Getting Mortgage Ready

How to Financially Prepare to Become a Homeowner

EQUAL HOUSING LENDER

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Introduction

Deciding to buy a home is easy. But, being financially ready to buy a home takes preparation. This guide has all the information you need to make the **RIGHT** financial decisions on your home-buying journey. Let's walk through your financial preparedness step-by-step.

- Get your credit in order
- How much can you afford?
  - Calculate how much you can afford
- Expenses: A breakdown
- Create your budget
- Start saving for success

Get Your Credit in Order

Check & Improve

One of the best first steps to take when financially preparing to buy a home is to check your credit. Lenders use your credit score to better determine the mortgage interest rate you will receive. A lower credit score can leave you with an interest rate a little higher than anticipated, which means you could end up paying thousands of extra dollars in the long run.

Get Your Credit in Order

Keep This In Mind

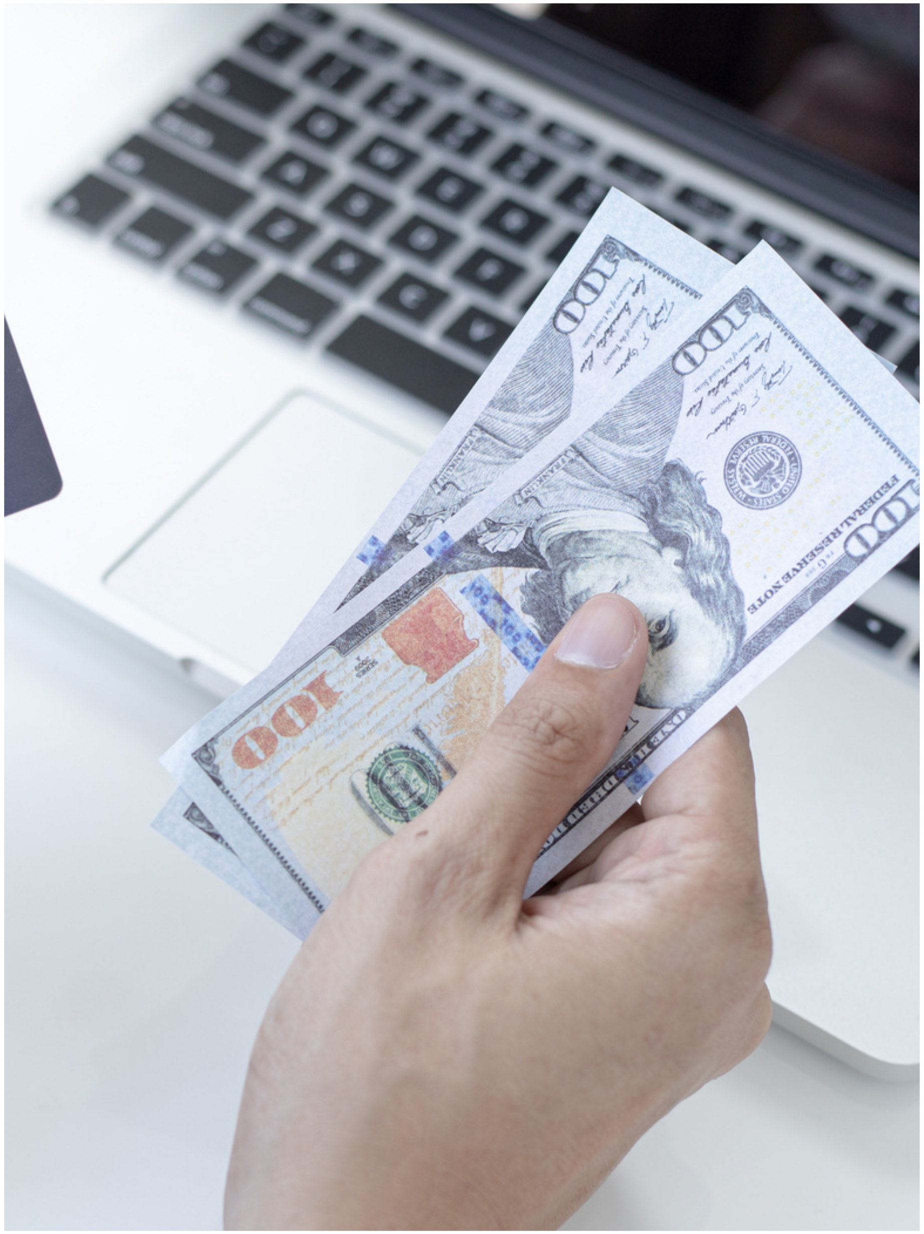
The difference between a 3.5% and a 4% interest rate on a 30-year, $300,000 loan might seem negligible, but the $30,641 you could save over the life of your loan with the 3.5% interest rate makes a huge difference! This is why it's vital to check your credit and take any necessary steps to raise your score before starting your home-buying journey.

Get Your Credit in Order

Understand Your Debt-to-Income Ratio

Alongside knowing your credit score and making any necessary improvements, it's important to understand your debt-to-income ratio (DTI) before buying a home. Your DTI gauges your ability to repay a mortgage loan by measuring your income against recurring debts. While a high DTI ratio may not affect your potential interest rate, it could prevent you from obtaining a mortgage altogether. High debt-to-income ratios signal to the lender that you might be riskier to lend to than those with lower ratios.

But don't worry! There's a simple way to calculate your DTI. Just add up all your current monthly debt payments (think credit cards, student loans, personal loans, etc.), then divide that number by your gross monthly income (your income before taxes and other deductions), and you'll have your debt-to-income ratio. Acceptable DTI ratios vary, but having one that is 35% or lower is a good rule of thumb. If your DTI is on the higher end, it's best to lower your debt or increase your income before buying a home.



How Much Can You Afford?

About the Price Tag

A $250,000 or $500,000 price tag on a potential new home can feel like an enormous financial commitment. When faced with such large sums, some homebuyers may not consider the significance of prospective home prices. But, as you're living, working, tackling expenses, ***and*** trying to manage a new monthly mortgage payment, you'll realize how significant a $250,000 difference in home price really is.

That's why it's essential to understand which home prices are realistic and affordable for you. A dream house loses its luster when the costly consequences of buying a home you can't afford come knocking. Fight the urge to splurge by working within your price range.

Calculate How Much You Can Afford

Finding out which homes rank high on your affordability scale is simple. A home affordability calculator is a quick and easy way to input your monthly and estimated home expenses and figure out a realistic home price range.

It's also important to account for potential maintenance costs you might face as a future homeowner when trying to determine home affordability. Setting aside at least 1% of your home costs each year for home maintenance is a good start. This means if you buy a $300,000 home, you should save $3,000 per year for general upkeep.

Expenses: A Breakdown

Know All Your Expenses

Monthly mortgage payments might be the only thing on your mind when it comes to homeownership expenses, but other costs are associated with owning a home. Here are a few homeownership expenses you might encounter:

- **Upfront costs** - The out-of-pocket amounts you will need to close on your home are considered upfront costs. Typically, these upfront costs consist of your down payment and closing costs.
- **Property taxes** - Some borrowers have these included in their monthly mortgage payment, which allows the lender to hold the funds in an escrow account and pay them on your behalf.
- **Insurance** - Homeownership will likely come with an insurance cost added to your monthly mortgage payment in the form of general home insurance, private mortgage insurance (PMI), and/or a mortgage insurance premium (MIP).
- **Day-to-day expenses** - These include utilities, homeowners association (HOA) fees, internal upkeep & maintenance costs, and renovation expenses.

Learn more about your potential homeownership expenses.

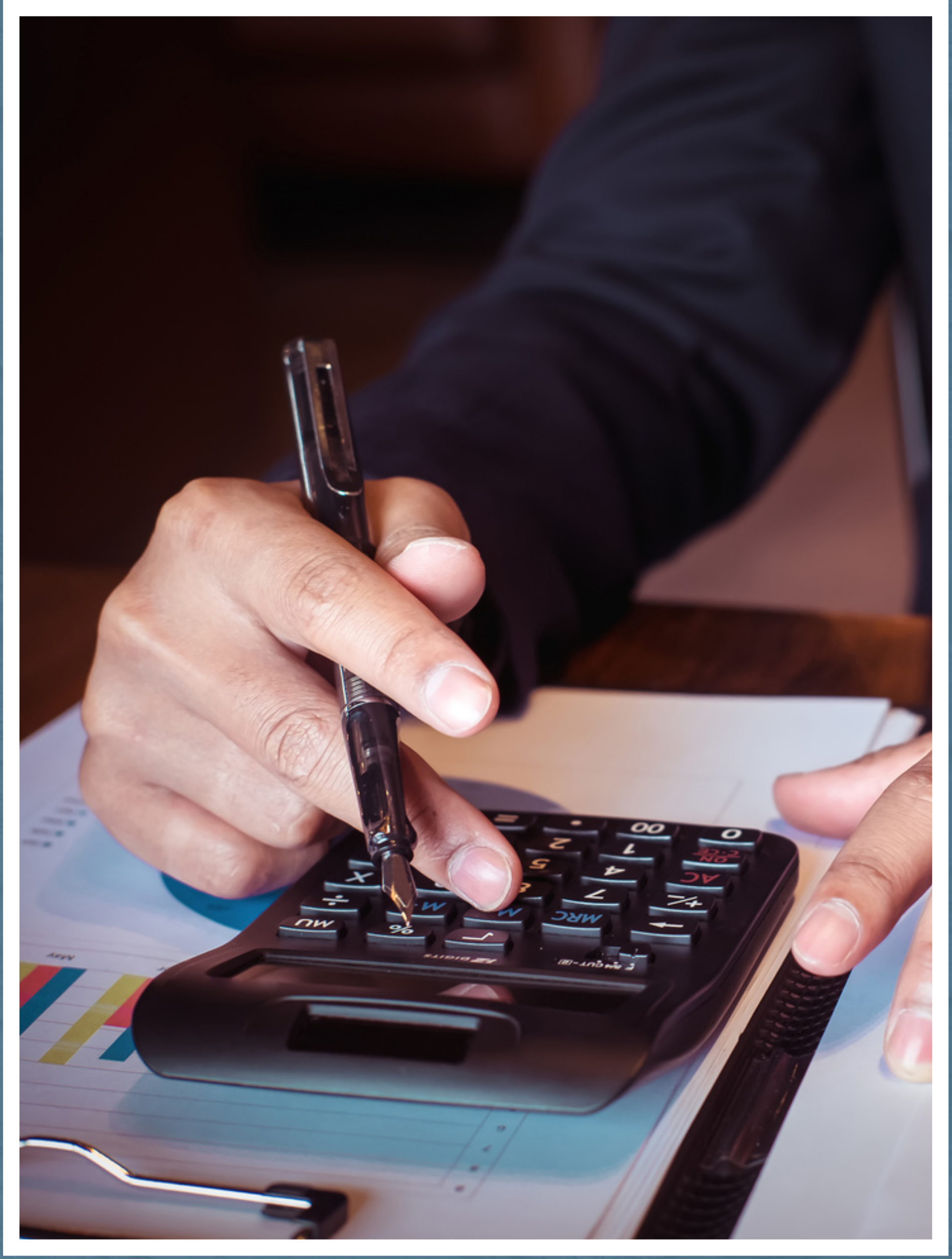
Create a Budget

Money might become a little tighter when you get a mortgage, so budgeting is a must for many borrowers—especially in the few months leading up to closing on your home. Here's a general breakdown of how to budget effectively:

- **Step 1: Understand your net income** - To put your best foot forward when building your budget, you should focus on your net income—not your salary. Your net income will most accurately reflect how much money you have available on a monthly (or bi-weekly) basis and help you balance your expenses.
- **Step 2: Track your spending habits** - Once you learn your net income, you need to note how you're spending those funds. Keeping tabs on your expenses will help you understand what items are siphoning most of your money and where you can unlock savings potential.
- **Step 3: Set achievable goals** - Flexibility can lead you to success when you're on a budget, but your goals must be realistic if you want to maintain the habit. Many first-time budgeters find it helpful to record their short- and long-term goals as a roadmap to a better financial future.

Create a Budget (cont.)

- Step 4: **Start planning** - Now, the pieces fall into place. At this stage, you should have a clear picture of what you're spending and how much you want to spend. Use the ***wants*** and ***needs*** expenses you've compiled to get a feel for your spending in the coming months. Then compare those figures to your net income and priorities.
- Step 5: **Adjust spending to stay on budget** - With your budgeting plan on hand, you can begin adjusting your actual spending habits. Look to your ***wants*** category to start making cuts.
- Step 6: **Review your budget regularly** - Even when you get a set budget, you still need to review it. Things are always changing, economically and individually, so regularly revisit your budget to ensure you're staying on track. Whether you get a raise or want to add new goals, make a habit of reviewing your budget with the previous steps in mind.



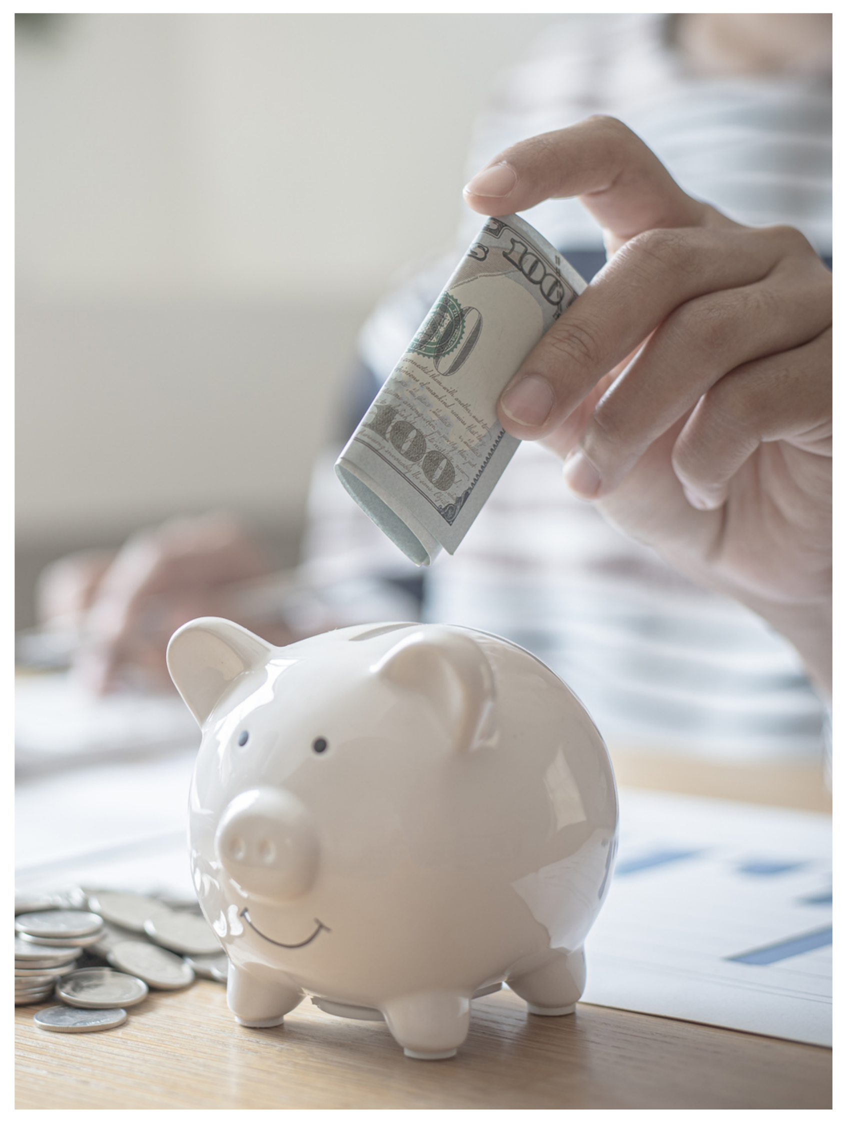
Start Saving for Success

Cut Back on Expenses

For most homebuyers, savings are an integral part of the home-buying process. One of the best ways to build up your savings is to cut back on everyday expenses.

Follow these tips to save money across the board:

- **Save more on groceries:** Improve your spending by following these shopping tips.
- **From cable to streaming:** With so many streaming options available, it might be time to ditch cable if you want to save more money. Use this guide to learn how much money you can keep in your pocket by eliminating your cable bill.
- **Save more on car insurance:** Car insurance is a fixed cost, but that doesn't mean yours is as low as it could be. Use these tips to lower your car insurance bill.
- **Reduce your cell phone bill by up to 50%:** For most people, a cell phone is top 5 on the scale of basic needs, but a high phone bill isn't. Lower yours using this guide.

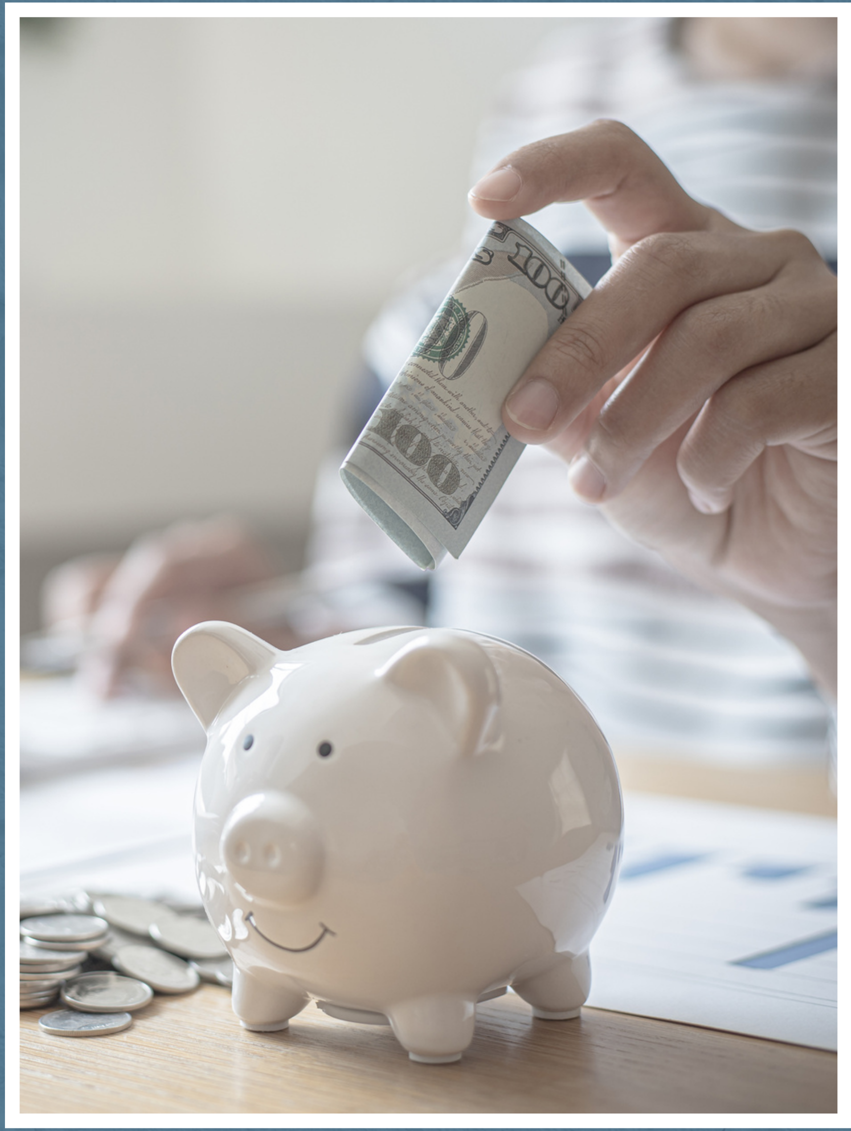


Start Saving for Success

Save Cash for a Down Payment and Other Expenses

Now that you've learned how to cut back on everyday expenses, you can put some of those saved funds toward your down payment and other homeownership costs. In most cases, your down payment will be between 3.5% and 20% (unless you land a specific government-backed loan).

As you save for your down payment, don't underestimate how much you'll need for other closing costs. Closing costs consist of lender fees, taxes, insurance, title search fees, etc., **and they are typically between 3% and 6% of a home's purchase price.**



Start Saving for Success

Financial Preparedness Is the Right Way To Approach Homeownership

Homeownership is rewarding, but it's not something you should jump into unprepared. Now that you're taking steps to get your finances in order, buying a new home can become less of a dream and more of a reality.

Thank You!

We Look Forward to Working With You!

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