find a home is to work with a real estate agent. Try to find a real estate agent who knows the local area well, and who has resources and contacts to help you in your search for a home. To choose the right real estate agent, start by asking family and friends if they can recommend an agent. Make a list of several agents and talk to each before choosing one. Look for an agent who listens well and understands your needs, and whose judgment you can trust. Overall, you want to choose an agent that makes you feel comfortable and can provide all the knowledge and services you need. But remember, the real estate agent is acting in the interests of the seller, who is paying him/her a commission.

If you think you are close to finding a home that you want to place an offer on, you will want to obtain a **pre-approval** for a mortgage loan. A pre-approval is an agreement from the lender that they will lend up to a certain amount towards the purchase of a home. It's often a good idea to have this ahead of time because of competition to buy homes in a hot housing market. Remember, though, that pre-approvals generally only last 90 days.

In finding the right lender to use, choose carefully. Lenders vary considerably in the rates and terms they offer, so it pays to shop around. Look for financial stability and a reputation for customer satisfaction. Do research, and ask family, friends and your real estate agent for recommendations. Plan to contact at least three lending companies by phone or in person to discuss the mortgages they have available. The New York State Banking Department maintains a list of current mortgage rates and terms on their website.

For each of the lenders, check the interest rate, the minimum down payment required, the loan processing time and the closing costs. Some lenders charge borrowers a prepayment penalty. In case you might be able to pay your loan off early, check with each lender to see if they will charge you a prepayment penalty. Once you've compared these factors on the same type of mortgage offered by at least three different lending institutions, you can figure out which mortgage lender gives you the best deal.

Things to Watch Out For

However, be wary of lenders who offer deals that seem too good to be true. Loan fraud and predatory lending can rob you of thousands of dollars, your good credit, and even your home! To help ensure you won't fall victim, be sure to follow all of these steps as you apply for a loan.

- Be sure to read and understand everything *before* you sign
- Refuse to sign any blank documents
- Do not buy property for someone else
- Do not overstate your income
- Do not overstate how long you have been employed
- Do not overstate your savings
- Accurately report your debts
- Do not change your income tax returns for any reason
- Do not list fake co-borrowers on your loan application

Closing the Deal

Once you have found a house that you are seriously interested in, you need give the real estate agent a signed offer to purchase the house. This offer should include a complete legal description of the property, a good-faith payment to show you are serious, the price you are offering, the size of your down payment and how the remainder will be financed (including the maximum interest you will pay), any items of personal property that the owner has said will stay with the house or that you want to be included, a proposed closing date and occupancy date, the length of time the offer is valid, and the satisfaction of certain specific contingencies. An example of contingencies is an inspection. It is a good idea to perform an inspection of the home before you go through with the purchase. An **inspector** checks the safety of your potential new home, focusing especially on the structure, construction and mechanical systems of the house. The inspector will make you aware of any repairs that are needed so you can determine how much money you will have to put into the house after you have purchased it. For this reason, it is important to use an inspector that is working independent of the real estate agent/mortgage lender. You want an inspector that can give you an objective opinion on the state of the house. You don't want to be surprised by any major problems *after* you've bought the home.

Once the lender has approved you for the mortgage loan, a closing date is set up and the lender will review the closing process with you. At this point you should hire a lawyer, to help guide you through closing. You should also be given a final walk-through of the house, to examine it one last time before it officially becomes yours. Check the walls and ceilings carefully, as well as any work the seller agreed to do in response to the inspection. Any remaining problems that were discovered during the inspection, but you find to be uncorrected, should be brought up *prior* to closing. It is the seller's responsibility to fix them.

On closing day, you'll present your paid homeowner's insurance policy showing that the premium has been paid. The closing agent will then list the money you owe the seller, and then the money the seller owes you (unpaid taxes, prepaid rent, etc.). The seller will provide you with proofs of any inspection, warranties, etc.

Once you are sure you understand all the documentation, you'll sign the mortgage and a mortgage note, promising to repay the loan. The seller will give you the title to the house in the form of a signed deed. You'll pay the lender's agent the closing costs, made up of attorney fees, property taxes, interest, the loan origination fee, recording and survey fees, title insurance, loan discount points, first payment to escrow account, paid receipt for homeowner's insurance policy, and any documentation preparation fees. You will in turn be given a settlement statement of all the items for which you have paid, and you will become a homeowner!

Compiled and edited by Eric Fergen, UNHP Outreach Coordinator, using the following sources:
Fannie Mae Foundation Publications:
Knowing and Understanding Your Credit
Choosing the Mortgage that's Right for You

Opening the Door to a Home of Your Own

Fannie Mae Publication:
A Guide to Homeownership

HUD Publication:
100 Q&A About Buying a New Home

Identifying Predatory Lending

By Mark Winston Griffith, Co-Director
Neighborhood Economic Development Advocacy Project

For most people, homeownership represents one of the important moments of their lives. The process of finding a home, negotiating a price, shopping for a mortgage, and completing all the necessary paperwork is daunting and usually requires families to incur more debt than they have ever had before. Your home becomes not only your family's shelter, but one of your most valuable assets.

That's why a set of practices called "predatory lending" pose such a serious threat to low-income communities. Predatory lending refers to fraudulent and deceptive practices by mortgage lenders and brokers and unscrupulous real estate practitioners, who make high cost loans that are affordable to the borrower or made on unfair terms. New York City neighborhoods of color have been the prime targets of these discriminatory and abusive mortgage loans and real estate practices. As a result, today hundreds of homeowners risk losing their homes.

Here are the most frequently used predatory lending schemes:

- Refinance scams target seniors and other homeowners who have built up equity in their homes over the years. Mortgage lenders and brokers, often working with home improvement contractors, offer to refinance homeowners' mortgages, with promises of fast cash despite "bad credit," or "cash out" for the homeowners. The lender steals a homeowner's equity by loading excessive interest rates and fees into the loan, typically with unfair and deceptive terms, leaving the homeowner in a worse situation than before he or she refinanced. These loans are not made according to a borrower's ability to repay, but are based on the collateral, the owner's equity in the home. The homeowner is unable to make the monthly payments, often times the home improvement contractor never completes the work, and the homeowner ends up going into foreclosure.

- "Foreclosure rescue" or "deed theft" scams are on the rise in NYC. Foreclosure "bail-out" specialists target homeowners in foreclosure. The specialists offer to let a homeowner stay in his or her home if he or she transfers their property deed to a third party. Although homeowners are told they will be able to buy their homes back at a later date, this never happens, and they are often evicted instead. These schemes never work to the benefit of homeowners, and they typically involve major fraud and deception.

- Many people who are buying a home for the first time in NYC neighborhoods of color are targeted for first-time homebuyer or "property flipping" scams. "One stop shops" offer to assist homebuyers through the entire home buying process, telling unsuspecting first-time homebuyers that they will show them homes for sale, connect them with a mortgage broker and lender, inspect and appraise the property, and even provide an attorney to accompany the homebuyer to the closing. In fact, these companies typically buy up properties in foreclosure, and make only cosmetic improvements that mask structural problems with the home, such as faulty plumbing or electrical systems, a leaking roof, or sewage problems. The inspector misrepresents the home's condition as good, and the appraiser vastly over-states the value of the home. The scheme sets the buyer up with a significantly inflated mortgage, and a home worth much less than he or she paid for it. The new homeowner soon discovers that his or her home needs major repairs, sending his or her family into financial crisis.

If you are concerned that you have been targeted for a predatory loan or "foreclosure rescue" scam, below are warning signs and ways to get help:

Warning signs of foreclosure and refinance scams include:

- Advertisements claiming: "No Credit? Bad credit? No problem!"
- Extremely high interest rates and fees
- Monthly payments that are unaffordable for your income when the loan was made
- Persistent offers to consolidate debt or refinance a mortgage
- Offers to save you from foreclosure if you transfer your property deed to a third party
- A company promising to take care of every aspect of buying a home, or pressuring you to sign documents without consulting an attorney or others

Homeowners who are facing foreclosure or believe they have a predatory loan should:

- Speak to a lawyer or trusted community group before refinancing home loans
- Avoid signing deeds over to anyone who promises to prevent foreclosure while letting residents remain in their homes. These promises of bailout never work!
- Those who believe they have a predatory mortgage loan should contact the Foreclosure Prevention Project at South Brooklyn Legal Services at 718-246-3279 or Bronx Legal Services at 718 928-3680.

Learn more about predatory lending:

Education is the best way to prevent predatory lending. For individuals, organizations like NHS of the North Bronx, (718) 732-8155 offer homeownership counseling. If you are part of a community organization or civic association and would like additional information or a free community workshop on fair lending issues, contact the Neighborhood Economic Development Advocacy Project (NEDAP), a nonprofit organization that helps fight predatory lending. NEDAP is not affiliated with any banks and does not sell any products. Please contact NEDAP at 212-680-5100 or info@nedap.org / www.nedap.org

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Homeowners: What you don't know CAN hurt you!

By Sarah Gerecke, CEO of NHS of New York City

A recent article in The New York Times profiled Sherri Caughman, a customer of Neighborhood Housing Services (NHS) of New York City, who bought a two family house in Jamaica, Queens a year ago. Ms. Caughman was counting on assistance with the mortgage payments from her parents, who would live in the downstairs apartment. When her parents decided to move back so South Carolina instead, Caughman found the $3,699 monthly payments impossible to keep up with on her $40,000 annual salary. She is currently working with NHS to try to avoid losing her home to foreclosure because she is unable to make her mortgage payments.

Caughman is not alone. This year has seen unprecedented levels of foreclosure in the United States. In the first half of 2007, foreclosure rates shot up 55% from the same time period last year, and up 30% from the second half of 2006. By the end of the calendar year, foreclosure rates are expected to rise to almost 2 million, 62% higher than year-end 2006. By midyear 925,986 foreclosures were documented nationwide.

Fortunately, NHS, along with other not-for-profit housing counseling groups, stands ready to help. NHS offers foreclosure prevention counseling and will work with customers to explore the variety of options that those in danger of foreclosures have. But the secret to dealing with a potential foreclosure successfully is to start early. Remarkably, a Roper study indicated that over half of the borrowers in foreclosure proceedings have had no contact with their lender. The reason for this is that people generally do not understand that even when you are struggling to make a mortgage payment, you still have options. For example, some lenders will work with the borrower on a forbearance agreement, which might allow the borrower to skip payments temporarily because of a job loss or illness. Still other lenders might allow the borrower to lower the monthly payment by extending the length of their mortgage. Or perhaps someone else in the family can assume the mortgage, so that the house stays in the family. It is options like these which an NHS foreclosure prevention counselor can review with a customer, to help that customer decide what course of action is best for him or her. But again, the secret is to seek help as soon as you realize you have a problem making the regular payments.

Foreclosure prevention is just one of many ways in which NHS can help current and prospective homeowners. Our nine local offices in New York City (including two in the Bronx) help people with counseling, education, and financial services to buy, repair and keep their homes. NHS runs free home buying seminars in all of our local offices that provide an overview of the home buying process. Then we offer more detailed one-to-one counseling, as well as home buyers clubs and five week courses through which one can learn all the "do's and don'ts" of home buying. And, if your family isn't ready to buy a home, we provide financial fitness courses, to teach you how to save your money and improve your credit. When you are ready, NHS will work with you and our financial partners, the leading banks in New York City, to get you the right mortgage at the lowest possible interest rate. And we can provide loans, some of which are forgivable under certain circumstances, to help you with down payment and closing costs.

NHS' services don't stop once you've purchased a home. When you need to make repairs or improvements, we can help in a number of ways. For the person who wants to "do-it-yourself," or at least know more about home maintenance, there are our popular Home Maintenance Training courses. In addition, we offer loans to help with home repairs and improvements, at very low interest rates. We have loans ranging from the $3,000 you might need to repair an emergency roof leak to the $300,000 you could use for a complete renovation of a vacant one-four family house you've purchased, and everything in between.

NHS also offers assistance in other housing areas, such as training and loans for landlords, reverse mortgage counseling for seniors and, as we mentioned at the beginning of this article, a variety of foreclosure prevention services. And all on a not-for-profit basis, which means that our primary objective is to serve the customer's needs, not to make money.

To learn more about NHS, take a look at our website, at www.nhsnyc.org, or call us toll-free, at (866) NHS-OFNY, or (866) 647-6369. Our two offices in the Bronx are NHS of the North Bronx, at 1178 East Gun Hill Road, phone: (718) 881-1180, and NHS of the South Bronx, at 200 East 161st Street, phone: (718) 992-5979. As we like to say, at NHS we are Neighbors You Can Count On.

Neighborhood Housing Services (NHS) Programs

Helping neighborhoods, house by house

NHS is a citywide non-profit that provides comprehensive services to new and existing homeowners, through affordable financing and homeowner education

For first-time homebuyers, NHS offers:

- Homeownership Counseling – *One-on-one counseling to help you determine your readiness to buy a home*
- Homeownership Education – *Learn about the ins and outs of buying a home*
- Grants and Loans – *To help with your down payment and closing costs*
- Assistance in finding the right mortgage

For current homeowners, NHS offers:

- Home Improvement – *NHS loans for homeowners to make moderate repairs*
- Emergency Loans – *Quick loans for emergency situations such as leaky roofs, water main breaks and heating system repairs*
- Home Maintenance Training – *Hands on training to help you take care of your home*
- Refinancing Programs – *NHS will help you refinance your loan at the best possible rate*
- Foreclosure Prevention – *NHS provides counseling, legal services and mortgage restructuring for homeowners in danger of losing their homes due to financial difficulty or predatory lending*
- Reverse Mortgages for Seniors – *Helps seniors use their home equity to improve their quality of life*

NHS of the North Bronx
1178 East Gun Hill Road
Bronx, NY 10469
718-881-1180

NHS of the South Bronx
200 East 161 St. Street
Bronx, NY 10451
718-992-5979

For more information online visit www.nhsnyc.org

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New York Energy Smart and the Weatherization Assistance Program

In the *Home Performance with ENERGY STAR® Program*, a participating Building Performance Institute (BPI) certified Home Performance contractor will perform an assessment of your home, make recommendations for energy improvements and provide a cost estimate to do the improvements. They can even do the work. You may be eligible for low-interest financing to make the energy efficiency improvements even more affordable. The cost of improvements may be paid for through energy savings! And if you're income-qualified, you may be eligible to up to 50% of the costs associated with the energy-efficiency improvements (up to a maximum of $5,000 per household or $10,000 for a 2 - 4 family building) through *Assisted Home Performance with ENERGY STAR*.

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- Up to 40% Savings on Energy Bills
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- Improved Air Quality for Better Health
- Greater Home Durability with Lower Maintenance
- Increased Environmental Safety and Energy Efficiency

For more information online visit www.getenergysmart.org
or contact Benjamin Abrams at SoBRO: (718) 732-7561 or babrams@sobro.org

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Northwest Bronx Community and Clergy Coalition
Weatherization Assistance Program
103 East 196th Street • Bronx, NY 10458 • 718-584-0515

Provides weatherization services such as weather-stripping and caulking, heating system repair, window and door replacement, insulation in walls, and other minor repairs, all to ensure the maximum energy efficiency for your home! All services are provided FREE to the occupant of the home. Owners of rental buildings are required to invest some funds toward the cost of weatherization services.

Home Weatherization

- Saves you money on your heating costs
- Increases the comfort and health in your home
- For households that meet income requirements based on federal low-income guidelines
- Households that receive Supplemental Security Income (SSI), Public Assistance, Food Stamps, or Home Energy Assistance Program (HEAP) benefits are automatically eligible for weatherization services
- Weatherization work is provided by skilled personnel using materials that meet high standards.

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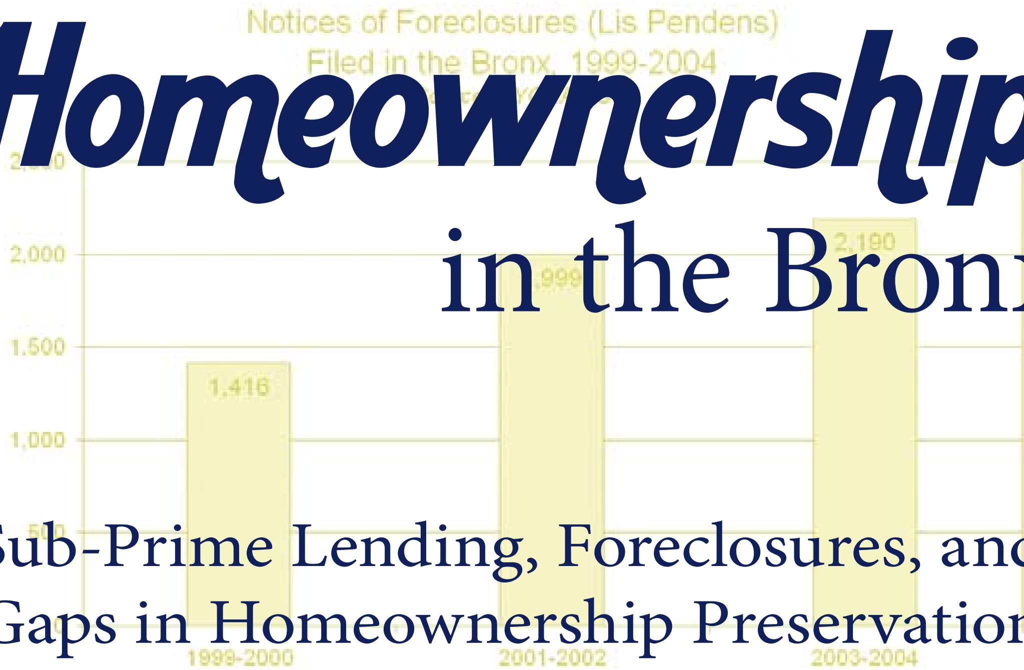
The State of *Homeownership* in the Bronx



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John C. Van Bomel, Esq.
Attorney at Law
49 Purchase Street, Suite 206
Rye, NY 10580
Telephone: (914) 925-2600
Fax: (914) 925-0330
jvblaw@aol.com

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To our Contributing Authors:

Sarah Gerecke, NHS of NYC
Mark Winston Griffith, NEDAP

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