Creating Sustainable Homeownership – Building Net Worth

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How to Create Sustainable Homeownership

What is Sustainable Homeownership?

What is the Definition of "Sustainable Homeownership"?

- Sustainable - is the ability to exist constantly

- Homeownership - is a form of housing tenure where a person, called the **owner-occupier**, **owner-occupant**, or **home owner**, owns the home in which they live.

Why should we be concerned with “Sustainable Homeownership?

Sustainable Homeownership is Successful Homeownership.

1. It is the ability to stay in your home regardless of what “life” brings you.
2. It is the ability to maintain your home in good condition to assure market appreciation and increased value.
3. It is the ability to pass on your home to your children and grandchildren.
4. It is the assurance that you can afford your home in retirement.
5. It gives you rights, rights to mortgage, rights to sell, rights to rent.
6. It gives you stability.
7. Building equity in your home is a “savings account” and adds to net worth.

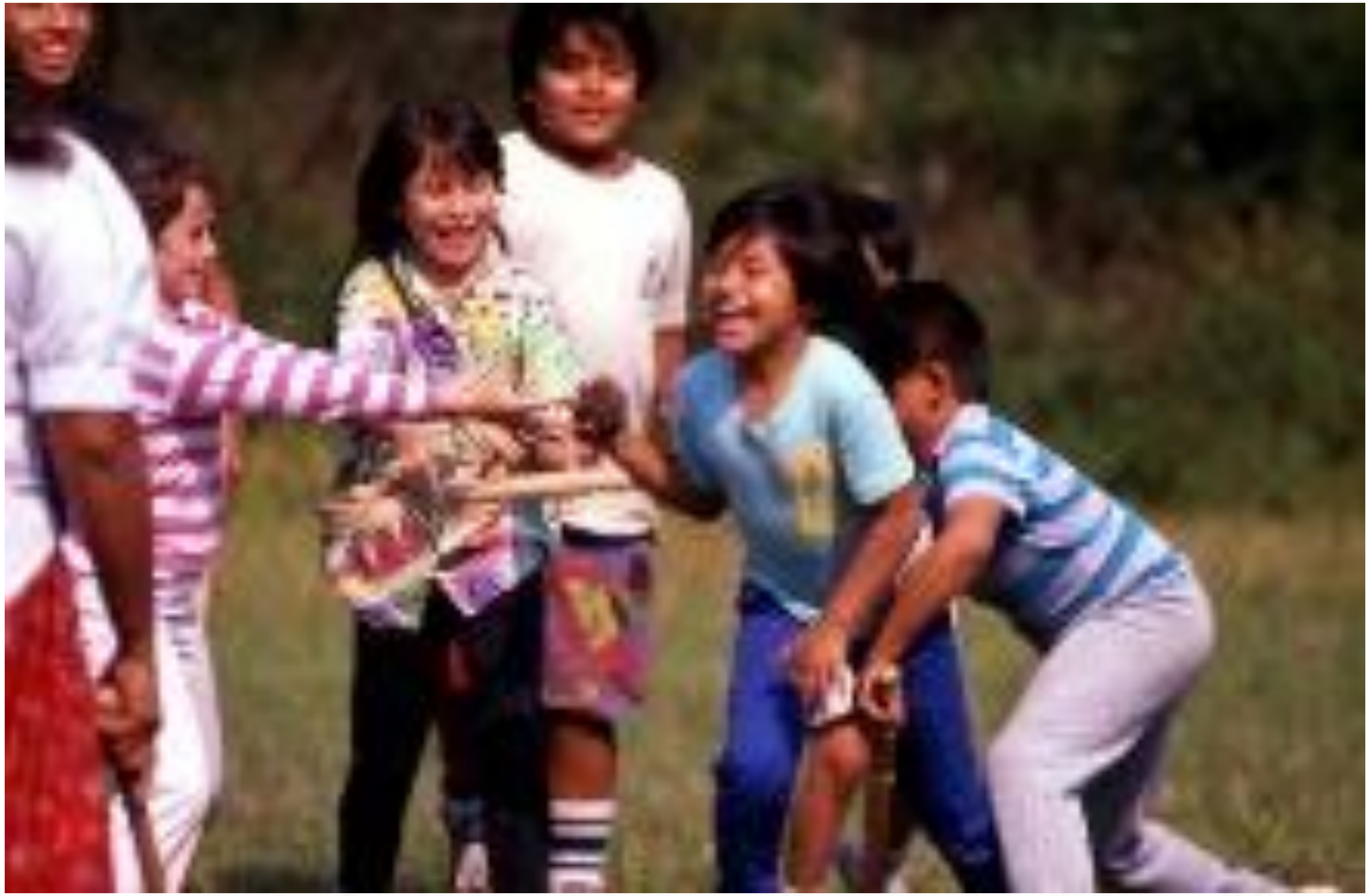
1. It is the ability to stay in your home regardless of what “life” brings you.

Studies have shown the more affordable the mortgage payment, the more likely the family will be able to stay in their home through financial crisis. NAHSI uses a formula to calculate the amount of down payment. NAHSI will pay down the mortgage so the homebuyer has a housing ratio, PITI, of no more than 25%. The 25% mortgage payment and a calculation of 5% for utilities brings the homebuyers total housing expense to 30% of their monthly income.

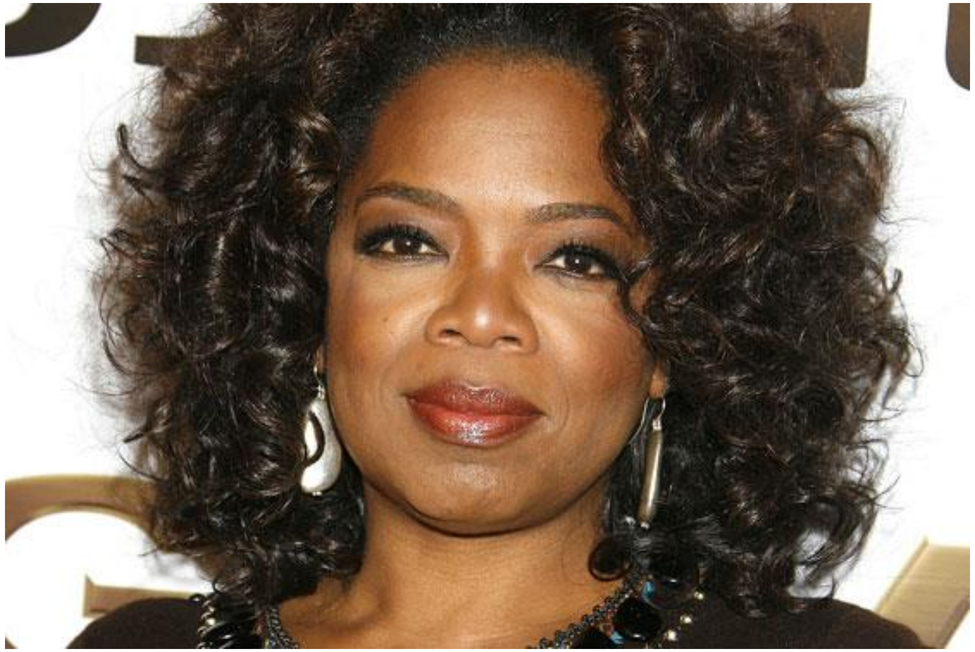
2. It is the ability to maintain your home in good condition to assure market appreciation and increased value.

To increase the value of your home to the maximum, you must Keep the asset in good condition. Also, when purchasing a home, make sure you have a property inspection or try to purchase a new home.

3. It is the ability to pass on your home to your children and grandchildren.



Homebuyer: Ms. Smith, single mom of one 16 year old daughter
Purchase price: $125,000
Down payment Assistance: $55,000, including closing costs of $4,000
First Mortgage Loan: $74,000
Closed August 24, 2009



Ms. Smith’s Home in 2009

1916 River Birch Completed 8-19-09

4. It is the assurance that you can afford your home in your retirement

Taking our Homebuyer, Ms. Smith, who was 26 years old when
She purchase her home in 2009, would be 56 years old when
Her mortgage would be paid in full. Her principal and interest
Payments were $420.16 per month. With her mortgage being
paid off in her retirement, that will give her $420.16 per month
for living expenses, not a housing payment. Some in the financial
industry call mortgages a “forced savings account” when equity
is able to increase over time.

5. It gives you rights, right to mortgage, rights to sell rights to rent.

Owning your homes gives you the right to mortgage your home;

There was a time when mortgages were not obtainable on trust or “Indian Land”.

An appraiser could not determine value because there were no comparable sales.

Lien documents could not be filed.

That is not the case today.

6. It gives you Stability.

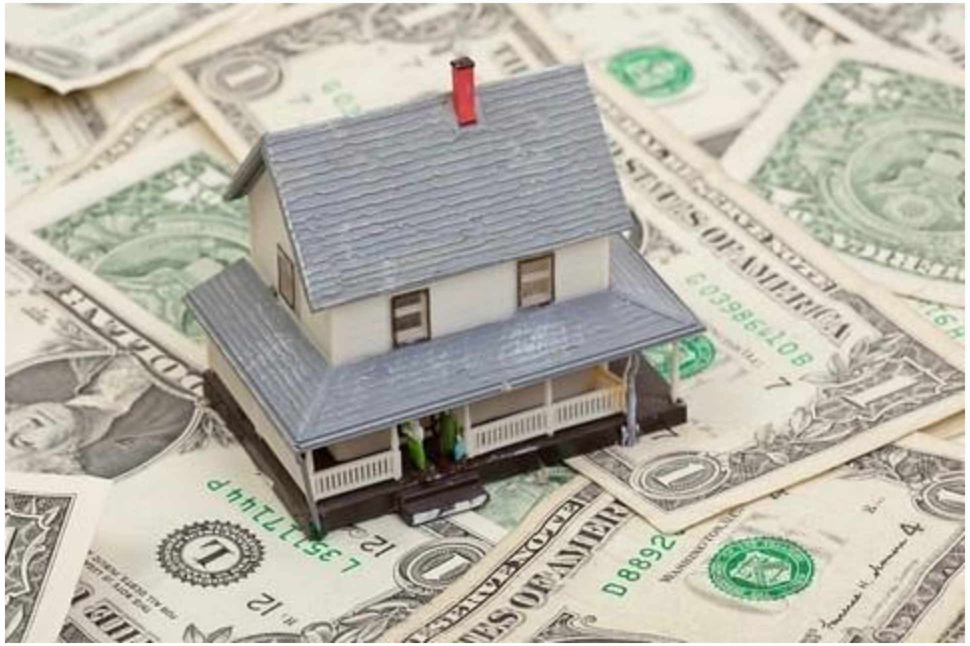
Homeownership is to be considered a “permanent” home. Homeowners are part of a community, not just a renter.

Homeowners make an investment in their home and community.

Although the average first-time homebuyer owns their home for

Less than 10 years, we will follow our Ms. Smith on her homeownership journey.

7. Building equity in your Home is a “savings account” and adds to net worth



Is Homeownership for Me?

Pros

1. Equity
2. Rights over property
3. Stability
4. ____________________
5. ____________________

Cons

1. Mobility
2. Cost of Maintenance
3. Closing cost
4. _____________________
5. _____________________

What determines an Individual's/Family's maximum mortgage amount?

1. Lender – Conventional Loan: 33% of Monthly Income
   FHA – 29% Housing Ratio of Monthly Income
   VA – 41% Total Debt Ratio of Monthly Income
   USDA – 29% Housing Ratio of Monthly Income
   HUD 184 – 41% Total Debt Ratio of Monthly Income
2. Tribe – If using NAHASDA, 30% Housing, including utilities
   Maybe other Tribal programs
3. Your Mom – Never affordable
4. HUD's 30% rule of affordability – HUD has determined that total housing including utilities becomes a burden if ratio exceeds 30% of monthly income
5. NAHSI's Homeownership Program – 25% Housing Ratio

Housing Payment Shock

The difference between the current housing payment (which may be "zero") and new housing payment

Housing Payment Tolerance

The amount of rent or mortgage payment a homebuyer or renter wants to pay – may be less than 30% of adjusted income or what they can afford to pay based on lender's program

Case Study – Determine what mortgage amount is Affordable

- Household Income - $42,000 annually, $3,500 monthly
- Monthly Debt Payments - $250
- Amount of funds for closing - $2,600
- Family; Dad, Mom, two children, 4 total

Maximum Mortgage Amount by Program

Loan Program	Percent of Monthly Payment	Monthly Payment	Mortgage Amount
Conventional	33%	$1,155.00	$165,000
FHA	29%	$1,015.00	$140,000
VA	41% total debt	$1,185.00	$172,000
USDA	29%	$1,015.00	$140,000
HUD 184	41% total debt	$1,185.00	$172,000
Our Loan Program	25%	$875.00	$110,000

Monthly Budget per Loan Program

Loan Program	Monthly Mortgage Payment	Total Monthly Debts Including Mortgage Payment	*Remaining Funds
Conventional	$1,155	$1,405	$2,095
FHA	$1,015	$1,265	$2,235
VA	$1,185	$1,435	$2,065
USDA	$1,015	$1,265	$2,235
HUD 184	$1,185	$1,435	$2,235
Our Loan Program	$875	$1,125	$2,375

*Funds available to pay: utilities, food/cleaning supplies, car insurance, withholding taxes, savings, mobile phone payments, TV provider, clothing, pet costs, child's sports, entertainment, etc.

Loan Comparison

FHA Loan		NAHSI Loan Program
Total Income:	$3,500	$3,500
Mortgage Payment:	1,015	875
Household Maintenance:	50	50
Withholding Taxes:	350	350
Electricity	75	75
Water/Sewer	50	50
Gas	50	50
Trash	25	25
Cell Phone	50	50
Groceries	500	500
Entertainment	50	50

Loan Comparison Con’t

	FHA Loan	NAHSI Loan Program
Fuel	50	50
Auto Insurance	65	65
Car payment	250	250
Child Care	400	400
Clothing	100	100
Savings	50	50
Total Funds Remaining:	$420	$560

(remaining funds to cover school sports, medical deductibles/dental, birthday/holiday expenses, Car wash, pet expenses, school supplies/activities, car repairs, etc.)

What Does a Sustainable Homeownership Mean to You?

- The ability to pay all debts on time
- The ability to save money for emergencies
- The ability to have the extras, i.e. mobile phone, TV . . .
- The ability to plan and save for vacations, school costs, . . .
- The ability to plan for retirement

Building Net Worth

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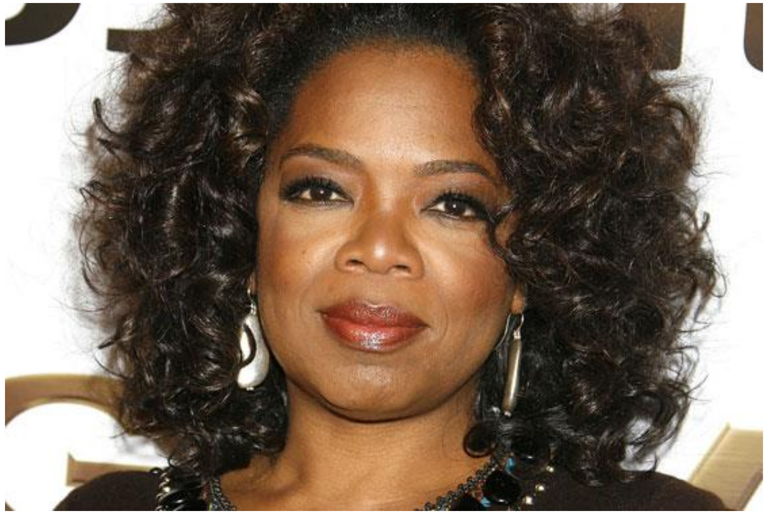
Back to Our Homeowner, Ms. Smith



Ms. Smith received a job opportunity in Bartlesville, OK and sold her home in Shawnee, OK. She purchased the home in 2009 for $125,000. She received $55,000 in downpayment assistance. Ms. Smith sold her home in 2019 for $135,000. She paid her first mortgage loan in the amount of $61,472 and she paid her remaining dpa assistance of $18,638.

Closing Cost Breakdown

2019 – Sales Price	$135,000
Less 1st Mortgage	-$61,472
Less 2nd Mortgage	-$18,638
Closing cost	-$2,090
Real Estate Commission	-$8,100
Amount Paid to Ms. Smith	$44,700

Ms. Smith's Net Worth after closing

	As a homeowner:	As a renter:
Savings Account:	$54,700	$10,000
Household:	25,000	25,000
Cars:	10,000	10,000
Life Ins.:	5,000	5,000
Total:	<u>$94,700</u>	<u>$50,000</u>

Questions

Resources:

Tribal Leaders Handbook on Homeownership
https://www.minneapolisfed.org/indiancountry/resources/tribal-leaders-handbook-on-homeownership

Designing and Operating Homeownership Programs on Tribal Land

https://www.enterprisecommunity.org/resources/designing-and-operating-homeownership-programs-tribal-lands-19082

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