THE 2017 GUIDE TO BUYING YOUR FIRST HOME in Missouri

BuyMyFirstHomeGuide.com

Read this guide and you'll discover:

- How to avoid 5 common first time home buyer rip-offs
- 7 costly first time home buyer mistakes
- 9 myths about buying a home
- 8 programs to help make buying your first home easier and more affordable
- 4 easy steps to finding the perfect home for you

Provided as an educational service by

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Contents.

Introduction.

Dear First Time Home Buyer-

Buying your first home is an exciting and, at times, overwhelming and intimidating process.

There are a lot of decisions to make about the home itself… location, build a new home vs. buy an existing home, the style of home, number of bedrooms/bathrooms, yard size, etc.

There are a lot of decisions to make about finances… how much home can you afford, what monthly payment amount are you comfortable with, which mortgage lender to choose, what type of loan makes the most sense for you, how big a down payment you'll need, etc.

And making a bad decision can cost you $1000s and lead to a lot of unnecessary stress and heartache.

We don't want you to make a bad decision. We understand the choice of your home, lender, home builder, etc. can make a big impact on your bank account and happiness.

So how do you navigate the process?

You start by reading this Consumer's Guide. In this fact-filled booklet, you'll discover how to avoid 5 common rip-offs, 7 first-time home buyer mistakes, 9 first-time home buyer myths, 8 programs to help first time home buyers and a simple 4 step process to finding your perfect first home.

We wrote this guide to help you better understand the process of buying your first home. It's based on years of experience in working with first time home buyers and helping them achieve their dreams of home ownership. Now, with this information, you can make a more informed and intelligent decision.

Best regards,

Michelle Isakson

Owner

Lindbergh Properties

9 First Time Home Buyer Myths.

Myth #1

You Need a 20% Down Payment.

There was a time where having to put down 20% was the norm. And it still is fairly common for conventional loans.

But the fact is you absolutely do not have to put down 20% to buy a home.

Now you can get a conventional loan when putting down less than 20%. That said, there are potential downsides to doing so. For example, the lender may require you pay a higher interest rate and/or mortgage insurance.

However, there are plenty of non-conventional loan options where you can put down less than 20% and not worry about penalties. FHA loans, VA loans and USDA loans can have down payments of 5% or less (more on these options later in this Guide).

There are even options where you don't have to put any money down. For example, we offer a unique "Sweat Equity Program" to our clients which can cover part of the down payment and/or closing costs. Basically the way this works is you get credit for putting some of your own work into your new home (such as doing the interior painting and/or landscaping). And, by doing so, eliminate any down payment.

So, if you're worried about not having 20% to put down on a new home, don't be! As you can see, there are plenty of options out there that require little to no cash down.

Myth #2

You Need Amazing Credit.

The dream of owning a home is not reserved only for those with great credit. If you've had a few bumps along the road financially that have lowered your credit score, it's okay. That does

not mean you can't qualify for a mortgage. In fact, we've even been able to build homes for people who have had a bankruptcy within the last few years.

Sure, a higher credit score can make things easier for you. But don't assume homeownership is out of your reach with less than perfect credit. There are still plenty of options out there.

Myth #3

Get Pre-approved or Pre-qualified And You're All Set With Your Mortgage.

This is a HUGE myth.

We see so many people who get pre-qualification or pre-approval letters and think they're all set on a loan. The truth is these letters are pretty much worthless. You can go to any mortgage broker or online site, fill out a form and get a pre-qualification letter.

In fact, if you read the fine print on many of these letters it'll basically say they don't mean anything. A lot of companies, especially the online ones, use quick pre-approvals to get you in the door. But it doesn't mean they'll actually lend you any money.

Until you fill out an official mortgage application, the lender runs your credit score, etc. you don't know exactly how much money they're actually willing to loan you and what terms will be.

Myth #4

It's Always Cheaper to Rent Than Buy.

This is another big myth. Mortgage rates are still at historically lows. In fact, I can remember my parents telling me stories about 20% interest rates when they bought their first house. That certainly puts the rates we're seeing today around 3% or 4% in perspective!

Money is so cheap right now that even if rates go up 5% or so, you can still own a home for less money than you're likely paying in rent. And you get so much more for it. More space to live in. A yard. A garage. Not to mention you're building equity in your home over time.

So don't make the assumption renting is cheaper. Do a little math (or have a lender do it for you!) and see if owning a home can save you money over renting.

Myth #5

A 30 Year Mortgage Is The Best Option

Any blanket statement about which type of mortgage is the "best" is wrong.

No one kind of mortgage is the best fit for everyone. Your situation is unique.

Your income. Your debt. How long you plan to stay in the house. And a lot of other factors go into this decision.

For example, if you only plan to be in a home for less than 10 years, a 7 or 10 year fixed rate loan may be a better option than a 30 year loan. Or in a situation where you or your spouse is in school, going with an interest only loan for a few years might make sense.

So ignore any generic advice about the "best" loan. Talk to a trusted resource to find out what loan options are out there and which makes the most sense for your situation.

Myth #6

You Can't Get a Mortgage If You Have Student Loans.

Just because you have student loan debt, doesn't mean you can't get a home loan.

Lenders will look at your debt-to-income ratio. This tells them how much you make each month vs. how much you owe in student loans (as well as on credit cards, auto loans, etc.).

If you have things under control with your loans and other debt, you should be good to go on a home loan.

Myth #7

The Down Payment Is The Only Upfront Cost.

This is a myth that can catch unsuspecting first time home buyers by surprise. There can be all sorts of fees that mortgage brokers and title companies charge. And there can be big differences in how much they charge too.

For the same house, one company may charge $1000 for title insurance while another may charge $3000. So it pays to shop around to find a trustworthy broker and/or title company that doesn't charge outrageous fees.

All your closing costs and pre-paids (these are items like property taxes and home insurance that are paid at closing) will appear on your closing statement. By law, you have to get these costs in writing 7 days before closing and, at that point, they can't be changed.

If paying cash up front is an issue, you can roll the closing costs into your mortgage so you won't have to bring cash to the close. Also, there may be federal, state or programs like the "Sweat Equity" program we offer which can be used to cover some or all of these closing costs.

Myth #8

The Lender With The Lowest Interest Rate Is Always The Best Option.

Many lenders advertise low interest rates to get your attention and sic their sales team after you. But low mortgage rates may not be as good a deal as they seem.

First, if you're not going directly to a bank, there are almost certainly fees associated with the loan that will increase the overall cost of the loan. Loans with low interest rates usually have higher closing costs.

Also, you have to look closely at the terms of the loan. A loan with a very low interest rate may be a shorter term loan that has higher payments associated with it. Adjustable rate mortgages also have low interest rates, but they don't last and you could end up paying a much higher interest rate in the not too distant future.

It pays to do your homework. Talk to a trusted advisor. And make sure that the loan you get has the best combination of interest rate and other terms for your situation.

Myth #9

You Have To Have a Realtor.

This is actually a myth.

Now to be clear, we're not telling you shouldn't use a realtor. Just that there is no requirement that you need to have a realtor involved in the purchase of your first home.

An experienced realtor can bring a lot to the home buying process. Their guidance in finding a home, negotiating a deal and helping with the closing process can be invaluable.

However, you may not need one. For example, if you're dealing directly with a trusted home builder, they can handle most of the things a realtor would. And if you have questions about paperwork or want an advocate on your side to answer questions, you can hire a real estate attorney on an hourly basis to help you instead of paying a realtor's commission.

5 Ways To Avoid Getting Ripped-Off.

Way To Avoid Rip-Offs #1

Get Your Financial House In Order.

Your finances don't have to be perfect before you buy a home. In fact, it's rare that's the case. So, if you're ready to buy a home don't keep putting it off because your finances aren't quite where you think they should be. If you do that, you'll never enjoy the satisfaction that comes with owning your own home!

That said, there are things you can do financially to help with the home buying process. They can help you lower your interest rate and have a bigger budget for your new home. Here are a few things to do to get your finances in order…

- Get your credit reports from the three big credit bureaus. Make sure there are no mistakes. You may also want to pay to get your credit score and see if there are some things you can do to pull your score up a bit (a higher score can help you get a better deal on a loan). A good lender can give you advice on things you can do to bring up your score.
- Paying down your debt is another good strategy for getting your financial house in order. The amount of debt you have affects how much a lender is willing to lend you so even paying things down a little can be a big help in stretching your budget.
- Save some cash for a down payment or other expenses. This isn't a deal breaker. As we said, there are loan programs out there where you won't need to put any money down. But, either way, having some cash set aside for either a down payment, closing costs and/or other expenses that might come up when you purchase your first home will make the process go more smoothly.

Doing some basic things like we just outlined above to get your finances in order will put you in a stronger position when getting a loan. It also helps you know where you stand financially which can help you avoid getting ripped off by unethical lenders.

Way To Avoid Rip-Offs #2

Don't Rely On A Mortgage Pre-approval or Pre-qualification Letter.

First, it's important to understand the difference between a mortgage pre-approval and pre-qualification.

A pre-qualification for a mortgage really doesn't mean much. You submit some basic info to a lender and they tell you an amount you can expect to be approved for. A pre-qualification doesn't really mean much so don't make any decisions based on one.

Pre-approval is the next level up. A lender will have you fill out a more extensive application, check your credit and generally do their homework into your financial situation. Then they'll come up with a specific mortgage amount that they'll approve you for.

This is a good number to know. Having a pre-approval letter also lets home builders, realtors, etc. know you're serious and have at least a decent chance of being approved for a certain loan amount.

A pre-approval is an okay starting point, however, it is not a true loan commitment. So if your financial situation changes or you get pre-approved by an unethical lending company, you may be in for a big surprise when you officially go to get a mortgage (and it won't be a good surprise!).

A mistake here could cost you your new home. So go ahead and get a pre-approval but keep in mind it's not a true loan commitment. Only when you have a loan commitment letter in hand can you be certain the bank will lend you the money for your new home.

Way To Avoid Rip-Offs #3

Do Your Homework And Deal With Trusted Builders, Lenders And/Or Realtors.

There are people and companies involved in the home buying process will steer you the wrong way. It's true in any industry.

Some aren't on the up and up and are just out to make a quick buck for themselves at your expense. Others don't have a lot of experience and, while they genuinely think they're helping, end up making mistakes that could cost you $1000s.

The best way to protect yourself is do your homework. Before signing on with a realtor, mortgage company or home builder, do your research. Talk to others who have worked with them. Look for credible online reviews. Interview them.

Buying a house is a big investment and bad or misleading advice can end up costing you thousands or more. Doing your research and finding trusted partners to guide you along the way will save you a lot of heartache and money down the road.

Way To Avoid Rip-Offs #4

Shop Around For Everything Related To Your Home Purchase.

Title insurance can cost $1000 or $3000 for the same home depending on the title company you use. And there other things you'll likely need when buying a home including the mortgage, home inspections, realtor, real estate attorney and moving companies where there can be a big difference in price between different providers. Shopping around can save you a lot of money (though keep in mind the lowest cost provider may not be the best option for you).

This process becomes a lot easier if, as we just discussed, you have a trusted advisor in your corner who is looking out for your best interests.

Way To Avoid Rip-Offs #5

Don't Place Too Much Faith In Online Loan Information.

It seems there are new online loan providers popping up every day. They advertise very low rates. Offer quick pre-qualifications. They make claims along the lines of "no credit, bad credit, no problem!"

All we can say is buyer beware. A lot of these companies misrepresent themselves and are just looking to take advantage of first time home buyers. They put out great sounding offers in an attempt to get you into their web.

So look out for bait and switch offers, false government programs and other scams being peddled online. While the numbers may look very appealing, finding an established local lender in your area may be a better and safer option.

7 Common First Time Home Buyer Mistakes.

Mistake #1

Ignoring Expenses Besides The Mortgage.

Yes, your mortgage is going to be the biggest payment you'll have to make each month on your new home. However, it's not the only expense.

Many first time home buyers don't consider may of the other expenses that go into owning a home.

Two of the main ones are property taxes and home insurance. These are often collected with your mortgage payments. It's known as escrow. The nice thing about escrow is when your mortgage company collects it (many will require that they do) then it's their responsibility to make sure your taxes and insurance get paid. Escrow is also nice because you don't have to come up with a big chunk of cash to pay those bills, you just pay a portion of them each month.

Other expenses depend on your situation. They're almost certainly be some maintenance or repair costs. How much depends on your home and how handy you and/or your spouse is. There will also be utilities, yard care and possibly Condo or Homeowner Associations fees.

Even with these expenses, owning may be cheaper than renting. It's just important to factor these things into your budget when thinking about how much house you can afford.

Mistake #2

Getting New Loans (For Cars, Boats, Furniture, etc.) Before The Deal Is Closed.

Okay, it's easy to get excited about your first home. And with that excitement may come a desire to make some other big purchases. Sometimes, after securing financing for a home, new homeowners go out and "celebrate" by taking out a loan for a new car, boat, etc.

That's not a good move. Taking out another loan (or draining some of your savings for a big purchase) can affect how much a home lender will be willing to lend you.

We've had unfortunate situations in the past where a new homeowner loses their home because they bought a new car or boat before closing on their home and their lender won't give them a mortgage anymore.

Once you secure financing, sit tight! Wait to close on your new home. Then, once you're officially a homeowner, you can go for that new car, boat, furniture, etc. if it fits your budget.

Mistake #3

Not Knowing What You Can Afford.

This can work in two ways.

First, there's a risk in going out there and falling in love with a house that's out of your price range. Trust me, you don't want to be in a position where you get your heart set on a home only to discover you can't afford it! It's not worth the heartbreak.

On the other hand, you may think a home is out of reach when it really isn't. There may be certain mortgage programs/financing options you're not aware of that will let you buy a home you didn't think you can afford.

To eliminate these issues, it's best to talk with a lender, home builder or other trusted source to get a better idea of how much they're willing to lend you. Once you have that information, you'll know what price range to focus on.

Mistake #4

Not Checking Your Credit Report/Score.

You should be aware of what's on your credit report and understand how much little things you do can help or hurt your credit score. You can get your credit report for free though you'll likely have to pay to get a copy of your actual credit scores.

Your credit score will affect the terms of your mortgage so the higher your score, the better. And there are things you can likely do to improve your score. For example, a mortgage broker we work with frequently will sometimes advise clients to go out and open up a credit card account in order to bump up there score a bit so they can get a better rate.

It just depends on the situation but there may be some simple things you can do to give your score a bump. Taking the time to do this up front can end up saving you thousands in interest over the life of your mortgage.

Mistake #5

Put A Car Before The Home

We often see situations where first time home buyers purchase a car (or take out a car loan) right before they want to buy a home. This is a mistake for a few reasons.

First, having a car loan can affect how much of a home loan you can get and increase the interest rate you end up paying. Second, putting cash into a car (a depreciating asset) will leave less money for a down payment, closing costs and other home related expenses.

It's much easier to buy a car than a home. If you are looking at both, our advice is to put the home first. After you close on your home and want a new car to park in your driveway, go for it!

Mistake #6

Thinking You'll Get Everything On Your Wish List.

There's always give and take when it comes to getting everything you want on your wish list. Especially when you're looking at buying an existing home, crossing every item off your wish list is more of a challenge. With an existing home, you don't have much say in the location of the lot, layout, finishings, etc.

As a homebuilder, however, we have a slightly different view of things. Because we often see first time home buyers who are surprised to see they actually CAN get everything on their wish list if they build a new home.

Mistake #7

Not Carefully Selecting The Location.

It's really critical to think location through before buying your first home. Factors like the school district, drive time to work, distance from your relatives, etc. will have a big impact on your day-to-day happiness once you move in.

As we just mentioned when talking about getting everything on your wish list, there's definitely give and take here. Generally when you're closer to the city center your money won't go as far but commute times, etc. may be better. If you're willing to move a bit further out, then you'll generally be able to get the bigger home, 2 car garage and nice size yard you're looking for.

So really think through what's most important to you when it comes to the location of your new home. Do some test commutes. Investigate the schools. And make sure you'll be happy in the area you selected.

8 Programs That Make It Even Easier To Buy Your First Home.

Program #1

FHA

The most popular option for many first-time home buyers, FHA loans are mortgages insured by the Federal Housing Administration (FHA). They are a great option for many first-time buyers because they have less stringent requirements than conventional loans.

Here are some basics about FHA loans as of 2017:

One of the main attractions of FHA loans is the down payment requirements. You can get an FHA loan with a down payment as low as 3.5%. How much of a down payment is required depends, in part, on your credit score. The higher your credit score, in general, the lower the down payment.

Speaking of credit scores, that's another benefit of FHA loans. Even those with less than perfect credit scores (scores as low as 500) can qualify for these loans.

One other benefit of FHA loans is that closing costs may be covered. These FHA loans allow home builders, sellers and/or lenders to pay some or all of your closing costs making it even more affordable for you to buy that first home.

There are some catches with FHA loans. For example, they require two types of mortgage insurance premiums – one paid in full upfront (though you can roll it into your mortgage) and the other paid monthly.

There are a number of requirements for FHA loans so if it sounds like a good option for you, either talk to your builder and FHA approved lender or visit the FHA website to see if you qualify.

Program #2

VA

VA loans are mortgages which are guaranteed by the US Department of Veterans Affairs. As you may have guessed from its name, VA loans are only available to those who have served or are serving in the U.S. Military (this includes members of the Reserves & National Guard as well as some surviving spouses).

A big benefit of VA loans is that no down payment is required. Not only that but unlike FHA or conventional loans, VA loans don't require any type of mortgage insurance for those who put down less than 20%.

There is a one-time funding fee those getting a VA loan will need to pay, however overall, the costs of a VA loan are lower than other types of mortgages with low-down payment requirements.

As far as credit scores are concerned, the Dept. of Veterans Affairs does not have any minimum credit score requirements for a VA loan. However, individual lenders often do so you have to check to see what those would be with your lender.

One other benefit of VA loans is that if you have trouble paying your mortgage, the VA can negotiate with a lender on your behalf to come up with repayment plans, loan modifications or other options to help avoid a foreclosure.

To qualify for a VA loan you'll need to have decent credit (again based on the requirements of individual lenders so shop around), sufficient income, prove your eligibility (ie. military service) and must occupy the home yourself.

Talk with your lender or go to the VA website for a full list of requirements.

Program #3

USDA

USDA loans cover loans in rural areas and are backed by the US Department of Agriculture. There are actually a number of different loans available under this program. They are available to help those with low or moderate income levels buy, repair or renovate homes in rural areas.

If you are eligible for one of these loans, you might be able to get a loan with no down payment and below market mortgage rates (some rates are currently as low as 1%). However, if you put very little money down, there is a mortgage insurance premium requirement.

The details and eligibility of USDA loans depend on the type of loan but you will need to have at least a decent credit history to qualify.

Also, eligibility is not just about your finances when it comes to these loans. The location of the property is also a key factor. Even within the same county some properties may qualify and some may not.

This may be starting to sound familiar by now, but to find out about specific requirements, either talk with your lender or visit the USDA website for more details.

Program #4

Fannie Mae & Freddie Mac

Fannie Mae and Freddie Mac are complex beasts. The short version is they are "government sponsored enterprises". That basically means that while they are private companies, they receive financial support (and a lot of it!) from the Federal Government.

The key thing to understand about them as a first time home buyer is this… they work with mortgage lenders so they can offer loans with down payment amounts as low as 3%. Lenders can also offer loans from Fannie or Freddie that have competitive interest rates. So check with your lender to see if this may be a good option for your situation.

Program #5

Good Neighbor Next Door

This program is offered through the Department of Housing and Urban Development (HUD). Originally just available to teachers, the program was expanded to include firefighters, law enforcement officers and EMS workers.

The selling point of this loan is it offers 50% discounts on the list price of homes located in what are known as "revitalization areas". Homes available through this program are listed on the

Good Neighbor Next Door website. One thing to consider is that if you buy one of these homes, you have to commit to living in it for at least 3 years.

Program #6

Missouri Specific Programs

The state of Missouri also offers some programs that can help first time home buyers.

One is in the form of a grant offered by the Missouri Housing Development Commission. This grant is the "Cash Assistance Payment" or CAP. It provides cash assistance to those who qualify for up to 4% of the amount of your loan. This money is supposed to be used for your down payment or closing costs.

Missouri also offers a "Non Cash Assistance Payment" program or Non CAP. First time home buyers can get a lower interest rate on their loan through this program.

Lastly there is a MCC (Mortgage Credit Certificate) Stand Alone program for first time home buyers in Missouri. This program provides first time home buyers with a federal tax credit for the mortgage interest you pay on your loan each year. This credit cannot exceed $2000.

Program #7

Lease To Purchase

Some home builders or landlord/seller offer lease to purchase options. This may be a good option if you're struggling to find a good loan option and/or aren't sure whether to rent or buy.

In this situation, you start out by leasing a home from the builder/seller. An agreement is drafted that lays out the monthly rent and terms of the lease. The agreement also lays out an option for you, the tenant, to buy the home for a certain amount on or after a certain date. If you're interested in this option check with your builder or realtor to see if this is available and whether it would be a good option for you.

Program #8

Sweat Equity

This is a popular program we offer to our clients. The Sweat Equity program works in conjunction with the FHA loan program. This program gives you the option to paint the interior walls of your home while the home is under construction (we provide the paint!) as well as seed and straw your yard (we provide the seed and straw).

In exchange, you'll get a credit of 3% of the total sale price towards your down payment and closing costs which adds up to $1000s in savings. We'll also pay 2% of the sale price toward your closing costs and pre-paids which should cover most, if not all, of your closing costs.

Innovative programs like this can help make buying a home even easier and more attractive for first time home buyers.

4 Steps To Buying Your First Home.

Step 1

Get Your Finances In Order.

We covered this earlier in this guide and won't repeat it all here. Just understand that getting your finances in order first will make things go smoother and easier for you down the road (and may even help you get a lower mortgage rate). That's why we recommend starting here.

Step 2

Develop Your Wish List

What does your ideal first home look like? Where is it located? How big is it? Does it have a yard? A two-car garage? Is it a brand new construction home or an existing home? How many bedrooms, baths, etc.?

Think these things through before you start looking. It'll make things easier for you to focus on the things that are truly important and not get distracted or waste time on houses that aren't right for you.

Yes, this list may change a bit once you start looking. And there is some give and take. But having an initial wish list to share with a home builder or realtor will help you get exactly what you're looking for!

Step 3

Talk To A Lender.

As we mentioned in the guide, getting a pre-qualification or pre-approval doesn't mean a lender is actually going to give you the loan. However, getting a pre-approval and talking to one

or more lenders will give you a better sense of what loan options are out there and how much home you can likely afford.

Step 4

Start Looking!

Congratulations! Looking for your first home is a big step. And it's a lot of fun. Sure, there will be some stress along the way but, hopefully, by following the advice in this guide, you'll be better prepared and things will go more smoothly for you as you look for your first home.