First-Time Home Buyer

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BENEFITS OF HOME OWNERSHIP

So you are thinking of buying a home, but is being a home owner right for you? Let's explore homeownership and help you navigate to whether or not this is the first time for you. First, what is your reason for buying a home? Is it due to a life event, like getting married or do you want to transfer your rent dollars into something tangible, or maybe you simply want your independence and the satisfaction of owning your own property. It is one of the biggest decisions you will make, so let's look at the benefits of buying a home.

BUILDING EQUITY

The largest measurable financial benefit to homeownership is home equity. Owning a home is one of the few instances where you have an appreciating asset, which means your purchase should be worth more over time. Unlike a new car that immediately loses value the minute you drive it off the dealer's lot, you can build substantial equity with a home.

Home equity is the difference between the market value "price" of your home and what you owe on the house. Let's say you purchase a home for $100,000. Over time, the market value will increase, so maybe in five years, the market value of the home increases to $109,000. Additionally, during that same five-year time frame you are making mortgage payments to pay down the loan, so after five years you may only owe, let's say, $88,000. In this example, your home market value after five years is now $109,000 minus the amount you still owe on the home, $88,000 giving you $21,000 in equity, which increases your net worth!

TAX BENEFITS

Next to building home equity, tax benefits are the second largest financial benefit of owning a home. Tax benefits come in the form of deductions from your taxable income of interest paid on your mortgage loan, property taxes, and mortgage insurance. By deducting these expenses, you lower your overall taxable income resulting in fewer tax dollars owed to Uncle Sam. You could also qualify for tax credits such as energy credits, home office space, certain home improvements and more. Tax credits are taken directly off your tax bill or are refunded to you. TurboTax has great information on tax deductions and credits and it's always a good idea to consult your tax advisor for guidance and clarification.

STABILITY OF PAYMENTS

You know exactly what your payments are going to be month after month, year after year when you own a home. Property taxes and home insurance may fluctuate annually, but your mortgage payment will remain the same.

INCREASE YOUR CREDIT SCORE

Credit Bureaus love installment loans because they create a history of payment. Timely payments on your mortgage will help you build your credit history and in turn could help you raise your credit score!

THE SENSE OF COMMUNITY

It's not all about finances and numbers. Owning a home gives a sense of community. You know your neighbors, your kids grow up with theirs, and if your snowblower happens to die right before the big storm, chances are your neighbors will be there to help you. Familiarity breeds comfort along with a sense of community.

HOW MUCH HOUSE CAN YOU AFFORD?

Your income, credit history, the amount of your down payment, employment history all play a role in how much your lender will qualify you for. In most cases, your borrowing power will outweigh what you can comfortably afford! Just because you can borrow $300,000 doesn't mean you should. There are other factors that play into the overall financial picture that you should be aware of, such as:

UPFRONT COSTS

There will be costs associated with buying a home. A down payment, which can range from $0 to 20% of the total cost of the home and closing costs, which fall around 2% to 4% of purchase price.

Earnest money is a deposit made to the seller if your offer is accepted that shows intent to buy and is due upon acceptance of your offer.

ROUND UP YOUR LIQUID FUNDS

Liquid or semi-liquid funds is a fancy-sounding term for cash that you have immediate access to, like savings, mutual funds, or retirement funds. You'll also need verifiable statements for each cash source and proof that you've had those funds for at least 60 days.

WHEN TO GET PREQUALIFIED?

PREQUALIFICATION

To get started, it's best to get prequalified from your lender at the beginning of your house hunting stage. Mortgage prequalification will look at your debt, credit score, job history and income to estimate how much you may be able to borrow.

A prequalification does not lock you into anything or require any commitments, it simply tells you how much you could qualify for and shows the realtor you're a serious buyer.

HOW DO YOU GET PREQUALIFIED?

This is a simple one-page, secured online form that will ask basic personal information. You can get prequalified by visiting: arborfcu. org/ getpreapprovedwitharbor. After the form is completed a mortgage representative will contact you to discuss your mortgage options and recommend the type of mortgage that might be best suited to your situation.

WHEN TO GET PRE-APPROVED?

PRE-APPROVAL

A pre-approval is more official than the prequalification. With a pre-approval, you will provide more detailed information and the lender will review all the information and if approved, you will be provided with a specific loan amount. When do you get pre-approved? A pre-approval is valid for 120 days, so it's best to make certain you are going to purchase a home and close within 120-days. Having a pre-approval letter shows you have the resources to buy and makes you much more credible to the seller.

WHAT YOU WILL NEED TO GET PRE-APPROVED

- Residential history including an address from the last two years and if applicable any landlord name and address
- Paycheck stubs from last 30-days showing year to date income
- W-2 for past two years
- Last two years of federal tax returns
- Bank account statements for two months
- Other investment statements such as IRA, stocks, bonds, CDs or other assets you intend to use for a downpayment.
- Monthly debts that are not listed on your credit report.

WHAT IS A MORTGAGE POINT?

Mortgage points can be purchased from your lender at closing to lower your interest rate, also known as “buying down the rate”. One point costs 1% of your mortgage and lowers your interest rate by .25%! You can look at it this way, you are basically paying some interest up front in exchange for a lower rate. If you plan on staying in your home for a long time, then buying points may make sense for you. Your lender can help you run the numbers and determine if points would be worthwhile or not.

WHAT IS APR?

By definition, annual percentage rate (APR) is the amount of interest on your total loan amount that you’ll pay annually (averaged over the full term of the loan). The lower the APR, the lower your monthly payments and overall interest will be. When shopping for mortgages, most people “shop rates”. In most cases, it makes sense to go with the lender with the lowest APR, however, you need to consider the big picture. Sometimes the lender with the lowest APR has higher fees or may require you to buy points. So when shopping for a mortgage lender it is wise to ask what other fees are associated with their rates.

WHAT IS PMI?

If you purchase a home with less than 20% down, then it is likely your lender will minimize their loan risk by requiring you to buy Private Mortgage Insurance (PMI). It is a type of mortgage insurance used with conventional loans that would reimburse the lender if you default on payments.This is an additional monthly fee determined by down payment amount and credit score. PMI is changed monthly over and above your mortgage payment and falls off over a period of time.

HOW YOUR CREDIT SCORE AFFECTS YOUR RATE

Your credit score determines a lot of things, and owning a home is no exception. The better your score, the lower your annual percentage rate will be. And while you definitely don't need perfect credit to own a home, all loan products do require a minimum score.

First, let's tackle the biggest question - what is a credit score? Very simply, it's a number that reflects how well you've handled money you've borrowed through either a car loan, credit card or mortgage. The more responsible you've been, the better your score. Scores range from 300 – 850 and the higher your score, the better. Financial institutions and lenders use the number to predict what kind of risk you'll be; whether or not you'll be able to make the required payments to repay any money you've borrowed. Most times, the higher the score the lower the interest rate you'll qualify for when you're applying for a loan. And if you're looking at a mortgage loan for $100,000, $200,000 or even more, a higher interest rate will cost you thousands of dollars in additional interest.

Lenders will look at your credit score, along with other important information such as your income, employment history, current debts, mortgage loan amount you are requesting and how much money you have for a downpayment when determining how much money they are willing to lend you.

You are entitled to one free credit report every 12 months. The best place to get your report is online at annualcreditreport.com or by calling 877.322.8228.

KNOW YOUR DEBT

Believe it or not, you need a minimum of three trade lines that have been active for at least 12 months. Auto loans, student loans, credit cards, verifiable payment opportunities are all examples. The balance or monthly payment doesn't matter - just that you can verify that you're able to make monthly payments on more than one debt. However, a high balance compared to what's available will negatively impact your score.

FINDING A REALTOR

Okay, so are you ready to look for your perfect home? A buyer's agent is a realtor who assists home buyers every step of the way and will help make all the difference during your house buying process. They will help you find the right property in the right neighborhood that is within your budget. They will also schedule tours of the home and help you decide on houses based on the pros or cons of certain aspects of the home. Once you find the perfect home, they will negotiate the offer and work with the seller to get you the best deal. They will be there for you every step of the way, minimizing stress and maximizing the buyer's experience.

So how do you find a good buyer's agent? The best place to start is asking friends and family for referrals. Interview a few realtors to determine the one you feel most comfortable with. How much does the buyer's agent cost? Nothing! The seller pays the commission for both the seller's agent and buyer's agent. In most cases, the commission is 6% of the home sales price, which is split between the buyer's and seller's agent.

MAKING AN OFFER

Your realtor will help you navigate the offer process. They will look at the property and compare it to other homes that have recently sold in that area and will help you decide how much money you should consider offering and additional considerations. Once an agreement between buyer and seller is reached, you'll make an earnest deposit (deposit showing good faith). This deposit will then be applied to either your downpayment or closing costs.

WHAT TO EXPECT AT CLOSING

Ahhhh, you finally made it! The last step to home ownership is the closing. This is where the buyer, seller, and their respective agents along with a representative from the title company which manages the paperwork will meet to sign all necessary paperwork and hand off the keys. The timing of the closing can vary, but you should receive an estimated closing date during the purchase agreement.

Who pays closing costs? A buyer can expect to pay closing costs, which typically range from 2-4% of the total purchase price. However, it is not uncommon for all or part of the closing cost to be negotiated and paid for by the seller.

NOW WHAT?

Enjoy your new home! Meet your new neighbors. Have a house warming party. It is important to always keep saving money though. Start a "house savings" account and add to it each month. You will be thankful you did as little repairs and upgrades happen.