

# First-Time Home Buyers Guide



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# Eight Steps to Home Ownership

1. Decide to buy.
2. Hire your agent.
3. Secure Financing.
4. Find your home.
5. Make an offer.
6. Perform due diligence.
7. Close.
8. Protect your investment.

# Decide to Buy

- Financial net worth comparison, according to the U.S. Federal Reserve Board of Consumer Finance:
- Financial net worth of renters= \$4,000
- Financial net worth of home owners= \$184,400

# Decide to Buy

- A home is the largest financial asset most people have due to equity over time.
- Average annual appreciation rate nationally is 5 to 6 percent since 1977. (Local appreciation rates may vary.)
- At 3% annual appreciation, a home purchased for \$150,000 , would grow to \$364,000 in 30 years.
- Even at 1.5% annual appreciation, this same home would still grow to \$234,462 in 30 years.

# Decide to Buy

- Buying your first home is an emotional decision- “Home is where the heart is”
- A home represents your personal tastes and provides a haven of stability for you and your loved ones.
- Provide a pride of home ownership, because it's *yours*.

# Decide to Buy

- **It's also a rational decision-”Home is where your wealth is.”**
- Grow wealth via equity buildup, debt pay down, and value appreciation.
- In the United States, you can take advantage of tax-deductible benefits such as property and mortgage interest write-offs and first time home buyer tax breaks.

# Decide to Buy

- “Home is where your wealth is”
- A home is an “accidental” investment that created leverage opportunities
- Examples:
  - In a few years, you can use your equity to trade up to a better home.
  - Or, you might consider using some of your equity to invest in a second or vacation home

# Decide to Buy

- Why pay rent when you can own?
- If you took out a 30 year fixed mortgage for \$150,000 and made monthly mortgage payments of \$900...
- You'd pay \$324,000 in mortgage and interest payments for the life of the loan.
- And after 30 years you would own a home with an appreciated value potential of \$364,000. (At 3% annual appreciation.)
- Keep in mind appreciation rates vary by area.



# Decide to Buy

- Compare that to paying \$800 per month in rent for over 30 years...
- Even if your landlord never raised the rent, you would still spend *\$288,000 and own nothing.*

# Hire an Agent

- Real estate agents perform 7 main roles:

1. Educate you about the market
2. Analyze your wants and needs
3. Steer you to homes that fit your criteria
4. Coordinate the work of other needed professionals
5. Negotiate on your behalf
6. Review paperwork and deadlines
7. Solve any problems that may arise

# Hire an Agent

- Advantages of a buyer's representation agreement:
- Sets mutual expectations in writing between you and your agent.
- Commits your agent to getting you into the home you want, while you commit to working exclusively with your agent.

# Secure Financing

## Six steps to financing a home:

1. Choose a loan officer (or mortgage specialist).
2. Make a loan application and get pre-approved.
3. Determine what you want to pay and select a loan option.
4. Submit to the lender an accepted purchase offer contract.
5. Get an appraisal and title commitment.
6. Obtain funding at closing.

# Secure Financing

- Know your mortgage options.

- Three basic factors:

1. Down payment

2. Interest rate

1. Term

Here are a few calculators that can help you get started.

[Affordability Calculator](#) [Mortgage Payment Calculator](#)

# Secure Financing

Understanding your monthly payment:

- Principal
- Interest
- Taxes
- Insurance
- Together, these four elements are commonly referred to as **PITI**.

# Secure Financing

- Pre-qualification vs. Pre-approval
- Pre-qualification is simply a *rough estimate* of how much you can borrow.
- Pre-approval involves a formal application process and provides you with a *formal commitment* from a lender stating how much you can borrow and at what rate.
- \*I need to stress the importance of getting a pre-qualification letter prior to looking for your home. Looking outside of your price range will always lead to disappointment. It's hard to buy that \$200,000 home you can afford; when you've had your heart set on a \$300,000 home that you can't afford.

# Secure Financing

Deciding among your mortgage options:

If you want...

- A low monthly payment – put more money down or purchase a more affordable home.
- A low down payment – secure a second mortgage or an “80-15-5” piggyback.
- To build equity quickly – make voluntary prepayments.
- To minimize risk – take a 30-year fixed-rate program with 20 percent down.



# Secure Financing

The suitcase principle:

- Your lender decides what you can borrow, but you decide what you can afford.
- In your pre-approval letter, make sure the monthly payment is an amount you're comfortable paying each month.
- It's best to spend no more than a third of your gross monthly income on your home payment. Which is the limit of FHA.

Use the provided link to find a list of trusted lenders.

[Lender List](#)

# Find Your Home

- Define your home criteria—analyze your values, needs, and wants.
- Consult with your agent to understand the rules of your market.

# Find Your Home

When viewing a home, what you consider and what your agent considers are different.

You'll want to look for...

- Layout, space, a sense of value, convenience of location to work and schools, and features and amenities.

Your agent will look for...

- How the home compares in terms of size, layout, and value to other homes in the area, as well as maintenance and structural concerns.

# Make an Offer

## Three components of an offer:

- Price—offer must reflect true market value of the home.
- Terms—six basic categories address timing and financial considerations.
- Contingencies—often referred to as “conditions” that allow you to opt out of a deal if the home has a problem.

# Make an Offer

- What's a fair price?
- Let's take a look at a pricing scenario on the next slide.

# Make an Offer

## What's a Fair Price for 345 Cardinal Lane?

Welcome to The Grasslands, a quiet neighborhood built in the 1960s. Most home here have three bedrooms, range from about 1,500 to 1,750 square feet, and have been selling between \$140,000 and \$180,000. You want to make an offer on 345 Cardinal Lane, listed at \$165,000. *What price will you offer?*



### 123 EAGLE PASS

- Three bedrooms
- 1.5 baths
- 1,550 square feet
- No recent updates
- On busy street
- Average-sized yard
- Listed as "handyman's special"

Sold last week for \$90/square foot,  
or \$139,500



### 234 ROBIN LANE

- Three bedrooms
- 2.5 baths
- 1,725 square feet
- Kitchen renovated last year
- Brand-new deck
- Huge backyard with extensive landscaping
- On cul-de-sac
- Finished basement

Sold two weeks ago for \$102/square foot,  
or \$175,950



### 345 CARDINAL LANE

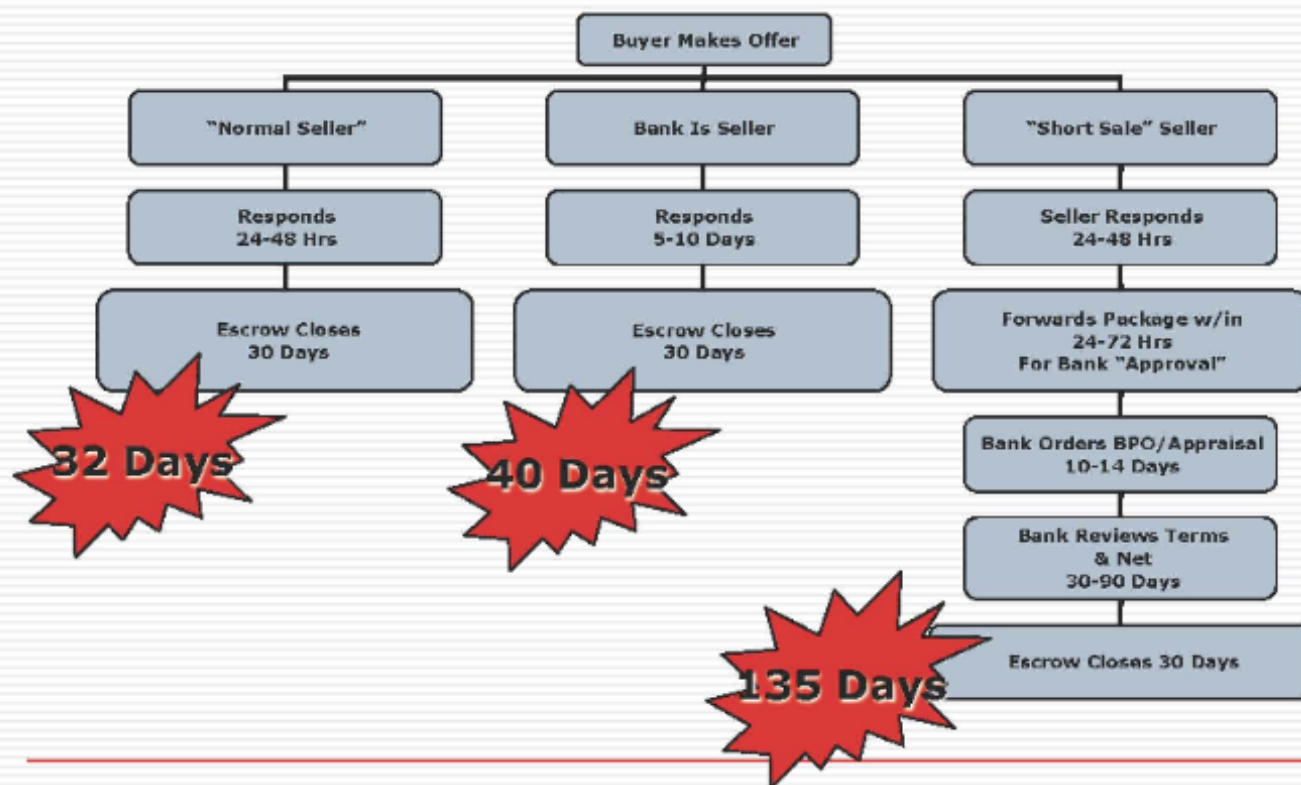
- Three bedrooms
- Two baths
- 1,650 square feet
- Roof and kitchen both updated in the past five years
- Large yard
- On quiet street

You decide to offer \$95/square foot,  
or \$157,000

# Types of Sales

Differences between normal sales, short sales, and bank owned/REO

## Comparing Sales & Timelines



# Perform Due Diligence

- Property inspection (done by a professional inspector)—exposes any structural or hidden issues.
- Final Walkthrough
- Home owner's insurance policy—protects against loss or damage.
- Home Warranty



# Perform Due Diligence

In your inspection, it's the **big** stuff that really matters.

- Cracks or crumbling in the foundation
- Cracks inside the house over windows
- Water stains in ceilings, floors, or walls
- Faded or worn shingles
- Mold issues
- Remember, cosmetic repairs can be easily taken care of upon moving in. Most bank owned and short sale properties are sold as-is with no repair allowance.

# Close

## Pre-closing responsibilities include:

- Appraisal, survey, title search, and title insurance.
- Keeping yourself mortgage worthy!
- Doing a final walk-through of home.

## Countdown to closing includes:

- Getting your settlement statement, certified funds, evidence of insurance, and transfer of clear title
- Remember, depending on your loan agreement, closing costs can be between 3-5% of the purchase price (not including your down payment).

# Protect Your Investment

## Two keys to good home habits:

### 1. Keep it clean.

- Perform routine maintenance on your home's systems, depending on their age and style.

### 2. Keep an eye on it.

- Watch for signs of leaks, damage, and wear. Fixing small problems early can save you big money later.

**Tip:** Keep a file of receipts for your repairs.

# Useful Resources

<u>Lender List</u>	<u>Affordability Calculator</u>	<u>Mortgage Payment Calculator</u>
<u>NNRMLS Map</u>	<u>Search for Homes</u>	<u>Foreclosures Only</u>
<u>Resale vs. REO</u>	<u>List of Inspectors</u>	<u>Fidelity Home Warranty</u>
<u>Old Republic Home Warranty</u>	<u>Real Estate Terms</u>	<u>Escrow Glossary</u>

# Have more questions?

Feel free to contact me with any questions, comments, or for more detailed information on buying a home.

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