DREAM

A Guide to Help You Through the Process of Purchasing Your First Home.

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Are You Ready to Own a Home?

You are the only one that can answer that question. It will depend on your hopes, your dreams and your financial situation. Let's see if you are ready to be a first-time homebuyer…

Let's look at your financial situation:

- ☐ Have you had steady, reliable income and a steady employment history for at least three years?
- ☐ Do you have a good credit score and stable credit history?
- ☐ Can you pay all your bills on time and still take on any additional costs associated with homeownership?
- ☐ Have you saved money for a down payment and closing costs or can you other sources, such as a bonus, tax refund, or a gift from a relative?
- ☐ Do you have savings to help cover an emergency or an unexpected loss of income?

Now let's look at your hopes and dreams:

- ☐ Do you want a place to call your own?
- ☐ Do you want to build your net worth and equity?
- ☐ Do you look forward to the stability and security of home ownership?
- ☐ Can you balance the cost of maintaining a home with other goals like a new car or a vacation?
- ☐ Are you planning on not moving or relocating in the next 5 years?

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How Much Home Can You Afford?

A quick way to get a *very* rough estimate is to multiply your annual gross (total, pre-tax) income by 2.5-3. So if your annual salary is $50,000, you should be able to qualify for a home listed at $125,000 to $150,000.

A more accurate and actually, the first place to start would be to contact a mortgage lender and see if you pre-qualify.

Pre-qualifying for a mortgage is a quick and simple step. Most mortgage lenders can take your information over the phone or have you fill it out online and let you know the results in just a few minutes. They will take a look at your credit score but this initial check will not mark against your current score – a full report will be checked later.

The mortgage lender will also look at your **Housing Expense Ratio** or your **Debt-to-Income Ratio.**

Housing Expense Ratio: Your housing expense ratio should 28-31% of your gross monthly income.

Debt-to-Income Ratio: Your total debt is all of your living expense (credit cards, student loans, car loans, etc.). This should not exceed 30-40% of your gross monthly income. If it is, you should work on reducing your debt before considering buying a home.

HOW MUCH CAN I AFFORD?	
Annual Salary	x 3
Sales Price of Home	=

MONTHLY INCOME	X 28%	TOTAL MONTHLY HOUSING
	X 28%	

MONTHLY INCOME	X 40%	TOTAL MONTHLY DEBT
	X 40%	

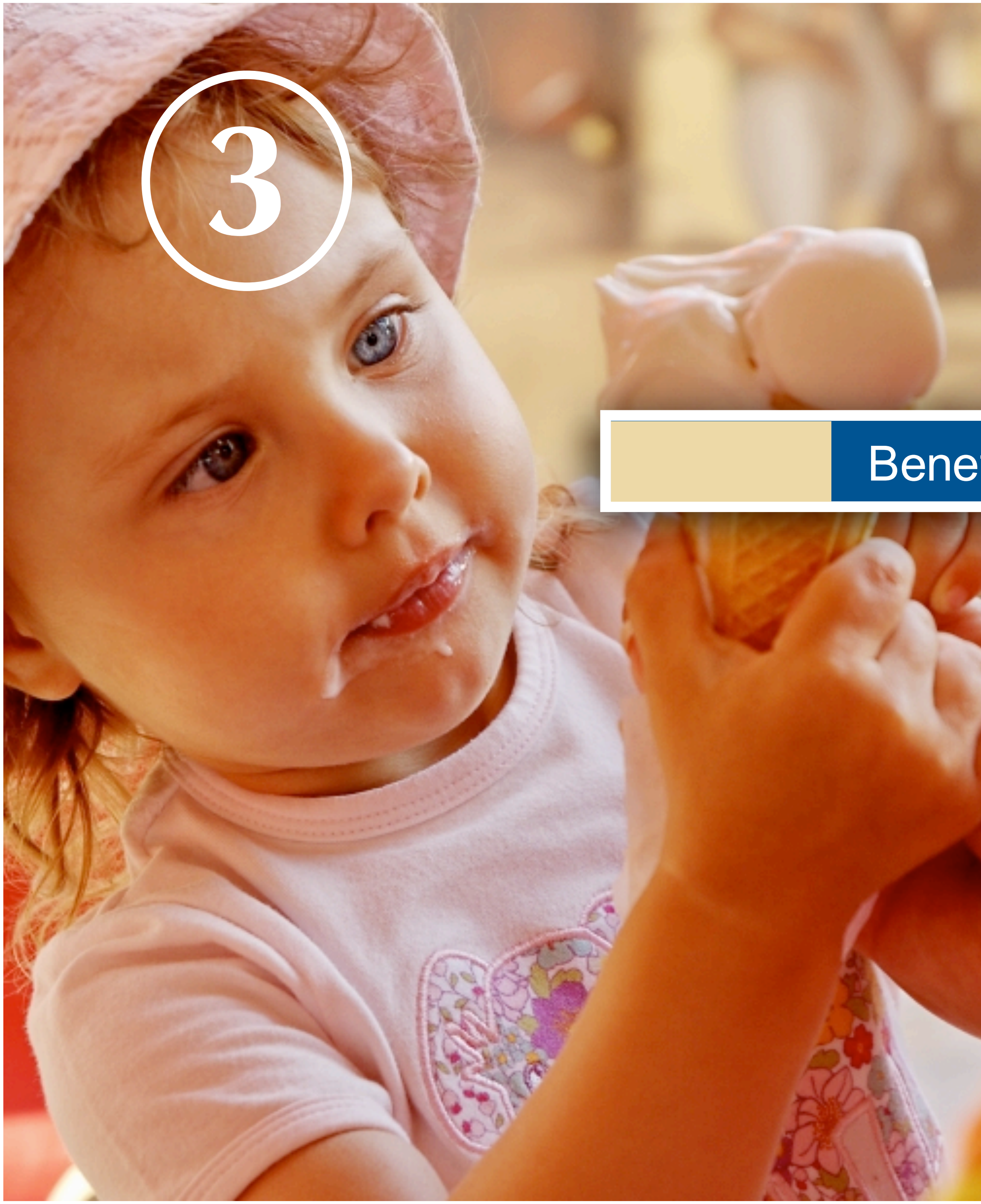
Don't forget that you also need to have money saved for the down payment, closing costs, inspection, moving and other related expenses. We will cover the costs of these items later.

Also think about any future plans such as a wedding or unexpected expense like having to buy a new car that will impact your budget. Be realistic and honest with yourself- you don't want to buy your dream home only to realize afterwards that it is more than you can afford.

Don't be disappointed!

If your rough estimate or the amount a mortgage lender gave you is less than what you were expected, don't be discouraged. **Townhomes, condos** or **duplexes** are often less expensive, overall and in monthly expenses, than single-family homes and a great place to get your start.

If you are having financial or credit problems, spend 6-12 months working on correcting these issues before starting the home buying process. A stronger credit score and a lower debt-to-income ratio will help you get a better interest rate and be approved for a larger mortgage amount.



Benefits of Owning:

Homeownership does come with a lot of responsibilities but most financial advisors and accountants will tell you that there are many advantages.

Tax Benefits: The interest you pay on your mortgage can be tax deductible from your federal income tax. The amount you spend on repairs and renovations can also be tax-deductible. The Housing and Economic Recovery Act of 2009 also allows for most first-time homebuyers to qualify for an $8,000 tax credit.

Stable Payments: If you choose a fixed-interest rate on your mortgage, your monthly payment will remain the same for the life of your mortgage. In most cases that is 30 years. No more yearly rent increases!

Build Your Net Worth: Owning a home helps you build long-term financial security and independence. Your net worth will increase as the equity is built up in your home.

Independence: Owning your own home gives you a place of your very own! It will provide shelter and security for you and your family.

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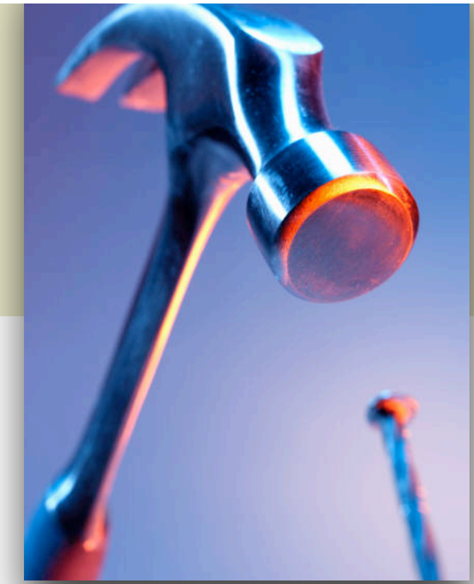

So What Are the Risks?

Homeownership is a usually good investment for most people, but like with all investments there are risks. Understanding both the benefits and risks of home ownership will help you weigh your options to see if it is right for you.

Repairs and Upkeep: You become your own landlord so all repairs and upkeep become your responsibility. If an appliance breaks, it will be up to you to repair or replace it. The overall upkeep of your home year after year can dramatically affect the resale value of your home.

Life changes may affect your situation: Unexpected life changes like, change in jobs, health or family issues, can dramatically affect your living situation and you may need to sell your home. Depending on the current market conditions, you may not be able to sell quickly and you may be faced with additional expenses.

Property values can depreciate: There are many elements that can affect the value of a home, such as, market values, maintenance and up keep of the property, recession, or changes to the neighborhood. Whether your homes value increase or decrease you are still responsible for the total amount of your mortgage even if it is worth less than what you owe.

Cost Benefits

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Rent vs. Buy

Many times, a mortgage payment can be found that is close to what you are currently paying in rent or just a little bit higher. Even with a slightly higher monthly mortgage payment, the tax benefits for homeowners can be significant. Below is a chart that shows a cost comparison between renting and buying a home. The renter has a current rent of **$950/month** with annual increases of just 3%. The homeowner purchases a home for **$150,000** with a monthly mortgage payment of **$1,020/month.** The homeowner has reduced the annual housing expense after just the FIRST year with the tax savings. After just 4 years the renter is paying a *higher* monthly payment and is missing out on significant tax savings.

Years	Rent Payment	Mortgage Payment	Monthly Difference	Tax Savings	Yearly Difference	After Tax Savings
1	$950	1020	-$70	**1825**	**-$840**	**$985**
2	$979	1020	-$41	**1802**	**-$487**	**$1,315**
3	$1,010	1020	-$10	**1779**	**-$124**	**$1,655**
4	$1,041	1020	$21	**1754**	**$251**	**$2,005**
5	$1,073	1020	$53	**1728**	**$637**	**$2,365**
6	$1,106	1020	$86	**1700**	**$1,035**	**$2,735**
			Savings continue to increase every year			

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Myths About Homeownership

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Myth: It's a bad time to buy a house. Fact: In fact with mortgage rates at historical lows and tax credit offered through the Housing and Economical Recovery Acts of 2008 and 2009, buying a home for first-time homebuyers has never been easier or more affordable. In addition, house prices have been falling and the number of homes available to first-time homebuyers has been increasing making this a perfect time for first-time homebuyers to purchase their first home.

Myth: You can't buy a home in the U.S. if you're not a citizen. Fact: If you're a permanent or non-permanent resident alien, you can purchase a home in the U.S. In order to qualify for a loan you typically need to be a permanent resident alien with a valid "Green Card" and Social Security number. If you are a temporary resident alien with a valid work permit and Social Security number and have been in the United States continuously for the last 2 years, with steady employment and good credit history you may also qualify for a loan.

Myth: You can't qualify for a mortgage if you don't have a bank account or credit cards. Fact: A bank account and a credit card is the easiest and fastest way to establish credit, however, lenders can approve you as a first-time homebuyer even if you do not have either of these. You will need to have records and documents showing that you have a good history of making payments for bills such as rent, utilities, car payments, etc. It is also a good idea to keep a list references – people or companies that you have made payments to.

Myth: Lenders share your personal information with other companies. Fact: Lenders are restricted by law with how they handle and use your information. There are very strict regulations that prevent them from sharing your information with anyone, if you request they do not disclose any of your personal information. If you have any questions about how your information will be used, don't be afraid to ask – it is your right to know!

Myth: If you're late on your monthly mortgage payments, you'll lose your house. Fact: If you fall on a financial hardship and have trouble making your mortgage payments, your lender will likely work with you to temporarily set up a payment program you can afford until you get back on your feet. The key is to contact your lender early and to have a true financial hardship such as loss of a job, death of a spouse, or medical issues. Be honest with your lender and work with them to find a solution as soon as you can. Foreclosure is only a very last resort for lenders. They would much rather work out another option and keep you in the home. If you're your financial situation changes and you are afraid you are going to fall behind on your mortgage payments – CONTACT YOUR LENDER IMMEDIATELY.

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Down Payments

A down payment is usually required when purchasing a home. Down payments can be as low as 3.5% of the sales price of the home, depending on the type of loan and you credit score. The more you are able to put down on a home the more you will be able to afford and be able to keep your monthly payments low.

Most homebuyers save in order to make their down payment. This is the safest process. There are other solutions that can help you cover these costs. Gifts can be received from relatives to help you pay for a down payment. Also it is possible to withdrawal savings from an IRA without any penalties to be used for a down payment.

Closing Costs

Closing costs are items needed to secure the mortgage, properly transfer the title and process the real estate transaction. Some of the fees are points, taxes, title insurance, financing costs, filing fees, escrow and others. Some of these items are negotiable and you should discuss this with your lender in order to get the best deal. Closing costs usually range 2-5% of the sales price. You will receive a GOOD FAITH ESTIMATE (HUD-1) from your lender before the closing so you will know how much you will need to bring.

About PMI

Private Mortgage Insurance (PMI) helps to protect the lender if your situation changes and you are unable to make your payments. It is generally only required when your down payments is less than 20%. Federal law requires that PMI is canceled once the value of your home has reach a certain percentage above the balance of your mortgage.

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Selecting a Mortgage

The type of mortgage you choose can greatly affect the amount of your monthly payment as well as the overall cost of your mortgage. The most common types of mortgages are listed here so that you can compare the benefits of each to determine which is best for you as a first-time homebuyer.

Rates: Interest rates are based on the amount the Federal Reserve charges banks to borrow money from it. Interest rates may vary from lender to lender and from different types of mortgages. Interest rates are also constantly changing. If you were quoted a rate 2 months ago, you may have to pay a higher right today because the market rate has changed.

Fixed vs. Adjustable –

Fixed rate mortgages will keep the same interest rate through out the entire term of the loan. This will make your monthly payment very consistent and predictable.

Adjustable rate mortgages normally are at a lower interest rate for the first few years and then are adjusted to the current market rate. This can cause a dramatic fluxuation in your payment.

Length of Mortgage: Mortgages are typically for 15, 20 or 30 years. The longer the term of the mortgage will lower your monthly payments however it can greatly increase the amount of interest you will pay over the entire term. Ask your lender to show how the different terms will breakdown so you can see which will be the best decision for you as a first-time homebuyer.

Points: Points are percentages of the mortgage paid to the lender for processing the loan. They can range from 0.5 – 2% and can help you reduce the interest rate of the mortgage.

Questions to Ask:

Are there any discount points that have to be paid?

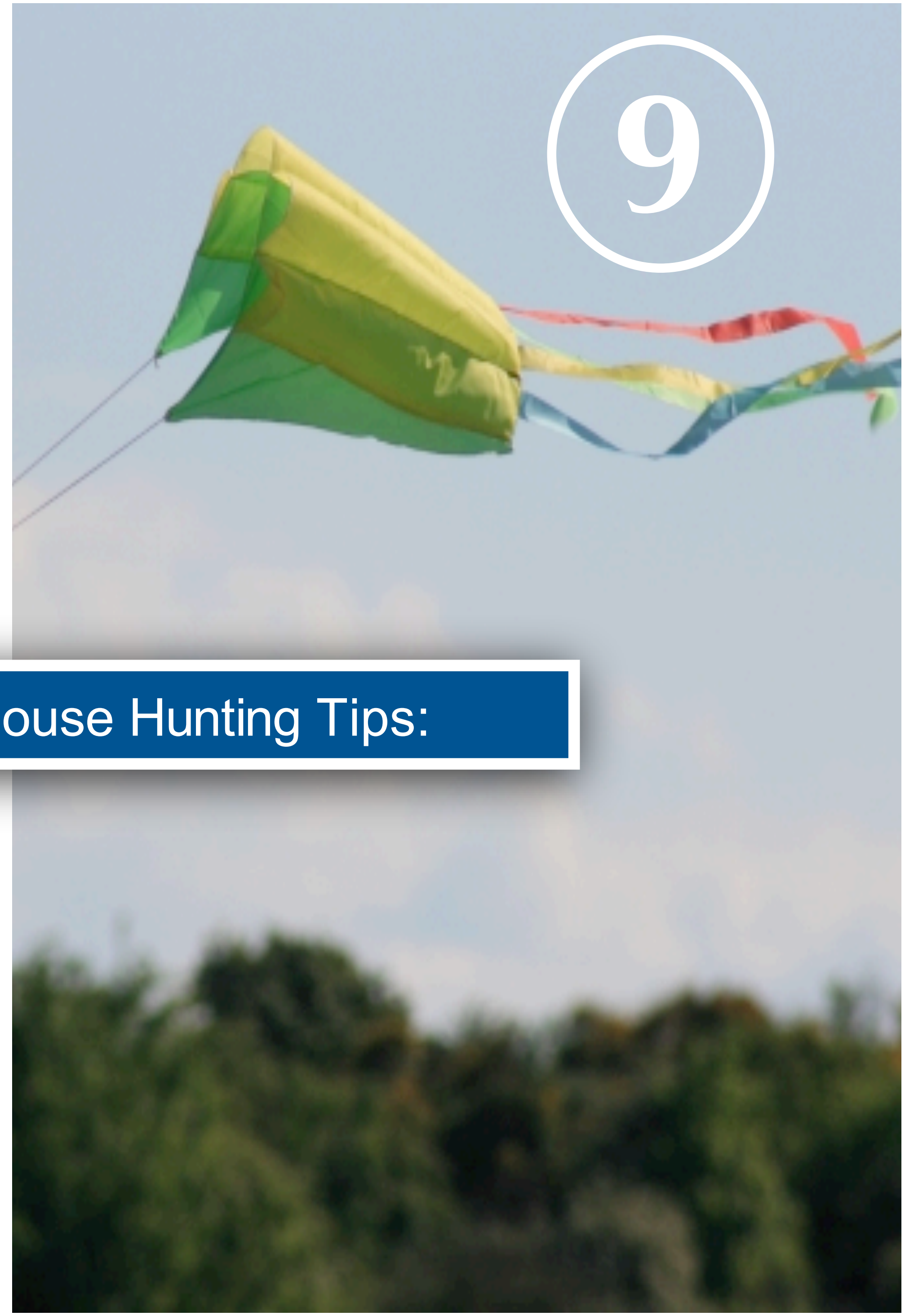
What are the PMI requirements?

What is the interest rate?

What is the term of the loan?

Is there a pre-payment penalty?

Is the interest rate subject to change?



House Hunting Tips:

The First Step – A Reality Check

It's fun to look at houses. And this part of the process is very exciting, but don't let your excitement rule the house-hunting process.

Stick within your budget. Don't look at homes above what you can afford – even if it's just a little more. Buying a home, even a little above your budget, can cause problems down the road if your finances change.

Don't let your heart rule over your head. You may fall in love with a house, but if it is beyond your means, it is not the right house for you.

Be flexible. Don't be disappointed if the houses in your price range differ from your original vision. Buy the home you can afford rather than the home that "has it all." While you may not be able to afford your dream home now, building equity in a home that you can afford may provide you with the financial ability to buy your dream home in the future.

Compare what you'd like to have with what you really need.

Look at the full cost of the house when making your decision – are there homeowner association fees? Is the house old, requiring a lot of maintenance? Be sure to factor these in when determining the true cost of the house.

Choose a Neighborhood

The area you live in and the amenities of your neighborhood could be as important as the house you choose. You may have a favorite neighborhood that you think you would like to live in but do not limit yourself to only that one. A realtor may be able to help you find other neighborhoods that have similar qualities.

Some things to consider about neighborhoods:

Personal Questions

- How long will it take to get to work?
- How far are you from family and friends?
- How far will you be from your gym, school, or other regular activities?
- Are there any homeowners' association fees rules or restrictions?
- Can you afford the county and/or city taxes?

Neighborhood-Specific Questions

- What are the schools, hospitals, and libraries?
- Is it an older, established neighborhood or a younger, still growing community?
- Are there signs of new construction in the area?
- What will this neighborhood look like in 10 years?
- What are the values of other homes in the neighborhood?
- If there are nearby restaurants or other businesses, do they bring people out during the day, or at night?
- What's the traffic like during the week? In the evenings? On weekends?
- Is that empty lot behind the house going to be developed?
- Are there plans for a mega-mall, highway or sports facility nearby?
- Are there mass-transit options within walking distance?

Find a Real Estate Agent:

They will be able to help you collect information on neighborhoods you might not have known about and will have many more listings than you will ever be able to find on your own.

If you like a neighborhood, talk to people who live there.
They'll be the most knowledgeable about the area and may be your future neighbors.

10 Hire a Professional Home Inspector

Hiring a professional home inspector is one of the most important things you can do to determine the condition of the home you are interested in. A licensed home inspector can discover many problems that may be hidden and save you a lot of money later on. Your Real Estate Agent can help you find a reputable Home Inspector.

A Home Inspector will give you a report covering the overall condition of the home. The air conditioning/heating system, plumbing, roof, foundation, and electrical systems are just some of the items covered in the report. If any item needs repair, it can be negotiated in the buying process of your home.

Home Inspection Tips

Always get a home inspection. Even homes that appear to be in great shape may have hidden problems that you need to know about.

Do not be put off by the items and issues that are found on the inspection report. It is the inspector's duty to uncover anything that might be an issue in the future. Even brand new homes that have never been lived in will have items that show up on the report as needed to be repaired.

A home inspection usually will take 2-3 hours to complete. Try to attend the entire inspection. As a first-time homebuyer, you will learn valuable information about how to care for a home and what will need to be repaired.

Homeowner's Insurance

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Homeowner's insurance protects you from damage being done to your home from theft, fire, storms, floods and other natural disasters.

Types of Homeowner's Insurance

There are four main types of insurance related to repairing structural damage:

Actual cash value: This insurance covers an amount equal to the replacement value of the damaged property, minus a depreciation allowance.

Replacement cost: This insurance covers the cost of replacing damaged property without a depreciation deduction, but with a maximum dollar amount.

Extended replacement cost: This insurance covers the cost of replacing your home up to a stated percent (usually 20-30%) over the amount insured.

Guaranteed replacement cost: This insurance covers the cost of replacing damaged property without a depreciation deduction or a maximum dollar amount.

The terms can be a little confusing. Be sure to ask an insurance professional to give you real-life examples so you can understand the differences.

Saving Money on Insurance

Increasing your deductible - The higher the deductible, the less expensive the insurance premium. But don't forget that, in the event of a loss, you'll have to pay the amount of your deductible from your own money before your insurance pays for any damages. Don't take a deductible that will be too much for you to pay in the event of a loss.

Consolidating your insurance - If you buy homeowner's and auto insurance with the same company, you may be able to get a discount.

Title Insurance

Because a bank is loaning you money to purchase your home, the lender will appear as the first lien on your property. To protect your lender from being accountable for liens on the title, you will be required to obtain a lender's title insurance policy. For an additional fee, the title insurance company can issue homeowner's title insurance that gives you protection in the event someone is trying to collect on a lien from a prior homeowner. Your policy will protect you as long as you own the home, even if you refinance or pay off your loan, and depending on the policy, it can protect you even after you sell the house. You should ask your lender for information about homeowner's title insurance.

A **lien** on a home is someone who has first claim to your property if you do not fulfill your obligation in a contract.

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The Home Buying Process

Get Pre-Approved and Meet with your REALTOR®

- Meet with a loan officer; by sharing income and other financial information, you will know the price range for which you are qualified.
- Get Pre-qualified.
- Obtain a pre-approval letter.
- Obtain a "Truth in Lending" letter explaining the costs of borrowing money.
- Learn about the many loans available to buyers in today's market.
- Learn about closing costs.

Begin viewing homes with your REALTOR

- When possible, all decision-makers should visit the various homes.
- Always be candid with your REALTOR -- it will help them understand your particular needs and desires and enable them to select homes you'll want to see.

Prepare the offer

- Your REALTOR will provide you with a comparative market analysis on the property or properties of your choice in order to assist you in making an informed decision.
- Your REALTOR will go through the contract with you and complete your offer.
- Negotiations will proceed until both buyer and seller agree on all terms and sign.
- All documents will be sent to the title company where a file will be opened, and title commitment and property tax information ordered.

Make your loan application

- Give your loan officer a copy of the contract and apply for the loan.

Inspect the property

- Select an inspector and arrange for both a general inspection and wood-destroying insect inspection.
- Your REALTOR also can provide information about other environmental assessments.

Appraisal and survey of property

- The lender and title company will make arrangements for the property appraisal and survey.
- Buyer will be provided a copy of the Title Commitment Letter.
- Buyer will make arrangements for homeowner's (hazard) insurance, and arrange for the insurance agent to talk with the closing officer at the title company.

Seller's closing is also arranged

- Buyer receives a copy of the closing statement for review prior to closing.
- Buyer does a final walk-through inspection of the property.
- The REALTOR arranges a closing date and time with the buyer and Title Company. Seller's closing is also arranged.
- Buyer brings a cashiers check for all closing costs and the balance of the down payment.

After the closing

- Documents are sent to the buyer's loan company for approval and funds are disbursed.
- The title company receives and funds all money from the loan company. Payment of any accrued expenses in connection with the closing are due including taxes, attorney's fees, professional real estate fees and title company fees.
- Legal documents will be recorded in the office of the county clerk and mailed to the buyer.
- Title company prepares and issues the title policy, and sends it to the loan company and new home owner.

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