Introduction

Buying a house is one of the biggest financial and emotional decisions you will ever make. Don't let that overwhelm you, just do your homework and arm yourself with an experienced Lender and Realtor to guide you. You can check our reviews and see that we only have happy clients. As a well-represented buyer you will soon be well on your way to a home that's just right for you, your family, and your budget.

The typical buyer spends more time thinking about buying a car than buying a house. That seems crazy, given that a house is a much greater investment. Buying a home is a daunting task, especially for first-timer so it is easy to get overwhelmed by the process, leading you to either give up and rent or (much more dangerous) pick a house and or loan product without doing important background work. The goal of this book is to help make the process a little easier for you.

When you first look into buying a home, it seems like there are so many steps, tasks, and requirements. You may be anxious about making an expensive mistake. To demystify the process so you get the most out of your purchase, here is a rundown of what you need to consider before you buy.

Who Are First-Time Homebuyers?

A little-known fact is that you are considered a "First Time Homebuyer" if you have not owned a home for 3+ years. Ask me about special programs geared just for "First Time Home Buyers". For example, with a conventional loan, you can buy a home with as little as 3% of the purchase price as a down payment. Some government sponsored programs can even provide down payment and closing cost assistance to First Time Home Buyers.

Are You Ready to Buy a House?

If you can afford the payment it is a good time to buy a home. If you cannot, it is not a good time. No matter the market you are buying in, stability is the key. When you feel like you are ready to buy a house, the first question you should ask yourself is "how much can I afford?" Answering that question means taking a look at several factors. You need to review your income, what you earn (gross) vs. what you bring home (net). Consider your “fixed costs” which are expenses you always have like rent, car payment, insurance etc. Then review your spending over 3 months or so to determine your variable expenses like groceries, gas, and fun to determine a monthly average. Our Mortgage Diet Worksheet is an excellent companion for this exercise. Once you know how much you bring home after taxes and what you are already obligated to pay you can clearly see what is left over for a housing payment. If you are renting and paying less than what you can or plan to pay when you buy, save the difference by adding it to your savings after paying rent. This is an easy way to practice making a payment and sets you up for success when you buy your home. Remember, it’s more than a mortgage payment you need to consider. You have insurance, property taxes and in some cases homeowner’s association (HOA) dues to cover each month. Savings contributions should also be part of every budget. When you own your home, you have to allow for repair expenses and save for them.

Do you have savings? Buying a home requires down payment, closing costs and even if we find down assistance to help with those, you still need a few thousand dollars to cover your Earnest Money Deposit and inspections. Earnest Money is part of making an offer on a home. You tell the seller that you will put a certain dollar figure in escrow if they accept your offer. The escrow is held by a neutral third party, typically in California known as a Title Company. You need at least $1,000 and more for a seller to take your offer seriously. Inspections can range in price, but you may want a pest, whole house, roof, those alone will run you almost a thousand dollars. That sounds like a lot but it is much better to discover an issue BEFORE you own it.

Understand Your Debt-to-Income Ratio

How much mortgage can you afford? Your Loan Officer will be looking to determine that by examining your debt-to-income ratio. Otherwise stated, your income in relation to what you spend.

The 45% debt-to-income (DTI) ratio standard is generally used as a guideline for approving mortgages. This ratio is used as a guide to determine if the borrower can make their payments each month. Some lenders may be more lenient or more rigid, depending on other factors like credit score and savings.

A 45% DTI means all your regular debt payments, plus your housing-related expenses—mortgage, mortgage insurance, homeowners association fees, property tax, homeowners insurance, etc.— should not equal more than 45% of your monthly gross income. Utilities do not count in your debt ratio. If you have added them to your report, we will exclude them. There are exceptions to the 45% DTI limit based on individual file and specific loan type.

<u>DTI Example:</u>

Monthly gross income is $10,000, you multiply this number by 0.45 to get $4,500, which is the total you can spend on debt payments.

Monthly obligations consist of minimum credit card payments of $120, a car loan payment of $440, and student loan payments of $120—a total of $680.

That means theoretically you can afford up to $3,820 per month in additional debt for a mortgage, and still be within the maximum DTI.

What Mortgage Lenders Consider

Mortgages are long-term commitments. Most loans issued carry a repayment term of 30 years although historically, folks keep loans for 5-7 years. Underwriters will evaluate the reliability of your primary source of income. They also consider that your ownership expenses will rise over time. Even with a 30 year fixed mortgage, you will experience increases in homeowners insurance and here in California, property taxes as well. Property taxes can increase 2% per year and your insurance company always updates the cost to rebuild your home in the event of a loss.

Down Payment – It is ok if you don't have 20% to put down

The minimum down payments vary between loan types. FHA requires 3.5% of the purchase price, 5% with conventional loans (unless you are a FTHB then 3% is the minimum), VA loans typically do not require any down payment.

How much should you use for down payment? Some buyers are surprised to learn that leveraging some savings to pay off debt can sometimes be a better overall decision for cash flow than adding to a down payment. When you are borrowing hundreds of thousands of dollars, you would be surprised by how little the monthly payment changes by putting another $10,000 down. Sometimes paying off a debt can help you afford more house.

Reserves

Do you have reserves? Reserves are funds left over after you close on your new home. One month of reserves is equal to your housing payment (including taxes, insurance, and any other association costs). Are you going to still be able to save 10-20% of your income after you make the payment? You will need to make repairs to your home over time. It is important to plan and save for that as well as your retirement goals. This is where an experienced Loan Officer can help you structure the best options for you based on your goals.

Fixed or Adjustable Rate? Interest Only or Fully Amortized?

While real estate has traditionally been considered a safe long-term investment, recessions and other disasters can and do occur. This is important to consider when evaluating a fixed or adjustable-rate loan, for example. Another consideration is taking a fully amortized loan where you repay principal each month versus an interest only loan where you only have to pay the interest due versus reduce the balance you owe.

During the Great Recession, many homeowners lost their homes when the real estate market values crashed and ended up owning homes that were worth far less than the price at which they were purchased for many years after. Those homeowners with fixed rate loans could carry on and make payments while enjoying the benefit of lower property taxes (as taxes are based on value they drop when value drops) and tax deductions. You have to pay to live somewhere, why not in your own four walls no matter the value on paper? Homeowners who had adjustable-rate loans subject to rate increases had a harder time making payments and many times were faced with a short sale or foreclosure situation.

Housing has more than recovered since the Great Recession. Home values today are about 20% higher than they were in 2007. You should be buying property with the belief that it will rise in value over long periods of time. Prepare for market corrections along the way as things don’t always work out as planned. Be sure to factor the cost of interest payments on your mortgage, upgrades to the property, and ongoing routine maintenance.

Buying your home is the only way to “fix” your cost of housing as rents continue to rise. Many renters today cannot afford their own units and rent out rooms instead. It is important to consider what not purchasing a home means in terms of opportunity loss and future rent.

Consider Your Lifestyle Needs

While money is an important consideration, there are a host of other factors that could play a role in your timing. Is your need for extra space imminent—a new baby on the way, an elderly relative who can‘t live alone? Does the move involve your kids changing schools? If you'll be selling a house in which you've lived for less than two years, would you incur capital gains tax—and if so, is it worth waiting to avoid the bite?

You may love to cook with gourmet ingredients, take a weekend getaway every month, patronize the performing arts, or work out with a personal trainer. None of these habits are budget killers, but you might have to do without them if you bought a home depending on your budget. Make sure you don’t become “house poor” on accident.

Do You Plan to Stay Put?

Affordability should be the number one thing you look for in a home, but it's also best to know how long you are going to want to live there. If not, you could get stuck in a home you can't afford in a city or town you're ready to leave.

Many financial experts suggest that you plan to live in a home for five years before selling it as a guideline. Don’t forget to factor in the costs involved with buying, selling, and moving. As a buyer you don’t pay the Real Estate Agent commission, the seller does. Many first-time sellers forget this when they think about selling and calculate their proceeds. Most Real Estate Agents charge 5-6% and this is split between the Agents involved. If you can't decide what city or town you are going to live in and what your five-year plan is, it may not be the right time to buy a home. You can also look at the rental market and see what that home may rent for, as you can always rent it out instead of sell if you relocate for employment for example.

Tips for First-Time Home Buyers

Like any big project, a successful homebuying experience is all about getting the details right from start to finish. These tips for first-time homebuyers will help you navigate the process, save money and close the deal. We organized them into four categories:

· Preparing to buy tips.

· Mortgage selection tips.

· Home shopping tips.

· Home purchasing tips.

Preparing to buy tips

Start saving early

Here are the main costs to consider when saving for a home:

Down payment: Your down payment requirement will depend on the type of mortgage you choose and the lender. Some conventional loans aimed at first-time homebuyers with excellent credit allow as little as 3% down. But even a small down payment can be challenging to save. For example, a 3% down payment on a $600,000 home is $18,000. Use our Mortgage Diet to help you reach your savings goal.

You can check into down payment assistance programs, but even if you can get all down payment and closing costs covered, you still need a few thousand dollars to cover your Earnest Money Deposit and inspections. Also, I would not recommend doing this unless, you have no other way to obtain or save the funds because closing costs and rates are typically higher for assistance programs.

Closing costs: These are fees and you pay to finalize your purchase and in many cases establish an impound account for property taxes and insurance. They typically range from 2% to 5% of the loan amount. In some markets you can ask the seller to pay a portion of your closing costs or negotiate for credit in lieu of repairs through the inspection process.

Move-in expenses: You will need some savings after the home purchase. Set some money aside for moving costs, immediate home repairs, upgrades, and furnishings.

Decide how much home you can afford

Figure out how much you can safely spend on a house before starting to shop. We will help you with this based on your income, debt, down payment, credit score, and where you plan to live.

Check and strengthen your credit

Your credit score will determine whether you qualify for a mortgage and affect the interest rate lenders will offer. Take these steps to strengthen your credit score to buy a house:

Pay all your bills on time and keep credit card balances as low as possible.

Keep current credit cards open. Closing a card will increase the portion of available credit you use and reduce your length of credit history which can lower your score.

Don't open any new credit.

We are happy to pull a Mortgage specific credit report and guide you towards any improvements we see available. Many buyers are surprised to learn that there are over 55 credit scoring models but only one specific to mortgage qualifying.

Mortgage selection tips

Explore mortgage options

A variety of mortgages are available with varying down payment and eligibility requirements. Here are the main categories:

Conventional mortgages are not guaranteed by the government. Fannie Mae and Freddie Mac are the investors who set the guidelines for these loans. Conventional loans are looking for the borrowers with the highest credit scores and this is reflected in the rates that they offer. Some conventional loans targeted at first-time buyers require as little as 3% down. If you do not put 20% down, you will have mortgage insurance but it is cancellable. Conventional lenders are required to cancel mortgage insurance once you pay the loan to 78% of the original loan to value. There are a few other ways to get rid of the mortgage insurance without needing to refinance. Ask us more about those options for specifics.

FHA loans are insured by the Federal Housing Administration and allow down payments as low as 3.5%. FHA is very forgiving for borrowers with less than perfect credit and can usually work for borrowers with a low as a 580 score. FHA loans carry mortgage insurance over the life of the loan unless you put 10% down in which case it goes away after 11 years.

USDA loans are guaranteed by the U.S. Department of Agriculture. They are for rural homebuyers and usually require no down payment, though they require the home to be located in specific geographic regions. There are income limits, you can’t make “too much” for your region.

VA loans are guaranteed by the Department of Veterans Affairs. They are for current and veteran military service members and usually require no down payment. The VA loan also does not carry mortgage insurance even with no money down making it an amazing benefit for our servicemembers. A pest inspection is required on all VA loans and the property must be free of any active infestation before closing. Ask us for more details.

You also have options when it comes to the mortgage term. Most homebuyers opt for a 30-year fixed rate mortgage, which is scheduled to be paid off in 30 years and has an interest rate that stays the same all the way through. A 15-year loan typically has a lower interest rate than a 30-year mortgage, but the monthly payments are larger to accommodate paying the loan off in less time. We can set up almost any amortization term you like depending on the loan type, ask us for more details.

You can decide if you want a fixed or adjustable-rate loan depending on the difference between the rates and your goals with the property.

Research first-time homebuyer assistance programs

Many states and some cities and counties offer first-time homebuyer programs, which often combine mortgages with down payment assistance and closing cost assistance. Does this make sense for you? Let's talk!

Compare mortgage rates and fees

Lenders may offer the opportunity to buy discount points, which are fees the borrower pays upfront to lower the interest rate. Buying points can make sense if you have the money on hand and plan to stay in the home for a long time. We can go over the cost and benefits for you, just ask!

Get a preapproval letter

A mortgage preapproval letter is an expression of the strength of your money. It is a lender's offer to loan you a certain amount of funds under specific terms. Having a strong preapproval letter from a local respected lender shows home sellers and real estate agents that you're a serious and solid buyer. This gives you an edge over home shoppers who don't have good representation.

Apply for preapproval before you are ready to start home shopping for best results.

Home shopping tips

Choose a real estate agent carefully

You may have met a really nice agent at an open house. How do you know if they are a good fit for you? Do they check in and follow up? Your real estate agent will need to scour the market for homes that meet your needs and guide you through the negotiation and closing process. Communication is key and you want an agent willing to go the extra mile. They should have a network of experienced agents to check with for potential off market or "pocket" listings and established relationships with other local agents. Agents very much like to work with other experienced agents. If you need guidance, we are happy to refer you to the best of the best.

Pick the right type of house and neighborhood

Weigh the pros and cons of different types of homes, given your lifestyle and budget. A condominium or townhome may be more affordable than a single-family home, but shared walls with neighbors will mean less privacy. Don't forget to budget for homeowners association fees when shopping for condos and townhomes, or houses in planned or gated communities as they play into the ever-important debt to income ratio.

Another option to consider is buying a fixer-upper — a single-family home in need of updates or repairs. Fixer-uppers usually sell for less per square foot than move-in ready homes. However, you may need to budget extra for repairs and remodeling. Renovation mortgages finance both the home price and the cost of improvements in one loan and could be an excellent solution for you to consider!

Think about your long-term needs and whether a starter home or forever home will meet them best. If you plan to start or expand your family, it may make sense to buy a home with extra room to grow. Check out potential neighborhoods thoroughly. Choose one with amenities that are important to you, and test out the commute to work during rush hour. Sometimes parking on the street at different times will also give you insight.

Stick to your budget

Just because you CAN qualify to borrow a certain amount, doesn’t mean you SHOULD. Remember, it is always a good time to buy a home if you can afford the payment and never a good time if you can’t. You may feel pressure to spend outside your comfort zone to beat another buyer’s offer. To avoid financial stress down the road, set a price range based on your budget, and then stick to it. The Mortgage Diet exercise helps you determine if there is any “stretch” in your budget.

Look at properties below your price limit to give some wiggle room for bidding in a competitive market.

The recommendation is always to be able to save 10-20% of your income after you take on a mortgage payment. Having your household budget in place before buying your home helps you clearly see if you will be able to meet your savings goals.

Make the most of open houses

Online home tours have become more popular amid the COVID-19 pandemic. These tours let shoppers virtually walk through a home at any hour and observe details that regular photos don't catch. They don't supply all the information in-person visits do — like how the carpets smell — but they can help you narrow the list of properties to visit.

Open your senses when touring homes in person. Listen for noise, pay attention to any odors and look at the overall condition of the home inside and out. If you are looking at older housing stock, ask about the type and age of the electrical and plumbing systems and the roof. These things can play into insurance costs.

Home purchasing tips

Pay for a home inspection

A home inspection is a thorough assessment of the structure and mechanical systems. Professional inspectors look for potential problems, so you can make an informed decision about buying the property. Here are some things to keep in mind:

Standard home inspections don't test for things like radon, mold, or pests. Understand what's included in the inspection and what other inspections you might need.

Negotiate with the seller

Once you have inspections in hand, you may be able to save money. Depending on the findings you can ask the seller to pay for repairs before closing, provide a closing cost credit or lower the price to cover the cost of repairs you'll have to make later. Keep in mind that lenders may limit the portion of closing costs the seller can pay; let's talk!

Your negotiating power will depend on the local market. It's tougher to drive a hard bargain when there are more buyers than homes for sale. Work with your real estate agent to understand the local market and strategize accordingly.

Buy adequate home insurance

Lenders will require you to buy homeowners insurance before closing the deal. Home insurance covers the cost to repair or replace your home and belongings if they are damaged by an incident covered in the policy. It can also provide liability insurance if you're held responsible for an injury or accident. Discuss the deductible options and how they affect the annual insurance costs with your insurance agent. If you need a referral, please ask!

Are You Ready?

In addition to asking yourself that question about your finances, consider how ready you are in terms of emotions. When you’re renting, remember that surprises don’t require a lot of emotional investment. Rent goes up? You can move. Stove on the fritz? Crabgrass out of hand? The landlord will send someone over. Homeownership is different, though. If the furnace breaks or your insurance increases, it’s on you.

Without risk, the opportunity for gain is limited. Owning your home provides you a path for future financial success. Many experts agree that there are positive affects to a person’s well-being simply by owning your home. When you are ready, it is a great investment in your future!

Getting Yourself Ready

Get Your Finances in Order

Most real estate agents won't even show homes to prospective clients who don't have a mortgage preapproval. Meet with us at the start of the process to work up a loan application. From there we can find out how much house you can afford and how much cash you'll need to close.

Make A Down Payment Plan

Evaluate the funds you have available for your purchase and the best use of said funds. That is where we come in to assist once we review your loan application.

Review Loan Options

My lending team can help you investigate all your mortgage options and pick the one that's right for your situation. Think about your long-term plan when you're exploring these. You might be one of those people who never plan to buy another home, so maybe you're more interested in a 30-year, fixed-rate mortgage. Another couple might look at this home as a starter property that they only want to own until their second child is born. Thus, they might want an adjustable-rate mortgage.

My team can preapprove your home loan, so you'll be ready to put your best foot forward when you find the right house. Preapproval will held you understand how much you can expect to borrow, which will narrow your home search to properties within your price range. Our Preapproval letter will give seller's confidence in your ability to perform when making an offer. Typically, preapprovals are good for 120 days or until something changes like income or debt. If you don't close on a home within that period, we will need to update the credit report.

Pick Your Team

In addition to having a mortgage pro on your side, you will need people with the right stuff all along the way. You will want a real estate agent who will move quickly when a new listing goes on the market, and who will advise you honestly on preparing your offer.

You will also need a home inspector you can trust, this is where your agent's network will come into play. These folks are your team, the people going to bat for you. Ideally, they'll communicate well with each other as well as with you, and keep everyone in the loop.

Remember, though, that your team starts and ends with you. Make sure to regularly ask what you need to be doing, what steps are left to take, and any other questions along the way!

Real Estate Agent

Your real estate agent is your insider to the world of home buying, and the right one can be an invaluable asset when buying your home.

Many real estate agents specialize in certain areas of town or types of property. An agent who has worked in your preferred location extensively can share insights on things such as new developments, taxes, flood zones and other issues that may affect the market value of the homes you're browsing.

Working without an agent can be a treacherous road. If a seller does a "for sale by owner" (FSBO) listing to save on the agent commission, that seller might request that you purchase without an agent as a way to keep agents out of the transaction. That's not a great idea, so carefully evaluate your options before agreeing to it. In most cases, you're better off walking away.

We are happy to offer excellent Real Estate Agent recommendations based on your goals and region.

A Wish List… Not Wishful Thinking

Prioritize what's most important in your new home. Proximity to work? A big backyard? An open floor plan? A quiet street? Is it the number of bedrooms or bathrooms? What about other amenities like an attached garage or a pool? Local schools?

Distance to work? It all depends on your situation, but doing the research beforehand can help you nail down the properties you're most interested in viewing. You'll make a much better decision on what home to buy if you focus your priorities. It's good to remember that granite countertops or stainless steel appliances are easy to add later, whereas you can't easily add another bedroom, get a better location, or a more functional floor plan.

Most importantly, know what trade-offs you're willing to make. The quest for perfection can be a stumbling block to finding your new home. Knowing what you need to have and what you can live without is what a budget's all about.

Beautiful Day in The Neighborhood

No matter where you're looking to buy a home, it's important to look into what other homes in that area sold for recently. This can be very helpful during the negotiation process. This is where your trusted local agent comes in handy!

Look Around

If you think you've found the neighborhood you want to buy in, take it a step further. Drive from your potential new home to your office to see what the commute is like, as well as to places you'd go regularly, like the grocery store, gym, and gas station.

Try to visit at different times to evaluate things like traffic and noise. Most neighborhoods are quiet in the middle of the day. "You need to see what the area is like on a Saturday night. What's it like in morning rush hour or the evening?

Learn About The Schools

When you purchase a home, think about what your left is going to be like in five or 10 or 30 years, if you plan to still be living there. If children are in your future (or your present), the local schools are important. You can ask friends with children or do research online.

While you're checking the schools, make sure you look into things like Is there full or partial day kindergarten? Pre-school? How long are the school days?