AM I FINANCIALLY READY **TO BUY MY FIRST HOME?**

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Homeownership: The American Dream

What's your idea of home? Whether it's a house in a family-friendly suburban neighborhood or a chic condo in downtown, homeownership is—and always has been—part of the American Dream. That dream includes financial security, which is why nearly nine out of 10 U.S. households believe homeownership is a sound financial decision for their future.

"In general, household wealth appears to be positively impacted by homeownership." —U.S. Department of Housing and Urban Development

When is the right time to buy your first home?

When you can afford it. Don't try to time mortgage rates and home prices. Find the home you want—one that you can afford.

When the timing is right. Make sure your job and location are stable before you put down roots by buying a home.

When your savings account is healthy. You'll need money for a down payment, closing costs, and incidentals, as well as funds for the move itself.

Purchasing a home with increasing values at a low interest rate are the optimal conditions for building wealth through homeownership. Interest rates on home loans continue to remain highly attractive, making the dream of homeownership affordable for many first-time buyers. Even with that, the most important factor is YOU. Ready to start your home ownership journey?

RENT VS BUY: What's More Affordable?

With **rental prices increasing** an average of 4%—12%, not buying a home could be the most costly financial decision you make. If you have been paying steadily higher rents, you may have asked yourself, on more than one occasion, if you are making the right choice. So, what's more affordable, renting or buying?

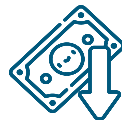
We can help you create a **customized rent vs. buy analysis** to determine the right choice for you and your financial goals. Many people are surprised to find that renting is costing them far more in the long run, even if their monthly rent is similar to a mortgage payment.

If you think buying a home is the right decision for you, your next step is determining if you're financially ready for homeownership, and if you need a bit more time, we can give you specific steps to help you get there.

The factors that determine your readiness to purchase a home generally include:

Your Credit Score

Verifiable Income or Assets



Down Payment Options

Your Loan Program

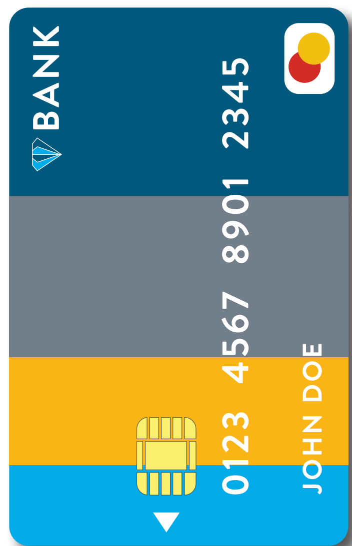
Your Debt-to-Income Ratio

I. CREDIT SCORE

Your **credit score matters** when it comes to buying a home. Lenders use this score to determine what loan program and interest rate you qualify for. A credit score above **720 is considered good credit,** while a credit score between **750–800 is considered excellent**.

A credit score of 600 or higher can usually still qualify you for a home loan, but it may come with different terms. Your loan advisor can help you explore all the **options available** based on your current credit score.

The FICO Formula: What's Your Score?



35% PAYMENT HISTORY

- If credit has been paid on time
- Overall 'good picture' outweighs a few late payments
- Public records & collection items can have a big negative impact

30% AMOUNT OWED

- Owing money doesn't necessarily mean high risk
- Close to 'maxed out' on available credit could be a sign of being overextended
- The number of accounts with balances matters
- Low usage of revolving debt often benefits credit score vs. no usage

20% IN USE & NEW CREDIT

IN USE

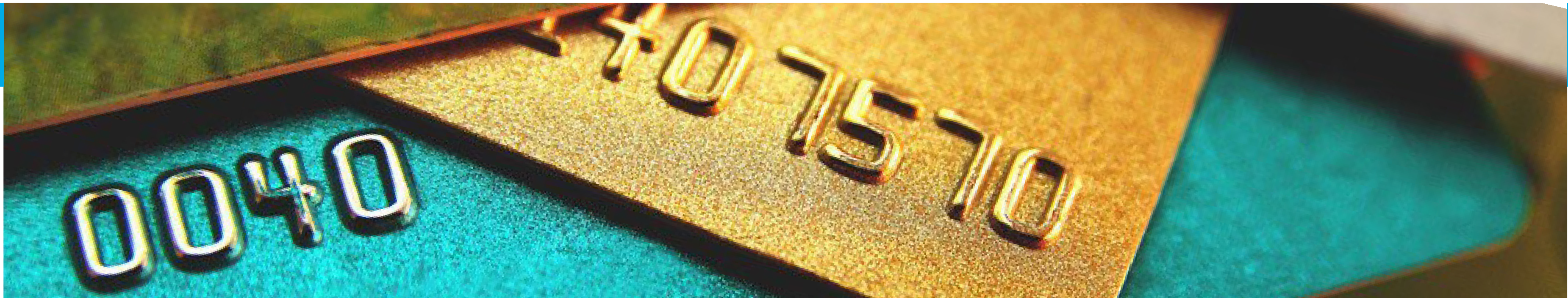
- Usually not a key factor; more important with shorter credit histories
- A mix of different types of credit accounts can help scores

NEW CREDIT

- Opening several accounts in a short period represents greater risk
- Inquiries have a small impact; many types of inquiries are ignored
- FICO scores allow for 'rate shopping'

15% LENGTH OF CREDIT

- Longer credit history is generally beneficial
- Age of oldest, newest & average accounts are considered
- Lenght of time accounts been used



Know Your Score: Check Your Credit

The easiest way to know your score is to **check your own credit**. You can get one free credit report from each of the three major reporting credit bureaus (TransUnion, Equifax, and Experian) every 12 months. This is the same information used to generate your credit score.

Look specifically for errors that may negatively impact your score, such as late payments or amounts owed. **Dispute any errors** with the credit provider that reported them, as well as the credit bureau.

Three Easy Steps to Improve Your Credit Score

You may find opportunities to improve your score when you review your credit report. A higher credit score may help you obtain a lower interest rate, which may **help you qualify** for a larger home. While there is no quick fix for repairing or improving credit, there are steps you can take to get a better score.

1. Make Payments on Time

The biggest contributing factor to your credit score is a history of on-time payments. If you have a habit of making late payments, this is the time to change. Set up bill pay reminders or sign up for **automatic bill pay**.

2. Pay Off Debt

Paying down your debt increases your CCU (credit card utilization) percentage, which can increase your credit score. Paying more than the minimum payment on a revolving credit line will help **you pay down your debt even faster**. You may be tempted to close a credit card once your debt is paid down, but this doesn't necessarily benefit your score. It may be better to **keep that card open** if it has a long history of on-time payments.

3. Don't Open Multiple Accounts Too Quickly

New accounts will lower your **cumulative credit age** (length of credit history), and too many credit inquiries within a year will also lower your score. If you don't need to open a new credit account, don't.

II. INCOME & ASSETS

Your income is one of the biggest factors that will determine your financial readiness for buying a home. A lender will want verification that you have qualifying income or assets.

For a **W-2 wage earner**, lenders will generally want to see two years' worth of income and employment verification. You may be asked to provide the following:

- Written or verbal verification of employment
- Two years' tax return documents and W2s
- Most recent (within 30 days) pay stubs

Not everyone who wants a home loan falls within these guidelines, however. If you're self-employed, have recently graduated from college, just changed jobs, or don't need to work, your mortgage loan advisor can help you **understand all your home loan options.** They'll even help you determine what verification will be required in the process.

Recent College Grads

You may still be able to obtain a home loan if you've just graduated and entered the job market. If you graduated with a degree in business finance, for example, and you went to work at an accounting firm, you may be able to use **college transcripts** as well as employment verification when you apply for your loan.

Recent Military Veterans

There are multiple loan programs available to those who have recently completed military service. **VA loans**, in particular, are designed to help veterans achieve their goals of homeownership.

Recent Career or Job Changes

Don't let a recent career change stop you from exploring the loan program options available to you. Lenders may not be worried about your recent change if you are **still in the same industry.**

Verifiable Assets

Employment income is not necessarily a requirement for every person who wishes to purchase a home. If you have excellent credit and verifiable assets, but no job, your mortgage loan advisor can help you determine the **right loan solution for you.** You may be able to present proof of non-employment income, such as:

Child Support

Stock Dividends

Tax Returns

Bank Statements

Brokerage Statements

Trust Fund Payments

Not everyone needs income from employment. If this is you, talk to your loan advisor about loan program options that will allow you to **use verified assets** and other forms of income to qualify.

Income Verification Tips

Lenders want to see that you are able to pay back the loan. That generally means verifying your employment, income, and/or available assets. Here are some tips to ensure you can provide **income verification for a home loan**.

1. **Meet with a mortgage loan advisor** to discuss your income, assets, and the loan programs available to you. Your advisor can tell you which documents are needed depending on your situation and the loan's specific qualifying guidelines.
2. **Avoid making any big changes** that could affect your income or employment once you have presented your paperwork and begun the loan process. This includes changing jobs or becoming self-employed. Changing your job after you've been pre-approved but before a loan closes could mean you have to start all over and get re-qualified.

Everyone's income and financial picture are different. There are a variety of loan products to accommodate different scenarios. If you can provide verification that you're able to repay a home loan with proof of employment, income, or available assets, then you may be **financially ready to buy** your first home!

Verification When Your Self-Employed

If you have set out on the **entrepreneur career path**, verifying income will generally have more documentation requirements as compared to a W-2 wage earner. A lender will want to see at least two years of verified self-employed income, rather than proof of employment. If your income fluctuates, a lender is likely to use a two-year average, or the lesser income amount from the past two years.

To verify your self-employed business income and status, you may be asked to provide:

- 1099s and/or Schedule C tax forms for the past two years
- Business and personal bank statements
- YTD Profit & Loss (P&L) statements
- Your business license or CPA letter verifying your self-employed status

Deductions

Your tax returns don't always reflect your true income when you're self-employed. The **business deductions** that reduce your taxable income can also lower your verifiable income on a home loan application. This can result in approval for a lower home loan amount.

If you are self-employed and want to purchase a home in the next two years, now is the time to plan ahead! It's always smart to **consult a tax advisor**, but you may want to consider:

- Writing off fewer expenses for the two years leading up to your purchase to demonstrate higher taxable income
- Separating business and personal funds
- Making business purchases on business accounts and credit cards (not on personal ones)

Being self-employed is not a roadblock to homeownership. If you are self-employed, however, it's critical to **plan ahead** and provide documented proof of financial stability.

III. DEBT-TO-INCOME RATIO

Your debt-to-income (DTI) ratio is an important piece of financial information that will help you and your personal loan advisor determine **how much you can afford** to invest in a home. The ratio considers the monthly debt found on your credit report, your monthly income, and your new home's monthly mortgage payment. To calculate your DTI ratio: Divide your total monthly obligations by your gross monthly income (before taxes).

- You can calculate your DTI ratio by dividing your total monthly obligations by your gross (pre-tax) monthly income.
- An ideal DTI is no higher than 43%, but there are many loan programs that accept higher.

What if your DTI ratio falls outside of the "ideal" range? Different loan programs will have different **qualifying guidelines**. A DTI ratio higher than the ones mentioned above could still be acceptable depending on a specific loan program's requirements.

Your DTI can also change depending on the loan program selected. For example, an adjustable-rate mortgage (ARM) typically has a lower initial rate than a fixed rate mortgage, but this rate will adjust to current market indexes after a defined period of time. DTI is only one of the factors that **helps determine** how much home you can afford. We can help you select a loan program that meets your individual financial situation.

IV. DOWN PAYMENT OPTIONS

Do you want to buy a home, but think you need more time to **save up for a down payment?** If a down payment feels like the only thing standing between you and a home purchase, keep reading. You may be surprised at the amount of cash you need to save to buy a home.

How Much Cash Do You Need to Put Down on a Home?

A down payment generally ranges from 3% up to 20% of the home's purchase price, though there are loan programs with zero down payment requirements. Here are some examples of the **minimum down payment requirements** for a few of the common loan programs:

- VA loan: as low as 0%
- USDA loan: as low as 0%
- Conventional loan: as low as 3%-20%
- FHA loan: as low as 3.5%
- Jumbo loan: as low as 10% - 20%

By meeting the qualifying guidelines, there are loans available that will allow you to purchase a home even if you have no, or very little, saved for a down payment. **Zero-down loan programs** and loans with low down payment requirements aren't your only solutions, either.

Gift Funds and Down Payment Assistance Programs

What if you don't meet the guidelines for a zero-down loan? Do you need to wait until you've saved 20% for a down payment in order to buy a home? Not necessarily. **There are many programs available** that can help you achieve your goal of homeownership even without a down payment.

Down Payment and the Affect on PMI

If possible, putting at least 20% down can help you avoid mortgage insurance.

Mortgage insurance, also known as **private mortgage insurance (PMI)**, is typically required by a lender if you make a down payment of less than 20%. PMI protects lenders by reimbursing them if you fall behind on your payments. Because mortgage insurance lowers the risk to the lender, it makes it easier to get a loan.

PMI may be paid upfront, monthly or a combination of the two, depending on your loan program. The PMI payment will be **included in your total loan payment.** These payments end (except for FHA loans) once you've built up 22% equity in your home.

It's generally wise to put 20% down if you have that ability. Not only will you forego mortgage insurance, but you may get a more favorable interest rate, which would lower your monthly mortgage payment. You may even be able to afford a larger home with a higher down payment!

Gift Funds

There are loans programs that allow relatives to **gift you the down payment** on your home, however, you should speak to your loan advisor first. Gift fund programs will typically allow a gift of equity or wired funds, but may not allow a cash gift. Your loan advisor can walk you through the correct way to accept a down payment gift.

State & Local Down Payment Assistance Programs

There are many state and local down payment assistance and grant programs that can help reduce, or even eliminate, your need for a down payment. Many of these programs offer down payment assistance in the form of a "silent" interest-free second mortgage. You don't need to repay this until your home is sold, refinanced or paid off. Some down payment assistance programs can also help with closing costs. Ask your loan advisor about the downpayment assistance options available to you, in addition to what no- or low-down payment loan programs you may qualify for.

V. CLOSING COSTS

Closing costs are the **miscellaneous fees** that are due at the end of your home buying transaction. The average homebuyer will pay anywhere from 2%–5% of the total cost of the home. Closing costs may include:

- Pre-paid interest
- Title and escrow services
- Government recording taxes and fees
- Appraisal fees
- Homeowner's insurance
- Pest inspection
- Underwriting fees
- Lender's fees
- PMI (for down payment less than 20%)

Your loan advisor will provide you with a loan estimate of your **total closing costs** when you apply for a home loan. You will also get a final closing disclosure on the costs before your loan closes. Your loan advisor can work with you to see if there are any options available to cover these costs if you think you may need assistance paying them.

Call us today to find out more.

Conclusion

Many first-time buyers fall into the trap of thinking they might be financially ready to buy a home…someday. They think they need more time to work at their job, to improve their credit, pay down debt, or save up a sizable down payment. With appreciating home values and today's low interest rates, there is **no better time** to buy a home. If you have been dreaming of achieving your goal of homeownership, you may already have everything you need. Now is the time to **partner with an experienced loan advisor** who will help you understand the loan options available to you, and what you'll need to qualify for a home loan.

PREPARING FOR HOME OWNERSHIP CHECKLIST

Buying a home is a big decision, so it's important to make sure you start to prepare early so the process is easier and less expensive in the long run.

Determine whether buying a home is right for you

- [ ] How long do you plan to stay put? It takes an average of 5 years to recoup the buying costs and give you time to prepare to sell.
- [ ] How stable is your job? It's important to consider whether you would be able to find a comparable job in the same location if necessary.

Take a payment "test drive"

- [ ] Set aside the difference of what your monthly payments will be for 3 months to see how your budget and day-to-day life changes
- [ ] Use what you set aside towards your down payment!

Get pre-approved before you look at a single house

- [ ] Avoid becoming "house poor"
- [ ] Only look at what you can afford
- [ ] Keep your personal comfort level in mind with monthly payments

Build a Strong Credit Profile

- [ ] Check your credit at least a year ahead of time
- [ ] Correct errors if you find any
- [ ] Make changes to your habits to increase your score if needed

Determine what you can afford

- [ ] Input your monthly expenses and estimated home expenses
- [ ] Include home maintenance
- [ ] Include taxes and insurance
- [ ] Include Homeowners Association fees
- [ ] Talk to a loan officer so you can build a roadmap togethe

Save Save Save!

- [ ] Cut back on expenses
- [ ] Create (and stick to) a budget

About APM

As a company, we embrace the concept of homeownership with enthusiasm and optimism for housing in America. Every employee at American Pacific Mortgage takes personal ownership in ***Creating Experiences That Matter™*** for our customers and consumers. Every transaction represents a family, a home, and a life decision—we understand and value that our participation is a privilege and that our job is to delight everyone involved in the loan process.

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