Landmark Lending

Essential Guide: *How to* Stop Renting *and* Buy Your First Home

Thanks for downloading Landmark Lending's eBook, "Essential Guide: How To Stop Renting And Buy Your First Home." You've just taken an important step towards leaving the life of renting and throwing away money every month and instead entering the world of homeownership and investing in an asset that will appreciate for you over time. It's a big step into an even bigger and possibly overwhelming process, and there's an enormous amount of information out there on buying and financing your home. At Landmark Lending, we understand this and want you empower you with the essential knowledge you need to make intelligent decisions and simplify the process.

In this guide, you'll learn about:

- The benefits of owning your own home
- Shopping with pre-approval
- How lenders qualify you for a mortgage
- What's a FICO Score?
- What documents you'll need to provide

The Benefits of Owning Your Own Home vs. Renting

Congratulations on starting your journey towards becoming a homeowner. Setting out to buy your first home is a big decision, but it's also one of the wisest choices you can make. There are a number of reasons why it makes more sense to own a home than to keep renting. Here are some of the most important benefits:

Equity – Your home is the best investment you'll make

You're probably hearing this word bantered about a lot as you look into financing your home. Equity refers to the value of your home, minus the amount of any mortgages you still have. In other words, it's the portion of your home's value that you own and the lender doesn't have a stake in. With every payment you make, you'll be reducing the balance of your mortgage, and increasing your equity in the house. As your equity increases, you can even borrow against it, for home improvements, or to pay off and consolidate other consumer debt on which you're undoubtedly paying higher interest rates. As a renter, not only are you not gaining any equity, but you're helping your landlord gain equity! It's time to stop improving the landlord's financial situation and start using your hard-earned money towards achieving your own financial independence!

Control (your home: your castle) – The Pride of Home Ownership

Once you complete the closing on your home and all the papers are signed, it's yours! The decisions are yours to make now, whether you're talking about maintenance or decor. Remember those wall hangings you couldn't put up in the apartment because the landlord didn't want the nails in the wall? Well, in your house, those are going to be your walls. Go ahead and install whatever you like, and paint the rooms any color you want. The same goes for improvements to your home. You choose the work you want done, and the contractor you want to do the work. Or do it yourself if you're so inclined. There's more responsibility here for sure, but it's another example of the independence you'll have as a homeowner.

Tax Deductions

Your Uncle Sam appreciates the importance of owning your own home, and rewards you with a break for making this investment. Truth be told the government actually incentivizes people to buy a home through tax deductions. And aside from children usually the largest tax deductions most people get to enjoy. We're lenders, not accountants, but it's safe to say that you can count on tax deductions for two of the biggest expenses you're going to take on: the interest you pay on your mortgage, and the full amount of your property taxes. You're not getting that benefit now as a renter (though it's likely that your landlord is!).

How Much Home Can I Afford

Now that you know that you want to buy a home, you'll be faced with another big question: What can I afford? When you looked for your last rental, it was relatively simple - you simply looked at monthly rent payments and made a decision as to whether those fit into your budget. But houses aren't sold based on monthly payments, and it can be quite confusing to try to figure out what fits into your budget based on the sale price of the home.

Fortunately, you can get pre-approved by a mortgage company to determine exactly how much mortgage and home you can afford. It's best not to wait until you find a house you like to start the pre-approval process. You will be in a much stronger position if you get pre-approved before you even start shopping. It's a simple process, and within a day or two, you'll have a document in hand showing what you've been qualified to buy. And that gives you some immediate advantages.

You'll know what homes are within your budget so you don't waste time looking at homes you can't afford. And real estate agents only want to work with pre-approved buyers, because there's no doubt as to whether you'll be able to get the financing you need once you do find a property you like.

What's involved in getting a pre-approval? A lender will want to look at four pieces of your financial profile in order to determine what you're qualified for: credit, income, down payment, and assets.

Credit History

Your mortgage will probably be the biggest monthly payment that you're going to carry, and banks want to know that they're not taking a risk in extending a loan to you. The best indication of this is your track record of paying your bills up until now. So, before anything else, a lender will want to run a credit check to see your history with other payments. The credit report includes a lot of detailed information provided by the companies who hold your car loans, student loans, credit cards, and any other debts you make payments on. These days, one of the single biggest factors that lenders want to see is your FICO score, which is generally seen as an indicator of whether you can be expected to make your payments on time. The higher your score, the less risky you appear to a lender, and vice versa. Many lending programs have minimum FICO scores which they require to qualify you. As a result, lower scores can result in being placed in a category with a higher interest rate. In generally, scores from the mid-600s and up will be sufficient for you to get into the best government loan programs with the lowest rates. Conventional lenders offer the best rates for credit scores above 740. In some cases, buyers who are seen as falling into a higher risk category may be required to make a larger down payment towards the purchase of the home.

Income

The big question which we know you're asking yourself is, "Do I make enough to pay for the mortgage on this house?" We're going to be asking the same question too, because we don't want to put you into the home of your dreams, only to find out that you can't make the payments every month. This is another area which seems surrounded by mystery, but in reality banks usually use a fairly simple formula to determine your eligibility. Generally speaking, your total monthly housing expense (which includes your payment on the mortgage, plus one month's worth of property taxes and homeowner's insurance) should not be more than 36% of your monthly gross income, though there are some exceptions. We'll also want to look at the amount of other payments you're carrying every month, to make sure that you have enough money for the rest of your bills, and to live on as well. As a general rule, your total monthly debt load (including your housing payment and any other loan or credit card payments) shouldn't exceed 45% of your gross income.

Your lender will want to know that you have a steady stream of income, so be prepared to discuss and show proof of all the sources of your income, whether it comes from your job, your own business, or investments. If you're employed, be prepared to show your paystubs for the last month and your W-2 forms for the last two years. If you're self-employed, or have investment income, we'll want to see your Federal Income Tax returns for the last two years.

Down Payment

Government loans such as VA and FHA allow buyers to get into a home for zero to almost no down payment. However, there are pros and cons for government loans such as lower credit scores accepted, but mortgage insurance and funding fees can be charged. Conventional loans will allow you to get in with as little as 3% down to 20% down depending on other factors like credit score and loan amount.

Assets

The third and last factor in the pre-approval will be determining that you'll have enough funds to get to the closing table and complete the purchase. We'll want to see that you have sufficient funds to pay for the down payment of the house, after the proceeds of the mortgage, plus any closing costs and fees. These include escrow fees, title insurance, filing and recording fees, and a number of other costs associated with processing and closing of the mortgage loan. Keep in mind that these costs may vary in different areas. There is even room for variation from one lender to another, so shop carefully. Lenders are required to give you a Good Faith Estimate (GFE) of closing costs when you apply for the mortgage, so you'll know what you're getting into from day one.

Is that all I need to get a mortgage and close on the house?

Well, almost. There's a fourth factor that lenders care about, which we haven't discussed yet as it's not a part of the pre-approval process: the property itself. Your home becomes the collateral on the loan, and the lender will want to make sure that the house is worth what you're paying for, and that it's in good condition. So, once you've selected a home and signed a contract to buy it, the bank will send an appraiser out to inspect the home, and do an analysis of what it's worth in today's market, which protects both the bank's and your investment. The appraiser is not an engineer, but will also look for anything visible in the property that either needs obvious work or is likely to require repair in the near future. If there are any questions, they'll likely ask for a pest and/or home inspector's report to clarify. It's generally wise to have a home inspection done, whether or not the bank asks for it. It's better to find out now whether there's anything in the structure of the home that could become an issue for you further on down the road.

Talk to an expert

Buying your first home will almost certainly be the biggest purchase you're making in your life so far, but it doesn't have to be as frightening as it looks. We hope that this brief guide makes the idea a little easier to understand, and a whole lot less ominous. When you have questions about the process, don't hesitate to reach out to the experts at Landmark Lending. We've been through this countless times, and have helped put plenty of people just like you get into their first home. Our seasoned mortgage consultants will be happy to and your questions and guide you through every step of the journey to homeownership.