YOU CAN OWN IT

EVERYTHING YOU NEED TO KNOW ABOUT PURCHASING YOUR FIRST HOME AND WHY YOU SHOULD OWN REAL ESTATE

1st Edition

BY WHITNEY WHITE

ARE YOU READY TO BUY A HOME?

What's Inside?

- What to expect as a first time homebuyer
- Knowing what you can afford
- Saving for your down payment and closing costs
- Shopping for a lender
- Offer and contract
- Shopping for homeowner's insurance
- Closing day
- **BONUS** Definitions

"Your Wealth Opportunity is my prority"
- Whitney White

PREPARING TO BUY YOUR FIRST HOME

Buying your first home is a big deal. But it doesn't have to be complicated, and it shouldn't be. This will be one of the largest financial transactions that you will conduct. While doing so, it is important that you are healthy mentally, physically. and especially financially.

Buying a home is an emotional decision as well as a practical one. While you are searching for the perfect place to call your own, you are also looking for an investment that you are making into yourself and your family.

Your first home will allow you to build wealth while your home builds **equity**, your debt is reduced, and your property value increases. You will also realize tax benefits for owning your own home. The equity that is built in your home could be used to purchase a bigger house in the future or to buy a second property for rental purposes.

Expect to work with a knowledgeable agent, shop for the best lender, find a property and make an offer, pay your **earnest deposit**, prepare for inspection and appraisal, shop for home insurance, and get ready for closing day.

"Buying a home is an emotional decision as well as a practical one"

KNOWING WHAT YOU CAN AFFORD

It is important to remember that what you can afford and what you desire to pay can be 2 very different numbers. There are specific income guidelines that the lender will follow, but you should also have a general idea of what you are comfortable paying and how that amount compares to your income.

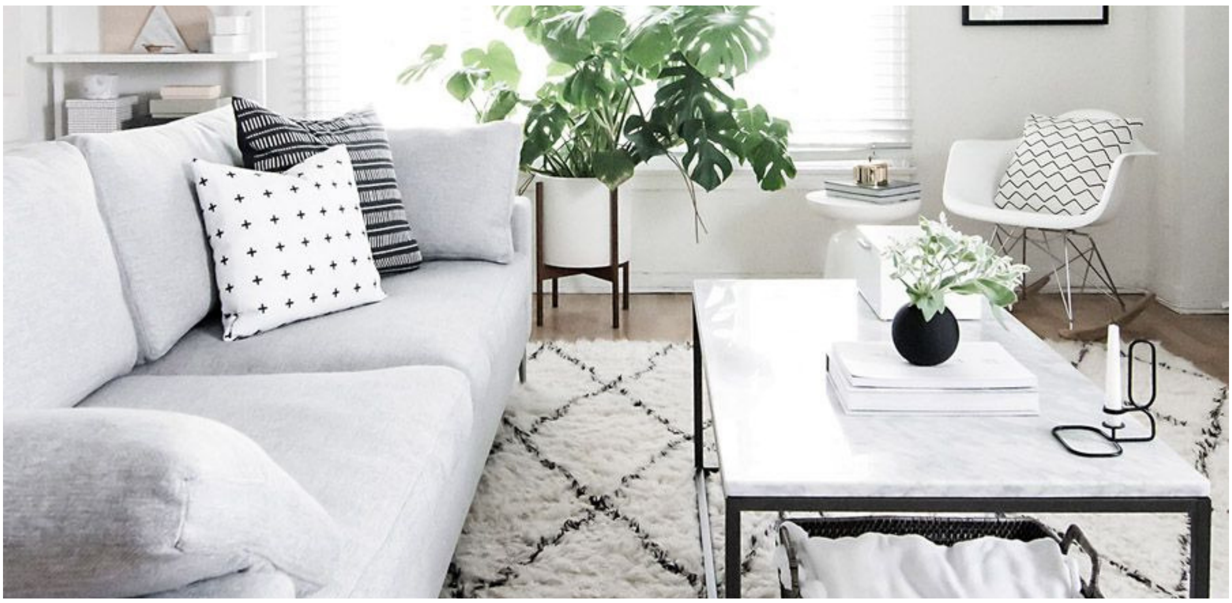
As a general rule, your mortgage payment should not exceed 31% of your **gross monthly income**. Additionally, your total debt payments (car, credit cards, student loans) should not exceed 40% of your gross monthly income. (The current 2018 **FHA** guidelines currently allows a maximum of 43%)

Let's see how that translates:

Salary $47,000/year $3916/month
Mortgage payment should not exceed $1214
Total debt payment should not exceed $1566

Salary $89,000/year $7416/month
Mortgage payment should not exceed $2299
Total debt payment should not exceed $2966

"What you can afford and what you desire to pay can be 2 very different numbers"



SAVING FOR YOUR DOWN PAYMENT AND CLOSING COSTS

The greatest determining factor in the amount that you will need for a **down payment** is your credit score. Your score should be at least 580 to qualify for a FHA loan with 3.5% down.

You also may be eligible for down payment assistance. Your agent and lender will be the greatest resource of information on available programs.

Scores of 620 and higher can qualify for a **conventional loan** requiring a down payment between 3% and 20%. Mortgages that are obtained with a down payment of less than 20% require **private mortgage insurance.**

To find out what your score is, you can visit myfico.com ($30) or https://www.discover.com/free-credit-score/ (free). Banks are also offering FICO scores as part of their online banking features. Explore the free resources before you pay for your score.

Keep in mind that the lender pulls a very specific housing credit report. The scores that you have access to may be different than what the lender will see. The lender will always go with their information, not yours.

"Explore free resources before you pay for your FICO score"

SAVING FOR YOUR DOWN PAYMENT AND CLOSING COSTS (CONT'D)

Here are some ways to keep your score in good standing and maybe even raise it a few points:

* Pay your credit bills on time
* Reduce your credit card debt as much as possible
* DO NOT OPEN ANY NEW CREDIT
* DO NOT CLOSE OLD CREDIT

Saving money is not easy, but it is not impossible. Know that you are making a valuable investment and a period of sacrifice is necessary. Frivolous spending must stop. "Is this a need or want?" must be a constant thought. Save your income tax refund, your work bonus, and research a loan from your 401K.

Your closing costs will be in addition to your down payment. Your **appraisal, inspection** and **title insurance** are apart of closing costs. Attorney fees, lender fees, and document preparation fees are also included.

To reduce your closing costs, you could:

* Choose the closing attorney yourself
* Ask the seller to contribute to closing costs
* Close on your new home near the end of the month

"Saving money is not easy, but it is not impossible"

SHOPPING FOR A LENDER

Your agent should be a resource for lender referrals. You can also browse online reviews and get referrals from family or friends that have recently purchased a home.

While you are shopping for a **mortgage**, remember that you are the customer. The lender wants your business, and they will compete with other lenders for your business.

You should know what kind of loan you are seeking. The most common loan types are **FHA, VA, and Conventional.**

Being prepared for the mortgage application is essential. Here is a list of documents to gather:

* Paystubs (last 30 days)
* Bank statements (last 30 days)
* Source of down payment funds
* W2 statements (last 2 years)
* Last 2 years tax returns (if self employed)

Don't worry yourself with thoughts of damaging your credit score if multiple lenders pull your report. The credit bureau's are smart. Kinda. They will recognize that you are shopping for a mortgage and will treat the multiple inquiries as 1. As long as the **inquiries** are pulled within a 45 day window.

"The lender wants your business and they will compete with other lenders for your business"

SHOPPING FOR A LENDER (CONT'D)

Don't be afraid to let the lender know what you want. Remember, you are the customer. The lender should work according to your preferences. Don't commit to anything financially that you are not comfortable with. Be completely honest with the lender, this is probably one of the most personal transactions a person can make. Tell the lender how much you have saved for a down payment, and what you would like your monthly mortgage to be. Be realistic.

You should aim to compare at least 3 lenders and what programs they offer. Which lender had better communication? Which lender met your financial goals? Are the lenders offering different interest rates? This information will let you know which lender is best for you.

Once you have decided on a lender, you will get pre-approved for a mortgage. The pre-approval process includes the lender getting your full credit report, verifying your income, and verifying your debt amounts. When you have been pre-approved, you can now start looking for your new home!

This is when you and your agent find a home according to your preferences. Geographical area, number of rooms, school district desired (if applicable), etc. When the magic happens and you find a property, your agent will go through the offer and negotiation phase with you.

"Don't commit to anything financially that you are not comfortable with"

OFFER AND CONTRACT

Through a **comparative market analysis**, your agent should verify that the property you would like to buy is priced appropriately, and you both should agree to make an appropriate offer. Your best interest should always remain top priority.

The sales price and other contract terms are subject to negotiation. Each contract is unique as each property is unique. Your agent should be able to negotiate in your favor and to the best of his/her ability at all times.

When your offer is accepted, you are officially under contract. Your due diligence period starts now and it is best to use this time to find out EVERYTHING you can about your potential new home. Your **earnest money** is also due at this time. During the due diligence period, the inspection and appraisal will be completed. These reports will let you know if you are making a wise financial investment. You want the home to be free of major defects and you want the appraised value to be equal or greater than our purchase price.

You will also need to obtain home insurance at this time.

"Through a comparative market analysis, I will verify the property is priced appropriately"

SHOPPING FOR HOMEOWNER'S INSURANCE

Home insurance is necessary to protect your investment.

Your home insurance payment is included in your mortgage payment. Home insurance is protection for you in case of fire, buglary, or natural disasters.

The lender actually collects the funds from you and places them in an **escrow** account. The policy is then paid with the funds from the escrow account.

It is a good idea to do your own research on the cost of homeowner's insurance and choose a provider and plan that best fits your needs. When your home is under contract, it is a good idea to start shopping for insurance then.

"Choose a provider and plan that best fits your needs"

CLOSING DAY

It's the big day!! You took your Wealth Opportunity and now you own real estate!

What you'll need to bring to your closing appointment:

*Identification
*All funds needed to close. No cash. Certified check or wire to closing attorney.
*All parties on the lending application must be present

Congratulations!!

"You took your Wealth Opportunity and now you own real estate"

DEFINITIONS

Appraisal- A written justification of the price paid for a property, primarily based on an analysis of comparable sales of similar homes nearby.

Comparative Market Analysis- Recent sales of similar properties in nearby areas and used to help determine the market value of a property. Also referred to as "comps."

Conventional loan- Refers to home loans other than government loans (VA and FHA).

Down payment- The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

Earnest deposit- A deposit made by the potential home buyer to show that he or she is serious about buying the house. (typically 1% of the purchase price)

Escrow- Once you close your purchase transaction, you may have an escrow account or impound account with your lender. This means the amount you pay each month includes an amount above what would be required if you were only paying your principal and interest. The extra money is held in your impound account (escrow account) for the payment of items like property taxes and homeowner's insurance when they come due. The lender pays them with your money instead of you paying them yourself.

Equity- equals the value of a house less the balance owed on the homeowner's mortgage.

FHA- Federal Housing Administration (FHA)
An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

Gross monthly income- an individual's total pay before taxes or other deductions.

Inquiries- Hard inquiries are credit inquiries where a potential lender is reviewing your credit because you've applied for credit with them. These include credit checks when you've applied for an auto loan, mortgage or credit card.

Inspection- A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

Mortgage- A legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some states use First Trust Deeds. Georgia uses a deed of trust.

DEFINITIONS

PMI- Mortgage insurance that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

Pre-approval- A pre-approval applies only to the borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender. Contrast with pre-qualification

Title insurance- A pre-approval applies only to the borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender. Contrast with pre-qualification

VA- An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.