

# Home Buying Guide



## From Home Renter To Home Owner



# YOUR HOME BUYING GUIDE

## A GUIDE TO GO FROM HOME RENTER TO HOME OWNER

### *Welcome!*

You are about to embark on the exciting journey of finding your new home.

This packet is designed to walk you through the steps from Home Renter to Home Owner. My intent is to provide you with a simple and to the point pathway to homeownership. With that in mind, there are four basic steps:

1. Finding out what you can afford
2. Deciding on your new neighborhood
3. Deciding on the type of house you want
4. Working with a Realtor®

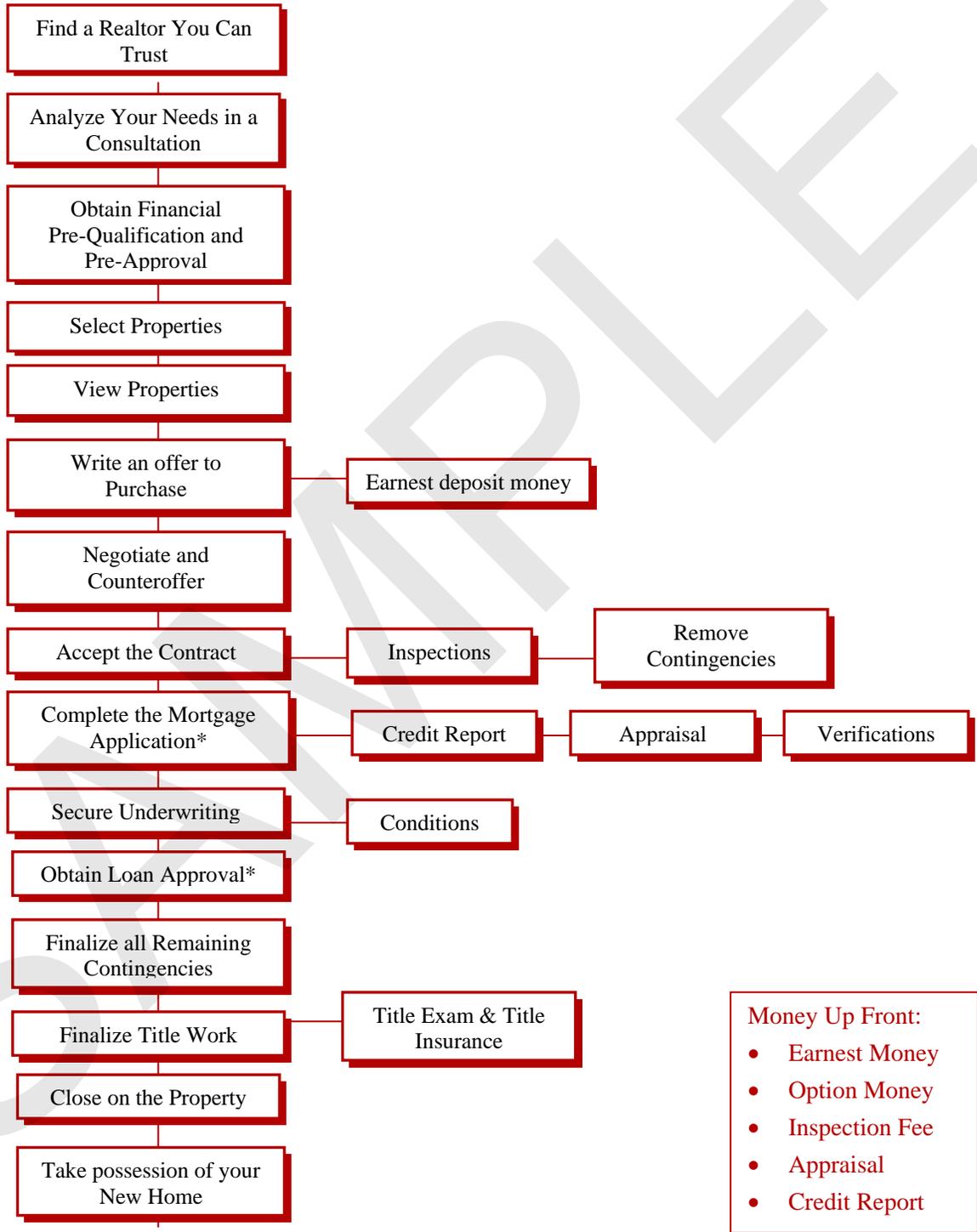
Once you begin working with a realtor, your realtor will be able to get you through the door of your first home.

Walking into your new home you just purchased will be one of the most exciting and rewarding things you'll do in your lifetime. My goal is to make your experience the best it can possibly be!



# HOME BUYING PROCESS

This flowchart may be used as your guide to the Home Buying process.



\*If not already pre-approved

- Money Up Front:**
- Earnest Money
  - Option Money
  - Inspection Fee
  - Appraisal
  - Credit Report

# WHAT CAN YOU AFFORD?

The first step to purchasing a home is to determine what you can afford.

Attachment "1" is a reference sheet that includes a list of recommended lenders. Attachment "2" is a checklist of what to bring when you go see a lender. You may also wish to consult your personal banker or the mortgage specialist at your bank.

## THE BASICS TO DETERMINING WHAT YOU CAN AFFORD

To determine what you can afford, a lender will take into consideration the following four criteria (generally):

1. **Monthly Gross Income** ~ How much money you make each month before paying taxes.
2. **Total Debt** ~ How much do you owe on revolving and installment debt accounts.
  - a. Revolving debt includes things like credit cards
  - b. Installment debt includes things like student loan payments and car payments
3. **Credit Score** ~ What is your magic little number?
4. **Down Payment** ~ How much cash will you be committing to the purchase of your new home.

### Monthly Gross Income

This is simply how much money you make every month before you pay taxes. Combined monthly gross income is all the money that all the applicants make in a month prior to paying taxes. Other income considerations may be child or alimony support, trust checks, or any other sources of income.

### Total Debt

Ugh! The debt thing! One of my college classmates said to me, "Don't ever get mail that comes in a window envelope." I wish I heeded his advice!

There are basically two types of debt: Revolving Debt and Installment Debt. The best example of revolving debt is credit cards. Every month you pay an unknown amount depending on your credit card limit, your recent purchases, and minimum payment requirements.

Installment debt, conversely, is a debt paid monthly of the same amount each month. A great example is a car payment – every month the payment amount is the same. Generally, installment debts are over a specific term. In the case of a car payment, the term is usually 5 years.

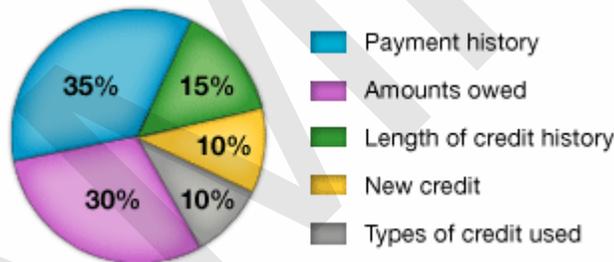
### Credit Score

Your magic number! Remember the window envelopes? Here's how they play into your hand.

Everyone has a credit score or FICO. In fact, everyone has three – one from Experian, one from Equifax, and one from Transunion. Depending on the agency, your credit score will range between 300 and 934.

Your credit score is calculated as follows:

Payment History	35%
Amount of outstanding debt	30%
Length of credit history	15%
Types of credit (installment and revolving)	10%
New credit and credit inquires	10%



What's a good score?

In 2008, after the sub-prime fallout, lending rules started changing daily. I met with all my lending partners for additional guidelines and am kept apprised. The credit score guidelines below are most current, but do change. Check with your lender.

Greater than 700 ~ Very good!

You'll get the best interest rates with the most lending power. (Be careful not to over-buy! You still have to make the payments!)

680 – 700 ~ Good!

You will likely pay slightly higher interest rates with less lending power. Simply stated, you will likely be qualified only for what you can actually afford!

620 – 680 ~ Not as good as “Good” but not impossible!

You will likely get a loan, but you will need to meet additional criteria, such as down payment requirements. Your interest rate will be higher.

Below 620 ~ The “Life Happens” score!

To qualify for a loan, you will likely be in the sub-prime market, which basically means, higher interest rates. Currently, the best option in this range is to see if you can increase your credit score and save money for a down payment. You may try FHA loans to see if you qualify. This will depend heavily on your debt to income ratio. See Attachment “3” for specific ways to increase your credit score!

After the sub-prime fallout, the following conditions, among others, came into affect in 2008.

- Most mortgages will require a minimum of 5% down
- FHA drastically increased its lending limit to \$386,250
- FHA down payment requirement is only 3%
- FHA loans require mortgage insurance
- Self employed people will need tax returns

The only consistent thing about loan products in 2008 is that they change all the time! Once you’re ready to shop for a house, shop for your loan and ask your lender what will happen if the loan product you are qualified for goes away before closing.

## Down Payment

Down payment is the amount of cash you spend at the time of closing towards payment for the house. The more money you put into the house at closing, the more equity you have in the house at closing. In lending terms, this is referred to as loan-to-value (LTV) ratio. A higher down payment increases the value, thus decreases the loan.

As a general rule, if you have 20% of the selling price of the house for a down payment, you will not have to pay mortgage insurance. Mortgage insurance rates vary and can add as much as a couple of hundred dollars to your monthly payment.

*As of 2008 the companies that provide mortgage insurance are requiring a minimum of 5% down on real estate (except FHA, which is 3%).*

Ask your lender about all the loan options available. *Remember, ask your lender what will happen if the loan product you are qualified for goes away before closing.* Make sure you understand this process—you will repay this loan for the next 30 years!

## PUTTING IT ALL TOGETHER

Affordability is computed using the four criteria discussed above. Most lenders use ratios, termed front-end ratio and back-end ratio. In general, lenders will allow 29% of total gross income to be spent on housing. This is the front-end ratio and includes the principal, interest, taxes, and insurance. The back-end ratio includes your housing *and* all of your debt. This percentage is generally 41%. Your credit score will play a factor here. If you have stellar credit, you may be allowed higher ratios.

Down payment comes into play in that it shows a lender you are gaining equity in the house immediately. The more equity you have in the house, the more likely you are to stick with it – that is, pay your mortgage. Again, with stellar credit, you may not be required to have a substantial down payment, but you may still be subject to mortgage insurance without a strong down payment.

## OTHER FINANCING OPTIONS

None of this works for you! You are in the "Life Happens" category. We will work with you to get you financed and into your first home!

There are programs offered by the Montana Board of Housing, USDA Rural Development, and down payment assistance programs to get people into their first home. Please see "The Quick & Dirty of Alternative Financing" at attachment "4".

Each of the programs differ in their income requirements, credit requirements, and cash requirements, but each program is designed to help working individuals get into their first home. Don't be alarmed by the income limits. I was pleasantly surprised to find annual income limits in the \$50,000 range.

Ask your lender whether they are familiar with any of these programs and can help you with the application process.

In 2008 the Montana Association of Realtors put together Montana's first housing resource website. The purpose of the website is to provide a "clearing house" for all of the programs available for Montana's homebuyers.

Visit [www.mthousingresources.com](http://www.mthousingresources.com) for more information.

# YOUR NEW NEIGHBORHOOD!

"Would you tell me please, which way I ought to go from here?"  
"That depends a good deal on where you want to get to," said the Cat.  
"I don't much care where—" said Alice.  
"Then it doesn't matter which way you go, " said the Cat.  
"—so long as I get *somewhere*," Alice added as an explanation.  
"Oh, you're sure to do that," said the Cat, "if only you walk long enough."  
*Excerpts from Alice in Wonderland by Lewis Carroll*

Now that you know what you can afford, the next step is to determine where you want to live. Consider the following questions when trying to pick out a neighborhood:

## ***Do I want to live near schools?***

If so, do you want to live near a grade school or a high school? Neighborhoods near grade school differ drastically from those near high schools. Drive by when school is in session and check it out.

## ***Do I want to live close to work?***

Consider that you will drive back and forth to work as many as five times a week, maybe more. Take a test drive, during your normal commute time, from where you want to live to where you work. How was it? Is it acceptable?

## ***Do I want to be close to the activities I enjoy?***

Do you want to walk out of your backdoor and immediately start cross-country skiing, fly fishing, mountain biking, or whatever it is you enjoy?

## ***Do I want to live near a city center?***

Do you enjoy walking downtown for a night on the town, a quite dinner for two, or your morning cup of coffee?

# TYPES OF HOUSING

Next will be to determine what type of housing works for you.

There are basically three types of housing, each with their goods and bads! It will be important for you to decide what works for you and to ensure that you are qualified to purchase the particular type of housing you want.

## Condos and Townhomes

Generally, condos and townhomes are located in “complexes” of more than one unit. You own the individual unit and share ownership of the common areas with everyone in the complex. There are usually monthly association dues, which cover things like insurance, snow removal, exterior painting, landscaping, etc. Condos and townhomes tend to be priced lower than single family homes and can be a great way to get into your first home. With a condo you own the structure, with a townhome you own the structure and the lot it sits on. Townhomes are easier to finance than condos.

## Manufactured, Mobile, and Modular Homes

The three “M’s”! When considering a manufactured or a mobile home, be sure to talk to your lender. These homes are meant to move and can have a title with the DMV. Some first-time homebuyers are not eligible for this type of housing. Also, some mobile or manufactured home are on rented or leased land. Lastly, check with your insurance agent to make sure you can get acceptable homeowners insurance.

A modular home is, for lending purposes, considered a stick built home.

## Stick Built Homes

A stick built home is one constructed on-site on a permanent foundation on a lot. Stick built homes generally have better resale values, are easier to insure, and easier to qualify to purchase.

# WORKING WITH A REALTOR

Finally, it's time to find your new home. You can do this on your own or you can work with a Realtor. I highly recommend that once you've found a Realtor you can trust, work with just that Realtor. Building a relationship with your Realtor is vital to a successful home purchase. Attachment "5" is a compilation of questions to ask when interviewing a Realtor. Here are some other advantages to working with a Realtor.

- REALTORS can save you endless amounts of time, money, and frustration.
- REALTORS know the housing market and can help you avoid the "wild goose chase".
- REALTORS can help you with *any* home, even if it is listed elsewhere or if it is being sold directly by the owner.
- REALTORS are experienced at presenting your offer to the seller and can help you through the process of negotiating the best price.
- REALTORS bring objectivity to the buying transaction and can point out the advantages and disadvantages of a particular property.
- REALTORS can get you through the entire home buying process and explain the steps along the way.
- REALTORS have "keys to the homes". That is, REALTORS can show you the inside of most of the homes that are on the market.

I would welcome the opportunity to work with you.

## As Your Realtor ~ You Come First!

### Top Ten List for Owning Your Own Home

10. You can paint your house purple
9. Your mortgage payment won't keep going up
8. You can hammer "Nail Art" directly into your walls
7. You can get a puppy
6. Equity is a great savings plan
5. You can itemize deductions on your tax return
4. You're the only one who can kick you out
3. You can plant tulips in your lawn shaped like cartoon characters
2. You are the landlord

*And the number one reason to Own Your Home...*

1. You are building equity for your future

Attachment "1"

**REFERENCE SHEET**

**HOMEBUYER EDUCATION CLASS:**

HRDC, Tracy Blain (406) 585-4878  
HRDC, Dana Burkett (406) 585-4875

**MORTGAGE COMPANIES:**

Please call me for lender recommendations. I can refer you to the most qualified lender that will meet your needs.

██████████

██████████

**OTHER FINANCING OPTIONS:**

USDA Rural Development (406) 585-2530  
Montana Board of Housing (406) 841-2840  
HDRC (406) 585-4878

**INSURANCE COMPANIES:**

Call your insurance company first and ask if any discounts apply for multiple insurance coverages, such as home and auto.

**CREDIT COUNSELING:**

Consumer Credit Counseling Service (406) 582-9273

**WEB SITE INFORMATION:**

Credit Information, Credit Score [www.myFICO.com](http://www.myFICO.com)  
Budget and Home Information [www.msn.com](http://www.msn.com)  
Click "Money" & "House & "Real Estate"  
Your Montana Housing Resource [www.mthousingresources.com](http://www.mthousingresources.com)

**To Search Available Properties in the Gallatin Valley, visit my website!**

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Attachment "2"

## LOAN APPLICATION CHECKLIST!

**General:**

- Picture ID and Social Security Number
- Payment to cover application fee.
- Name and complete address of all landlords (past 2 years).

**Income:**

- Employment history, including names, addresses, phone numbers, and length of time with that company (past 2 years).
- Copies of your most recent pay stubs and W-2 form (past 2 years).
- Verification of other income (social security, child support, retirement).
- If you are self-employed: Copies of signed tax returns including all schedules (past 2 years), and a signed profit and loss statement of the current year.
- If you are retired: Tax returns (past 2 years).
- If you have rental property income: Copies of all lease agreements.

**Assets:**

- Copies of all bank statements from checking/savings accounts (past 3 months).
- Copies of all stock/bond certificates and/or past statements/retirement accounts.
- Prepare a list of household items and their values.
- Copies of title documents for all automobiles, boats, or motorcycles.
- Face amount, monthly premiums, and cash values of all life insurance policies (Cash value may be used for closing costs or down payments. You need documentation from the carrier indicating cash value).

**Creditors:**

- Credit cards (account numbers, current balances, and monthly payments).
- Installment loans (car, student, etc.) Same details as for credit cards.
- Mortgage loans (property address, lender with address, account numbers, monthly payment, and balance owed for all properties presently owned or sold within the last 2 years). Bring proof of sale of properties sold.
- Childcare expense/support (name, address, phone number).

**Other:**

- Bankruptcy – bring discharge and schedule of creditors.
- Adverse credit – bring letters of explanation.
- Divorce – bring your Divorce Decrees, property settlements, quitclaim deeds, modifications, etc.
- VA only – bring Form DD214 and Certificate of Eligibility.
- Retirees – bring retirement and/or Social Security Award Letter.

SAMPLE

## IMPROVING YOUR CREDIT SCORE

### CREDIT REPORTING COMPANIES

The first thing to do to clean up your credit is to find out what's on your credit reports. You can request a copy, with your FICO score, from all three agencies and it will not affect your credit score. (If someone else pulls your credit that will affect your credit score – you must make a personal inquiry!) You may be charged a fee for your credit score, but you will need that.

Equifax  
[www.equifax.com](http://www.equifax.com)  
(800) 685-1111

Experian  
[www.experian.com](http://www.experian.com)  
(888) 397-3742

Transunion  
[www.transunion.com](http://www.transunion.com)  
(800) 916-8800

You can request a copy of all three credit reports and all three credit scores from [www.myFICO.com](http://www.myFICO.com). Remember to request all THREE credit scores and reports.

### WHAT'S NEXT?

Let the games begin! Check for errors. If you find an error, immediately start the paper trail. Along with each report you will be given instructions on how to fix errors. Follow the instructions and be sure to follow up any phone calls with written documentation. As I said one sentence ago – **START THE PAPER TRAIL!** This can take several months! In my case, it took well over a year!

No errors? But you're in deep! I will work with you to get you into your new home that *you own!* But we will need more people on our team. Call Consumer Credit Counseling Services (406) 582-9273. This is a non-profit company to assist people who need help with credit issues. By calling in the forces, we will accomplish our goals! If you can't find the help you need, call me, we'll figure it out together. ! PROMISE TO KEEP YOUR PERSONAL INFORMATION CONFIDENTIAL.

No errors? You're floating somewhere around a FICO of 575? Great! Follow the guidelines below to help bring up that score.

## **PAYMENT HISTORY** (Remember this is 35% of your score!)

- Establish credit early in your life
  - Only open accounts that are needed. You do not want a huge amount of open credit cards!
- Pay all of your bills on time
- Manage credit cards wisely
- Keep balances low

## **LOWER YOUR OUTSTANDING DEBT** (Remember this is 30% of your score!)

- Catch up on those past due bills
  - Make payment arrangement with your collectors to get debts paid
  - Negotiate interest rates, fees, and other charges
- Do not re-charge once you've caught up

## **ESTABLISH CREDIT HABITS** (Essentially, this is the rest of your score!)

- If you can pay cash, pay cash
- Don't open up accounts unnecessarily
- Don't make numerous inquiries into your credit – once a year is sufficient
- Don't carry your credit cards with you
- Always keep low balances on your credit cards and pay the entire balance monthly
- Establish both revolving and installment accounts when establishing credit
- Don't "over buy" because a creditor says you can! Ask yourself, can I *really* afford to pay for this item?

## THE QUICK & DIRTY OF ALTERNATIVE FINANCING

There are alternative financing programs dedicated to helping first time buyers. If your buyers do not qualify for conventional loans because of income or do not have enough down payment they should be referred to these programs.

If you have a client who you think might qualify for one of these programs send them to Homebuyer Education. The class meets three days for three hours each day. The class is offered monthly. To sign up, call Tracy Blain, HRDC, 406.585.4878 or Dana Burkett, HRDC, 406.585.4875.

### USDA Rural Development (Federal Program)

Connor O'keefe and Debra Close  
406.585.2530

Two loan programs available:

Direct Loan – RD makes the loan directly to homebuyer

Guaranteed Loan – RD guarantees loan made by conventional lender

Requirements: 3/19/2008

- All debts must be paid off
- Bankruptcy must be over 3 years old
- Must meet income guidelines
  - Gallatin County 2-person household combined income
    - Direct loans apply to "low" and "very low" incomes
      - \$25,700/yr for direct loans for very low income
      - \$41,100/yr for direct loans for low income
    - \$59,050/yr for guaranteed loan
- Must meet ratio guidelines
- Home loan cannot exceed 29% of gross monthly income
- Total debt cannot exceed 41% of gross monthly income
- Direct loan maximum mortgage limit is \$223,200 (loan cannot exceed this amount)
- Guaranteed loan limit is 102% of value of home
- Home must be outside city limits. In our area, the only "city" is Bozeman.

## Montana Board of Housing (State Program)

Jeannene Mass

406.841.2851

Montana Board of Housing is a secondary loan market. All loans are made through a conventional lender and then sold to Montana Board of Housing. These loans are low interest rate loans and, essentially, another type of guaranteed loan program for those that cannot meet conventional loan requirements.

There are 7 requirements:

1. Income Limits  
Gallatin County, 2-person family \$64,200/yr
2. Purchase price **loan** amount limits  
Existing home \$251,750 (loan amount only)  
New Construction \$251,750 (includes price of land and construction)
3. Must be a first time homebuyer or cannot have owned a home within the last 3 years. (Some Montana Counties vary with this requirement.)
4. Must be owner occupied
5. Only 15% of the home can be used for business purposes
6. Must be a new loan (no refinancing)
7. Potential recapture. In order to pay recapture, loan recipient must meet ALL THREE parameters
  1. Sell new home within 9 years
  2. Have a substantial increase in income
  3. Make a substantial profit from the sale

\*One couple in Missoula had to pay recapture. The amount paid was \$2,000. The amount of profit received by the couple AFTER paying recapture was \$38,000.

**Fine print!** Income Limits change. Be sure to have your client consult with each agency to determine eligibility. This information was updated 6.12.2008.

## Human Resource Development Council (HRDC)

Tracy Blain 406.585.4878

Dana Burkett 406.585.4875

HRDC offers a down payment assistance program. The down payment is loaned as a second mortgage on the home being purchased. Again, there are requirements:

- Applicant must have at least \$1500 or 5% of gross monthly income, whichever is greater, to apply to the purchase of the new home.
- Must be a first time homebuyer or cannot have owned a home within the last 3 years.
- Applicant must qualify for a first mortgage. Applicant can use any first mortgage loan program and still qualify for HRDC down payment assistance.
- First mortgage cannot be sub-prime. (This applies mostly to those individuals with really low credit scores. Those individuals may be able to get a loan through RD or Board of Housing, but they will have to have their own down payment, if applicable.)
- Must meet income limits
  - Gallatin County, 2-person household
    - \$41,100 for a home that is outside city limits
    - \$51,300 for a home that is inside city limits
- There are recapture rates *always*.
- Recapture is based on the percentage loaned and the percentage of appreciation.
- Applicant **MUST** take Homebuyer Education **prior** to applying for this type of assistance.

**Fine print!** Income Limits change. Be sure to have your client consult with each agency to determine eligibility. This information was updated 6.12.2008.

## Attachment "5"

# QUESTIONS TO ASK YOUR REALTOR

Finding a Realtor can seem like a daunting task, especially in Gallatin and Park Counties where there are over 700 to choose from! Ask your friends or relatives for referrals. If that doesn't work, check with your service providers, insurance agent, or lender. You can also get a list of recommended Realtors from HRDC. Check the Economy section of the Chronicle for press releases relating to Realtors, see if you find a fit.

Your Realtor will be your trusted advisor, guiding you through the process of not only finding your home, but making sure the entire escrow process goes smoothly including making recommendations for lenders, home inspectors, insurance companies and any other services you may need, such as moving companies, utilities, handyperson, etc. Below is a compilation of questions to ask when interviewing a Realtor. You may like the very first Realtor you interview, but if you're not sure, interview another!

1. Are you a full-time Realtor? How many years have you worked as a full-time Realtor?
2. What type of clients do you work with primarily, buyers or sellers?
3. What is the average price of the homes you sell?
4. Do you specialize in a particular location? (Realtors have access to the Multiple Listing Service and can work in all areas from Park County to Ennis, but a Realtor that concentrates in Bozeman may have little knowledge of downtown Livingston or even Belgrade for that matter.)
5. Do you specialize in a particular type of home, such as condos, historic homes, and/or new construction? (This is not a deal breaker. If you have a connection with your Realtor, ask them how they can help you get what you're looking for considering their specialization.)
6. Who is on your team? (Lenders, insurance companies, home inspectors, and the like. If your Realtor does not have a team, find another Realtor. It is our job as Realtors to interview and select the best possible team to work with our clients.)
7. What services does your company provide?

Lastly, jot down any other questions you might want to ask so you are prepared for your interviews. The best questions are open-ended, not yes/no. The most important component is finding someone you click with.