



## BUYERS' GUIDE

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Interested in buying your own home? This brochure will walk you through different types of home loans, how to calculate your mortgage payments, and what to do when you're ready to make an offer. Home ownership might be closer than you think!

# WHAT TO KNOW **BEFORE** YOU BUY

Buying a home can be a stressful experience, especially if you've never done it before. But no matter what kind of home you're looking for, there are a few things worth knowing:

## **1) NOT ALL LENDERS ARE THE SAME!**

You might think that it doesn't matter where you get your home loan from. But banks, credit unions, and other financial institutions can be as different from one another as restaurants are. Some lenders specialize in first-time homebuyers, others in refinancing, and still others in jumbo loans. Some won't lend to people with imperfect credit, while others have programs specifically designed for people with sub-700 credit. So if the first lender you talk to doesn't offer something you like, just go talk to another!

## **2) NOT ALL LOANS ARE THE SAME!**

You have probably heard of conventional loans that require a 20% down payments. But HomeReady loans, which are sponsored by the federal government, require only a 3% down payment - and some lenders have programs that can reduce that amount even further. Some home loans require credit scores of 780, while others may require a 660 credit score, or even 620. Some loans, like FHA loans, require private mortgage insurance, while others don't. The point is, there are a wide variety of loans out there, each with a different set of requirements - which is why you should seriously consider talking to multiple lenders to figure out which loan products are right for you.

# HOW MUCH HOME CAN I AFFORD?



While there are multiple different types of home loans you might choose from, every lender will put a limit on how much money they are willing to lend you. To determine that amount, most lenders use a **debt-to-income ratio (or DTI)**. Different lenders use different DTI ratios. Most range between 36%-50%; the federal government's HomeReady loan, for example, is typically set at 45%. That means your total debts (monthly mortgage payment, monthly credit card payment, etc.) cannot exceed 45% of your gross annual income.

## Can you explain that in regular terms?

Let's imagine your household earns \$72,000 in a year. That's \$6,000 every month. If a lender is using a 45% DTI to determine what they'll loan you, that means your total monthly debt payments cannot exceed 45% of \$6,000, which is \$2,700. ( $\$6,000 \times 0.45 = \$2,700$ ). Once you know your maximum allowable debt, you can subtract your other debt payments from that number to determine the maximum mortgage payment you can afford.

## EXAMPLE

Monthly salary (before taxes)	\$6,000
Maximum debt (assuming 45% DTI)	\$2,700
Monthly credit card payment	-\$200
Monthly student loan payment	-\$250
Monthly car payment	-\$400
<b>MAXIMUM MORTGAGE PAYMENT</b>	<b>=\$1,850</b>



# HOW MORTGAGE PAYMENTS WORK



A typical mortgage payment involves four main expenses - **principal, interest, taxes, & insurance**. The combination of these payments is sometimes referred to as PITI.

## PRINCIPAL

This is the amount of your mortgage payment that is used to pay your actual debt.

## INTEREST

This is what your financial institution charges in exchange for loaning you money. In a typical mortgage, the portion of your payment applied to your principal will **increase** a little each month, while the portion applied to interest will **decrease**.

## PROPERTY TAX

The amount you'll pay in property taxes will depend on your home's value, location, and other factors.

## INSURANCE

You will need to get homeowner's insurance to protect your home in the event of an accident.

In addition, purchasing a Havens Homes condominium (or any other condominium) will require you to pay **monthly HOA dues**, which your financial institution will probably include as part of your overall debt when calculating your debt-to-income (DTI) ratio.



# SAMPLE CALCULATION



Let's imagine you are considering the purchase of a \$250,000 home. You will be making a 3% down payment of \$7,500, and the interest rate on your 30-year mortgage will be 6.5%. You received a quote of \$50/month for homeowner's insurance. Your HOA dues will be \$200/month and will pay for building insurance, water, and exterior maintenance. Your property taxes will be \$100/month. Let's see how much your total mortgage payment will be in this scenario.

## EXAMPLE

Loan amount (\$250,000 - \$7,500 down payment)	\$242,500
<ul style="list-style-type: none"> <li>• Principal and interest</li> <li>• Property taxes</li> <li>• Homeowner's Insurance</li> <li>• HOA dues</li> </ul>	\$1,532.76 \$100 \$50 \$200
<b>MONTHLY MORTGAGE PAYMENT</b>	<b>\$1,882.76</b>

In this example, if a financial institution will lend you \$242,500 and you can afford to pay \$1,882.76 for your mortgage and HOA dues, then you should be able to comfortably purchase a \$250,000 property.

Now if you'll look back at page 3, you'll see that the monthly mortgage payment in this example is slightly higher than the maximum allowable mortgage payment (\$1,882.76 vs. \$1,850). What happens then?

# RESOLVING POTENTIAL ISSUES



On page 3, we discovered the maximum allowable mortgage at 45% DTI for a household earning \$72,000/year with \$850/month in other debts (\$200 credit card payment, \$250 student loans, and \$400 car payment). They want to buy a \$250,000 home with a 3% down payment. They can afford \$1,882.76 for a monthly mortgage payment, but their financial institution won't lend them the money they need. What can they do?

Fortunately, they have several options.

## INCREASE DOWN PAYMENT

By increasing the down payment from 3% to 5% (\$7,500 to \$12,500 in this example), they would be able to qualify.

## NEGOTIATE A LOWER INTEREST RATE

A loan with a 6.25% interest rate (instead of 6.5%) would allow them to qualify and keep their down payment at 3%.

## PAY OFF OR CONSOLIDATE OTHER DEBTS

Any one of the following would work:

- Pay off credit card debt
- Pay off student loan debt
- Pay off car loan
- Combine debts into a single payment that reduces their overall monthly payment from \$850/month to \$818/month.

## TALK TO ANOTHER LENDER

A lender with a 45% DTI ratio might not be willing to lend them \$242,500 under these circumstances - but a lender with a 46% DTI ratio might!



# NEXT STEPS



# STEP #1 - GATHER INFORMATION



Hopefully you now have a better idea of how lenders determine how much they are willing to lend you, and whether or not you might qualify for a loan for whatever home you're interested in buying.

However, this buyers' guide is not intended to be a comprehensive explanation of everything that goes into buying a home. Your goals and finances are almost certainly different than the ones we've used as examples. In addition to that, interest rates can change from one month to the next, and there are so many different lenders and loan products and financial assistance programs that it's difficult for anyone to keep track of all of them.

So please don't hesitate to ask around to learn what's available. Talk with your realtor to find out what they know. And as we've already recommended several times, you should consult with multiple lenders until you find one whose loan options meet your needs.

And don't hesitate to reach out to us, too! Havens Homes is committed to providing affordable housing, and that involves more than offering properties for sale. We pride ourselves on our knowledge of various loan programs, grant opportunities, and other housing resources - and if we don't know the answer to one of your questions, we probably know somebody who does. So ask anytime! The more information you have, the easier it will be to find what you're looking for.

## STEP #2 - PRE-APPROVAL



In order to be able to submit an offer to purchase a Havens Homes property, you will first need to obtain a **pre-approval letter** from a financial institution, which will indicate that you will be able to obtain a mortgage for the property you're interested in. A typical pre-approval letter is very short (often a single page) and says something like, "This letter demonstrates that Person A has been pre-approved for a mortgage in the amount of \$250,000 from Bank XYZ."

There are a couple things you should know about the pre-approval process:

**1) Pre-approval letters DO NOT COST ANY MONEY.** A bank may require you to submit financial information (W2s, bank statements, etc.) before granting a pre-approval, but they do not charge you for providing one.

**2) Getting pre-approval from one financial institution does NOT mean that you have to get your mortgage from them.** You might decide to finance your mortgage somewhere else if you end up finding a better deal. The pre-approval letter simply indicates to Havens Homes that you will be able to obtain a mortgage for the property you are making an offer on.

## STEP #3 - MAKE AN OFFER!



Once you have a pre-approval letter showing that you can qualify for a mortgage, you'll be able to get to the fun part - making an offer. And because Havens Homes does not engage in bidding wars, we accept offers from qualified buyers on a first-come, first-served basis. That means that if you make an offer for our listing price and nobody else has made one before you, **YOUR OFFER WILL BE ACCEPTED**. You may of course choose to make an offer below our listing price, and it may also be accepted if no one else makes an offer for our listing price. But every offer from qualified owner-occupant buyers for our listing price will be accepted, without exception, until we have no properties available to sell. (Visit the 'Available Properties' page on [www.havenshomes.com](http://www.havenshomes.com) to see a list of our current offerings.)

Our goal is to make the process of buying a home as easy, transparent, and affordable as possible. We know that home ownership is a dream of yours. We're hopeful that your dream now feels a little closer to becoming a reality.





# THANK YOU!

**We are excited to help you find a truly affordable home!**

**Contact Us:**



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