

First Time Homebuyer Information



The Proven Path to
Home Ownership from
Your First Home



Step 1: Decide to Buy

Do you really want to pay someone else's mortgage?

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If you're renting and have a stable job with some savings, and a credit score in the high 600 range, you can likely qualify for FHA or conventional financing at historically low rates.

The key question you need to consider is, of course, why are you still renting? Think about it for a moment. If your reason is fear, then it may be time to let go of that fear and focus on the facts of home ownership. Here is one example.



Fear:
I can't afford to buy my dream home.



Fact:
The best way to get closer to buying your dream home is to buy your first home.

Very few people can afford to buy their dream home when they buy their first home. In fact, according to the National Association of Realtors®, 69 percent of first-time home buyers in the United States compromised on some features of their first home. So you make some compromises, buy your first home, and start building equity. This approach takes you further and faster down the road to being able to own your dream home than if you hadn't purchased a home at all.

Gary Keller and his wife Mary serve as a great example of how this works. They used their first home as a forced savings plan for their future dream home. They even made additional principal payments when they could to accelerate their equity buildup. Interestingly, this approach allowed them to pay off their first home in about eight years. Then, all that financial equity was available to help them build a second home—their dream home.

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Step 1: Decide to Buy

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Purchasing your own home is a great investment that provides specific financial advantages, including equity buildup, value appreciation potential, and tax benefits. It's also a forced savings plan that you cannot get from renting! So, again, ask yourself if you can really afford to keep renting. Here is an example scenario.



BUYING VS. RENTING



CAN YOU REALLY AFFORD TO KEEP RENTING?

Sheila's \$900 mortgage includes \$700 of interest. Her total house payments are \$10,800 annually. At the end of the year, \$8,400 (12 months \times \$700) is tax deductible in the United States. She is in the 28 percent tax bracket, so her tax savings are \$2,352 ($\$8,400 \times .28$).

Her actual housing costs for the year are \$8,448 ($\$10,800 - \$2,352$). And Sheila has built \$2,400 in equity.

Sheila's friend Chris believes he "can't afford" to buy. He pays \$800 in rent each month.

Chris's housing costs for the year are \$9,600.

So, even though he thinks he's saving money by renting, he actually spends about \$1,150 more than Sheila—and he's not building any equity!

Above all else, when done right, home ownership can help lay the foundation for a life of financial security and personal choice.

There is never a wrong time to buy the right home. All you need to do in the short run is find a good buy and make sure you have the financial ability to hold it for the long run. The most important rule for keeping your stress to a minimum is that you don't have to know everything—leave that to your real estate agent.





Step 2: Hire Your Agent

How about putting a champ
in your corner?

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When you're looking for a real estate professional to help you, know that above all else **good agents put their clients first.**

The seven main roles your
real estate agent will perform
include the following:

1. **Educate** you about your market.
2. **Analyze** your wants and needs.
3. **Guide** you to homes that fit your criteria.
4. **Coordinate** the work of other needed professionals.
5. **Negotiate** on your behalf.
6. **Check and double-check** paperwork and deadlines.
7. **Solve any problems** that may arise.





Step 3: Secure Financing

How much home can you comfortably afford?

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It's normal to ask how much you can afford,

and you might begin by considering your monthly rent payment. You'll also need to factor in all of your expenses and then revisit your income. Lenders use fairly strict guidelines and formulas to dictate how much you can spend on your mortgage payment, which typically includes PITI, or principal, interest, taxes, and homeowner's insurance.

And if you finance at less than 20 percent down, you'll likely need to pay PMI or private mortgage insurance as well. It's a lot to think about. Ultimately, keep in mind that your lender will preapprove you for a certain amount, but **YOU will decide what you're comfortable paying every month.** And you always want to leave room for the unexpected costs and opportunities—from furnishing to repairs to gardening.



Your lender decides what you can borrow.
But you decide what you can afford.

OLIVIA AND ALEX EACH EARN \$4,000 A MONTH. TRADITIONALLY, THEIR MAXIMUM HOUSING PAYMENTS WOULD BE 28 PERCENT OF THEIR INCOMES, OR \$1,120.

HOWEVER, THEIR FINANCIAL PROFILES ARE REALLY VERY DIFFERENT, LEADING THEM TO VERY DIFFERENT DECISIONS ABOUT HOW MUCH THEY CAN AFFORD.

OLIVIA HAS \$15,000 IN STUDENT LOANS, JUST BOUGHT A NEW CAR, AND HAS SEVERAL CREDIT CARDS WITH BALANCES.

Car payment	\$350
Student loans	\$150
Credit card minimum	+ \$150
Monthly nonhousing debt	\$650
Maximum total debt payment (36 percent of \$4,000)	\$1,440
	- \$650
Safe housing payment	\$790

ALEX'S STUDENT LOANS ARE PAID OFF, HE HAS LITTLE CREDIT CARD DEBT, AND HIS CAR IS AN ECONOMY MODEL.

Car payment	\$200
Credit card minimum	+ \$50
Monthly nonhousing debt	\$250
Maximum total debt payment (36 percent of \$4,000)	\$1,440
	- \$250
Safe housing payment	\$1,190





Step 3: Secure Financing

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Be sure to follow these **six steps to financing your home:**

1. Choose a loan officer.
2. Make a loan application and get preapproved.
3. Determine what you want to pay and select a loan option.
4. Submit to the lender an accepted purchase offer contract.
5. Get an appraisal and title commitment.
6. Obtain funding at closing.

And remember, you don't need to save up a lot of money for the down payment. A conventional mortgage can require as little as a 5 percent down payment, and there are even some first-time buyer programs and FHA loans that require even less. And once again, only you can decide what you can afford.

Interest rates impact
**how much house
you can afford**

If you can afford a \$1,000 monthly mortgage payment (not including taxes and insurance), a low interest rate can allow you to afford a higher-priced home. Your rate will also determine how much interest you pay over the life of your loan.

LOAN AMOUNT	INTEREST RATE	MONTHLY P&I PAYMENT	TOTAL INTEREST PAID OVER 30 YEARS
\$136,000 	8%	\$998	\$223,251
\$150,000 	7%	\$998	\$209,263
\$166,000 	6%	\$995	\$192,291

For the last twenty years, the mortgage interest rate averaged approximately 8 percent in both the United States and Canada.





Step 4: Find Your Home

Where, or how, do you begin your search?

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So you are preapproved and ready to begin your search. But how or where do you begin?

The best thing to do is consult with your agent to more accurately pinpoint the home you are looking for. This is likely the biggest investment you'll ever make, and you'll need to create a criteria for a home that meets all of your important needs, and as many of your additional wants as possible. Some questions you might ask yourself include:

- What do I want my home to be close to?
- How much space do I need and why?
- Which is more critical: location or size?
- Would I be interested in a fixer-upper or a new home?
- How important is home value appreciation?
- Is neighborhood stability a priority?
- Would I be interested in a condo?
- What features and amenities do I want? Which do I really need?

You'll learn as you look at homes, it's wise to refine your priorities along the way. And your agent is experienced and can help expedite the process.

Your home wants and needs criteria:

Location

Size

Condition

Appreciation

Neighborhood

Freestanding or condo/town home, resale or new construction

Features and amenities

Potential for expansion or improvement





Step 5: Make an Offer

So what's a fair price for the home you love?

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Congratulations! So you've found a home you love. Now you need to make a compelling offer. The three basic components of your purchase offer are price, terms, and contingencies. Price is obviously the dollar amount you are approved for, willing, and able to pay. Terms cover the other financial and timing factors that will be included in your offer. Contingencies are clauses that let you out of the deal if the house has a problem that didn't exist or that you weren't aware of when you went under contract. Contingencies specify any event that will need to take place in order for you to

fulfill the contract. Okay, it can get admittedly confusing here. So look to your agent to guide you. Keep in mind, **the right price to offer should reflect the fair market value of the home you want to buy.** Your agent's market research will help guide this decision.

What's a fair price for 345 Cardinal lane?

Welcome to The Grasslands, a quiet neighborhood built in the 1960s. Most homes here have three bedrooms, range from about 1,500 to 1,750 square feet, and have been selling between \$140,000 and \$180,000. You want to make an offer on 345 Cardinal Lane, listed at \$165,000. What price will you offer?



123 Eagle Pass

- Three bedrooms
- 1.5 baths
- 1,550 square feet
- No recent updates
- On busy street
- Average-sized yard
- Listed as "handyman's special"

Sold last week for \$90/square foot, or \$139,500



223 Robin Lane

- Three bedrooms
- 2.5 baths
- 1,725 square feet
- Kitchen renovated last year
- Brand-new deck
- Huge backyard with extensive landscaping
- On cul-de-sac
- Finished basement

Sold two weeks ago for \$102/square foot, or \$175,950



345 Cardinal Lane

- Three bedrooms
- Two baths
- 1,650 square feet
- Roof and kitchen both updated in the past five years
- Large yard
- On quiet street

You decide to offer \$95/square foot, or \$157,000





Step 6: Perform Due Diligence

Know what to expect when you're inspecting?

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Just because you love a particular property doesn't mean that it's perfect.

In fact, this is where reason has to trump emotion. And you'll have help here, too. You'll need to have a property inspection (which we highly recommend you attend) that will hopefully expose all the issues a home might hide. This way you'll know exactly what you are getting into before you sign closing papers. Your main concern is the possibility of structural damage. This can come from water damage, shifting ground, or poor construction when the house was built. And remember, don't sweat the small stuff. **It's the inspector's job to mark everything discovered, no matter how large or small.**

Things that are easily fixed can be overlooked. In case you have a big problem show up in your inspection report, you should bring in a specialist. And if the worst-case scenario turns out to be true, you might want to walk away from the purchase. Again, this is your home, so work with your agent and make the best

decision for you. And remember, if your home passes inspection with flying colors, you'll still need to buy a homeowner's insurance policy to protect against loss or damage to the property itself and against liability in case someone sustains an injury while on your property.





Step 7: Close

Know how to keep yourself mortgage worthy?

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You've made an offer and performed due diligence, which means you're now in the "home" stretch, pun intended. **But you have a few preclosing responsibilities, and these include staying in control of your credit and finances, first and foremost.**

You will also need to keep in touch with your agent and lender and return all phone calls and paperwork promptly. You might need to communicate with your agent at least once or twice a week, and verify with your lender that all mortgage funding steps are completed. If possible, conduct a final walk-through of the home with your agent as well. And finally, be sure to **confirm with your agent, home insurance professional, and lender that you have the settlement statement, certified funds, and evidence of insurance lined up prior to closing.**





Step 8: Protect Your Investment

Are you giving your home the love it needs?

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Whew. That was exhausting. But you're done! Well, sort of. You've closed and moved in, but now you'll need to protect your investment for years to come.

And you can do so by performing routine maintenance on your home's systems, depending on their age and condition. A good rule of thumb is to watch for signs of leaks, damage, and wear. If you fix small problems early, you will save yourself from having to spend big money later. And remember that kind real estate professional who assisted you throughout the process? Well, after closing your agent can still help you with such things as providing information for your tax returns, finding contractors and repair services, and even tracking your home's current market value.

