THE FIRST-TIME HOMEBUYER'S GUIDE

THE PATH TO YOUR FAVORITE PLACE IN THE WORLD



BROUGHT TO YOU BY

Horizon
Federal Credit Union

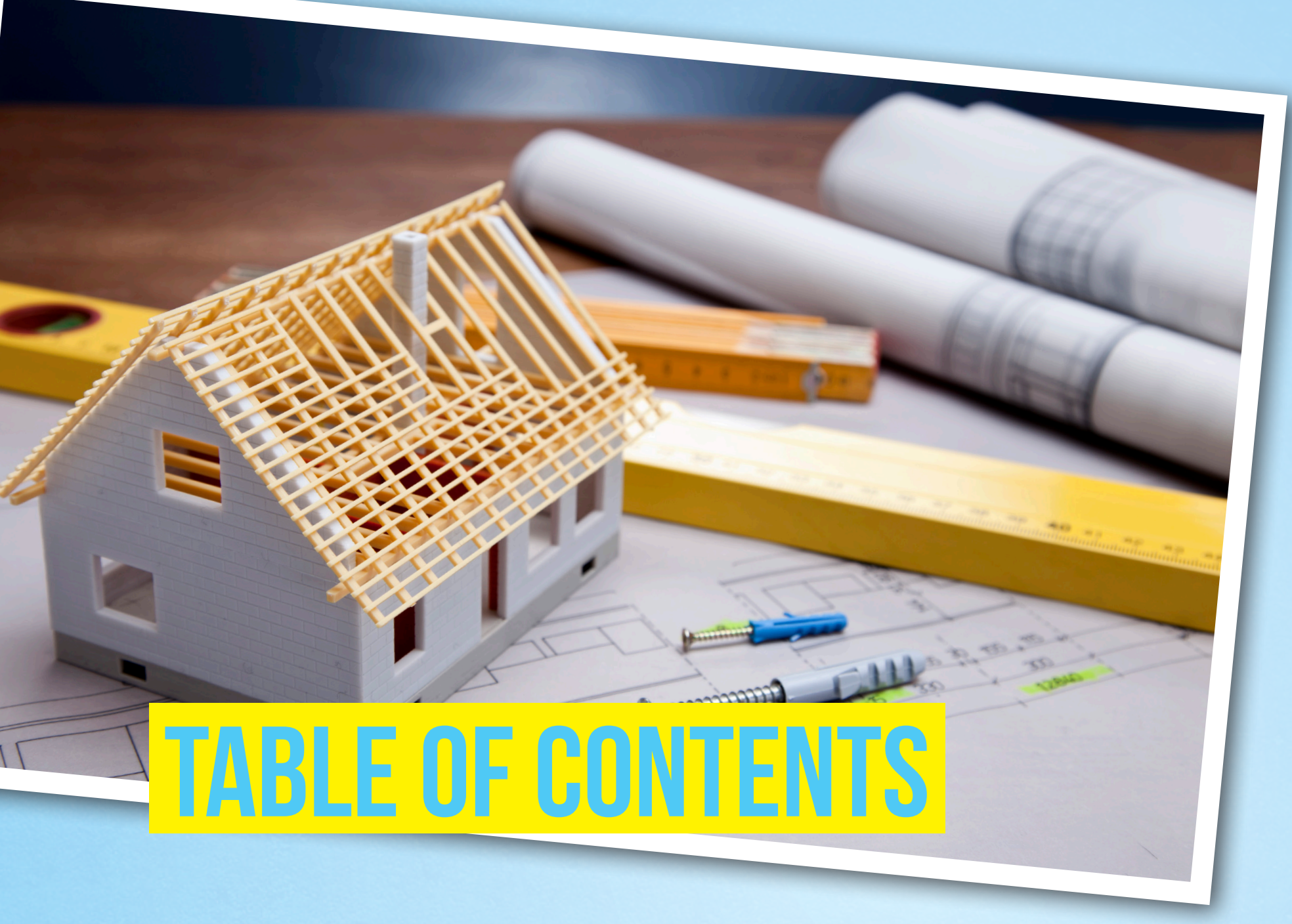


TABLE OF CONTENTS

Introduction 3

Who Are First-Time Homebuyers? 4

Are You Ready? 5

Getting Yourself Ready 6

Know The Real Cost 8

Research Your Options 11

Pick Your Team 13

Know Your Budget, And Don’t Be Swayed 16

WORKSHEET: Track Your Budget 17

A Wish List... Not Wishful Thinking 19

Beautiful Day In The Neighborhood 21

Some Final Thoughts 24

INTRODUCTION

Buying a house is one of the biggest decisions, financially and emotionally, you'll ever make. But that's no reason to shy away from it. Just do your homework and arm yourself with advice from others who've been there — as well as professionals in the field, who've seen it all. You'll be well on your way to a home that's just right for you, your family and your budget.

The typical American spends more time thinking about buying a car than buying a house. That seems crazy, given that a house is a much greater investment. But that's probably the reason: Buying a home is a daunting task, especially for first-timers. It's easy to get overwhelmed by the process, leading you to either give up and rent or (much more dangerous) pick a house using an eeny-meeny-miny-mo style without doing important background work. This book will help make the process a little easier.

WHO ARE FIRST-TIME HOMEBUYERS?

According to the National Association of Realtors, the number of first-time homebuyers was about 47% of all home sales in 2009 and, after a dip during the recession, back up to 34% in 2016. That's the highest percentage in four years. Many first-time homebuyers are millennials, age 34 and younger. A survey completed by Choice Home Warranty in 2015 shows that 30% of all millennials plan to buy a home over the next five years.

Whatever age group you fit into, you're not alone if you're considering buying your first home. Maybe you've been renting and need more space, or you feel ready for a long-term commitment, financially and otherwise. If you're still in the process of making that decision, the *New York Times* has an excellent, interactive "Rent Vs. Buy" calculator that might help put things in perspective. Try it: https://www.nytimes.com/interactive/2014/upshot/buy-rent-calculator.html



ARE YOU READY?

In addition to asking yourself that question with regard to finances, consider how ready you are in terms of emotions. When you're renting, remember that surprises don't require a lot of emotional investment. Rent goes up? You can move. Stove on the fritz? Crabgrass out of hand? The landlord will send someone over. Homeownership is different, though. If the furnace breaks or property taxes rise, it's on you. That's a potential financial burden, but experts point out that there's a mental and emotional cost, too. Everything can go perfectly smoothly for months, and then four maintenance issues might spring up in the same week. Stress management and problem solving skills are among the tools a homeowner needs, right alongside a lender they know they can trust.



GETTING YOURSELF READY

GET YOUR FINANCES IN ORDER

Some real estate agents won't even show homes to prospective clients who don't have a mortgage preapproval. Meet with your lender at the start of the process to find out how much house you can afford and how much cash you'll need to close. (More on this in a moment.)

ATTEND A FIRST-TIME HOMEBUYERS SEMINAR

Your credit union may offer a seminar, and if not, can advise you on signing up for one that's possibly given by a city housing department or a non-profit organization. Why not take a little time to learn from the pros? Many of the seminars are free. However, any nominal fee will be repaid many times in valuable knowledge.

MAKE A DOWN PAYMENT PLAN

Most conventional mortgages require a minimum down payment of 5% to 7% of the cost of the home, but some range as high as 20%. If you can swing a higher rate, your loan costs will be less and you'll get a better interest rate. If not, there are many programs



that can help. The Federal Housing Administration (FHA), for example, offers loans with only a 3.5% down payment — but they require mortgage insurance premiums, which drive up your monthly payments. Your best bet is to check with your credit union loan pros and investigate all the options.

CHECK YOUR CREDIT SCORE

Get a copy of your credit report at annualcreditreport.com. The three credit bureaus (Equifax, Experian and TransUnion) are each required to give you a free credit report once a year. A Federal Trade Commission study found one in four Americans identified errors on their credit report, and 5% had errors that could lead to higher rates on loans. So avoid any last-minute bombshells by checking your score long before you're ready to make an offer. And be sure to correct any mistakes.

A healthy credit history is extremely important. Most borrowers start to qualify for a mortgage with a minimum score of 620 — but the most competitive interest rates will be offered to those with a score of 700 or above. And getting the lowest rate possible can save you tens of thousands of dollars over the life of a 30-year mortgage. So if you haven't started practicing good credit habits yet, it's time to start developing them.

One of the trickiest hurdles for young adults, many of whom are lugging around student loan debt, is the debt-to-income (DTI) ratio. The debt-to-income ratio is the amount you pay toward debt each month divided by your gross monthly income. Mortgage lenders want borrowers to have a certain level of cash flow, and that means taking into account how much you're paying out to other lenders.

Ideally, a borrower's DTI ratio should fall below 36%, though loans can be made on DTI up to 43%. If yours doesn't fall in that range, ask your credit union how to get the needle moving in the right direction. Some ways to do that include paying bills on time, keeping unused lines of credit open (paid off), and not opening new credit cards — which will show up on your credit report and could affect your score.

KNOW THE *REAL* COST

When budgeting for a new home, look at *all* the expenses associated with it, just as you'd add up gas, oil, insurance, mechanics' fees and car washes when buying a new automobile.

So don't stop with principal and interest; add in utilities, cost of commuting and upgrades. Call the utility companies that service the house you are considering and ask for an estimate of what the cost will be, whether there are any budget plans available, etc. Will the gas budget for your car go up if you are moving farther away from the places you frequently visit?

Add 3% to 6% more for closing costs, which will vary based on where you live and what taxes your state and city require you to pay. And if you'll be joining a homeowners association (HOA), ask to see the contract before making a decision. You'll want to know about all rules and restrictions, from pet ownership to who can use the pool. Fees can be as low as $0 or as high as several hundred dollars per month, depending on the amenities and services offered. That could easily turn an $800 mortgage payment into an $1,100 one.



AVOID THAT FIXER-UPPER

Even if you count yourself a handyman or handywoman, think twice before taking on the expense of renovating a house that has charm and "promise." Cosmetic updates are one thing, but anything that requires a permit

means bigtime expenses and headaches. Large-scale renovations can be a nightmare for anyone without professional-level knowledge and experience with renovations. Have a serious conversation with yourself about your ability to handle the work, the cost and the stress of such a project. A first-time buyer in Baltimore who learned that lesson firsthand reports:

> *When my three children were young, I began a major renovation of our home. We arranged to stay at a vacation home for the summer but needed to return to our unfinished apartment when the school year started. I thought that living in the midst of a construction project would be an "adventure," but I underestimated my ability to cope with the dust and the chaos.*

OTHER HOMEBUYING EXPENSES

Buying a home involves lots of costs that aren't "hidden" per se but are easy to overlook in the excitement of a new purchase. These include a home inspection (more on that below), a title search and a property survey. Costs vary by locale, but expect to pay at least a few hundred dollars. Don't forget real estate taxes, and there are likely to be some small, but numerous, items that you never needed before — like a lawnmower.

Homeowners insurance and property taxes vary based on your location. Florida has notoriously high insurance rates, averaging $161 per month, whereas in Idaho and Wisconsin rates are a bit lower, averaging below $50 per month. Property taxes are higher than average in New Jersey, New Hampshire, Texas and Wisconsin, and lower in Louisiana, Hawaii, and Alabama.

Routine (and not so routine) maintenance can also add up quicker than you'd commonly think. And don't tell yourself you'll take care of that mysterious water stain or leaning deck later; deferred maintenance costs a lot more than routine maintenance.

On top of those costs, if your down payment is less than 20% of the selling price, you may end up paying for Private Mortgage Insurance (PMI), which is basically insurance for the lender in case you default on your loan. Usually, it's about $50 to $200 a month. But once you reach a certain threshold on your loan-to-value ratio, you can usually cancel PMI.

RESEARCH YOUR OPTIONS

The lending pros at your credit union can help you investigate all your mortgage options and pick the one that's right for your situation. Think about your long-term plan when you're exploring these. You might be one of those people who never plans to buy another home, so maybe you're more interested in a 30-year, fixed-rate mortgage. Another couple might look at this home as a starter property that they only want to own until their second child is born. Thus, they might want an adjustable-rate mortgage.

Your credit union can preapprove your home loan, so you'll be ready to go when you find the right house. Preapproval will help you understand how much you can expect to borrow, which will narrow your home search to properties within your price range. It can also give sellers a little more confidence in how serious you are when making an offer. Typically, preapprovals are good for 60 to 90 days. If you don't find a home within that period, you may need to re-qualify with your lender.

You might qualify for first-time buyer programs you'd never have known about, with lower interest rates, low down payment options and even down payment assistance programs. One program through the federal government that's



popular with many first-time homebuyers is the Federal Housing Administration (FHA) loan program, which usually offers smaller down payments and can be more accessible to those who are without great credit. Even the IRS, of all places, has offered first-time buyer perks. If you're a veteran, it's worth looking into VA loans, and Native American first-time homebuyers can apply for a Section 184 loan, which requires only a 2.25% down payment on loans over $50,000.

PICK YOUR TEAM

In addition to your credit union loan adviser, you'll need people with the right stuff all along the way. You'll want a real estate agent who will move quickly when a new listing goes on the market, and who will advise you honestly on preparing your offer. You'll also need a home inspector you can trust. These folks are your team, the people going to bat for you. Ideally they'll communicate well with each other as well as with you, and keep everyone in the loop.

Remember, though, that your team starts and ends with you. Make sure to regularly ask what you need to be doing, what steps are left to take, what forms to fill out.

REAL ESTATE AGENT

Your real estate agent is your insider to the world of homebuying, and the right one can be an invaluable asset when buying your home. Talk to people you al-



ready trust — friends and family members might be able to offer names of people they've worked with. That's how good agents get referral business. This won't work, of course, if you're moving to a new city. But, if you're relocating with a company, they might be able to offer recommendations.

Many real estate agents specialize in certain areas of town or types of property, so ask your prospective agents how many homes they've sold in your target area. An agent who's worked in your preferred location extensively can share insights on things such as new developments, taxes and other issues that may affect the market value of the homes you're browsing.

You may want to look into hiring a realtor, which just means that your agent is a member of the National Association of Realtors and has pledged to abide by a code of ethics set out by that group.

Working without an agent can be a treacherous road. If a seller does a "for sale by owner" (FSBO) listing in an effort to save on the agent commission, that seller might request that you purchase without an agent as a way to keep agents out of the transaction. That's not a great idea, so carefully evaluate your options before agreeing to it. In most cases, you're better off walking the other way.

HOME INSPECTOR

A knowledgeable home inspector is just as important as a great real estate agent. Getting a home inspection can save you thousands of dollars in the long run, but it has to be thorough. Ask friends and co-workers for referrals or find out if your real estate agent has anyone they would recommend. You may want to check with associations, such as the American Society of Home Inspectors and the National Association of Home Inspectors, that require that members abide by standards and a set of ethics.

Once you've gotten a few names, interview potential candidates. Don't be afraid to ask questions: Find out what their process is, how long it usually takes, what

their expertise is and what kind of information and paperwork you will receive after the inspection. If there's anything special about the property you're interested in — a septic or propane tank, for example — be sure the home inspector has expertise in that area. Finally, be sure to follow up on any red flags in the home inspection report by hiring experts to come in and take a closer look at, say, a possible radon issue or evidence of a pest infestation.

An inspection by a qualified and trustworthy inspector is essential. During your house hunt, you may find a house that looks great at first glance. Then, as you walk through a few of the rooms, you notice problems with the house. Maybe the floors squeak or the kitchen island is off-center. After walking through the house, you come to realize that someone has attempted to cover up some bigger issues, and the house is in questionable shape.

Home inspections provide you with some protection. The inspector will be able to find problems you might overlook, and you want to know about these problems before you sign on the dotted line. Even if the home you plan to purchase appears to be flawless, there's no substitute for having a trained professional inspect the property for the quality, safety and overall condition of your potential purchase. You don't want to get stuck with a money pit or with the headache of performing a lot of unexpected repairs. If the home inspection reveals serious defects that the seller did not disclose, you'll generally be able to rescind your offer and get your deposit back. Negotiating to have the seller make the repairs or discount the selling price are other options.

KNOW YOUR BUDGET, AND DON'T BE SWAYED

Before jumping into meetings with realtors and attending open houses, first-time homebuyers should be realistic about their budgets. Taking a couple of months to closely track spending can give you an accurate idea of the amount of money you'll be able to put toward a monthly mortgage. Some experts even suggest living on a "faux mortgage" budget for a few months, to see if you've been realistic in your projections.

DON'T END UP HOUSE POOR

Sometimes homebuyers "fall in love" with a house or neighborhood (or even just the idea of owning a house). This can lead to regret when the novelty wears off and you don't have any money to do the things you'd like. Purchase a home you can afford, not one that stretches you to the limit. The right house allows you to save for retirement, college education or perhaps your next home purchase, and it ensures you have liquid assets available in case of a medical crisis or a job loss. You never want to be "afraid" of your mortgage.



SO: HOW MUCH *CAN* YOU AFFORD?

Lenders are often very happy to lend you as much as your debt load allows. But remember, just because someone *will* lend you more money, it doesn't mean you *should* borrow it. Ask yourself, how much house do I really want? There are plenty of calculators on the web to help you determine what you can afford.

If you think you might be pushing the limits, use this worksheet to get a quick reality check.

WORKSHEET: TRACK YOUR BUDGET

The first step in getting yourself in financial shape to buy a home is to know exactly how much money comes in and how much goes out. Use this worksheet to list your income and expenses below.

INCOME		EXPENSES	
Total Take-Home Pay		Total Rent/Mortgage	
Child Support/Alimony		Child Support/Alimony	
Pension/Social Security		Health Insurance	
Disability/Other Insurance		Life Insurance	
Interest/Dividends		Other Insurance	
Other		Vehicle Insurance	
		Vehicle Payments	
		Vehicle Upkeep	
		Other Loans	
		Utilities	
		Credit Card Payments	
		Savings/Pension Payment	
		Groceries	
		Clothes/Personal Care	
		Medical/Dental/Prescriptions	
		Household Goods	
		Child Care	
		Education	
		Charitable Donations	
		Eating Out	
		Entertainment	
TOTAL INCOME:		TOTAL EXPENSES:	

REMAINING INCOME AFTER EXPENSES (SUBTRACT TOTAL INCOME FROM TOTAL EXPENSES):

_____ _____

Tools like this are a useful guide, but adjust the answers based on your individual situation. How much is your current rent payment? Did you meet that payment each month with ease, or was it a bit of a struggle? The payment you can afford right now is a good indicator of what you'll be able to afford in your new home.

You'd be surprised how many homebuyers don't start by figuring out how much money they have to spend on their purchase. It's easy to show up at open houses and fall in love, but why waste time looking at homes that are out of your price range? The last thing you want is to find your dream home and then realize it's way over your budget.



A WISH LIST... NOT WISHFUL THINKING

When you're ready to look, and excited about that great house you haven't seen yet, it's easy to get blinded by beautiful back-splashes, granite counter tops, hardwood floors and fenced-in backyards that you hadn't even realized you wanted. But be careful: You may begin to rationalize a larger purchase than what you've carefully planned for.

PRIORITIZE

What's most important in your new home? Proximity to work? A big backyard? An open floor plan? A quiet street? Is it the number of bedrooms or bathrooms? What about other amenities like an attached garage or a pool? Local schools?



Distance to work? Are you concerned about crime? It all depends on your personal situation, but doing the research beforehand can help you nail down the properties you're most interested in viewing.

You'll make a much better decision on what home to buy if you focus your priorities. It's good to remember that granite countertops or stainless steel appliances are easy to add later, whereas you can't easily add another bedroom, get a better location or a more functional floor plan.

Most importantly, know what trade-offs you're willing to make. The quest for perfect is the enemy of the good, and it can be a stumbling block to finding your new home. Knowing what you need to have and what you can live without is what a budget's all about. But don't punish yourself for your priorities. Consider how you're likely to feel about a feature you dislike in a house five or 10 years down the road. You want to love your home, not resent it (or yourself).

BEAUTIFUL DAY IN THE NEIGHBORHOOD

No matter where you're looking to buy a home, it's important to look into what other homes in that area sold for recently. This can be very helpful during the negotiation process. You can start by visiting open houses, and also use property listing sites, such as realtor.com, to find out about neighborhoods, public transport and cost of living.

LET SOMEONE ELSE BUY THE PRICIEST REAL ESTATE

"The worst advice I ever received: Buy the most expensive home on the block," says Michelle Wolf, who has owned homes in Portland, OR, Charleston, SC, and St. Simons Island, GA. Much like buying a brand-new car can mean leaving thousands in value behind as you drive it off the lot, owning the most expensive home on the block can mean tossing value away.

"Whenever possible, you want to avoid that, because property values tend to gravitate toward the middle," explains Michael Paull, a real estate agent in Jacksonville. "So if your home is the lowest-priced in the neighborhood, your value could be pulled up by higher-priced homes. The opposite is true if your home is the highest-priced."



TALK TO THE NEIGHBORS

Speaking with neighbors can

give you a more intimate sense of a property or area. Chat with your potential neighbors and get their perspective on the area. The neighbors will know if there are foundation problems. They'll also know about barking dogs, petty crime and the size of utility bills. Ask things like: How's the garbage pickup? Does the town do a good job when it snows? Towns have all sorts of laws you'll be stuck with once you move in. Better to know beforehand.

THINK ABOUT DEMOGRAPHICS, TOO

If you're buying in a neighborhood that is full of renters, it only takes a few bad ones (or bad landlords) to drive the neighborhood and property values down. If the neighborhood is full of single people, will you be happy there if you have very young kids?

LOOK AROUND

If you think you've found the neighborhood you want to buy in, take it a step further. Drive from your potential new home to your office to see what the commute is like, as well as to places you'd go on a regular basis, like the grocery store, gym and gas station.

And be sure to visit at different times to evaluate things like traffic and noise. Most neighborhoods are quiet in the middle of the day. As Glen Craig writes at the personal finance blog *Free From Broke*: "You need to see what the area is like on a Saturday night. Are there kids out driving with music blasting? What's it like in morning rush hour or in the evening?"

LEARN ABOUT THE SCHOOLS

When you purchase a home, think about what your life is going to be like in five or 10 or 30 years, if you plan to still be living there. If children are in your future (or your present), the local schools are important. You can ask friends with children or do research online. Neighbors can be helpful here, too.

While you're checking the schools, make sure you look into things like: Is there full or partial day kindergarten? Pre-school? How long are the school days? Is there bus service? In some towns, the school zone has different borders than the town. So you could live in certain areas of one town and belong to a school district in another that isn't quite as good.



SOME FINAL THOUGHTS...

Buying a home, especially for the first time, is both scary and exciting. Spend a little time *before* you start searching, though. Put together a crack team of helpers and a mental list of things to look for, and the scariness quotient goes way down. You can feel confident you're making good choices, and your path to that dream house will be both shorter and a whole lot easier.



Horizon Federal Credit Union