

## First Time Home Buyer's Checklist

### 1. Obtain Pre-qualification and Pre-approval for a Mortgage



Step one for the first-time home buyer is to gauge financial readiness for home ownership. After reviewing your financial snapshot and history, reach out to a lender to get a sense for an estimated qualifying mortgage amount and the basic terms of that loan. With pre-approval or an all cash offer, buyers often have an advantage over competing offers from other buyers.

#### Pre-qualification

- What they do - Assess your ability to take on added debt based on income, assets, credit score, and other debt.
- What you'll get - Projected loan amount from an institution

#### Pre-Approval

- What they do – Closer look at financial situation and history.
- What you'll get – A conditional commitment in writing for an exact loan amount. Sellers will often require this for proof when an offer is submitted

### 2. Determine How Much You Can Afford

Weatherly advisors work with clients on how best to leverage liquid assets for likely the largest purchase of their lives thus far. The most common source for a down payment is a non-retirement account, however first-time home buyers can also use up to \$10,000 of traditional IRA assets or Roth IRA earnings without generating early withdrawal penalties. Furthermore, if the Roth IRA is open for 5+ years then the \$10,000 in earnings may be completely tax free. The only caveat is that the funds **must** be used for a first-time home purchase. The Roth IRA provides additional benefits by allowing tax free withdrawals of any prior contributions which may be utilized in order to meet down payment requirements. Finally, the remaining difference between money down and purchase price will be the loan amount you've been pre-approved for in Step One.



### 3. Find your House

#### Option 1: Use a Realtor



Using an experienced professional will often lead you to the right home and then assist in negotiations for the best terms. This likely the most expensive route, but the right real estate agent can represent you as a subject matter expert in your dealings.



### Option 2: Use Online Tools

Online tools like Zillow or Redfin can be helpful for homebuyers looking for a more budget-friendly option or just a good place to start their search. There are a multitude of online sites to quickly search homes that fit your preferences like target price, number of bedrooms, built date, etc... These platforms can give you a reference point for median home prices in an area all from the comfort of your home.

### Option 3: The Old Fashioned Way

The old fashioned-way - Drive through neighborhoods you're interested in to find homes with for sale signs posted out front. This will also give you a sense for what the neighborhood is like to live in, rather than what is said on the internet or through word of mouth.

When you finally find a house that meets your needs, an offer can be made, and the negotiation process begins until an offer is accepted.

## 4. Lock in the Interest Rate

Remember Step 1? Now is when you'll be returning to the broker who pre-approved you, or shopping around with multiple brokers, to find the most advantageous terms for your mortgage. The most important things to consider are interest rate and closing costs.



- **Interest rate** – this is cost of being loaned money and is charged in the form of interest payments. The higher the interest rate, the more you'll be paying over the term of the loan and vice-versa.
- **Closing Costs** – in the home buying process, there are quite a few parties involved, all of which charge a fee for the services they provide. These fees are captured in closing costs, which include, but are not limited to appraisal(s), home inspection(s), loan origination, mortgage insurance, title insurance.

## 5. Review the Specific Terms of Loan

Choosing to Impound– An Impound or “escrow” account allows the homeowner to bundle their homeowner’s insurance, property taxes and mortgage into one monthly payment. Some individuals like this streamlined approach while others view this as an early payment to the government and prefer to pay property taxes and insurance separately from their checking account when due.

Conforming vs Non-Conforming - Conforming Loans are mortgages that fall below the federal limit of \$510,400, in the year 2020. This number gets updated annually by the Federal Housing Finance Agency (FHFA). Additionally, conforming loans must adhere to income and credit requirements set forth by Fannie Mae and Freddie Mac. Due to the stricter guideline, these loans tend to provide more favorable rates than loans above the FHFA limit.



No matter what stage you are at in your home purchase, the Weatherly team is here to assist you and your trusted professionals as appropriate. Please do not hesitate to contact our office with questions!

\*\* The information provided should not be interpreted as a recommendation, no aspects of your individual financial situation were considered. Always consult a financial professional before implementing any strategies derived from the information above.