LADYM REAL ESTATE

FIRST-TIME HOMEBUYERS PREP™ Handbook

Your Step-by-Step Guide to Homeownership

Step 1: You are a homeowner

Visualize what it would be like to own your own home. This process begins with the end in mind. In order to become an owner occupant of your very own home, you must first occupy it by seeing yourself as a homeowner before taking the next steps.

What does your home look like?
Where is it located?
Is it a one story or two?
What are some of the features of the home?
What would it mean to you to own?
What's your why?

Step 2: Count up the cost

In order to do this, you must know your credit score and review credit reports, examine your budget, and assess your ability to cover costs such as down payment and closing costs.

Credit

Review your credit report with all 3 bureaus. Lenders will look at your middle score to determine where you stand. You can get approved for a home loan with a credit score as low as 580 (FHA Loan) or 620 (Conventional Loan). With a higher credit score, you can get favorable loan terms that will save you lots of money over the life of your mortgage. Generally, a score of 700 or above is enough to qualify you for the lowest rates and most favorable terms.

What's your credit score?___________________

Can get all 3 reports for free. Go to www.annualcreditreport.com or sign up for a credit monitoring service and do a free trial. (PrivacyGuard or ScoreSense)

Debt-to-income ratio (DTI)

When you apply for a mortgage, a lender considers your DTI, which lets them know how much debt you have compared to your income. By reviewing this ratio, it lets them know if you are financially secure enough to add a mortgage to your monthly debts. You could have a good credit score, stable earnings and pay bills on time, but if your monthly debt payments eat up too much of your income, this can affect how much of a loan you qualify for if at all. In other words, the more debt you have in relation to your income could mean the difference in you qualifying for a loan amount of $300k or $80k. This limits your options for the home of choice. Knowing your debt to income ratio is just as important as knowing your credit score.

How do you determine your DTI:

1. Add your monthly debt payments. These include personal loan payments, auto loans, credit card payments, child support or alimony, *student loans, and a *percentage of certain collections. Combine with monthly debts of co-borrowers as well. Exclude expenses such as food and utilities.
2. Divide total debts by your total monthly gross income. Use the total debt payment amount calculated in Step 1 and divide by monthly gross (before tax) income. Factor in combined income and debts of all applicants.
3. Convert the number to a percentage. Multiply by 100

Many lenders look for a DTI ratio of 45%, but some can go as high as 50%. This number varies by loan type and lender requirements.

Calculate your DTI:

1. Determine total monthly debt payments (auto loan, credit card payments, child support, personal loans, student loans,etc)
   $___________________________
2. Total Monthly Gross (Before Tax) Income
   $___________________________
3. Divide Total Debt Payments by Monthly GI
   $___________________________
4. Multiple Step 3 result by 100. This is your DTI
   $___________________________

Down Payment

The down payment is a percentage of your home's purchase price that you pay upfront when you close on your home loan. This is looked at as your initial investment in the home. The amount required depends on the type of loan. 20 percent down on a conventional loan will help you to avoid having to pay for private mortgage insurance (PMI), which covers a lender should you default on the loan. This amount can be steep for many, however, there are lower cost options that are great for first-time homebuyers such as:

FHA - 3.5%

VA - 0%

USDA - 0%

Other conventional loans 3% or 5%

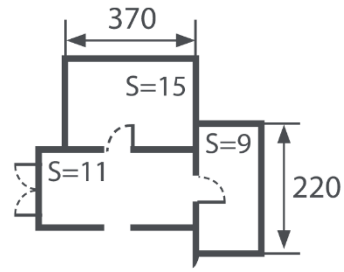
Savings

How much should you have saved? This money would be used to cover costs associated with your purchase. We covered what would be required for your down payment. Next, assess your ability to pay closing costs, which can range from 3% to 5% of the home's purchase price. A portion of this amount is paid in advance of closing such as earnest money deposit, option fee, and appraisal fee. These will be credited at closing when all remaining closing costs are paid. Another upfront cost would be the third party inspection fee which is not credited back at closing as it's not required but to the benefit of the buyer at buyer's discretion.

Average Amounts of Costs:

Earnest Money Deposit - Typically is 1% of the sales price.

Appraisal fee (varies by lender) - range is $450-$600



Inspection Fee (Varies by size and features of home)

Option Fee - $10 - $20 per day (negotiable)

Consider this: You'll also want some cash set aside for moving expenses and furniture, or possible repairs or updates you'd like to make before moving in. This is all in addition to the funds you'd ideally have reserved for emergencies.

Very Important!: Once you start the homebuying process, be very careful with spending. Scale back and build savings when possible. Restrict use of credit or making any big purchases before closing. (See additional handout on the 10 commandments of Homebuying)

Step 3: Assemble your team of Pros

The homebuying process is no small task. Your chances of a successful and less stressful purchase are increased with the right team working for you. Here is a list of professionals that are key players to the process.

Real Estate Agent

Partnering with a real estate agent will help you tremendously in the process of buying a home. Choose an agent that knows the area you are interested in and is also knowledgeable about the local housing market. You'll also want an agent that can provide valuable insights about neighborhoods, school districts and more. Not all real estate agents are the same. You'll want to find the one that works best with you and can deliver the service you need. The right real estate agent will come with a team including lender contacts, other professionals needed and resources you will need throughout the home buying process, making it easier for you. Once the home search starts, the agent helps you find, negotiate the best price, and help you with all necessary steps to get the keys to your brand new home. The best part is that it's NO COST to you. The buyer's agent commission is paid by the seller.

Step 4: Get preapproved for a mortgage

After you've joined forces with the right real estate pro, they should be able to point you in the right direction of a good lender for preapproval. A preapproval is a preliminary commitment from a lender to loan you a certain amount of money, not a finalized offer. Getting one is necessary before you start searching for a home because sellers won't consider your offer unless they know you have the financing lined up. The preapproval letter typically spells out how much you're qualified to borrow, what loan program you're using and the expected down payment you can make.

When you request a preapproval, be prepared for your mortgage lender to request these items: last 2 years tax returns including W-2s, 60 days of bank statements, month of check stubs, driver's license copy, and copy of social security card.

Preapproval vs Prequalification: A prequalification is a snapshot of your chances of getting approved for a home loan, the loan amount, and interest rate. A preapproval is a bit more in depth in review as a formal application with required paperwork is reviewed to determine approval of mortgage. Therefore, a preapproval letter is what home sellers prefer over the prequalification letter.

Just like not all real estate agents are alike, the same is true for lending professionals. Find one that provides various loan options and will take the time to explain the options thoroughly. There are a lot of different types of mortgages. Pay careful attention to mortgage type and terms. They can vary but know what they are.

<u>Fixed or adjustable rate</u>

When it comes to interest rates, you can either have a fixed rate or adjusted rate mortgage loan. In a fixed rate loan, your interest rate will remain the same throughout the life of the loan. There will be no fluctuations unless the loan gets refinanced by you. In relation to adjusted rate mortgage loans (ARM), interest rates for fixed rate loans will usually have higher rates, but the rate never changes, so you know what your monthly payment will be for the length of your mortgage.

An ARM typically starts with a lower rate for a period of time (such as five or seven years), then adjusts up or down at a predetermined interval (such as once a year). If the rate goes up, your monthly payment will increase with it. For this reason, I recommend a fixed rate mortgage, which is most common among first-time homebuyer loans.

<u>Loan terms</u>

Also consider the term of your loan, which is the length of time before your loan matures or is paid off. Standard terms are 15 years or 30 years. Shorter term loans have lower rates, but larger monthly payments. Choosing this option will leave you with less flexibility in your budget each month, but the upside is that you'll pay less over the life of the loan in interest. The longer term loans will produce the opposite result. You will have lower monthly payments, but pay more in interest over the life of the loan. It's up to you whether a lower monthly cost or overall savings is more important.

Most first-time homebuyers get a 30-year, fixed rate loan. If you don't plan to live in a home for a long time, however, an ARM can be a good way to save some money but it can be risky. Fixed rate loans offer more stability for those who plan to stay in one place.

Step 5: Shop for your home

This is the step you've been waiting for! It's now time to find your new home! You have already visualized yourself in the home. You also have counted the costs and have taken all the necessary steps to get to this point, including getting preapproved. Let the shopping begin!

Your preapproval letter is your ticket and point of reference for this step. Have in mind the monthly budget you want to stay within. Know that this amount can be different than the total loan amount listed on your preapproval letter. For example, the lender may have given you a preapproved loan amount of $300,000 @ 6% interest with a 30yr term. This equates to a monthly mortgage note of approximately $2,629 including PITI*. If your desired monthly budget is only $2200 per month, then you want to only view homes that are priced under the preapproved amount to make sure you don't go over your budget. Be sure to discuss your budget and top requirements with your real estate agent so that you don’t waste time looking at homes that don’t meet your needs.

Keep a record of all homes you tour. Take notes related to features of the property as well as the neighborhood. Highlight what you like most, least, and why? Then, rate your options in order of favorite to least favorite. This makes the process of selecting your home easier and less stressful by narrowing down and eliminating options that don’t match up with your preferences. Examples of other items to make note of as you tour the home and the neighborhood; how far would you have to commute to work, how far is the nearest airport, or are the nearby schools underperforming? The location is often just as important as the home itself.

(*PITI = Principal and Interest, Property Taxes, Property Insurance, and Mortgage Insurance.)

Step 6: Be prepared to make an offer

Once you find the home you desire that checks most, if not all, of your boxes, the next step is to submit your offer. To help make a competitive offer, your real estate agent can run an analysis of comparable listings (“comps”) that have recently sold in the area. With this data you will have a reference to know if the amount you are offering and/or the sales price is above or below estimated value.

The offer should include an offer price, deadline for the seller to respond (usually within 24 to 48 hours) and any contingencies you want to request. At minimum, the offer should include appraisal and home inspection contingencies. That means that if the home appraises lower than the price you offered or an inspection turns up significant issues, you can walk away from the deal without losing your deposit.

While some buyers waive contingencies to get their offer accepted. Avoid doing this if possible. You wouldn't want to buy a home and later find out it has issues way beyond what your budget can accommodate to repair.

Once the offer is presented to the seller, it can be accepted, rejected or countered with a different price. For the best possible outcome, get you an agent that is a Certified Negotiation Expert!

Step 7: Negotiate closing costs

If your offer has been accepted, it's time to go from preapproval to full loan approval. Here is where you apply for your actual mortgage. Within 3 days of your application, you'll get a loan estimate that details the loan terms and estimated closing costs, etc. These are often referred to as loan disclosures. Some closing costs are negotiable, but vary by lender. He or she might charge an origination and underwriting fee that could be waived or discounted if you ask, or they may allow you to roll your closing costs into your loan. This would reduce your out of pocket expenses. Ask your lender to clarify any fees you don't understand. It never hurts to ask!

If you need help with closing costs, you could also look for down payment and closing cost assistance programs. If you meet program requirements, you could get a few thousand dollars to help cover expenses. See your lender for more details and to see if you qualify.

<u>Paying for mortgage points</u>

Another option to consider in lowering closing costs is paying for points to reduce your mortgage rate. In a time of rising rates, this option may prove profitable. By paying points, you are prepaying some of the interest on your loan. Your lender professional can provide you with details on cost and how much of a reduction you will realize in doing so.

Step 8: Hire a home inspector

After your offer is accepted, hire a home inspector to evaluate the property. Typically, your real estate agent can provide you with recommendations of those they have worked with in the past. You can also do an online search to choose, but I would recommend reading all the reviews.

An inspector will check the home's structure, roof, heating, plumbing and electrical systems, but typically won't check for the presence of lead paint or mold. The inspection can take about two or three hours and range from $300 to $1,000, depending on the home's size and the extent of the inspection.

It’s a great idea to meet with the inspector at the home upon completion of the inspection so you can ask questions for any items noted.

Once you have the inspection report, review it with your agent and decide how to move forward. If the inspection uncovers major problems, you could try to ask the seller to fix them, but the seller might not be willing to if there are other offers that won’t require them to pay for repairs. Another option is to ask the seller to credit you for repairs you will take on in lieu of them making the repairs. If you have an inspection contingency in your purchase agreement and the seller is unwilling to address the issues, you might choose to walk away instead.

Step 9: Get homeowners insurance

Mortgage lenders require homeowners’ insurance, which helps protect your (and their) investment. Insurance premiums vary, so get quotes from several companies or work with an insurance broker who can shop rates for you. Assess your needs and ensure you buy adequate coverage to completely rebuild your home if it’s destroyed or seriously damaged. If your home is located in a federally-designated flood zone, you’ll need to buy flood insurance, too.

Step 10: Finalize your move and get your keys

<u>Prepare for closing</u>

By this time, boxes should be packed and ready to go. Your utilities and mail forwarding should all be scheduled. You are just about ready to get your keys! Final review of loan documents are being completed by the lender in addition to preparation of closing disclosures and settling of fees. Schedule date and time of closing with the title company. Within 24 hours of closing, you’ll do a final walkthrough of the property to make sure repairs, if any, were made and that the home is vacant.

Closing Time!

Finally, it's time for the moment you've been waiting for! The closing is when you finalize the purchase contract and officially become a homeowner. Buyer beware! Just before the closing, the lender may request updated pay stubs and other financial paperwork to prove your employment status hasn't changed and that you'll be able to make your mortgage payments. A final credit check may be performed as well.

On the day of closing, you will sign a stack of papers to finalize your loan and transfer funds and ownership from the seller to you, the new owner. If you're paying closing costs on closing day, obtain a cashier's or certified check made out to the title company for the funds ahead of time. Don't forget to bring your identification, too. Once the docs have all been signed and the transfer is complete, congratulations! It's time to get your keys! Mission Complete.

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HELLO.

I'm here to help you through every step of the way. Whether you're buying or selling, I'll work with you to ensure the process is seamless and successful.

Contact me today to schedule your free phone consultation.

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