THE ULTIMATE FIRST-TIME
HOME BUYERS GUIDE
2020

CONGRATS FUTURE HOME BUYER!

This is your official guide to home buying. We breakdown home buying into four simple sections:

- Home Buying Overview
- Mortgage Loan Options
- Budgeting
- Mistakes to Avoid

We understand that taking the plunge to buy a home is an exciting and scary endeavor. This is especially true for first-time home buyers. Jumping into the world of mortgages and homeownership comes with a lot of unknown and learning, and Drennen Home Loans is here to help every step of the way. Let's get started!

SECTION:

FIRST TIME HOME BUYER **OVERVIEW**

While the thought of buying your dream home conjures up rosy images, there's a lot to think about to make your first home purchase successful and rewarding. From financing to making sure your new home is move-in ready, there are many aspects to homeownership that you'll need to prepare for. If you are somewhere in the home buying process, even if you are just starting to search for properties in the area, contact the best loan officers for expert assistance. Additionally, here are some tips to get started on a rewarding homeownership experience.

Buying a dream home sounds appealing, even if the price tag is a bit more than what you want. Quite often, home buyers make a purchase without fully thinking through what they are getting into financially. Sure, beating other prospective buyers to secure your favorite house sounds great initially. But did you really take the time to think about other factors such as the location, proximity to your work, and factors that affect the property itself, such as the age and condition of the home, and if you foresee making renovations or additions?

1. DO A COST-BENEFIT ANALYSIS

2. LOOK AT YOUR CREDIT

Before spending money on a home, you'll want to look at your credit score and make sure it's in the best shape possible. A good credit score is usually required, or at least preferred, for many significant financial transactions, such as buying a car or renting a property. Naturally, it's also vital for purchasing a home! If you have a good credit score going into a home purchase, you can actually save money down the road. That's because buyers who have a higher credit score are considered less of a risk to lenders.

While you may be able to qualify for certain loans with a lower credit score, which means you make a lower down payment, you will also be responsible for paying mortgage insurance. Mortgage insurance payments are added on to the cost of your monthly loan. Multiply those payments by 15 or 30 years, which is the average lifespan of a loan, and you may be dealing with significant added expenses. Lenders generally consider a score of 700 to be ideal. You may be able to get an FHA loan or another government-backed loan with a lower credit score, but keep in mind that you'll pay insurance as a result.

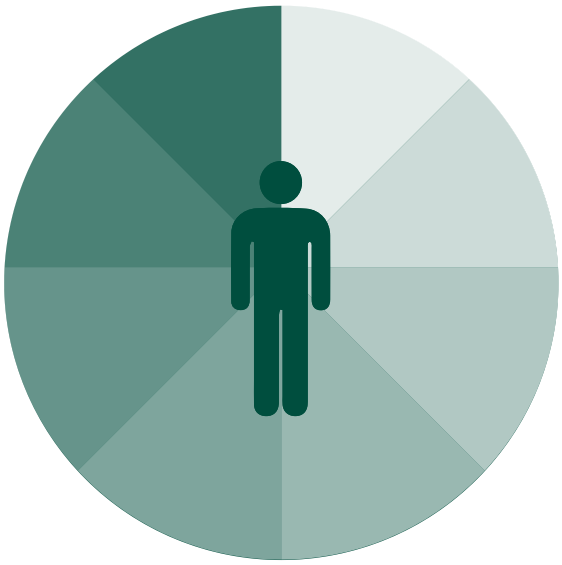
Although 700 is considered a good credit score, many mortgage lenders require a score of 740 to receive the lowest interest and mortgage insurance rates.

3. CONSIDER THE TIME

Similarly, prospective homebuyers don't always think about the time associated with owning a home.

Again, renting a place means that you don't have to worry about the upkeep and maintenance of the home or property. Those tasks that you might not otherwise think about, such as gardening, mowing the lawn, painting the house, and other common maintenance chores, can take quite a bit of time out of your weekend schedule. This might sound like a trivial point, but it ends up being a source of frustration for many new homeowners who are accustomed to saving time on the weekend for the fun activities they don't get to do during the week.

The average age of first-time homebuyers is 33



4. CONSIDER THE FINAL COST

Another reason many people jump to homeownership is that they think they'll save money by owning a home rather than renting. This is especially true if rents are high in your location. But even if you qualify for mortgages with favorable interest rates, you may not experience significant cost savings, or even cost savings at all, by buying a home in the long run. If all goes well with your home, you may save some money each month. But what people don't always consider is that when you rent a home or an apartment, someone else bears the expenses associated with home and property maintenance. When you own your home, you are responsible for repairing the leaking roof, water heater, appliances, maintaining the exterior, landscaping, and more. Any of these expenses can easily surpass monthly rent.

5. SAVE FOR A DOWN PAYMENT

As with a car or any other major expense, buying a house is a significant financial investment. Therefore, the best loan officers highly recommend starting to plan (and save) early for a down payment. You can even work simultaneously on improving your credit score while you put money away for a down payment. The average first-time homebuyer puts between 8-10% down. However, there are benefits to paying more. If you can afford to pay 20% down, you no longer need to pay mortgage insurance, which can save thousands over the course of the loan.

It is important to remember not to empty your entire savings account on a downpayment. Homeownership comes with unexpected expenses. Try to keep at least an additional $10,000 in your account as an emergency fund.

8-10%

is considered the average downpayment.

6. THINK ABOUT YOUR LOAN

There are two types of loans available to homeowners: government-backed and conventional. Government agencies such as the Federal Housing Administration (FHA) offer loans to home buyers who have lower incomes or lower credit scores. In some cases, an FHA loan may initially be your only option based on your qualifications.

An FHA loan has more restrictions, but it may be more difficult to get a conventional loan or a reverse mortgage.

As you can see, there's a lot to think about when buying a home. But we are here to help you out! No matter where you are in the home-buying process, be sure to contact us if you're thinking of buying a home.

SECTION TWO:

COMMON LOANS FOR FIRST-TIME HOME BUYERS

3 Types of Mortgage Loans for Homebuyers

Perhaps you want to take out a mortgage on your home. But of the options available, which one should you choose? There are three basic kinds of mortgages available to home buyers. Each type of mortgage has different qualifying criteria and advantages. As you're starting to research prospective mortgages, here are some key facts to know about the different options available.

FIXED-RATE MORTGAGE LOAN

A fixed rate mortgage loan gives you a fixed and therefore predictable interest rate throughout the lifetime of your loan. A fixed rate mortgage locks in a set interest rate starting at the time you take out the loan. This means that your monthly mortgage payments are transparent and predictable. Your monthly payments remain the same, regardless of changes to your homeowner's insurance, association fees, property taxes, and other expenses. Furthermore, you will be immune from fluctuating interest rates over the course of the loan's lifetime. Because of its stability and predictability, this type of loan is one of the most popular. While you must make minimum payments with a fixed rate mortgage loan, you can also make payments that exceed the minimum amount each month.

FHA LOAN

FHA home loans are government-backed loans. These loans are designed to make home-ownership more realistic for lower-income citizens. FHA loans qualify as a type of federal housing assistance. They can be applied to several property types, including multi-unit properties, condos, and single-family homes. FHA home loans are less expensive than conventional mortgages, which makes it easier to refinance or purchase a home. Unlike a conventional mortgage, you don't have monthly payments with an FHA loan. Instead, you are only required to pay a mortgage insurance premium. An FHA loan is available to individuals with a lower credit score, too.

Down payments with FHA loans range from 3.5% with a credit score above 580 to 10% with a lower credit score.

CONVENTIONAL LOAN

Conventional loans are another option for homeowners. These loans have fewer restrictions, making them a popular choice for those who want more flexible mortgage options. A conventional loan, unlike an FHA loan, is not backed by the government. Conventional loans are classified as either conforming or non-conforming. A conforming loan follows guidelines established by the Federal Housing Finance Agency. A conforming loan has a fixed interest rate and a low monthly payment.

A non-conforming loan does not have a lending limit, making it a good choice if you're looking to buy a more expensive property.

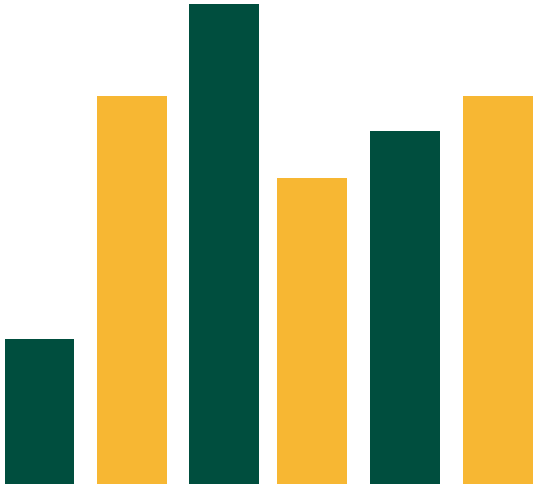
Homeowners have several choices available for a loan. If you have questions about your loan options or need assistance finding the best one for your needs, don't hesitate to let us know. We will happily provide more details about the options available to help you make an informed decision.

DETERMINING YOUR BUDGET

How to Determine Your Budget As a First Time Home Buyer

Lenders call the amount that a homeowner can comfortably make on monthly payments "home affordability." This number is calculated as the housing expense ratio, which includes housing expenses as a percentage of pre-tax income. The rate is typically 28 percent or less. Lenders also evaluate your total expenses, which are your housing expenses along with your monthly obligations. If you're trying to set a budget, be aware that lenders sometimes bend the rules to give homeowners a mortgage that they ultimately can't pay. However, experienced mortgage lenders can help you find a mortgage and budget that works for you.

Sometimes, people are tempted to purchase a home that is more expensive than what they can actually afford. Of all first-time homebuyers, millennials are particularly prone to underestimating housing expenses. Fortunately, experts offer tips to help you set a limit for housing costs. The first step is calculating total gross employment income. Don't include bonuses and overtime, as those payments aren't considered regular or predictable by a lender. Next, add up your obligatory debts such as student loans and car loans. If you're not sure what you pay each month in loans, look at a credit card or bank statement to get an idea of your average monthly totals. Lastly, look at your current housing payments, such as mortgage or rent, along with their associated insurance and tax rates, to determine what you can comfortably spend moving forward.



In 2018, the average price of a first-time home was $219,300

HOW TO PREPARE A BUDGET

CHECK YOUR CREDIT

As you're figuring out a monthly budget for your mortgage, it's a good idea to check your credit score. In the eyes of a lender, a low credit score often means you're considered a risk for loans. Consequently, you'll face higher interest rates and a higher overall rate. Having a credit score of 650 versus 750, for instance, can add .5 percent to your loan rate, which adds up quickly. If you have a low credit rating, you may be eligible for FHA home loans.

EVALUATE THE MARKET

After establishing a budget, experts recommend keeping an eye on the local real estate market. Staying informed of nearby home prices (including historic rates) gives you an idea of whether or not you are living in an affordable area.

MISTAKES TO AVOID AS FIRST TIME HOMEBUYERS

When you find a house you're interested in purchasing, the first step is to make an offer. Although it may seem like a simple task, it can be a tricky process and can even turn the buyer off if your offer is too low. Here are a few mistakes to avoid making when putting an offer on a house.

SECTION FOUR:

SUBMITTING A LOWBALL OFFER

Although you may want to save as much money as possible when purchasing a house, you can offend the sellers if your offer is too low. If you make a lowball offer, you're communicating that you don't think the house is worth more than the price you submit. Buying a house isn't the same as when you haggle at a flea market. The offer that you make should be supported by sales data to ensure that it's both fair and accurate.

MOVING TOO FAST

Many first-time homebuyers are excited and can let their emotions take over. The process of finding and buying the perfect house usually takes some time. Those who plan to buy a house should start planning at least a year in advance and allow time to properly look at all the houses in the market. There is no reason you need to choose a house that you saw on your first day with your realtor. This is a big life decision, and therefore shouldn't be rushed.

PUTTING TOO MUCH DOWN

When you pay 20% down, you don't have to pay for mortgage insurance. This may sound appealing, but draining your savings on a down payment and closing costs is a common mistake a lot of first-time homebuyers make. Draining savings leaves buyers on the edge of risk after moving in. Owning a home comes with a lot of additional, and sometimes unexpected, expenses such as: landscaping, plumbing repair, home insurance, and other costs. Having an emergency fund of at least $10,000 should be taken into account when deciding how much you want to pay on the home.

The average homebuyer took 73 days to close on a property after the first initial visit to the home (Redfin, 2019).

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