



Buying your **First Home**

A step-by-step guide to the home buying process

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Although the experience of owning your first home can be fulfilling and exciting, the actual financing and buying process can be quite overwhelming. From choosing the right neighborhood for your lifestyle to reviewing your financing options, there are a lot of important decisions that you need to make to buy a home. Understanding the home buying process and the financing options available to you should bring you some peace of mind, while helping you make informed financial decisions.

Advantages of Home Ownership

Tax Benefits

As a home owner, you can deduct your monthly mortgage interest and your property taxes on your income tax. Certain costs incurred during the purchase of a home are also tax deductible. Be sure to save all of your closing documents. It is best to contact a tax professional to receive more detailed information on what deductions you may be eligible to receive.

Building Wealth

Owning a home can help you build wealth in two ways – growth in equity and appreciation. Growth in equity happens as you pay down your mortgage. A certain percentage of each mortgage payment is applied towards reducing the total amount owed. Typically, payments in the first few years of the mortgage are primarily used to interest on the loans. As time passes, however, more and more of each payment is applied to the outstanding loan amount, and your equity in your home increases.

Appreciation is when the value of a property builds over time. Historically, real estate market values have tended to increase over time. Updating features or remodeling a home can also help increase a home's value.

Financial Stability

Fixed-interest home loan payments remain stable year after year, as opposed to rent payments, which may increase annually. Since salaries generally rise over time, the fact that mortgage payments remain steady over time can help you manage, plan, and grow your wealth.



Home Buyer Advice and Education

The U.S. Department of Housing and Urban Development (HUD) sponsors housing counseling agencies throughout the country that can provide you with advice on buying a home and resolving credit issues. These services are offered at little or no cost to you. To find a provider near you, visit <https://www.consumerfinance.gov/find-a-housing-counselor/>

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step one

Getting ready to buy



Once you've made the decision to buy a home, you may ask yourself, "What should I do first?"

Here is the process:



The first step is to collect the financial records that are necessary to complete a mortgage loan application.

These items include:

- Job history
- Income records
- Documentation of assets

A lender may evaluate these records to determine your financial stability, creditworthiness, and ability to repay the loan.

When evaluating your future housing expenses, it's essential to consider the entire housing expense, not just the mortgage payment. Mortgage lenders use the PITI calculation (Principal, Interest, Taxes, Insurance) to determine the total monthly housing expense. HOA (Home Owner Association) fees will also be added to the calculation when applicable. The PITI calculation will be used as one of the components of the Debt-to-Income ratio.

Total Debt-to-Income Ratio

When evaluating your ability to repay the loan, the lender will calculate your debt-to-income ratio, also known as DTI. The DTI is your total minimum monthly debt (proposed PITI, credit cards, student loans, car payments, etc.) divided by your gross monthly income. The lower your debt-to-income ratio, the higher the likelihood of getting the home loan terms you want.

Credit Score

A credit score is generated by a credit reporting agency and is calculated from several pieces of data in your credit report. Both positive and negative information is considered in the calculation, including payment history, amounts owed, length of credit history, and types of credit used. The higher the score, the better your loan rates are likely to be.



Note on Planning Your New Monthly Budget

For a homeowner, planning a budget is more than simply calculating a mortgage payment instead of a rent payment. It's likely that you will incur a number of additional expenses as a result of owning a home. In addition to a mortgage payment, homeowners must plan for expenses such as homeowners' insurance, property taxes, potential homeowner association fees, additional utilities, and home maintenance, repair, and upgrade costs.

It's also important to maintain a savings reserve of three to six months' living expenses to cover any unforeseen emergencies. Make sure to plan carefully to ensure that your new monthly expenses will not be overwhelming.



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step two

Evaluating your home loan options



Working with a Mortgage Professional

When you're shopping for a mortgage loan, you have the option of working with a direct lender or a mortgage broker. Mortgage brokers usually work with a number of different lenders, so they may be able to provide you with a broader range of home loan options.

It is very important to work with a mortgage professional whom you feel comfortable with and trust. Ask friends and family for referrals, check online reviews of potential mortgage professionals, and check with the Better Business Bureau for any outstanding complaints.

Once you've decided on a mortgage provider, ensure that they answer all your questions, provide options to meet your financial needs, and clearly explain all the fees and costs associated with the loan. Ask for any loan information in writing.

Your mortgage professional can help you:

- Identify any credit issues that may hinder a loan approval.
- Guide you through the loan application and closing process.
- Help you compare different loan programs so you can choose the best one for your financial needs.
- Help you determine a home purchase price that you can afford.
- Manage and address any issues that may come up along the way.



When choosing a mortgage, several factors must be considered that will affect your monthly payments, closing costs, the amount of cash needed at closing, and the total amount paid for your loan.

These factors include:

- Whether the loan is Fixed or Adjustable Interest Rate
- Number of years (or term) that you'll be making payments
- Down payment amount
- Mortgage insurance options
- Fees

Don't be afraid to ask questions so that you can fully understand the impact of these factors on your home loan.

For example:

“What’s the difference in monthly payments between a 15-year term and a 30-year term?”

While a 15-year term will result in a higher monthly payment, you may qualify for a lower interest rate. Plus, you would be finished paying for your home in half the time, saving a significant amount on interest payments.

“What interest rate would I qualify for if I chose an Adjustable Rate mortgage?”

Typically, adjustable-rate mortgages have a lower starting interest rate, which results in a lower initial monthly payment. But adjustable rates tend to increase over time. However, if you plan on staying in the home for only a few years, this may be a viable option.

“How would mortgage insurance affect my monthly payment and how long would I have to pay it?”

Mortgage insurance reduces the down payment requirements for the borrower, but it will increase your monthly payments. Depending on the type of loan and the specific insurer, you may be able to eliminate mortgage insurance payments once your balance drops below a certain level.



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step three

Finding your new home



The house-hunting stage can be fun and exciting, but it's essential to keep your priorities in mind when evaluating potential homes...



For example, perhaps you've found a beautiful, large home, but the school district is rated poorly.

You may have to look at dozens of homes before you find one that:

- Is in a neighborhood that suits your lifestyle
- Within your budget
- Has all the features (i.e. bedrooms, bathrooms, modern kitchen, back yard) that your family desires

You should be prepared to adjust your priorities to find a home within your budget that meets all of your needs.

Working With a Real Estate Agent

A real estate agent can be a great asset in helping you find your dream home. Real estate agents generally have access to home sale listings that you may not be able to access on your own.



A good real estate agent can help you by:

- Reviewing your wish list and researching potential homes
- Making arrangements to show the homes that fit your requirements
- Researching neighborhoods, schools, and taxes
- Negotiating a purchase price and making the offer
 - *This is important because the seller wants to get the maximum amount for their home, while you will want to pay the lowest cost possible.*
- Assisting in the purchase and closing process

It's important to work with a real estate agent who you feel comfortable with and who is always looking out for your best interest. Ask friends and family for referrals, check online reviews of potential real estate agents, and check with the Better Business Bureau for any outstanding complaints.



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step four

Buying the home



Once you find the perfect home for you, it's time to make an offer, finalize the mortgage loan process, and close the sale.



Making the Offer

Your Real Estate Agent can prepare the offer on your behalf. The official offer will include information about you, the seller, the property, any special provisions, the purchase price being offered, and any contingencies. Your offer will be accepted or rejected, or you may receive a counter-offer.

Your offer will likely include a deposit, which will be held by the seller's real estate agent or lawyer until the sale closes. Your deposit is typically applied to your down payment at the time of loan closing. If you change your mind about the purchase once your offer has been accepted, you may lose your deposit.

There are circumstances, such as an unacceptable inspection, when you would not lose your deposit. Be sure to have your real estate agent explain the terms of the deposit to you. If your offer is not accepted, your deposit will always be returned.

The Sales Contract

Once the sales offer is accepted, a sales contract is drawn up. The sales contract is a legal and binding obligation on the part of the buyer to purchase the property if the contingencies are met. It outlines the details of the transaction, including: a description of the property, the selling price, the date of closing, the possession date, and any applicable contingencies. Some contingencies that must be met before the sale can close. These are itemized in the sales contract and can include things like the buyer securing financing and an acceptable home inspection, among other things.



Home Inspection

In a home inspection, a professional conducts a thorough examination of a property to assess its structural and mechanical condition, catching any potential problems that a buyer might not detect. This process is a cost that you will have to pay at the time of the inspection. It is a very important part of the home-buying process for you as a buyer. Often, an inspection will turn up problems that may become part of the negotiating process. You may want the seller to fix the problem or offer a discount to allow you to make the necessary repairs. Your real estate agent will guide you through this part of the purchase experience.



Settlement Statement

The settlement statement documents all the funds paid at closing, including an itemization of all fees and charges that the homebuyer and seller incur in the sales transaction. Also known as a HUD-1, this is a standard form developed by the U.S. Department of Housing and Urban Development. It's essential to review this document carefully for accuracy and ask questions if there's anything on the form that you don't understand.

Various Closing Documents

The total amount of closing costs varies, but may include: a loan origination fee, an appraisal fee, the cost of a credit report, a lender's inspection fee, the cost of title insurance, a mortgage broker fee, taxes, and a fee for document preparation, among other things.

Closing documentation comprises various standard documents that must be completed before a sale can be closed. This can include a title search to confirm the title is clear, title insurance to protect the buyer and the lender from errors resulting in a claim on some aspect of the property, and an application for homeowners' insurance.

After completing all the above items, it's time to close the sale. You'll be asked to attend a closing meeting, which typically takes place at a title company or escrow office. At the meeting, you will sign all of the closing documents. There will be many documents to sign, and the title or escrow company will be happy to answer questions you may have.

When you have finished signing the documents, your real estate agent will give you the keys to your new home!





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