





HOW TO BECOME A HOMEOWNER

Understanding the homebuying process and the requirements necessary to purchase a property is a valuable tool that empowers buyers to make informed decisions leading to beneficial results that protect a buyer's investment in homeownership. Knowledge begins with education. There is much to know and learn. Get started today for an adventure that will change your life.



Financial strength is important. Maintaining a steady source of income, being employed in the same position or same line of work for 2-3 years, having a good record of paying bills with limited long-term debt, the ability to save and pay a mortgage every month, plus other necessary living expense will ensure readiness to buy a home.

IMPORTANT INFORMATION TO CONSIDER


How does purchasing a home compare with renting?

-  Renting provides freedom from maintenance issues, lower insurance premiums and more ease in relocating. However, renting does not offer income tax benefits, a chance to build equity or protection against increase in rent payments.
-  Ownership, as an investment, can bring a favorable return through equity building that makes homeownership financially preferable to renting. In addition, ownership permits a sense of stability and control. However, owning a home is not for everyone. Ownership is a commitment of time, money and for long-term planning for repairs and for unforeseen life events.

What is a mortgage and its restrictions?

-  A mortgage is one of the legal documents signed at the settlement closing. The mortgage is a lien that collateralizes the property for which a loan was provided to the buyer by a lender such as a bank, credit union or broker. The mortgage states that the lender is entitled to foreclose the property and apply the sale price against the amount owed to the lender if the borrower defaults the loan agreement.
-  In addition to requiring the borrower to make monthly payments of principal and interest, the mortgage may bind the borrower to other provisions including the payment of escrows for real estate taxes and insurance, property maintenance and, as provided in the subordinate mortgage with the Purchase Assistance provider, to own and occupy the property as a primary residence with homestead exemption.



What is a mortgage note?

-  The promissory note is a separate document from the mortgage that includes the loan terms, including the total debt, interest rate and payment details. The note is secured by a mortgage.





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Is the mortgage payment affordable?

-  Lenders, including the Purchase Assistance provider, will require that mortgage loan payments are sustainable to the homebuyer over the term of the loan. The lender will evaluate the housing and overall debt to determine if the homebuyer can meet the costs involved in homeownership while meeting other necessary recurring expenses. The assessment is made by calculating two ratios:
 - The **housing expense ratio** considers the percentage of gross monthly income the homebuyer is expected to pay for housing costs including principal, interest, taxes, insurance, mortgage insurance premiums, association fees, ground lease fees and other similar costs that may apply
 - The **debt-to-income ratio** reflects the percentage of gross monthly income the homebuyer is expected to pay for housing debt and expenses plus all recurring consumer debt including credit cards, auto loans, student loan payments, other installment and alimony and/or child support.
-  For low-income homebuyers whose available monthly income is less than that of the average or median homebuyer, maximum housing expense ratio and debt-to-income may not be sufficient to ensure that residual income is sufficient to cover other necessary living expenses. Therefore, consideration of recurring monthly expenses and residual income will be evaluated by the Purchase Assistance provider to determine the homebuyer's ability to sustain a mortgage as well as other recurring living expenses such as utilities, the cost of transportation to work, federal taxes, social security, etc.

What does the mortgage payment include and what factors affect it?

-  The mortgage payment is made to primarily pay the principal and interest of a loan. However, the lender may require that the payment include real estate taxes, homeowner's and flood insurance premiums and mortgage insurance.
-  The lender will collect money to pay such costs on behalf of the borrower and maintain the funds in an escrow account.

What is mortgage insurance?

-  Mortgage insurance is a policy that protects the lenders against losses that result from mortgage default. If the borrower cannot repay the loan as agreed, the lender may foreclose the property and file a claim with the mortgage insurer to recover some of its losses. Mortgage insurance is required for borrowers making a down payment of less than 20%.



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What is title insurance?

- A title is a legal record of ownership that gives an owner the right to possess or sell a property. Title services are required by lenders to provide a Mortgagee's Title Insurance Policy to ensure that there are no liens or claims against the property. A homebuyer wanting to protect themselves from claims by others against a newly purchased home should purchase an Owner's Title Insurance Policy that is simultaneously issued with the Mortgagee's policy.

What is homeowner's insurance, what does it cover?

- Homeowner's insurance covers repair or replacement of your home and belongings if damaged by certain perils, such as fire or theft. A standard policy insures the home itself and the things you keep in it. Homeowner's insurance is a package policy. This means that it covers both damage to your property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people.

Is the property in a flood zone? If so, what insurance is required?

- Most standard homeowner's insurance policies do not cover flooding caused by extreme weather conditions that originate from outside a home. Even backed-up sewers are not covered by most policies unless extra premium is paid. People often say that their home is "flooded" when a pipe bursts. From an insurance perspective, this is considered water (not flood) damage. Flood damage occurs when a large quantity of water flows over what is dry land, seeping into a home through doors and windows.
- Many conditions can result in a flood: hurricanes, broken levees, outdated or clogged drainage systems and rapid accumulation of rainfall. Just because a flood has not occurred recently, does not mean a flood will not happen in the future. Flood risk is not just based on history, it is also based on factors such as rainfall, river-flow and tidal-surge, topography, flood-control measures and changes due to building and development.
- Flood-hazard maps have been created to show different degrees of community risk which help determine the cost of flood insurance. The lower the degree of risk, the lower the flood insurance premium. Before a mortgage loan will close, the lender will call for a Flood Certification to determine the flood zone in which a property is located and whether flood insurance will be required. If the property is found to be located within a flood zone, the loan cannot close until insurance is secured and the property is protected. For information regarding flood insurance and determination of the flood zone status of a property, visit the [St. Petersburg Maps site](#) or [Pinellas County Storm Surge map](#).