

First Time Homebuyers Guide

Buying a home is one of, if not the most significant, financial transaction you will make in your lifetime. While preparing to purchase a house is exciting, it's understandable to feel a bit overwhelmed (especially as a first-time buyer).

Take a deep breath and relax. We're here to help ease your mind as we address some of the most asked questions for first-time homebuyers.

How Much of a Down Payment Do I Need?

The down payment for a home is a lump sum paid upfront to the lender and is a percentage of the home's total purchase price. The amount required for the down payment will vary depending on the type of mortgage you choose. Though the recommended down payment amount is 20% for a conventional loan, there are other mortgage programs available with minimum down payments ranging from 0% to 5%. These programs include FHA and USDA loans, along with other first-time homebuyer loans. Look into the different mortgage programs you qualify for to determine which loan type will work best for you.

Though a 20% down payment may be more than the minimum required for your loan type, it still has its benefits. A larger down payment provides you with instant equity in your home and greater buying power. Plus, the more you can swing for a down payment, the more of your money will go to the principal loan balance – reducing the amount of your future monthly payments.

What is Mortgage Insurance? Do I Need It?

Private mortgage insurance (PMI) is insurance coverage for your lender. It protects them in the event you default on your mortgage loan, thus causing the lender to foreclose on the property (and likely lose money). Lenders generally require PMI if you put down less than 20% on the home. However, at Greenville Federal Credit Union, we do not require PMI unless you borrow more than 90% loan to value.

What is a Cash Offer?

A cash offer means that the buyer intends to pay for the home in full themselves without the need for outside funding from a lender. Removing a mortgage loan from the equation eliminates potential challenges or delays from working with a lender and can considerably expedite the home sale timeline.

Although a cash offer can undoubtedly appeal to a seller, it is not the "golden ticket" to securing a home purchase. Under a cash offer, there are no contingencies as there are with the structure of a loan. If you choose to pursue a cash offer, it's crucial to have a trusted real estate agent and lender on your home-buying team who can help you review and understand the terms of the agreement.

What are Closing Costs?

Closing costs are one of the most significant barriers to purchasing a home besides a down payment. These are fees related to the closing or purchase of a property. Sellers and buyers pay different closing costs. For example, the seller's closing costs tend to cover the real estate agent fees, while the buyer's costs focus on the actual closing of the deal. Examples of buyer-related closing costs include:

- **Title Insurance**
- **Home Inspection**
- **Home Appraisal**
- **Lender Fees**
- **Prepaid Homeowner's Insurance**
- **Prepaid Property Taxes**
- **Attorney Fees**

Closing costs vary by state; however, they typically amount to 3% to 6% of the property sale price. If you were purchasing a \$200,000 home, you could expect the closing costs to be between \$6,000 – \$12,000. Like a down payment, this payment is due upfront at closing.

What Happens at Closing?

When you arrive at your scheduled closing date, you will meet with a closing agent, your real estate agent, the real estate agent for the seller, and possibly the seller. The closing agent will present several documents for you and the seller to sign. Though the closing agent will briefly explain each document, it's wise to take some time to review and discuss them with your real estate agent to make sure you understand exactly what you are signing. After all, you're committed to making a significant and long-term investment. If ever there was a time to be sure of what you're signing, this is it.

Before the scheduled closing date, your lender is required to provide you with information explaining the closing costs (typically referred to as a closing disclosure), along with a "good faith estimate" of how much money you will need to provide at closing, and a list of the documents required. If there is anything you don't understand or have questions about, do not hesitate to ask. Your mortgage team is there to support you through this momentous occasion!

What Documents Will I Need?

Most lenders will request the documents listed below; however, verify the requirements with your lender to ensure you have everything you need beforehand. Here's a list of commonly required documents for a mortgage loan:

- Copies of your driver's license to verify your ID and your current address.
- Paystubs from the past 30 days.
- Statements from all financial and investment accounts for the past 60 days.
- W-2 forms and/or tax returns for the past 2 years.
- Proof of employment/income for the past 2 years.
- Letters of explanation and documentation for any circumstances in your history (such as bankruptcy or foreclosures).

One thing to consider before buying a home is your budget

How Much Can You Afford?

Before you dive headfirst into house hunting, honestly examine your finances and determine how much you can afford. It's essential to understand how a mortgage payment will fit in with your current income, monthly bills, debt repayments, and the rest of your finances.

While online calculators can help you determine what's feasible for your budget, two financial rules of thumb assist in the process:

- **Rule #1: Your maximum mortgage amount shouldn't exceed 2.5x your annual income.**

Lenders use the 2.5x rule to initially gauge your price range. If you and your spouse earn a combined income of \$150,000, your price range would be around \$375,000 ($\$150,000 \times 2.5$). This figure is a good starting point when estimating a reasonable budget.

- **Rule #2: Your mortgage payment shouldn't exceed 30% of your monthly budget.**

Using your combined income of \$150,000 from the previous figure, your monthly gross income would be \$12,500. 30% of this figure is \$3,750 – the maximum amount you should put toward housing expenses monthly.

It's crucial to remember that your monthly mortgage payment will likely include other costs, such as property taxes and homeowner's insurance.

The home-buying process can be intimidating, but your friends at Greenville Federal Credit Union are here to help.