



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 may be able to deduct your monthly mortgage interest and your property taxes on your income tax. Certain costs incurred during the purchase of a home may also be 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 goes towards a reduction in the total amount owed. Typically, payments in the first few years of the mortgage are primarily applied 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 tend to grow 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 year after year.

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 <http://www.consumerfinance.gov/find-a-housing-counselor/>

1

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 get pre-qualified. During this step you may be asked to collect the following information for the application.

These items include:

- **Income & Employment Information:** 2 years of W2s (tax returns, if applicable)
- **Documentation of Assets:** 2 - 3 months of financial statements (bank, retirement, gift letters)
- **Monthly Expenses:** List of monthly payments and debts (car payment, credit cards, etc.)

A lender will evaluate these records to determine your financial stability, credit worthiness and ability to repay the loan.

PITI

When evaluating your future housing expenses, it's important to take into consideration the entire housing expense, not just the mortgage payment. Mortgage lenders use 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 or 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. Not only is the credit score used in determining your eligibility, it may also impact the rate/cost of your loan.



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 the result of owning a home. In addition to a mortgage payment, homeowners must plan for expenses such as homeowner's insurance, property taxes, potential homeowner association fees, additional utilities, home maintenance, repair and upgrade costs.

Maintain a Savings Reserve

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.



2 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 wider range of home loan options.

It is very important to work with a mortgage professional who you feel comfortable with and who you feel you can 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, make sure that they answer all your questions, provide options to meet your financial needs and that they 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 determine a home purchase price that you can afford
- Help you compare different loan programs so you can choose the best one for your financial needs
- Manage and address any issues that may come up along the way

When choosing a mortgage, there are many factors to consider which would affect your monthly payments, closing costs, amount of cash needed at closing and total amount paid for your loan.

These factors include:

- Type of Loan
- Fixed or Adjustable Interest Rate
- Term (number of years you'll be making payments)
- Down Payment Amount
- Mortgage Insurance Options
- Total Settlement Costs

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?"

Usually, adjustable rate mortgages have a lower starting interest rate, resulting in a lower initial monthly payment. But adjustable rates MAY 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 the mortgage insurance payments once your balance drops below a certain level.



3 step three

Finding your new home



The house hunting stage can be fun and exciting, but it's important 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. Is a smaller house in a better school district a better fit? This depends on your family's unique needs. You may have to look at dozens of homes before you find one that:

- Is in a neighborhood that suits your lifestyle?
- Is within your budget?
- Has all the features that your family desires?

You should be prepared to readjust your priorities to find a home within budget that fits 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 tax rates
- Negotiating a purchase price and making the offer
- Assisting in the purchase and closing process

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.

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.



4

step four

Buying your home



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

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 usually applied to your down payment at 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.

Contingencies

There are contingencies that will need to 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 discount the price to allow you to fix it. Your real estate agent will guide you through this part of the purchase experience.

Closing the Sale

Once your offer is accepted, you begin the process to finalize and close on the home. This involves several important steps, any of which can hold up or even prevent the purchase of your new home. It is critically important to remain in contact with your real estate agent and mortgage professional so that you can respond to any requests for information or additional documentation as quickly as possible.

Closing Disclosure

The closing disclosure documents all the funds paid at closing, including itemization of all the fees and charges that the home buyer and seller face in the sales transaction. It's important to check this document carefully for accuracy and ask questions if there is anything on the form that you don't understand. The total amount of closing costs vary, 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.

Various Closing Documents

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

After all the above items are completed, it's time for closing. You'll be asked to attend a closing meeting, which usually takes place at the attorney's office. At the meeting, you will sign all of the closing documents. There will be many documents to sign, and your attorney 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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