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BUYERS MONEY HANDBOOK

Your First Home Buying
Resource!

FIRST STEPS

Know your credit score and understand how it's used by lenders to determine the amount and interest they give you
and how you can improve it quickly before you purchase

- Payment History
- Debt to Credit Ratio
- Debt to income Ratio (Less than 43% is preferred)

What you need to save for down payment and closing costs, and how to make it happen

- Plan for savings and emergency savings
  - For example, using a CD for long-term savings plans (over 1 year before purchase) vs. using a high yield savings for short-term savings plans (purchasing within a year)

- Review your current spending: how much can you allocate to a monthly mortgage payment.

What you need to consider for initial purchase expenses and possible ongoing expenses:

Initial purchase expenses:

- Down payment
- Closing costs (2-5% of total purchase)
- Principal Taxes
- Interest
- Inspection
- Emergency repairs
- Updates (ex: appliances not included)

Ongoing expenses:

- Mortgage payments
- Insurance
- Taxes
- HOA
- Regular repairs
- Upgrades or renovations

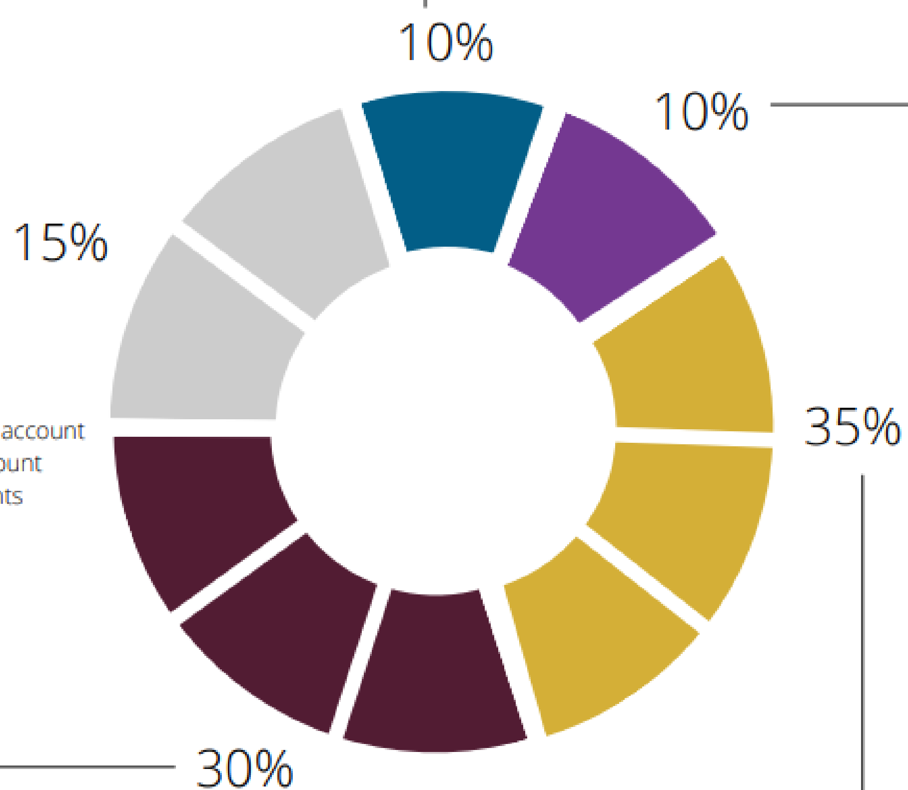
YOUR CREDIT

About your FICO Credit Score

Your credit score ranges from 300 to 850 and is broken down into 5 areas:

Types of Credit
- Short term installment loans: auto loans, student loans
- long term installment loans: mortgage loan
- Revolving credit: credit cards, retail store cards

Recent Applications
- Recently opened accounts
- Recent credit inquiries
- Proportion of new to total accounts



Length of Credit History
- Age of your oldest credit account
- Age of newest credit account
- Average age of all accounts

Credit Utilization
- How much of your total credit availability is being used (*for example, if you use $1,000 of $5,000 credit limit, you are using 20% of your credit*)

Payment History
- Record of payments on all loans, number of loans, late and on-time payments
- Delinquent accounts information includes total past due items, the amount of time you've been past due, and last payment

! *Try not to be late on your minimum payments as it heavily impacts your score*

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How Lenders Use Your Credit Score

Your credit score is used by lenders to determine how much you will be loaned, how likely you are to make on-time payments and repay in full, and what interest to charge.

A higher credit score tells lenders you are less likely to default (or fail to pay) on your loan and are more trustworthy for the lender.

In short, it means you get **approved faster**, for a better loan with a **better interest rate**, saving you time AND money!

Your **payment history** and **credit utilization** make up the biggest percentage of your overall credit score, and are also the easiest to improve in a short amount of time. Focus on these to improve your score quickly.

Work on paying on time

- Paying your bills on time is one of the biggest ways to improve your score
- Create a calendar or list of all your bill due dates and create a plan for making payments
    - Include the dates of paychecks that will be allocated to those payments, and how they will be paid (online, mail check, etc.)
    - Use the calendar on the next page to help you plan each month!

TIP! If you think you may miss or be late on a payment, call the lender and ask for an extension or lowered payment so it won't show up on your credit report!

MONTH: ______________________________ YEAR: ________________________

PAYCHECK 1 DATE: ___________

BILLS TO PAY:

PAYCHECK 2 DATE: ___________

BILLS TO PAY:

PAYCHECK 3 DATE: ___________

BILLS TO PAY:

PAYMENT CALENDAR

Review for any errors in payment history

- Look for incorrect, duplicate, or fraudulent accounts
- Look for misspellings or outdated information
- You can use a credit repair service to help you dispute inaccuracies or old information

Make sure you are not using your full credit availability

- Using 20-30% of your credit availability is acceptable. Beyond that can be a signal to lenders you will likely not be able to repay.
- Focus on paying off or paying down the owed balances on your credit cards and existing loans

WRITE IT DOWN!

What is your current credit utilization?

―――――― = %

What is your current credit availability?

Avoid opening new credit accounts before looking for a home loan

- Take advantage of prequalifying or using an online calculator to determine what you may be able to qualify for without hitting your credit report

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DEBT-TO-INCOME RATIO

Your Debt-to-Income ratio (DTI) is another important aspect of your financial health that is used to determine what type of mortgage you can afford.

Lenders use this percentage to figure out the risk associated with giving you a loan.

How to calculate your DTI:

- Calculate your monthly debt expenses (rent/mortgage, student or car loans, credit card payments, child support or alimony, other debts)
- Divide that monthly total by your gross monthly income (income before taxes and other deductions)

That will give you your DTI percentage. The lower the percentage, the less risky you are in lenders' eyes

43% DTI is often the highest a borrower can have (with some exceptions) and still get a qualified mortgage.

YOUR DTI

Monthly Debts

Rent/ Mortgage	
Student Loans	
Car Loans	
Credit Cards (Min. Payments)	
Child Support/ Alimony	
Other	
Total Monthly Debt:	

Total Monthly Debt	
Gross Monthly Income	
DTI %:	

For example:
If your monthly total debt is $3,500 and your total monthly gross income is $10,000, your DTI would be:
3500/10000 = 0.35, or 35%

How to lower your DTI before looking for a mortgage loan:

1. Reduce your recurring monthly debt
    - Use the steps in the *Improve Your Credit Score* section to pay off your debt
2. Increase your monthly gross income
    - Ask for a pay increase
    - Work a second job
    - Start a side hustle
    - Find a higher paying job

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SAVING UP

Figure out how much you need to save

- What price range you are considering for your new home?
- What area you are looking in?
- What type of loan you are considering (FHA, Conforming have different minimums for down payments, for example)

This calculator from SmartAsset.com helps you estimate what you need for a down payment, as well as estimates for monthly mortgage payments and closing costs based on the loan amount, area, and your credit score.

WRITE IT DOWN!

What is the price range you are considering for a home?

What is the type of loan you are considering?

How much will you save for your down payment?

***realtor.com*

Aim for as close to 20% down payment as possible

Although it's not always required, it will mean:

- Taking out a smaller mortgage loan
- Showing lenders you are a lower risk and improving your chances of approval
- Having a lower monthly mortgage payment
- Likely having a lower mortgage rate

Figure out your timeframe

- Determine how long you have until you plan to buy
- Divide the amount you need by the number of months to see how much you need to save monthly

WRITE IT DOWN!

When do you want to buy? How many months do you have prior to that?

What is the price range of the home you are looking to buy?

What is 20% of that amount?

Divide the down payment by the number of months before you plan to buy. This is how much you should save monthly.

TIP! Automate your savings

Set up automatic direct deposit or transfers from your checking can help ensure you stay on track

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YOUR PLAN

Once you determine how much you need to save for your down payment and additional purchase expenses, it's time to create a savings plan!

This will require going through your current income and spending, and figuring out where you can reallocate funds to your future home.

First, we'll list your income sources and amounts. On the next page, we'll break down your expenses, then your savings.

Income

Income Type	Income Source	Monthly Net (after taxes)
Earned Income		
Investment Income		
Other Income		

Total Monthly Income:

List your current expenses in the chart below. In the last column, note if the expense is adjustable. These are areas where you can redirect funds to your home purchase savings.

Expenses

		Monthly Expenditure	Adjustable?
Living	Mortgage/Rent		
	Property/Real Estate Taxes		
	HOA/Home Repairs		
	Home/Rent Insurance		
	Household Items (Lightbulbs, filters, etc.)		
Utilities	Electric		
	Gas		
	Water/Sewer		
	Internet/Phone		
Food	Groceries		
	Restaurants/Bars		
Insurance	Health Insurance		
	Life Insurances		

		Monthly Expenditure	Adjustable?
Transport	Car Payment		
	Gas		
	Maintenance		
	Car Insurance		
	Other Transportation		
Personal	Necessary clothing		
	Hygiene/Grooming Items		
Other	Entertainment		
	Vacations/Travel		
	Fitness/Gyms		
	Shopping		
	Beauty		
	Pets		

Total Monthly Expenses:

CURRENT SAVINGS

		Monthly Amount	Adjustable?
Savings	Emergency Savings		
	Regular Savings		
	Retirement		
	Children		
	Education		
	New Savings Needed for Future Home Purchase		

Total Monthly Savings:

AFFORDABILITY

Buying your first home is exciting, scary, fun, and nauseating all at once... and the last thing you want is to end up drowning in your mortgage every month.

Determine what you can realistically afford for both a monthly mortgage payment and overall home price to save yourself a lot of headache and stress later on.

Remember - you want to enjoy and make memories in your new home, not have it be a constant source of burden.

Understanding how monthly mortgage payments are calculated can help you prepare and figure out how much home you can really get.

How your monthly payment is calculated:

Monthly mortgage payments include a number of factors, including:

- The principle loan amount
- Your monthly interest rate
- Number of payments over the loan's lifetime (ex: in a 20-year fixed-rate mortgage you have 240 payments - 20 years x 12 months)

Don't forget to consider any additional monthly fees and payments, including:

- Insurance
- Home owners association fees
- Taxes
- Other fees

You can use a free, online mortgage calculator to help you decide how much you can afford to pay monthly towards a home, like:

NerdWallet.com Mortgage Calculator

Mortgage Calculator with PMI and Taxes - NerdWallet

BankRate.com Mortgage Calculator

Mortgage Calculator | Bankrate

If you're the type that likes to know the math and understand how it's calculated... here's the big scary formula (otherwise, skip to the next page)

$$M = P[r(1+r)^n/((1+r)^n)-1)]$$

M: the total monthly mortgage payment
P: the principle loan amount
r: your monthly interest rate
n: number of monthly payments over the loan's lifetime

r: because interest rates given are annual, simply divide by 12 to get your monthly interest rate.
n: multiple the number of years on your loan by 12 to get your total number of payments.

*from bankrate.com

Special note for self-employed home buyers:

Lenders use taxable (gross) income to determine your home loan.

- Gross income is your total income before taxes and any deductions
- Net income is what you're left with after taxes and deductions (also known as take home)

Many lenders require you to have 2 years of tax returns in order to qualify for a loan if you are self employed (aka...not a W2 wage earner).

Before filing you taxes, talk to a lender about how much you're planning to qualify for.

When tax planning, let accountant know you are planning to buy a home so they can help you plan and file accordingly.

TYPES OF LOANS

There are several types of home loans that you could qualify for.

Your down payment, credit score, and debt-to-income ration will all play a part in helping you qualify.

Understanding how each works, their pros and cons, and who they are best suited for will help you find the best loan type for your unique situation.

CONVENTIONAL LOANS

- Held by private lenders
- Conforming (fall within max limits/guidelines set by government)
- Non-conforming (do not follow the guidelines set by government, vary more widely)

Pros	Cons
Can be used for primary, secondary homes or investment properties	Minimum FICO score of 620 or greater usually required
Borrowing costs tends to be lower than other loan types	Lenders usually require private mortgage insurance (PMI) for less than 20% down
Pay as little as 3% down (Fannie Mae or Freddie Mac backed loans)	DTI of 45-50% preferred
	Need significant documentation to verify income, employment, assets, down payment

Borrowers with a strong credit score, stable income and employment history, have a down payment of at least 3%

ADJUSTABLE RATE LOANS

- Adjustable means the rate fluctuates
- Many start with a lower fixed rate for a few years, then change to adjustable. Be sure to look for one that has a cap on how much it can increase

Pros

- ⊕ Lower rates usually available in first few years
- ⊕ Can save a good amount in interest payments

Cons

- ⊖ Monthly mortgage rate will vary with interest payments
- ⊖ Fluctuating amounts can make it more difficult to budget, or make your payments unaffordable
- ⊖ May be harder to refinance or sell if your home value fluctuates too much

Borrowers looking to stay in their home short-term, or a starter home. It could provide savings on interest.

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FIXED RATE LOANS

- Your interest rate stays the same over the life of the loan
- Terms are typically 15, 20, or 30 years

Pros

- Principal and interest payments stay the same for the life of the loan
- Better able to budget for your mortgage payment

Cons

- Tend to pay more in interest with a long-term loan
- Takes longer to build equity
- Interest rates are usually higher than adjustable rate mortgages

Borrowers who want to stay in their home long term (7+ years), and borrowers who want stability in their payments.

JUMBO LOANS

- Conventional mortgage with non-conforming loan limits
- Home prices exceed federal loan limits

Pros

- Allows you to borrow more money for homes in more expensive areas
- Interest rates tend to be more competitive

Cons

- Down payment of 10-20% is usually required
- FICO score of 700 or higher is usually required
- Lenders looks for DTI of 45% or lower
- Must prove significant assets in cash or savings, usually at least 10% of the total loan amount requested

Affluent buyers purchasing high-end homes, with excellent credit, high income, and a sizable down payment.

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GOVERNMENT-INSURED LOANS

- Loans are still provided through a lender, not directly from the government, but are insured/guaranteed by the government
- Several types for various borrowers' needs

FHA Loan (Federal Housing Administration)

- Helps low to moderate income borrowers who don't have a large down payment or great credit score
- Usually requires a mortgage insurance premium, either paid up front or paid annually for life of loan, depending on down payment size

VA Loan (US Department of Veteran Affairs)

- Offers flexible, low interest mortgages for members and families of US military (active duty and veterans)
- Do not require down payment or PMI
- Closing costs are capped and may be paid by seller
- Fees and other closings costs can be paid up front or rolled into your loan amount

USDA Loan (US Department of Agriculture)

- Helps moderate to low income borrowers in rural areas
- Home purchase must be in eligible area
- Some do not require down payment for eligible borrowers

GOVERNMENT-INSURED LOANS

Pros

- Helps you finance a home when you don't qualify for a conventional loan
- Credit requirements are lower
- Don't need a large down payment
- Offers best terms and flexibility
- Available to new and repeat buyers

Cons

- Requires mortgage insurance for life of loan
- Could have higher overall costs
- Extensive documentation required to prove eligibility

Borrowers that wouldn't qualify for conventional loans, usually with lower credit scores, minimal cash savings or down payment.

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PAYING IT OFF

So, you've purchased your first home -- ***congratulations***!

Now, you want to pay off your mortgage and build equity in your home.

Your first question is probably "*what*?" ... followed by "*how*?"

What is equity?

Home equity is the difference between what you owe on your mortgage and what your home Is currently worth (in other terms, what you own and what the bank does...).

How do you increase your equity?

In order to have more equity, you need to either owe less, or increase the value of your home.

To owe less, you can:

- Make a big down payment
- Pay down your mortgage faster (see next page)

To increase the value of your home, you can:

- Renovate and upgrade the interior of your home
- Upgrade and improve the exterior and landscaping

Important note!
Only a real estate appraiser can give you an official valuation of your home in the current market, so don't rely on an unofficial number from Zillow or other sites.

There are a few ways you can pay down your mortgage faster. You may consider one or more of these throughout the lifetime of your loan.

Make extra principal payments

- Pay 10% extra on the principal each month
- Make an extra monthly payment each year

Each of these methods will help you pay off your loan 7 years faster!

Refinance to shorter term loan

Refinancing means to a shorter-term loan means saving on interest and paying off your loan faster... but it also means higher monthly payments. Be sure you review your budget and can afford a jump.

Make a lump-sum payment

Making a lump-sum payment can reduce the principal amount on your loan, but it won't change your existing monthly payments. You can also consider a mortgage recasting with your lender.

Recast your mortgage

When you pay a one-time lump sum to reduce your principal amount, your lender can alter your amortization schedule, resetting your monthly payments while retaining your original loan terms and interest rate (unlike a refinancing). It's like a loan re-do with a lower amount.

Less principle = lower monthly payments = pay less over life of loan

ACTION PLAN!

WHERE YOU'RE AT

- Get your current credit score
- Review for any incorrect or fraudulent information
- Calculate your credit utilization
- Create your bill payment schedule
- Calculate your debt-to-income ratio

WHERE YOU NEED TO BE

- Determine price range you are considering
- Determine how much down payment you will need
- Review your timeline

MAKE YOUR PLAN

- Calculate monthly savings toward down payment
- Create your savings plan
- Use an online mortgage calculator for an idea of monthly payments
- Review loan types to see which may be best for you
- Talk to a lender
- Talk to your accountant (especially if self-employed)

NEXT STEPS

Now that you are armed with the knowledge of the Money Playbook, you're ready to get that money in shape for your first home purchase!

Ready to take the next steps toward your homeownership dream?

HERE ARE YOUR NEXT STEPS:

Visit our website to learn more about how to-

Get Prequalified

Take The Buyer Negotiation Workshop

Book Your Consultation

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