

# Home Buyer BASICS



## LESSON ONE

It's everyone's dream to get a place of their own, a happy space where they can sleep with a sense of security while also enjoying the pleasures of life. Buying a house is indeed one of the most important yet stressful financial decisions. At the same time it's probably one of the best investments you can make during your lifetime. However, if it is not carefully planned and well-thought-out, it may remain exactly that – a dream.

BUYING A HOME  
OF YOUR OWN



## BENEFITS OF HOMEOWNERSHIP

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1. By making a mortgage payment every month, you invest your money in a property that will be yours until you choose to sell it.
2. During tax time, you can deduct the interest you've paid (as well as any paid points) on the mortgage throughout the year.
3. You have the freedom to do whatever you want in your own house as long as it is legal and doesn't harm anybody else.
4. You can decorate your house the way you like it. You can even make structural changes by extending the property with a room addition or a larger indoor or outdoor living space. You can't even think of doing anything like that in a rental property or apartment.
5. There is no need to contact a landlord for problems around the house.
6. If you have children, it's always nice to have a space of your own so they can mess around, make friends in the neighborhood, find a school nearby and build memories that stay with them in the long term.

## WHERE TO START



During the homeownership journey, from dreaming to buying to living in a home of your own, there are many processes and lots of paperwork involved. To simplify it, just start off by asking yourself specific questions to calculate the expenses and identify if you can afford them. Besides the cost of the house, think about the interest you'd have to pay on mortgages, fees for solicitors and other processes that may be involved in making the purchase, any repairs or renovations the house may need, money for essentials such as bedding, furniture and décor, and of course the utility bills.

Calculating these expenses is easy today because of the many online tools such as free mortgage and debt calculators. They certainly make life a lot simpler and really help consumers make educated buying decisions!

## CONCLUSION

Once you're confident you can afford to buy a home, you'll probably need to secure a loan from your credit union or a reliable lending institution. Then, there are lots of negotiations and legal work involved. If it all goes well, you have your own house and a nice chunk of debt to go with it. Keep in mind though that home loan debt is "good" debt, and as time passes, you'll enjoy the freedom of owning your home as you realize how much you save on taxes and the impact of not writing a big check, which goes into someone else's account and not your own investments.

# LESSON TWO

Deciding On the Type of  
House YOU Want.

How big do you want your house to be? Will it be within your budget? What neighborhood do you want to live in? What schools do you want your children to attend? There will be plenty of choices available. Part of your decision will involve the price. Another key part of that decision, though, will depend upon your family's needs. Do you have children? Are you planning on having children in the future? If so, you will want a child-friendly home with a yard in a good neighborhood and with nearby schools and/or community organizations.

## NEW VS RESALE

Another decision involves whether to buy a new or pre-owned home. There are advantages to being the first owner of your new home, but there are also advantages to buying a resale home.

Resale homes are often more reasonably priced than new homes. They also have the "lived in" factor. If your second-hand home needs some work, this can be to your advantage, too. You can negotiate the sales price based on the renovations needed and then do some of the work yourself. You can also have it done in the style, colors and quality you prefer.

If you decide to buy a resale home, make sure you are not inheriting things like dry rot, structural issues and maintenance that has been overly delayed. Also, if you do some work on improvements or extend the property within your budget, chances are high that you will be able to sell this home for a profit. That money will be useful when you buy your next home.

## LESSON THREE

# SUPPORT PEOPLE

Very seldom does a house pass from buyer to seller without involving other people. The support people involved in your home purchase ensure the process is legal and help all parties know the many ins and outs of the transaction. Among others, those people usually include a realtor, home inspector and an appraiser.

**Realtor:**

Your realtor's job is to be a go-between for the buyer and seller. It involves a lot of knowledge, expertise and just plain hard work. This is not always apparent to buyers and sellers and definitely not to the general public.

Whether the realtor is representing a buyer, a seller, a landlord or a tenant, this person must represent her client to the best of her abilities. While her loyalties are to the client, she is legally obligated to disclose pertinent information about the property.

**Home Inspector:**

A Home Inspector will perform a home inspection during the buying process. Home inspections are usually conducted by a home inspector who has the training and certifications to perform such inspections. A home inspection is a limited, non-invasive examination of the condition of a home, often in connection with the sale of that home.

**Appraiser:**

The appraiser's main responsibilities include:

Computation of the estimated property values. Drawing up land diagrams for appraisal reports. Estimating the stability of the structure and replacement costs. Evaluating land and surrounding properties and inspecting property to evaluate condition of structure.



## GETTING A HOME LOAN

Unless you're wealthy enough to pay the full price for your house upfront, you'll need to arrange for a home loan, commonly known as a mortgage loan, before or after your offer on a home is accepted. In most situations, it's actually a good idea to take care of this step before you start home shopping.



### PRE APPROVAL

Usually, prospective homeowners want to be pre-approved for a home ownership loan. This means the individual, couple or group hoping to purchase a home goes to a lending institution, which then evaluates the party/parties and gives pre-approval for a mortgage loan. The lender or loan officer is simply saying you are qualified to borrow up to a certain amount of money at a specific interest rate. However, it is not a guarantee to finance whatever home you select. This promise of a mortgage hinges upon an appraisal of the property and other conditions set forth by the lending institution.



### CREDIT REPORT

One of the things the lender will consider is your credit score and credit report. Before you approach a lender or a loan officer, it's a good idea to know what they'll find on your credit report. Take a look at your credit report and be upfront with the loan officer about any issues so there are no surprises down the line. The ideal place to start is [AnnualCreditReport.com](http://AnnualCreditReport.com), which allows consumers to receive and review their credit report once a year from each of the major credit bureaus.



### PRE APPROVAL LETTER

If you are successful in seeking pre-approval, the lender or loan officer will furnish you with a letter outlining your pre-approval status and information. This means the loan will be approved when the buyer has made an offer, the seller has accepted it and all the conditions stated by the lender have been verified.





## GOOD FAITH ESTIMATE

In every state, the lender or lending institution is required to give a binding Good-Faith Estimate (GFE). The GFE is actually a list of the estimated closing costs involved in a mortgage transaction. These include the lender's charges as well as the fees charged by a local closing agent. It also includes costs for real estate property tax and homeowner's insurance.

### NEXT STEPS...

To get the actual loan, the buyer must present the following documents:

1. the purchase contract
2. the preliminary title information
3. the appraisal
4. documentation and verification of income, assets and loan information
5. successfully meet all conditions of loan underwriting

### IS THAT ALL THERE IS????

Pre-approval for a mortgage is not a guarantee, because there are potential glitches. For example, the lender needs to ensure the property's value offers sufficient collateral for the loan. The appraised amount must be at least as much as you're paying for the house. Other conditions may apply, so check with your loan officer before signing anything.



# LESSON FIVE: SHOW ME THE MONEY

## DOWN PAYMENT

A down payment is the money you pay upfront when you take over ownership of your new home. It is the cash you bring to the table to buy your home at the time of closing. A down payment is usually a percentage of the purchase price typically ranging from 5% to 20%. If at all possible, it's a good idea to put down 20% or more of the purchase price. Your loan amount will be lower, you can avoid certain insurance premiums (PMI, or Private Mortgage Insurance) and you may have more borrowing options.

To calculate the amount of the down payment, multiply the percentage as a decimal fraction by the home price. For example, if the down payment is 20% simply multiply the purchase price by .20.

Here are a couple of sample scenarios if you were to buy a house priced at \$185,000.

A 5% down payment would \$9,250 ( $\$185,000 * .05 = \$9,250$ )

A 10% down payment would \$18,500 ( $\$185,000 * .10 = \$18,500$ )

A 20% down payment would \$37,000 ( $\$185,000 * .20 = \$37,000$ )

NOW THAT YOU'VE SELECTED A HOME, HAVE BEEN APPROVED FOR THE MORTGAGE AND HAD THE APPRAISAL DONE, IT'S TIME TO BRING OUT THE MONEY. IF YOU'VE NEVER BOUGHT A HOME BEFORE, GET READY TO LEARN SOME NEW AND USEFUL TERMINOLOGIES.

## PMI

### PRIVATE MORTGAGE INSURANCE

Private Mortgage Insurance (PMI) protects lenders against loss if a borrower defaults on his mortgage. Most lenders and lending institutions require PMI if the loan is more than 80% of the purchase price. If the prospective homeowner can make a down payment of 20% or more, the mortgage default insurance (PMI) is usually waived. Also, once the mortgage balance has dropped below the set threshold during the course of repayment, PMI charges will generally automatically stop being charged, thus lowering your monthly payment.

## LESSON SIX: CLOSING

### What is 'Closing?'

Also referred to as "settlement," closing on a home refers to the time when the title to your new home is finally transferred to your name and the lender provides the home loan.

### PROCESS

Closing begins at the moment you sign a purchase contract. It ends a month or two down the road with a "closing meeting." You sign papers on your loan as well as pay any applicable fees, taxes and service charges to finalize the sale. Then, you typically receive the keys and the deed to your home.

### COSTS

Costs for closing can be anywhere from 2% to 6% of the purchase price. You will need to budget for these costs when you decide to purchase your home.

### WHOSE IN CHARGE?

A professional settlement agent conducts the closing. He or she files documents, pays taxes on your behalf and ensures every task is done and recorded within the specific deadlines so the transaction is legal. The settlement agent is impartial. He represents the buyer, the seller and the lender equally.

The settlement agent may be required to be an attorney. This varies from state to state. For example, in the state of New York, an attorney who is especially qualified as a "closing attorney" must preside. In states like Nevada, a title company must act as the settlement agent. California and other states use an escrow company.

### DO YOUR RESEARCH

Closing costs vary widely. The potential buyer must look around for the most reasonable fees and budget these expenditures into his home ownership costs.

# LESSON SEVEN

## Where Do We Go From Here?

With the house in your name, you now have the keys in one hand and the deed in the other. However, your job is still not quite done. So what's next?

## UNDERSTANDING YOUR MORTGAGE

It is critical that you understand how your mortgage works and monitor what is happening with your loan. It is not uncommon for your original lender to sell your mortgage loan to an outside mortgage servicer. This service agency could be another lender, a bank or an investor. Be prepared for the fact that you may not be dealing with the lender or loan officer with whom you initially negotiated your loan. This is a good reason to know and understand the terms

## KEEPING TRACK OF PAYMENTS

Keep copies of all paperwork related to your payments in case of a discrepancy and maintain a regular schedule of payments. Consider arranging for your mortgage payments to be withdrawn automatically each month from your share draft account. This also gives you a system of checks and balances. Watch your payments for changes in tax and insurance costs and pay attention to any communication from your lender. These usually occur at the beginning of a new year and you'll be notified in advance on your monthly mortgage statement.

## EXTRA PAYMENTS

Paying ahead or "prepaying" is an excellent way to save money, build up your homeowner's equity and pay off your mortgage faster. Prepayments are applied to the principal of your loan. For example, if you pay an extra \$100 a month on a \$160,000 mortgage, you could save more than \$43,000 in interest over the life of the loan. This would also shorten your mortgage by over six years. Some couples budget to make 13 payments in 12 months. This can make a huge difference, too.

## MISSING PAYMENTS

The flip side of this scenario is that things can happen that prompt you to miss a payment. Let your lender know! Lenders can create a repayment schedule or adjust the terms of your loan.



## CONGRATULATIONS!

While the mortgage process may be long and seem complex, it's also very rewarding. Congrats! You're now the owner of a new house!

Need more info? Ready to apply for a home loan, or put your pre-approval in place? Call us today at 801.451.5064.