Financial Milestones: Buying your first home.

What you should know to make the process easier and more rewarding.
Everything you wanted to know about buying your first home

Buying your first home can be fun and rewarding. The secret is to learn as much as you can about the process before you get started. The following steps should help.

**STEP 1: SEE WHAT YOU CAN AFFORD**

Before you start looking for a home, you should take a close look at your budget and see what you can really afford. Your mortgage lender will want to know your ability to pay all costs related to buying your home. So it’s a good idea to:

- **Check your credit report:** A free copy is available at annualcreditreport.com. You can improve your score by making on-time payments on your credit card, car loan or other financed purchases.
- **Apply for a mortgage pre-approval.** While not required, a pre-approval by your lender will help you understand the maximum mortgage amount you qualify for. Just know that what you qualify for may be higher than what you can actually afford.

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**MORTGAGE PRE-APPROVAL VS. PRE-QUALIFICATION**

Most people think these two options are the same, but they’re not! Here’s why:

**A pre-approval** gives you a more accurate estimate of how much house you can afford. It takes into account information provided by you, along with a look at your credit report which allows your mortgage banker to calculate your current debt-to-income ratio.

**A pre-qualification** doesn’t take into consideration your credit report, so it’s a less-accurate estimate of how much you can afford. Your mortgage banker has to rely on your own estimate of your debt and credit score.

Whenever you’re looking for a mortgage lender, make sure you ask them if they provide pre-qualification or pre-approvals. Some people may use these terms interchangeably, but you now know that there’s a difference!
STEP 2: FACTOR IN ALL EXPENSES
Aside from the cost of your new home, there are other expenses involved in the buying process.

- **Down payment:** A percentage of the price of your new home will usually be required for a down payment. This can range anywhere from 5% to 20%. There are also mortgage programs that allow for no down payment (through the Veteran’s Association); or low down payment (FHA, state agency programs, etc.) The larger your down payment, the smaller your mortgage payments will be.

- **Monthly expenses:** Your final monthly payment will most likely include your mortgage, homeowners insurance, property taxes, and homeowners’ association fees (if any).

- **Points:** A point is 1% of your loan amount. You can choose to lower your mortgage interest rate by paying points.

- **Other costs:** Can include credit report fees, home appraisal, title insurance, attorney fees, title recording fee, home inspections (which may include termite, radon, well/septic, etc). Some of these costs must be paid at the beginning of the loan process; others can be paid at closing.

MORTGAGE COST WORKSHEET
Use this worksheet to estimate the major costs involved in buying your home:

Estimated purchase price for your home

a.) Estimated closing costs (3%-5% of home price)

b.) Down payment (suggested 5%-20% of home price)

c.) Estimated moving expenses

d.) Estimated costs of new furniture, appliances, etc.

e.) Estimated cost for repairs or renovations (1% of home value per year)

Current savings

Total amount to save

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**STEP 3: SELECT A MORTGAGE TYPE**

There are basically two main types of mortgages you can apply for:

- **Fixed Rate**: This is the most common mortgage with a wide range of terms available. The most popular are 30- and 15-year terms, with either lower monthly payments over a longer period, or higher payments over a shorter period, but with less interest paid in the long run.

  **Term**: How your mortgage will be repaid, such as the number of years you’ll have to pay off your loan.

- **Adjustable Rate Mortgage**: An adjustable rate mortgage comes with a lower initial rate, so you can increase your borrowing power or lower your first payments. It’s also an option if you plan to own your home for a shorter period of time. Your monthly payment may rise or fall over the length of your loan, based on rate changes in the market.

We can show you how mortgage repayment terms are structured, including the differences between fixed-rate and adjustable-rate mortgages. Once you find a property, you’ll have the opportunity to lock in your rate early, to help protect yourself from rate fluctuations.

*Your lender may also offer other types of mortgages, including government-sponsored loans.*

During your mortgage application process, we can help you tie up any loose ends. For example, we will verify your income, assets, and debts. Plus, review your credit report, sales contract, and home appraisal.

**STEP 4: SHOP FOR A HOME**

Now comes the fun part: Looking for a home with your real estate agent! The more you know what you want in a home, the easier it will be for your agent to find the right one. So before you shop, think about:

- Do you want lots of land or a big backyard?
- What type of neighborhood and school system are you interested in?
- Is there public transportation or day care facilities?
- How many bedrooms and bathrooms do you need?
**STEP 5: MAKE AN OFFER**
Once you’ve found the home of your dreams and plan on making an offer, the seller will give you a Disclosure Statement. This is to make sure you are aware of the age and condition of the property, as well as features such as pool or garage.

If everything checks out, you can make an offer. Many times, a seller will make a counter offer and negotiations will continue until the final price is agreed upon.

At this point, you should arrange for home inspections to make sure there aren’t any structural or other issues with the home you aren’t aware of.

**STEP 6: ATTEND YOUR CLOSING**
Your closing is the final step to the home buying process. You will sit down with your attorney and perhaps your real estate agent, seller and their representatives. The meeting typically lasts an hour or so, and during this time you will:
- Review and sign all necessary paperwork
- Present certified checks for your closing costs and remaining down payment

**STEP 7: RECEIVE THE KEYS TO YOUR NEW HOME.**
At the end of your closing you will officially be the new owner of your home. Now it’s time to celebrate and start planning your big move!

**YOU’LL HAVE HELP ALONG THE WAY**
- Bank or lender. A mortgage loan officer will help you complete a mortgage application and walk you through the loan approval process.
- Realtor will guide through the entire process: from helping you shop for an affordable home to the day you take ownership. (*Realtor fees are usually paid by the seller.*)
- Attorney will review all documents related to the purchase of your home and attend your closing. (*You will be responsible for attorney fees.*)

Be sure to choose professionals you can trust. You may want to ask family and friends for referrals.
Can I pay those other things separately?
With most loans you can pay your own taxes and insurance if you borrowed no more than 80 percent of your home’s purchase price or appraised value. There are certain mortgage products that require these items to be held in escrow, so you should check with your lender to be sure.

What do closing costs include?
Generally, processing and administration costs of your loan include prepayment of interest charges for the partial month in which you close, and possibly a deposit into an escrow account for your property taxes and homeowners and mortgage insurance.

When do my mortgage payments start?
Usually 30 days after closing. The actual date for your first payment will be included in your closing documents.

To learn more
We hope this guide has answered a lot of your questions about buying a first home. And remember, our mortgage banking officers are always ready to guide you through the process. To learn more, just stop by your local banking center or call us at 888.4WEBSTER (493.2783)

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Home buying process may vary by state due to state specific laws and local real estate practices. Please ask your realtor for more information.

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All credit products are subject to credit approval.