

# ***YOUR FIRST HOME***

*The Proven Path to Home Ownership*



## Home Buying by the Book

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# Introduction

- After Hurricane Katrina destroyed their beloved New Orleans, many former residents were asked the following question:
  - Besides “**L-O-V-E**” what do you identify as the most important four-letter word?
  - The unanimous answer was simply...

**“H-O-M-E”**



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# Introduction

- This book begins by helping you consider some common fears and helpful facts about buying a home.
- It also walks you through eight simple steps to successful home ownership.



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# Fears and Facts About Buying a Home

- Fear: I can't afford to buy a home right now.
- Fact: Actually, you can't afford not to buy a home right now.

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# Fears and Facts About Buying a Home

- Fear: I should wait until the real estate market gets *better*.
- Fact: There is never a *wrong* time to buy the *right* home.

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# Fears and Facts About Buying a Home

- Fear: I don't have the money for the down payment.
- Fact: There are a variety of down payment options available to you.

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# Fears and Facts About Buying a Home

- Fear: I can't afford to buy my dream home.
- Fact: The best way to get closer to buying your dream home is to buy your *first* home.

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# Eight Steps to Home Ownership

1. Decide to buy.
2. Hire your agent.
3. Secure financing.
4. Find your home.
5. Make an offer.
6. Perform due diligence.
7. Close.
8. Protect your investment.

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# Decide to Buy

- Financial net worth comparison, according to the U.S. Federal Reserve Board of Consumer Finance:
  - Average net worth of renters = **\$4,000**
  - Average net worth of home owners = **\$184,400**

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# Decide to Buy

- A home is the largest financial asset most people have due to equity and appreciation over time.
  - Historical appreciation rate is **5 to 6 percent**.
  - This means that a home purchased for \$150,000 would grow to a potential value of **\$861,000** in 30 years!
  - Even at 3% annual appreciation, a home purchased for \$150,000 would grow to **\$364,000** in 30 years.



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# Decide to Buy

- Buying your first home is an emotional decision—“Home is where the heart is.”
  - A home represents your personal tastes and provides a haven of stability and security for both you and your loved ones.
  - Provides a pride of home ownership, because it's *yours*.



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# Decide to Buy

- It's also a rational decision—"Home is where your wealth is."
  - Grow wealth via equity buildup, debt pay down, and value appreciation.
  - In the United States, you can take advantage of tax-deductible benefits such as property and mortgage interest write-offs.



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# Decide to Buy

- “Home is where your wealth is.” (continued)
  - A home is an “accidental” investment that creates leverage opportunities.
  - Examples:
    - In a few years, you can use your equity to trade up to a better home.
    - Or, you might consider using some of your home equity to invest in a rental property or a second home.



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# Decide to Buy

- Why pay rent when you can own?
  - If you took out a 30-year fixed-rate mortgage for \$150,000 and made monthly mortgage payments of \$900...
    - You'd pay \$324,000 in mortgage and interest payments over the life of the loan.
    - And after 30 years you'd own a home with an appreciated value potential of **\$364,000** (on the low end at 3% annual appreciation) or **\$861,000** (on the historical norm of 6% annual appreciation).



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# Decide to Buy

- Compare that to paying \$800 per month in rent over 30 years...
  - Even if your landlord improbably *never* raised rent, you would still spend **\$288,000 and own nothing!**

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# Hire Your Agent

- Real estate agents perform 7 main roles:
  1. Educate you about the market
  2. Analyze your wants and needs
  3. Steer you to homes that fit your criteria
  4. Coordinate the work of other needed professionals
  5. Negotiate on your behalf
  6. Review paperwork and deadlines
  7. Solve any problems that may arise

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# Hire Your Agent

- Advantages of a buyer's representation agreement:
  - Sets mutual expectations in writing between you and your agent.
  - Commits your agent to getting you into the home you want, while you commit to working exclusively with your agent.



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# Secure Financing

- Six steps to financing a home:
  1. Choose a loan officer (or mortgage specialist).
  2. Make a loan application and get preapproved.
  3. Determine what you want to pay and select a loan option.
  4. Submit to the lender an accepted purchase offer contract.
  5. Get an appraisal and title commitment.
  6. Obtain funding at closing.



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# Secure Financing

- Know your mortgage options.
  - Three basic factors:
    1. Down payment
    2. Interest rate
    3. Term

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# Secure Financing

- Understanding your monthly payment:
  - Principal
  - Interest
  - Taxes
  - Insurance
- Together, these four elements are commonly referred to as **PITI**.



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# Secure Financing

- Prequalification vs. preapproval
  - Prequalification is simply a *rough estimate* of how much you can borrow.
  - Preapproval involves a formal application process and provides you with a *formal commitment* from a lender stating how much you can borrow and at what rate.



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# Secure Financing

- Deciding among your mortgage options:
- If you want...
  - A low monthly payment – put more money down or purchase a more affordable home.
  - A low down payment – secure a second mortgage or an “80-15-5” piggyback.
  - To build equity quickly – make voluntary prepayments.
  - To minimize risk – take a 30-year fixed-rate program with 20 percent down.



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# Secure Financing

- The suitcase principle
  - Your lender decides what you can borrow, but you decide what you can afford.
  - In your preapproval letter, make sure the monthly payment is an amount you're comfortable paying each month.
  - It's best to spend no more than a third of your gross monthly income on your home payment.



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# Find Your Home

- Define your home criteria—analyze your values, needs, and wants.
- Consult with your agent to understand the rules of your market.



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# Find Your Home

- When viewing a home, what you consider and what your agent considers are different.
- You'll want to look for...
  - Layout, space, a sense of value, convenience of location to work and schools, and features and amenities.
- Your agent will look for...
  - How the home compares in terms of size, layout, and value to other homes in the area, as well as maintenance and structural concerns.



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# Make an Offer

- Three components of an offer
  - Price—offer must reflect true market value of the home.
  - Terms—six basic categories address timing and financial considerations.
  - Contingencies—often referred to as “conditions” that allow you to opt out of a deal if the home has a problem.



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# Make an Offer

- What's a fair price?
- Let's take a look at a pricing scenario on the next slide.



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## What's a Fair Price for 345 Cardinal Lane?

Welcome to The Grasslands, a quiet neighborhood built in the 1960s. Most home here have three bedrooms, range from about 1,500 to 1,750 square feet, and have been selling between \$140,000 and \$180,000. You want to make an offer on 345 Cardinal Lane, listed at \$165,000.

*What price will you offer?*



### 123 EAGLE PASS

- Three bedrooms
- 1.5 baths
- 1,550 square feet
- No recent updates
- On busy street
- Averagesized yard
- Listed as "handyman's special"

Sold last week for \$90/square foot,  
or \$139,500



### 234 ROBIN LANE

- Three bedrooms
- 2.5 baths
- 1,725 square feet
- Kitchen renovated last year
- Brand-new deck
- Huge backyard with extensive landscaping
- On cul-de-sac
- Finished basement

Sold two weeks ago for \$102/square foot,  
or \$175,950



### 345 CARDINAL LANE

- Three bedrooms
- Two baths
- 1,650 square feet
- Roof and kitchen both updated in the past five years
- Large yard
- On quiet street

You decide to offer \$95/square foot,  
or \$157,000

# Perform Due Diligence

- Property inspection—exposes any structural or hidden issues.
- Home owner's insurance policy—protects against loss or damage.



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# Perform Due Diligence

- In your inspection, it's the **big** stuff that really matters.
  - Cracks or crumbling in the foundation
  - Cracks inside the house over windows
  - Water stains in ceilings, floors, or walls
  - Faded or worn shingles
  - Mold issues

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# Close

- Preclosing responsibilities include:
  - Appraisal, survey, title search, and title insurance.
  - Keeping yourself mortgage worthy!
  - Doing a final walk-through of home.
- Countdown to closing includes:
  - Getting your settlement statement, certified funds, evidence of insurance, and transfer of clear title.



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# Protect Your Investment

➤ Two keys to good home habits:

1. Keep it clean.

➤ Perform routine maintenance on your home's systems, depending on their age and style.

2. Keep an eye on it.

➤ Watch for signs of leaks, damage, and wear. Fixing small problems early can save you big money later.

**Tip:** Keep a file of receipts for your repairs.



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# Free Copy of *Your First Home*

- If you would like a free copy of the book *Your First Home*, come and introduce yourself.
- Thank you for your time and good luck with your home search.
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