First Time Home Buyers

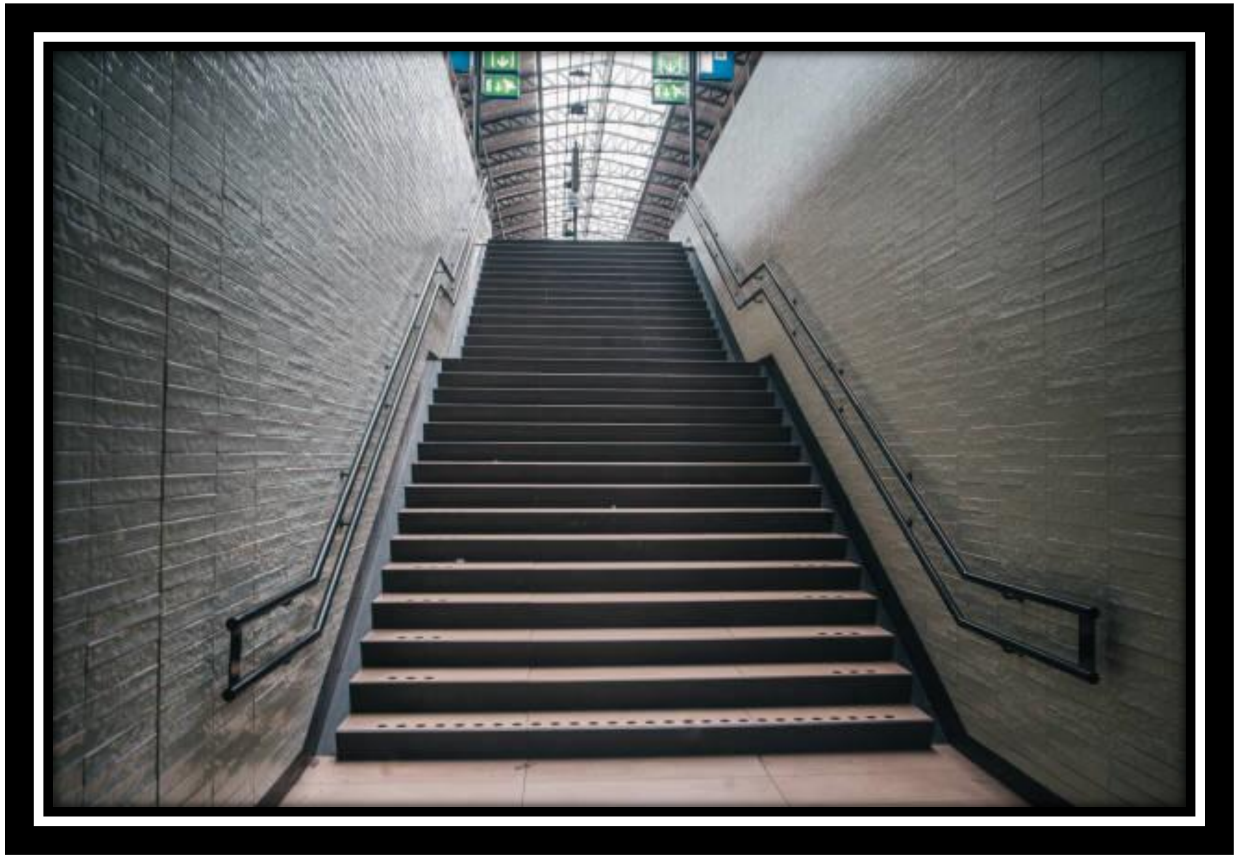
A step-by-step guide to purchasing your first home

Presented by:

NORTHEAST FINANCIAL
Mortgages, Home Purchases & Refinances

Nine Step Process

1. *Preparing to Buy a Home*
2. *Exploring Mortgage Options*
3. *Getting Preapproved*
4. *Working with an Agent*
5. *Finding a Home*
6. *How to Make an Offer*
7. *Preparing to Close*
8. *Closing on Your Home*
9. *Managing Your Mortgage*



Step 1: Preparing to Buy a Home

Determining If You're Ready

Buying a house is a **big** commitment, so before you start house hunting and comparing mortgage rates, take the time to examine your **current situation** and how it could change in the future.

Ask yourself:

- Are you planning on any major life changes, like changing jobs or starting a family, in the next few years that could impact your financial situation?
- Can you commit to staying in a home for at least **five years**?
- Do you have a **stable** income?
- Are you confident you can handle house repairs (or can take the time to learn), or are you willing to pay a specialist when something breaks?

Buying vs. Renting a House

Benefits of Buying

- Having no landlord means you can make the house into the home you want **without** needing someone else's approval.
- Unlike rent payments, the interest you pay with your mortgage payments can be tax-deductible.
- You can find a mortgage **tailored** to your budget and goals to keep your monthly payment from going up as the market changes.

Benefits of Renting

- Your landlord is often responsible for home repairs and upgrades.
- You won't have to buy **homeowners insurance** or pay property taxes on your home.
- Moving can be **easier** since you won't have to sell your home or find renters.

How to Evaluate Your Financial Situation

Buying a home is one of the **largest** purchases you'll likely make, and it's important to make sure your financial house is in order.

Start by reviewing your bank accounts and **billing statements** to get a handle on how much money you're making and spending each month. If you're planning to buy a house with someone else (like your spouse or partner), review their finances as well, and then ask yourself some questions…

- ✓ Do you have a stable income/job?
- ✓ Are you able to put away some money each month into a savings account?
- ✓ Do you have a plan for managing debt, like student loans and car payments?
- ✓ Do you typically pay your credit card debt quickly? Keeping your credit debt low will help you qualify for a better mortgage.
- ✓ Do you have some money already saved up for emergencies? A good rule of thumb is having three months of income saved.
- ✓ Do you have some money saved up for a down payment and closing costs? You should avoid using your emergency savings for this, or you could put yourself in a tight situation.

Determining Your Down Payment

Buying a home is one of the largest purchases you'll likely make, and it's important to make sure your financial house is in **order**. Start by reviewing your bank accounts and billing statements to get a handle on how much money you're making and **spending** each month. If you're planning to buy a house with someone else (like your spouse), review their finances as well, and then ask yourself some questions…

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Step 2: Exploring Your Mortgage Options

The Three Elements of a Mortgage

Loan Type

A mortgage's type depends on if a government agency or private investors are involved, as well as the size of the loan.

Rate Type

There are two kinds of mortgage rates – fixed rates and adjustable rates – and you can pick the type of rate that matches your goals.

Term

The term is the length of the loan. Most fixed-rate mortgages have 30- or 15-year terms, although some lenders offer a customizable mortgage. Adjustable rate mortgages typically have a 30-year term.

Benefits of a Longer Term	Benefits of a Shorter Term
A longer term can help keep your monthly payments lower, freeing up cash for home improvement projects or building your savings.	A shorter term means you'll pay off your mortgage sooner, pay less in interest and can build equity in your home faster.

The Parts of a Monthly Mortgage Payment

Monthly payments are usually composed of three portions: the principal, the interest, and the taxes and insurance (typically grouped together).

- The **principal** goes toward paying down the balance of the loan. Any money paid toward your principal increases the amount of equity you have in the property.
- The **interest** goes to your lender as a fee for borrowing money.
- The **taxes and insurance** covers your property taxes and homeowners insurance premiums. This portion is only included in your payment if you have an escrow account, which is a special account that your lender uses to hold the money that's used to pay your property taxes and insurance premiums. With an escrow account, you never have to worry about paying your tax or insurance bills since your lender takes care of that for you.

Step 3: How to Get Preapproved

Prequalification and the PAL

- Knowing how much you can afford before you start looking for a house can save you time and frustration. Getting a **clear picture** of your budget will ensure that you don't fall in love with a house you can't afford.
- When you get preapproved, you'll complete a **mortgage application**, the lender will review your financial records and credit history then lender will underwrite (or fact-check) the information you provide.
- Once you're **preapproved**, you'll receive a preapproval letter (PAL) stating how much you can get approved for. Your preapproval letter will expire after 90 days of issue.

How Your Preapproval Amount Is Determined

Your Savings

How much you have in savings is important because it shows your lender how much of a **down payment** you can afford. A down payment is the amount of your home's purchase price you pay upfront. While the old way of thinking was that you needed to save up **20%** of your home's purchase price as a down payment, these days you may not need to have a lot of savings in the bank to afford a home. Conventional loans typically require a minimum 5% down payment, while FHA loans require as little as **3.5%** down.

Your Income

Lenders review your income to ensure you can afford a monthly mortgage payment, and they'll also check your debt-to-income (DTI) ratio to make sure that the amount of debt you have doesn't **offset** your income too much.

Your Credit

In order to buy a home, it's important to pay attention to your **credit**. Having good credit can help you qualify for a better interest rate because you've shown lenders and investors that you're a responsible borrower. Some mortgage lenders require a minimum credit score in order to approve a loan.

Step 4: Working with a Real Estate Agent

Why You Should Work with a Real Estate Agent

Find the Right House

- First and foremost, your agent will help you find the right house. Agents have access to the MLS database, which means they know what homes are on the market, what features they have, and what they're listed for. While real estate listing sites have this information and can be a good starting point, they're not always **100% accurate** or up to date.
- Agents have also seen enough homes to know which ones are likely to have expensive problems. Your agent should be able to tell you what to look for and what to steer clear of, which is especially important if you're a **first-time home buyer**.

Zero in on a Good Area

- Finding the right house isn't only about knowing which homes are up for sale. A real estate agent can help you zero in on the location that's right for you. An experienced agent will help you find the very best school districts, amenities and resale values – or whatever is **important to you**.

Get a Guiding Hand

- One of the primary benefits of partnering with a real estate agent is the **consultation**. While most homeowners will only buy a house a few times in their lifetime, agents go through the buying process with their clients day in and day out.

Manage the Paperwork

- Do you know how to write a **purchase agreement**? Luckily, this isn't something you need to worry about. Your agent will draw up the purchase agreement so all you have to do is read it and sign it. There's a lot of paperwork involved in buying a home, and your agent is there to take care of it.

Make Connections

- The buying process can be a whirlwind experience once you've had an offer accepted. There are so many things for you to take care of over the course of about a month, including getting an inspection, arranging movers, shopping for insurance, buying a **home warranty** and arranging for necessary repairs – and that doesn't even cover getting a mortgage. Your real estate agent has seen it all before and knows just what to do at every step.

Finding a Real Estate Agent

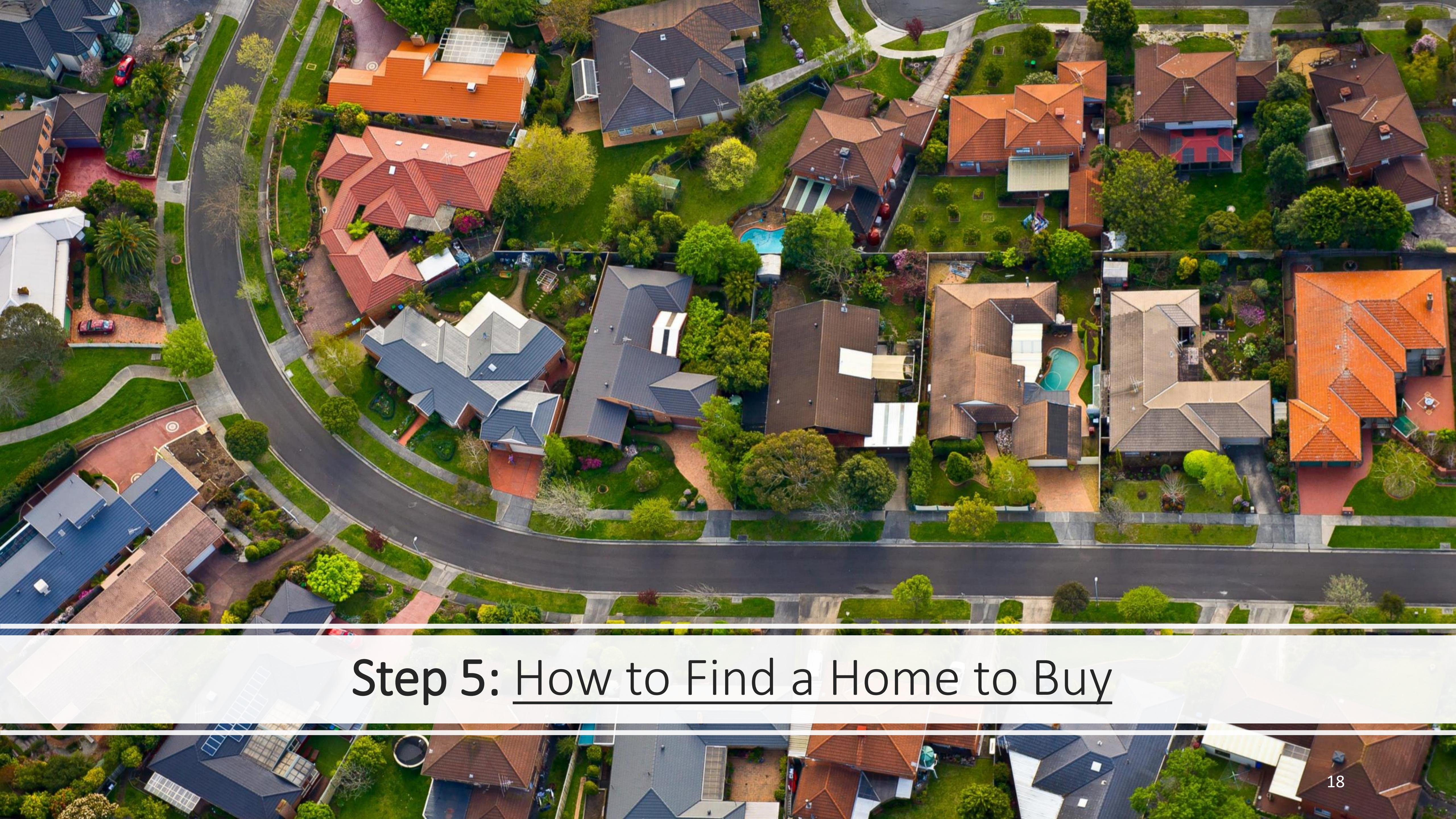
Referrals can be a good place to start. Do you have family or friends who recently bought a home in your area? Can your lender give you a referral?

- Once you've got a name or two, there are a few ways to know you've got the right person on your side. You definitely want a **realtor** over a regular real estate agent. Realtors are real estate agents who are members of the National Association of Realtors – and that's important because it means they're held to a strict code of ethics.
- Look for a real estate agent who holds a **real estate broker license**. This can be a great indication that they've gone above and beyond in their education.

What to Expect From Your Real Estate Agent

Each agent is **different**, but here's a general picture of what you can expect once you've kicked the house hunting process into motion:

- You'll spend some time talking about what you're looking for. Your agent will want to see your **preapproval letter**. Be prepared to talk about your budget, your target area and the criteria for your home.
- You'll get to review some **listings**. Your agent will send you listings of homes you might be interested in. Then, you can let your agent know which ones you want to see.
- Your agent will set up showings. In most cases, your agent will work fast so you don't miss out on a potential home. That's why it helps to keep an **open schedule** while you're house hunting, especially if you're in a competitive market.
- You'll attend showings together until you're ready to make an offer. At that point, your agent will draft the **offer letter** and cross their fingers for you.



Step 5: How to Find a Home to Buy

Finding Homes for Sale

Searching online and exploring the neighborhood you want to live in can be a great start. Your real estate agent will also point out homes that match your goals and can help you keep an eye out for new homes on the **market**.

When browsing home listings, remember that you're not just buying the building – you're also buying a home that should match your **lifestyle**. Some aspects to keep in mind, aside from the house itself, include:

- **The neighborhood:** If you're looking for an area with lively nightlife, you might want to find a home closer to a downtown area. But if you're hoping to get away from the city lights and sounds to a home with a nice yard and a bit more space, a suburb might be better for you.
- **The commute:** If you're switching locations in a significant way, consider how much time you're comfortable spending on your commute to work.
- **The schools:** If you have kids or think you might want kids someday, take some time to review the schools in the area. And even if you aren't planning on having children, a good school district can add value to the home and make it easier to sell if you plan to move again.

Building a House vs. Buying a House

Advantages of Buying a House

- It's usually cheaper.
- It takes less time to buy an existing house than it does to build a new one, and unless major renovations are needed, you won't have a construction timeline that could delay your move-in date.

Advantages of Building a House

- You get to pick exactly what you're looking for, though many builders have stock floorplans and options to help you narrow your choices.
- Everything will be brand-new, so you don't have to worry about inheriting a previous homeowner's problems.

Step 6: How to Make an Offer

Deciding How Much to Offer

You've set your budget, you've looked at homes to buy and you've found one you love. So how do you know how much to **offer**? Staying inside your budget is important, but there's more to getting the house you want than just picking a number. Here are some things to consider when deciding how much to offer…

- Are there comparable homes for sale in the same area? Noting how long they've been on the market can give you an indication of how much competition you're facing. The more **competition** you have, the stronger your offer should be.
- How long has the house been on the **market**? If it's been a long time (more than two or three months) or has been listed multiple times, the seller may be more willing to accept an offer below asking price.
- Do you expect to have to compete against other buyers? If the house is in a highly desirable area, there's a chance you could enter a bidding war. You'll need to decide how high you're willing to go before you make your initial offer. If you expect the home to have other bids, it might make sense to come with your **strongest offer upfront**.
- Does the house require repairs or renovations? To help you stay on budget, keep these future costs in mind.

Drafting Your Offer

Your real estate agent will help you draft your offer on the home. Important things you'll want to keep in mind as you draft your offer:

- Any **contingencies** you're requesting (i.e., conditions that must be met before the sale is a done deal), such as a successful home inspection
- Any seller **concessions** you'd like (i.e., things you're requesting from the seller), such as cash toward closing costs
- Items you want to include in the **sale**, like appliances and window treatments

It's common for buyers to ask the seller to complete repairs as a contingency for you buying the house. You can also request that they make upgrades, like installing new carpet, but keep in mind that this could drive your purchase price up.

How to Negotiate the Purchase Price

- If the seller accepts your initial offer, then great – you just bought a house! Your lender will send you a **Loan Estimate** outlining the fees and costs of your loan, but keep in mind these numbers could change up to 10% prior to closing the loan. Before you close, your lender will send you a **Closing Disclosure** detailing your final numbers so you can see exactly what you're paying for.
- If the seller counters your first offer or even just rejects it, how to proceed is up to you. Your agent can get in touch with the sellers to see how willing they are to negotiate, and you may trade counteroffers that negotiate not just the **purchase price**, but the other parts of your offer like the move-in date.
- Negotiating can be stressful, so it's important to keep your goals in mind. Don't forget that it’s OK to walk away if you and the seller can't agree. There will always be another house. This is a **long-term** purchase, so you should take a long-term view.

Step 7: Preparing to Close on Your Home

The Three Stages of Getting Ready to Close

The Home Inspection

- Once you've had an offer accepted, it's time to schedule your **home inspection**. While this step is usually not a requirement for getting a mortgage, it's a way to protect yourself from buying a home that will cost you more money than it's worth. It's your job to find an inspector and pay for the inspection. However, your real estate agent may be able to help with this. They can recommend an inspector and possibly even set up the inspection for you.
- A typical home inspection will cover **surface-level** elements of the home such as structural components, outlets, heating and cooling systems, appliances and more. However, the inspector can't check out aspects of the house that aren't easily accessible or visible. For instance, you'll need a specialized inspector to identify lead, mold, asbestos, radon and pest problems.
- Be sure to attend your inspection and ask all the questions you can think of. This is your chance to walk through your new home with an expert. They can tell you about the red flags and make **recommendations** for what to fix first and how to go about it.
- Inspections usually cost between **$200 - $500**, although this can vary based on the inspector you choose, the size of the home and other factors.

The Three Stages of Getting Ready to Close

The Appraisal

- Appraisals are a **required** part of the home buying process. The appraisal protects both you and your lender from paying more for a home than it's worth. Your mortgage company will order the appraisal for you, although it's important to note that the appraiser is always an independent third party. By law, appraisers can't be affiliated with you or your mortgage company. This ensures the appraisal process **is fair**.
- If the appraised value of the house comes back **higher** than your purchase price, good news! You just snagged a deal and some additional equity in your home. On the other hand, a lower-than-expected appraisal value can cause problems for your mortgage process since your lender will never lend more than the appraised value of the property. If your appraisal comes back low, you have a **few options…**
- Bring more money to the table to make up for the difference in price
- Negotiate with the seller **to lower** the home price
- Contest the appraisal if you think there's an error in the report
- Walk away from the deal
- Appraisals usually cost between **$250 and $600**, although this cost can vary based on the type and location of the property.

The Three Stages of Getting Ready to Close

Underwriting

- While all of this is happening, your **mortgage company** will work on underwriting your loan. This is the process of verifying your income, assets, debt and property details to issue a final approval for the loan.
- Much of this happens behind the scenes, but your mortgage company may ask you for **additional documents** during this time. For instance, they could ask for documentation that shows where deposits in your bank account came from or provides proof of additional assets. It's important to stay on top of your lender's requests to make sure you don't slow down the loan process.
- The biggest thing you can do to make sure you don't run into problems is to avoid any major financial changes or spending. Don't apply for **new credit lines** or loans, and don't make purchases that will deplete your assets. You can do these things after your loan closes.

Step 8: Closing on Your Home

What Happens in the Days Before Closing

Acknowledge Your Closing Disclosure

- Before your closing, you'll get a document called a **Closing Disclosure**, which will include a summary of the final costs of your loan.
- It's important to acknowledge that you received the document as soon as possible. Your lender is legally required to give you the Closing Disclosure three business days before closing, so if you don't acknowledge receipt of your Closing Disclosure quickly enough, your closing could be **delayed**.

What Happens in the Days Before Closing

Attend a Final Walk-Through

In most cases, you'll get to do a **walk-through** inspection of the property up to one day before closing to make sure everything is in order. This is to make sure the property is in the condition that was stated in your purchase agreement. Here are some questions to ask as you take one last look at the property before closing…

- Were all the agreed-upon repairs **completed**?
- Did the sellers leave behind all appliances, window treatments, etc., that were specified in the purchase agreement? Are these items in the condition you expected them to be in?
- Did the sellers damage the property in the process of **moving out**?
- Do the lights and faucets work?
- Does the garage door open?
- Has the seller removed all **hazardous materials**, such as old paint cans and construction materials?

If there are any major issues, you can ask to delay the closing or contact the listing agent to negotiate a fair solution.

What and Who to Bring to Closing

What You Should Bring

These are some items you must bring to closing…

- Your driver's license or other valid, government-issued photo **ID**
- A cashier's check or proof of wire transfer to pay your down payment and closing costs
- Your **Closing Disclosure** to compare to the final paperwork
- A list of key contacts, such as your **agent** or **lawyer**, in case you have questions

Who Should Attend

- In general, all buyers who are going to be on the loan should plan to be at closing. It's possible to close if you can't be present, but you'll need to give someone **power of attorney**.
- In some states, the buyer and seller will both be at closing, whereas in other states each party attends a separate closing. In other words, you might see the seller at closing, but it's not a guarantee.
- You can expect a closing agent to facilitate the closing. They're a **neutral third party** who will help both buyer and seller along the way. And of course, your real estate agent can attend, although this is not required.

What You'll Pay for at Closing

At closing, you'll get the keys to your home, and you'll also need to pay any closing costs. Here's a breakdown of the most common **upfront costs**…

Down payment:

- Your down payment will become the equity you have in the home.
- Escrow funds:
  - Your lender will collect these funds at closing to ensure there's enough money in your account to pay tax and **insurance bills** as they come due.
- Third-party fees:
  - This covers costs from third parties your lender uses to **process your loan**. These fees typically include appraisal fees, title insurance costs and credit report fees.
- Per diem interest:
  - You'll pay daily interest upfront to cover the period between closing and the date your **first mortgage payment** is due.
- Homeowners association (HOA) dues:
  - If you're moving somewhere that has **HOA dues**, you may be required to pay a year's worth of dues at closing.
- Discount points:
  - A point (or discount point) is a fee paid to lower your interest rate. If you've chosen to **pay points**, you'll pay for them at closing.

Step 9: Managing Your Mortgage Payments

Where Your Monthly Payment Goes

- Each month, you'll make a **monthly payment** to your lender that will go toward paying back the amount you borrowed (commonly called the principal), plus interest. Your monthly payment may also include mortgage insurance.
- Your mortgage statements will show how your payment is broken up. Initially, the bulk of your payment will go toward paying down the interest on the loan, but over time, more of your payment will go to paying down the **principal balance**.
- If you have an escrow account on your loan, part of your payment will go there. The amount of money that's added to your payment for escrow depends on the amount of your taxes and insurance premiums. Your lender will analyze your account each year to make sure they're collecting the appropriate **amount of money**, and they'll adjust your payment if they're collecting too little or too much.

First Mortgage Payment

- Your first mortgage payment won't be due for up to **two months** after closing!
- If you close on June 9, for example, you'll **pay per diem** interest at closing to cover the period between June 9 and June 30. Then, your payment for the month of July will be due on August 1.

[Let’s Get Started – Click Here or use QR Code Below]

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