

STEP TWO

NACA APPROVAL

NACA's Approval process has one basic goal: ensuring that you will be able to enjoy your home for years to come. Owning a home involves new responsibilities such as maintaining the property, saving for repairs and improvements, and making a mortgage payment each month. NACA's mission is to invest people in their neighborhoods—no one benefits if poor planning leaves you unable to maintain your house or keep your home.

The Housing Consultant will guide you through an extensive review of your financial situation and the expenses of home purchase and ownership. *You will need to have all of the appropriate documents as stated on the list titled "Items Required For NACA Purchase Approval."*

NACA Approval is divided into the following major areas:

- Information Qualification
- Payment History Qualification
- Debt Qualification
- Income Qualification
- Funds Qualification
- Budget Qualification
- Rental Qualification
- Maximum PITI/ Payment Shock
- Maximum Mortgage Approval
- Eligibility and Program Approval

After all of these areas have been addressed, you can be NACA Approved. Depending on your situation, this process can take one session, several months or longer. Every person in your household that intends to be on the mortgage must participate in all the NACA Approval steps; the requirements below apply to each person on the mortgage and many also apply to household members who do not intend to be on the mortgage. Household members can affect your ability to afford a house based on their debt and income. Your maximum payment will be determined by your current rent and savings pattern, but would be impacted by a household member's debt and their income to afford such debt. If you wish, you may pursue a higher payment qualification in Step Three.

INFORMATION QUALIFICATION

Purchasing a home is the largest investment most of us will ever make. Before proceeding, you should decide if you truly want to make the commitment. Consider whether you will be comfortable making the mortgage payment for years to come, especially if it is greater than your current rent.

Ask yourself these questions:

- Do you anticipate remaining in the area?
- Can you be a prudent manager of your income and debts in order to meet the needs of homeownership?
- Do you have a steady income and stable employment?
- Have you been able to save money?
- Can you make the necessary changes to meet your payments?

If you are buying a rental property, do you understand landlord/tenant laws and do you know how to find good tenants?

Do not be pressured. Buying a house can be an excellent investment, but your personal situation or other factors may militate against it. NACA will assist whenever you are ready to be a homeowner.

You should discuss these issues with your NACA Housing Consultant. If you decide that you are ready for homeownership, NACA requires basic information on all the household members who will be living in the home you purchase. This includes information on people who may not be on the mortgage application. Because all the household members affect what the mortgage applicants can afford and their ability to make the mortgage payments, NACA requires information on all household members and their dependents. For Information Qualification, the information includes demographic information for the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act, such as race, marital status, religion, source of primary income and other information. Since residency is not a condition for participation in the NACA program we require either your social security number or tax I.D. number.

As part of the Information Qualification we require other information that is crucial to NACA's mission of neighborhood stabilization. All NACA participants are required to register to vote through NACA. Voter registration and participation is crucial in stabilizing neighborhoods, which has even greater significance for homeowners who will live in the community for many years. You will need to identify how you will participate in NACA as part of your commitment to partake in at least five actions or activities a year in support of NACA's mission. This commitment begins immediately following your attendance at a NACA Homebuyers Workshop.

For you to be Information Qualified, we will record all of the information for the household members, scan in voter registration forms for all household members eligible to vote and input your specific commitment to participate with NACA. At this stage, your Housing Consultant will also be asking you questions related to your home purchase to best accommodate your homeownership dream.

PAYMENT HISTORY QUALIFICATION

This section only pertains to your payment history, since NACA distinguishes between your payments to creditors and the amount you owe or may owe. Late or non-payment to creditors are a major roadblock to obtaining affordable mortgages through traditional lenders. NACA, however, believes that everyone should have access to a good mortgage product. Therefore, everyone who participates in NACA's program gets the same great terms. Moreover, NACA believes so strongly in its mission that it pledges to work with you until you can be Payment History Qualified and purchase a home. All credit issues must be addressed, though not necessarily resolved, before you can be Payment History Qualified.

Your Housing Consultant needs to determine whether you will be able to responsibly manage your debt after purchasing a home. Past payment issues might have resulted from unforeseen problems or a failure to plan your finances reliably, but you will need to demonstrate that you can overcome these obstacles and avoid future difficulties.

Your Housing Consultant will closely review the payment histories of the people intending to be on the mortgage. Your credit report shows the payment history of both the debts you currently owe and those you paid-off. It might also contain debts that you were unaware of—such as medical bills that you thought were covered by insurance or a credit card payment owed by your ex-spouse. There may also be legitimate collections, charge-offs, delinquent payments, liens and judgments on your credit report. NACA believes that working people seldom walk away from paying a bill without a reason, so the Housing Consultant will consider each case individually. You should write a narrative explaining the circumstances of each payment problem for all debts, current debt and those paid-off, and why these circumstances would not recur. Statements from you indicating that you “will correct a payment problem” or “will pay a bill” are not acceptable. You will need to document the corrective actions you have taken. Even in cases where you have legitimate grievances, you may need to make payment arrangements in order to avoid future actions by the creditor.

Even if you have previous bankruptcies or foreclosures, NACA can help you get a mortgage. The time period necessary to overcome these are determined by whether it was a result of factors outside of your control, or a way to eliminate significant debt. The former would allow you to be Payment History Qualified in a more timely manner. Depending on the circumstances, additional counseling and time may be necessary for you to establish an acceptable payment history and consistent savings over a period of time. NACA does not consider a lack of payment history shown on the credit to be a problem. Your Housing Consultant will request evidence of timely payment of other bills such as car insurance, utilities, telephone, etc. Even if you have had past payment problems or did not pay some bills, NACA will look beyond your payment history to see whether you have demonstrated job stability, paid rent on time, and learned to manage your finances. NACA will make a determination as to whether your payment history is reflective of your future commitment to make your mortgage payments and what future steps may be necessary to support such a determination.

DEBT QUALIFICATION

Your Housing Consultant will determine what you owe or may owe and the balances and monthly payments. For Debt Qualification it does not matter if you made or did not make on-time payments, only what your on-going debts are; timeliness of payments was already addressed under Payment History Qualification. If debts are incorrectly stated as unpaid or the balance or payment is incorrect, you will need to provide documentation so the Housing Consultant can make the appropriate adjustments. These debts may include charge-offs and collections that occurred a number of years ago. It is very common that previous debts are purchased by collection agencies that use very aggressive collection tactics. They purchase these old debts at much less than their outstanding balance, but are often able to renew these debts and put a lien on your new home. Your Housing Consultant can advise you on each debt issue and will make a determination whether you need to pay-off or do a payment arrangement for an unpaid bill, charge-off or collection. NACA will also work with you to negotiate a lower payoff since often creditors will accept 40% or less of the total amount due. You do not want old debts to come back and add additional burden to you as a homeowner.

Other accounts or debts such as new car loans, student loans, tax liens or child support may not appear on your credit report. It is very important that you bring all financial obligations to the attention of the Housing Consultant, as they will appear later when the lender processes the mortgage application. This information is necessary for determining what you can afford and in preparing a successful application. Misleading NACA staff is considered grounds for denying Credit Access and terminating participation in the NACA Program.

CREDIT REPORT:

Prior to beginning your NACA Approval process, NACA will retrieve a credit report for you and for all members of your household over age 21. A photo ID is needed before the report is retrieved for identification purposes. You will need to pay the ten dollar cost for each report and will receive a copy of the credit report when it is pulled.

A credit report contains consumers' identification information; payment history with different creditors; consumer debts; information on the public record, such as foreclosures or bankruptcies; and a list of inquiries made by various institutions. Specifically, the credit report has the following information:

- Auto loans, student loans, other loans and mortgages (Installment Debt)
- Credit Cards (Revolving Debt)
- On-time payments, delinquent payments and inquiries about your credit
- Collections, charge-offs, child support defaults, and repossessions
- Court judgments, tax liens, foreclosures and bankruptcies
- Identification discrepancies such as multiple social security numbers

There are three nationwide consumer reporting companies: Experian, TransUnion and Equifax. They serve as clearinghouses for credit history information from credit providers who submit information to at least one of the consumer reporting companies every month. The reporting companies focus on different regions of the country and often do not have the same information for each creditor. Most payment information, as well as Chapter 13 bankruptcies,

stay on the report for seven years. Chapter 7 bankruptcies, where all debt is discharged, stay for ten years. Inquiries stay on the report for two years. Court judgments and liens can remain indefinitely if they are unpaid and the creditor continues to renew the information.

These national consumer reporting agencies sell this information to lenders and other businesses that have a permissible purpose to obtain it. The reports are sometimes different, so the report NACA obtains may be different than the lender's report. NACA obtains the consumer credit information from a national vendor and downloads the information into our state-of-the-art software system – NACA Lynx. We separate the information from each creditor into two categories: payments issues and debt issues. Your Housing Consultant then reviews your payments to creditors to evaluate your history of being responsible for credit payments as a reflection of your readiness and ability to take on your largest debt – the mortgage payment. Your Housing Consultant would also determine the debts you currently owe, which can include current debts and possibly charge-offs and collections, depending on when they occurred and the circumstances.

Studies have shown that more than 40% of the information contained on a credit report may be incorrect. You should identify any errors to your Housing Consultant, who can help you prepare a dispute letter to the reporting credit agency (see example on Page 101). The credit-reporting agencies must correct errors, but it takes time for this to happen. You will need proof that the item was resolved, either through an updated credit report, receipt, cancelled check, letter directly from the creditor or other documentation.

Disputing Information:

You have a right to dispute and correct erroneous information contained in your credit report. After receiving the report, you should make the corrections on the report, write a brief explanation of the dispute and return the corrected report to the agency. The reporting agency is responsible for investigating, verifying and correcting errors. Always keep a copy for your own records.

Consumers can begin obtaining a free annual credit report, beginning December 1, 2004, which can be accessed on-line at www.annualcreditreport.com (free reports will be phased in across the country from west to east over a nine-month period). The Fair and Accurate Credit Transactions Act of 2003 (FACTA, or Fact Act) amends the Fair Credit Reporting Act (FCRA) and requires the nationwide credit bureaus to provide consumers, upon request, a free copy of their credit report once every 12 months. The Federal Trade Commission believes that “this new legal right gives consumers an important tool for protecting their identity and keeping track of their credit.” Consumers also may request a copy of their credit report by mail by completing the standardized form.

Consumers may choose to order free reports from all three nationwide consumer reporting companies at the same time, or stagger their requests over the course of the year. The law allows consumers to order one free copy from each company every 12 months. The FTC has issued a new consumer education brochure, "Your Access to Free Credit Reports," that explains why it is important for consumers to monitor their credit history, how to request a report, and how to dispute any errors. The FTC's brochure is available at <http://www.ftc.gov/bcp/online/pubs/credit/freereports.htm>. For more information, visit www.ftc.gov/credit. To get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357).

To obtain information directly from the credit bureaus, contact:

- Experian P.O. Box 2104, Allen TX 75013 (888) 397-3742
- Equifax P.O. Box 105496, Atlanta GA 30348 (800) 997-2493
- Trans Union P.O. Box 1000, Chester PA 19022 (800) 888-4213

CREDIT REPORT SAMPLE

National Mortgage Reporting

PREPARED FOR:

NACA - NATIONAL, MA

3607 WASHINGTON STREET, JAMAICA PLAIN, MA 02130-

Attention: ADMINISTRATOR Prepared By: Report Type: MISMO INTERFACE
Reference #: XCFUK-2800069 Request Date: 6/21/2002 Sources: TU, EFX and XPN
Password: Eg0JQ5diSM Completed Date: 6/21/2002 Loan Type:
Client Loan #: Client #: 7935MAE ECOA Type: JOINT
Fannie Mae #: Price: \$0.00 Tax: \$0.00 Total: \$0.00
Loan Officer:

Applicant/Co-Applicant Information

Applicant: DTESTFILE, CHARLES D DOB: SSN#: 777-77-7777
Co-Applicant DTESTFILE, ANNETTE DOB: SSN#: 677-77-7777
Street Address: 4444 W MAIN Marital Status:
City, State, Zip: L TESTCITY, CA 99000 Own/Rent:
Length of Time: Dependents:
Property

Score Information

EFX BEACON 96 SCORE 629 FOR: DTESTFILE, CHARLES R
38 SERIOUS DELINQUENCY, AND DEROGATORY PUBLIC RECORD OR COLLECTION FILED
14 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK REVOLVING OR OTHER REVOLVING
ACCOUNTS
02 LEVEL OF DELINQUENCY ON ACCOUNTS

TU EMPIRICA SCORE 547 FOR: DTESTFILE, CHARLES R
38 SERIOUS DELINQUENCY, AND PUBLIC RECORD OR COLLECTION FILED
13 TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN
2 LEVEL OF DELINQUENCY ON ACCOUNTS
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK REVOLVING OR OTHER REVOLVING
ACCOUNTS
DEROGATORY INFORMATION WAS FOUND ON THIS FILE

XPN/FAIR, ISAAC MODEL II +566 FOR: DTESTFILE, CHARLES R
38 SERIOUS DELINQUENCY AND PUBLIC RECORD OR COLLECTION FILED
13 LENGTH OF TIME (OR UNKNOWN TIME) SINCE ACCOUNT DELINQUENT
10 PROPORTION OF BALANCE TO HIGH CREDIT ON BANK REVOLVING OR ALL REVOLVING ACCOUNTS
14 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED

Trade Information

Creditor Name	Date Reported	Date Opened	High Credit	Balance Owing	Terms	Current Status	Historical Status			Past Due
							# Mo	Times Past Due		Last Past Due
Account Number	DLA				Acct. Type	ECOA		30	60	

AMER GEN FIN	06/00	12/99	13471	11444	320	01	07	0	0	0
92990127032569999	05/00				INST	C				

Loan Term: 60M
 AMOUNT IS ORIGINAL LOAN AMOUNT
 OPEN ACCOUNT
 THIS IS AN ACCOUNT IN GOOD STANDING
 SECURED BY HOUSEHOLD GOODS & OTHER COLLATERAL

AMER GEN FIN	12/99	04/99	3151	2774	109	01	09	0	0	0
99901270292999999	10/99				INST	C				

Loan Term: 36M
 REFINANCED
 AUTO

AMER GEN FIN	06/00	12/99	2784	2507	104	01	07	0	0	0
92990127029299999	05/00				INST	C				

Loan Term: 36M
 AMOUNT IS ORIGINAL LOAN AMOUNT
 OPEN ACCOUNT
 THIS IS AN ACCOUNT IN GOOD STANDING
 SECURED BY HOUSEHOLD GOODS & OTHER COLLATERAL

ATTWSLOSAN	07/00	03/99		0		01	03	0	0	0
97000000349999999	06/00				OPEN	I				

BALLYS	07/00	08/99	1172	1079	32	05	10	0	0	3	239
94290219999	03/00				INST	I					07/00

Loan Term: 36M
 Late Dates: 05-7/2000 04-6/2000 04-3/2000
 AMOUNT IS ORIGINAL LOAN AMOUNT
 OPEN ACCOUNT
 ACCOUNT DELINQUENT 120 DAYS PAST DUE DATE
 INSTALLMENT SALES CONTRACT

BALLYS	02/95	02/93	420	0	0	01	25	0	0	0	0
90344569999	02/95				INST	I					

INSTALLMENT SALES CONTRACT
 CLOSED

BENEFCL-HFC	07/00	10/99	21605	21538	272	01	09	0	0	0
910177159999	06/00				INST	C				

Loan Term: 360M
 AMOUNT IS ORIGINAL LOAN AMOUNT
 OPEN ACCOUNT
 THIS IS AN ACCOUNT IN GOOD STANDING
 REAL ESTATE MORTGAGE - WITH OR WITHOUT OTHER COLLATERAL. USUALLY A SECOND MORGAGE

CAPITAL 1 BK	07/00	11/98	256	174	20	01	20	0	0	0	0
9121741515059999	06/00				REV	I					

Loan Term: MIN
 CREDIT CARD

Inquiries

DEARDENS	8/2/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION RETAIL, NOT ELSEWHERE CLASSIFIED	
GECC MACYS WEST	8/2/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION COMPLETE DEPARTMENT STORE	
NORDSTROM CREDIT PROM	7/29/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION COMPLETE DEPARTMENT STORE	
AMERICAN GENERAL FINAN	7/27/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION PERSONAL LOAN COMPANIES	
AMERICAN GENERAL FINAN	7/23/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION PERSONAL LOAN COMPANIES	
MONTGOMERY WARD/MBGA	7/18/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION RETAIL, NOT ELSEWHERE CLASSIFIED	
AMERICAN GENERAL FINAN	7/16/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION PERSONAL LOAN COMPANIES	
HRSUSA/BEST BUY	7/16/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION RETAIL, NOT ELSEWHERE CLASSIFIED	
LA CURACAO	7/3/1998
UNKNOWN - CREDIT EXTENSION, REVIEW, OR COLLECTION RETAIL, NOT ELSEWHERE CLASSIFIED	

Alerts and Validation

RECORDED INQUIRIES ALERT
 TU EMPIRICA SCORE
 EMPIRICA SCORE PRODUCT WAS DELIVERED
 SSN ALERT
 MISMATCH - INPUT DOES NOT MATCH FILE

The Following AKA(s) Were Reported

AKA Name	AKA SSN#
DTESTFILE, ANNETTE A	
DTESTFILE, ANNETTE A	
DTESTFILE, ANNETTE A	
DTESTFILE, CHARLES R	
DTESTFILE, CHARLES R	
DTESTFILE, CHARLES R	
STESTFILE, ALEXIS A **	
STESTFILE, ANNETTE	
STESTFILE, ANNETTE A **	
STESTFILE, ANNETTE A **	

** Indicates Additional Information May Exist

INCOME QUALIFICATION

While your current rent and savings largely determine how much you can spend on a mortgage, NACA also looks at your income. You need a reliable source of income before committing to long-term mortgage payments. You will have to document this income and demonstrate that it will continue in the future.

NACA will look at your employment history for evidence that your income will continue. Sources of income include salary, wages, overtime, bonuses, social security benefits, pensions, annuities, commissions, alimony, child support, etc. You will need to have worked for at least two years, unless you can show that you have spent the time advancing your career or improving your skills. Although it is preferable if you have worked at the same job, it is not required because NACA recognizes that many low- and moderate-income workers change jobs due to the nature of their work or their attempts to better their situations.

If you are self-employed, you may need to demonstrate two years of consistent income. Many new businesses fail, so a longer history is required to demonstrate the stability of your income. There are some businesses, such as day care providers, who receive agency referrals that can demonstrate stability in a shorter period of time. Your Housing Consultant can discuss this issue with you.

If you are employed by a company, you'll need pay stubs for at least a 30-day period. If you are paid bonuses or commissions, you must make sure that those items are included on your pay stub or in another document. If you wish to include overtime compensation, you will have to provide documentation that the overtime is consistent and likely to continue. You will need tax returns and W-2 forms for the past two years.

If you are self-employed, you will need to have a year-to-date profit and loss statement prepared by a certified public accountant. You will need to include a Schedule C with your past two years of tax returns. If you work as a day care or other provider and receive payments from a state or non-profit agency, you are considered self-employed if the agency does not deduct money for taxes.

If you receive benefits, you must provide a current benefits letter stating that you are entitled to the benefit and how much that benefit is. This includes benefits received for being the guardian or parent to a minor. If you receive child support from a child's other parent, you will need to show that the parent is obligated to make the payment, has done so consistently and is likely to continue. The documentation can include a court order and evidence of receipt of payments or

12 months of cancelled checks from the ex-spouse. You may also be required to provide the child's birth certificate to show proof of their age, evidencing the length of time the support will continue. If the other parent is an ex-spouse or you are receiving alimony, you will also need to provide documentation that you are legally separated or divorced.

FUNDS QUALIFICATION

Although NACA requires no down payment or closing costs, there is a minimum level of funds required to purchase a home. **Minimum Required Funds** (“MRF”) vary between NACA offices and by property type. They cover the costs of property acquisition and inspection, such as pre-pays and reserves. Pre-pays are funds paid at closing for costs you incur as a homeowner. These costs include the first year’s homeowner’s insurance, mortgage interest from the day you close until the end of the month, property taxes and homeowner’s insurance escrows. In addition, you will need one or two months of mortgage payments as reserves. The MRF is also impacted by the purchase price of your future home. If you need to buy-down the interest rate to qualify for the Maximum Mortgage Amount, then the buy-down funds need to be included as part of your overall Minimum Required Funds. The interest rate may be further reduced by applying additional funds towards the buy-down of the NACA below market interest rate. Your Housing Consultant will provide you with a personalized MRF requirement based on the variables mentioned above.

The property acquisition costs consist of earnest money and inspection fees. Earnest money is often required by the seller as a deposit to hold the property until inspections can be completed and the loan application is approved. Upon closing, the earnest money will be applied towards the required pre-pays. Inspection fees, such as property and termite inspections, are often paid up front so the overall property condition can be determined and evaluated. Once the inspections are complete, NACA can establish a NACA Repair List which may require some or all repairs to be completed. Required repairs can be rolled into a rehabilitation loan. A rehab work write-up fee may be required if renovations are extensive.

The purpose of reserve payments is to ensure you have some funds in the bank after you close. Many homebuyers have additional expenses such as moving expenses, utility deposits and other miscellaneous expenditures. Since you do not want to move into your home without money to put up blinds or purchase new furniture, you will need to save reserve funds to protect yourself from unexpected expenses or temporary loss of income. The required reserves will vary based on the difference between what you currently pay in rent and your future projected monthly mortgage payment (Payment Shock). If needed, saved reserves can later assist you with your mortgage payments and allow you to keep your home if you suffer a setback or other unexpected expenses.

For example, you may encounter:

- Major home repairs
- Loss of tenant/rent
- Family crisis
- Federal or state tax (that was not deducted from paycheck)
- Major medical expenses
- Loss of employment
- Separation or divorce
- Disability

NACA requires minimum reserves as follows:

Payment Shock less than \$300 requires one reserved mortgage payment as part of the MRF, and Payment Shock greater than \$300 requires two or more reserved mortgage payments.

Most experts agree that your available funds should total at least three months, and preferably six months, of mortgage payments. You should save more if you purchase a multi-family. Saving money requires a financial plan that contains specific, measurable and achievable goals. The work you will do on the Budget Form will be helpful in your savings goal.

You must have the Minimum Required Funds to be Funds Qualified. Remember, if you intend to buy-down your interest rate, you will need more available funds. Funds are usually found in bank accounts: for example checking, savings, CDs or money market accounts. NACA requires at least the last three months of your bank statements for all accounts. The funds can be gifts or one-time deposits, but they cannot be borrowed. You may need to provide documentation that the funds were not borrowed. If you have cash that is not in a bank account or have access to other forms of cash such as savings clubs, you will need to document that you have the funds and can access them. The chart on the following page shows estimated savings you will need to purchase a home. However, you should contact your local NACA office for more precise information.

HOW MUCH MONEY WILL YOU NEED TO BUY A HOME?

	Traditional Mortgage (assume 5% down)	NACA Mortgage (no down payment)
I. Pre-Mortgage Application		
Offer (earnest money deposit)*	\$500 - \$5,000	\$500 - \$5,000
Home inspection	\$125 - \$400	\$125 - \$400
Your attorney	\$0	\$0
P&S deposit (\$150,000 price)*	\$2,000	\$0
Credit report (average \$10 per credit report)**	\$45	\$30 - \$70
Rehab specialist fee (for Rehabs only)		\$200 - \$600
II. Mortgage Application		
Application fee	\$250	\$0
III. Hazard Insurance		
Homeowner's insurance premium for the first year	\$400 - \$1,200	\$400 - \$1,200
IV. Closing Costs		
Appraisal	\$250	\$0
Balance of down payment (\$100,000 price)	\$3,000	\$0
Points	\$2,000	\$0
Document prep fee	\$175	\$0
Title insurance	\$225	\$0
Private mortgage insurance for first year	\$800	\$0
Lender's attorney	\$600	\$0
Other fees	\$350	\$0
V. Pre-pays (Escrows)		
Private mortgage insurance (two months)	\$250	\$0
Homeowners insurance (two months)	\$70 - \$200	\$70 - \$200
Real estate taxes (two-twelve months)	\$100 - \$1,200	\$100 - \$1,200
Pre-paid mortgage interest (settlement day to the end of the first month: 1-30 days)	\$10 - \$1,000	\$10 - \$1,000
Neighborhood Stabilization Fund	\$0	\$50
Interest rate buy down (optional)		
Mortgage reserve (depends on qualification issues)		
TOTAL COSTS (Minimum Required Funds)	\$11,150 - \$19,000	\$1,500 - \$9,700

*The amount is based on the office location and number of units. The earnest and purchase deposit are applied to the pre-pays.

** The credit report is to be used for both yourself and NACA. NACA receives a discounted rate for accessing your credit report. You need to pay NACA for each credit report accessed through NACA.

The total costs (i.e. amount of required savings) will vary depending on whether you purchase a single or multi-family home, the area's property taxes and homeowner's insurance, and the day of the month you close. You will also need money to move into your new house and to buy necessary household goods such as additional furniture, curtains, and other items. You may also have to pay deposits to start the utilities in your new house and to fill your oil tank before winter.

BUDGET QUALIFICATION

Better money management can increase the resources you have available for housing payments and other needs. A money management plan helps you handle your finances and avoid the stress of worrying about how to pay your bills. There are five main reasons that people experience financial difficulties:

- Over-extension of debt
- Unexpected life events such as illness
- Loss of employment
- Separation or divorce
- Failure to plan ahead for emergencies

*Remember:
People do not plan to fail; they fail to plan.*

The Budget is essential in your preparation for homeownership and will help both you and your Housing Consultant develop a plan to get you in a position to purchase a home you can afford. Each month you receive money in income and pay out money in expenses. When your income is greater, you grow your savings; when your expenses are greater, you spend your savings or must borrow through credit. Since experts state that about 80% of people do not know where 20% of their money goes, NACA has prepared the following two forms to help clear up the mystery. These exercises may seem like a burden, but NACA believes that you should be prepared for mortgage payments before you purchase a house. If you are dedicated to filling out these forms accurately and completely, the time spent can be of tremendous value to you. By using the knowledge gained from these forms, you can determine how changes in your expenses and casual spending will affect your finances.

The Budget Form (with the Daily Expense Diary) serves two major purposes:

- Evaluation of how you spend your money. This is necessary for determining your Maximum Housing Payment – Payment Qualification.
- Reducing your expenses and saving additional money. This is necessary for increasing your Maximum Housing Payment in Step Three – Qualification Increase.

The Daily Expense Diary and an abbreviated version of the Budget Form are combined on the following page. Together, these forms will be used to capture your entire pattern of income and expenses for a month. You should read through them completely prior to beginning your diary or tabulating your expenses to ensure that you are using them correctly. Do not include the same expenses on both forms—the costs from your Diary are added into the Budget Form as a separate item. Please take about a month to complete the full version of these forms, though you may attend your counseling session before finishing them.

When you complete the Budget Form, you will have a projection of your Monthly Savings or Monthly Deficit based on only one month's income and expenses. Because NACA will use this analysis to determine your long-term affordable housing payment, you should not include any windfalls or unreliable income. Remember, the goal is to avoid any unpleasant surprises when your mortgage payment is due, so please be conservative with your estimates.

BUDGET FORM

INCOME: **Total Net Income For The Month:**

\$ _____

EXPENSES:

Monthly Total

- | | |
|--|----------|
| I. Rent – Monthly Housing Payments: | \$ _____ |
| II. Utilities: | \$ _____ |
| III. Food and Related Expenses: | \$ _____ |
| IV. Transportation: | \$ _____ |
| V. Child Care: | \$ _____ |
| VI. Clothing: | \$ _____ |
| VII. Medical/Health: | \$ _____ |
| VIII. Education: | \$ _____ |
| IX. Installment Debt: | \$ _____ |
| X. Credit Cards: | \$ _____ |
| XI. Church Tithes & Charity Donations: | \$ _____ |
| XII. Monthly Walking Around Money: (from Daily Expense Diary) | |
| a. Gas | \$ _____ |
| b. Meals – eating out: | \$ _____ |
| c. Movies – theaters & rentals: | \$ _____ |
| d. Sports & Entertainment: | \$ _____ |
| e. Alcohol: | \$ _____ |
| f. Parking: | \$ _____ |
| g. Dry Cleaning & Laundromat: | \$ _____ |
| h. Newspapers & Magazines: | \$ _____ |
| i. Coffee/Tea/Soft Drinks: | \$ _____ |
| j. Children’s Lessons: | \$ _____ |
| k. School Lunches: | \$ _____ |
| l. Children’s Allowance: | \$ _____ |

Total Monthly Walking Around Money: \$ _____

Total Expenses for the Month (Sum of items I through XII):

\$ _____

Available Savings:

\$ _____

RENTAL QUALIFICATION

One of the most important indications of your ability to pay future mortgage payments is your ability to make current rental payments. The basis of the NACA program is that you should be able to transfer your rent into your mortgage payment (for a higher mortgage payment you would need to show the ability to afford it). Your Housing Consultant will need documentation that you pay your rent on time. Your current landlord can verify payments by completing a NACA Rental Verification Form (obtained from NACA), or you can provide NACA with twelve months of cancelled checks or other documentation. When you apply for NACA Credit Access, you will need to update your Rental Verification Form, cancelled checks or other documents. If you are related to your landlord, you will need to provide copies of cancelled checks over the past 12 months.

NACA recognizes that there are situations where you may not be obligated to pay rent because of a legitimate dispute with the landlord. If this is the case, you will have to explain how the rent payments were used and provide documentation of the dispute and the steps you have taken to resolve it.

MAXIMUM PITI/PAYMENT SHOCK

You and your Housing Consultant need to determine an affordable monthly mortgage payment that will let you sustain the standard of living you desire. NACA does not want to put you in a situation where your standard of living is reduced or you must forego necessities because of your mortgage payment. Owning your home should not be a burden.

Although there are responsibilities inherent to homeownership, there are also tremendous benefits. NACA believes that those benefits should be available to everyone, so it has designed its program to ensure affordability and access. A basic premise of the program is that people who pay rent each month should be able to spend the same money on owning their own home. Therefore, NACA uses your current rent as a good indication of what you could afford to spend on a mortgage each month.

NACA calls this the “Maximum PITI,” which covers one month’s worth of principal and interest on your mortgage, plus the monthly property taxes, hazard insurance, and NSF payment (P.I.T.I.). NACA uses rent to estimate your Maximum Housing Payment because it reflects the balance you have already reached between housing and other needs.

The Housing Consultant also uses the Budget Form to determine how much money you have available for housing. If you and the Housing Consultant determine that your expenses exceed your income and you are utilizing credit or savings to afford your rent, the payment you can afford would be lower. Alternatively, if you are saving money each month, your Maximum PITI could be higher than your current rent. In either case, after you are NACA Approved, you could begin searching for a home appropriate to your NACA Approval while working with your Housing Consultant to increase your Maximum PITI in Step Three.

If your future mortgage payment exceeds your rent, you may experience the difference as “Payment Shock.” For example, if your rent is \$500 and your mortgage payment is \$800, you will need to find an extra \$300 in your finances every month. It would be like your landlord increasing your rent by \$300 per month. There are other costs of homeownership, including

utilities, water, sewer, and maintenance, that tend to increase Payment Shock, but they may be offset by the tax benefits.

PAYMENT SHOCK CALCULATION:

Mortgage Payment (Future PITI): \$ _____

Less:

Rent (verified by Rental Verification Form or cancelled checks): \$ _____

Required Monthly Savings (each month for a minimum of 3 to 6 months): \$ _____

The above monthly savings must be saved every month until you close since the monthly savings will be a part of your mortgage payment for the next 30 years.

MAXIMUM MORTGAGE APPROVAL

The Maximum Mortgage is based on the Maximum Mortgage Payment as determined above with the current interest rate. Your Maximum Mortgage is your Maximum Purchase Price, unless you desire to put down funds as a down-payment (i.e. principal reduction). When you first start paying on your mortgage, most of your payment goes towards the interest. Later, the interest owed will decrease as you pay off the principal. The amount due for taxes and insurance varies depending on where you purchase your home and your home's value.

Interest Rate Buy-down

The Interest Rate Buy-down is a tremendous opportunity to increase the Maximum Purchase Price without increasing your Maximum Mortgage Payment. If you do not want to purchase a more expensive home, you can also use the buy-down to reduce your monthly mortgage payment. For each one percent (1%) of the mortgage amount—or “point”—you pay up front, the interest rate is reduced by one-quarter of a percent (.25%) for the life of the mortgage.

This unique option in the NACA program will increase the Maximum Purchase Price much more than using the same amount as a downpayment. You can use any source of funds to pay for the buy-down, including seller contributions, city grants and government programs, employers, unions, other programs, or your own savings.

One Buy Down Point will cost 1% of the Loan Amount
One Buy Down Point will reduce the Interest Rate .25%

Example:

You are currently paying \$800 in rent and have \$7,000 in savings. The Minimum Required Funds is \$3,000. Because you have not been able to show a regular pattern of savings, your maximum monthly mortgage payment is \$800 (\$600 for principal and interest and \$200 for taxes, insurance and NSF fee) resulting in a maximum purchase price of \$90,000 (interest rate of 7%). By using \$4,000 of your savings (4% of the mortgage amount, or 4 points) to buy down the interest rate one percent to 6%, the Maximum Mortgage for the same mortgage payment would increase to \$100,000 (it would be \$94,000 using the same \$4,000 for a downpayment/principal reduction).

Maximum Mortgage Calculation:

To determine your Maximum Mortgage you need to obtain the current interest rate and approximate taxes and insurance from your Housing Consultant. Then you will be able to use the "Payment Schedule" on the following page. Note that interest rates can change daily. Subtract the monthly tax, insurance and \$50 (NSF fee) from your Maximum Mortgage Payment to obtain the amount that you have available for principal and interest. The schedule computes the loan amount for a given interest rate and principal and interest payment, so you now have the necessary figures.

Calculations for Payment Schedule

- 1. Maximum Mortgage Payment \$ _____
- 2. Estimated Taxes + Insurance + \$50 \$ _____ (Escrows)
(20% to 35% of line #1 depending on area)

Principal and Interest = (1) - (2) \$ _____

PAYMENT SCHEDULE

Please refer to instructions on the previous page before attempting this exercise. To determine the loan amount you can afford, find the Interest Rate for your mortgage at the top of the table. Next go down that column until you get to your Principal and Interest. Finally, go to the left until you get to the column for Loan Amount.

Loan Amt	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
\$60,000	222	237	253	269	286	304	322	341	359	379	399
\$70,000	259	277	295	314	334	355	376	397	420	442	466
\$80,000	296	316	337	359	382	405	429	454	480	506	532
\$90,000	332	356	379	404	430	456	483	511	540	569	599
\$100,000	370	395	422	449	477	507	537	568	600	732	665
\$110,000	407	435	464	494	525	557	591	625	660	695	732
\$120,000	444	474	506	539	573	608	644	681	719	758	798
\$130,000	481	514	548	584	621	659	698	738	779	822	865
\$140,000	517	553	590	629	668	709	752	795	839	885	931
\$150,000	554	593	632	674	716	760	805	852	899	948	998
\$160,000	591	632	675	718	764	811	859	908	959	1011	1064
\$170,000	628	672	717	763	812	861	913	965	1019	1075	1131
\$180,000	665	711	759	808	859	912	966	1022	1079	1138	1198
\$190,000	702	751	801	853	907	963	1020	1079	1139	1201	1264
\$200,000	739	790	843	898	955	1013	1074	1136	1199	1264	1331
\$210,000	776	830	885	943	1003	1064	1127	1192	1259	1327	1397
\$220,000	813	869	928	988	1050	1115	1181	1249	1319	1391	1464
\$230,000	850	901	970	1033	1098	1165	1235	1306	1379	1454	1530
\$240,000	887	948	1012	1078	1146	1216	1288	1363	1439	1517	1597
\$250,000	924	988	1054	1123	1194	1267	1342	1419	1499	1580	1663
\$260,000	961	1027	1096	1168	1241	1317	1396	1476	1559	1643	1730
\$270,000	998	1067	1138	1212	1289	1368	1449	1533	1619	1707	1796
\$280,000	1035	1106	1181	1257	1337	1419	1503	1590	1679	1770	1863
\$290,000	1072	1146	1223	1302	1385	1469	1557	1647	1739	1833	1929
\$300,000	1109	1185	1265	1347	1432	1520	1610	1703	1799	1896	1996
\$310,000	1146	1225	1307	1392	1480	1571	1664	1760	1859	1959	2062
\$320,000	1183	1264	1349	1437	1528	1621	1718	1817	1919	2023	2129
\$330,000	1220	1304	1391	1482	1575	1672	1772	1874	1979	2086	2196
\$340,000	1257	1343	1433	1527	1623	1723	1825	1930	2038	2149	2262
\$350,000	1294	1383	1476	1572	1671	1773	1879	1987	2098	2212	2329
\$360,000	1331	1422	1518	1617	1719	1824	1933	2044	2158	2275	2395
\$370,000	1368	1462	1560	1661	1766	1875	1986	2101	2218	2339	2462
\$380,000	1405	1501	1602	1706	1814	1925	2040	2158	2278	2402	2528
\$390,000	1142	1541	1644	1751	1862	1976	2094	2214	2338	2465	2595
\$400,000	1478	1580	1686	1796	1910	2027	2147	2271	2398	2528	2661

ELIGIBILITY and PROGRAM APPROVAL

Eligibility Qualification signifies that you have abided by NACA's terms of eligibility and participation. These requirements are not burdensome, but are necessary to ensure the success of NACA's mission and your homeownership experience. All members on the mortgage must adhere to NACA's Policies and Procedures, provide truthful and complete information, produce all the necessary documents, work only with individuals and entities authorized to participate in the NACA program and participate in NACA activities.

These commitments are ongoing—you will be evaluated for Eligibility Qualification in the initial NACA Approval stage and later when applying for NACA Credit Access. A list of major qualification requirements is below. A summary of required documents is stated on the back of the workbook. You should also save all future documents concerning your income, savings and debt, since you will have to update your information at the NACA Credit Access stage.

NACA may revise these criteria and the required documents at its sole discretion.

Policies and Procedures (applies to everyone who will be on the mortgage):

- You have attended a NACA Homebuyer Workshop.
- You have met with a NACA Housing Consultant.
- You have provided all of the documents that your Housing Consultant requires.
- You have provided NACA with complete and truthful information.
- You have read, understood, and signed the NACA Disclosure. Purchasing a home is an involved process, and NACA does not warrant or guarantee that it will work well for you.
- You have signed the NSF Disclosures and Application.
- You have completed a Voter Registration Application for each eligible family member.
- You have committed to adhere to the NACA Participation Pledge. A good indication of future participation is that you have already volunteered or participated in NACA activities.
- No person in your household will own another property at the time of your closing.
- No person in the household has purchased a home through NACA in the last three years.
- You have committed to live in the property purchased through NACA for as long as you have a mortgage through NACA.
- You have not violated the Representation Agreement with a NACA Buyer's Agent.
- You have not paid any fees for NACA services or accepted referrals to real estate agents or other vendors that have not been approved by NACA.
- You have notified NACA if you paid a fee to be referred to NACA's Program.
- You have not worked with a real estate broker/agent or purchased a property from a seller or developer that NACA has determined does not represent the community fairly and/or work effectively with NACA.