

Homebuying finances: What you need to know before you shop

Financial wellness doesn't have to be hard — but it does take a little discipline and some good advice. At Golden 1 Credit Union, we're here to help, with unbiased financial advice and education. As a not-for-profit, member-owned credit union, our main goal is to help you reach *your* goals, whether you're trying to make a major purchase, start an investment fund or just have some peace of mind. Together we can be golden!

Welcome

Hello! Welcome to the Golden 1 Financial Wellness podcast. I'm Megan ...

... and I'm Miguel!

Thank you so much for joining us.

So, Miguel, it seems like everyone is trying to buy a home these days.

I know! And it isn't always easy here in California. It seems like real estate prices just keep climbing higher all the time. And homebuying can be so confusing, anyway, with all those terms and special procedures.

That's true. But thankfully it's still possible, even here, whether someone is hoping to buy their very first home

... or their third, fifth or seventh!

And we're going to help them out today by demystifying some parts of the homebuying process

...

... and giving them some tips on how to put a home within their financial reach, too!

So where do we start?

Well, Miguel, a great place to begin any homebuying adventure is to review your income, expenses, debts and savings. That way, you can get a good idea of how much you can comfortably afford to spend on a monthly mortgage payment.

There are even online calculators that can help you estimate payments based on things like different down payment amounts, interest rates and the loan period.

That's right — you can find one at golden1.com ...

... that's golden and the numeral 1 ...

Just click on Financial Wellness and then Financial Calculators.

Alright, Megan, what's next?

It's a good idea to find a lender pretty early in your home search, so you can learn about different mortgage options. That can make a difference in the down payment you'll need ...

... and *that* can impact how much home you can afford, plus your monthly mortgage payment.

That's right. A lender can also tell you about mortgage options you may not know about — like some with low down payments or less stringent credit score requirements.

Megan, what are some common types of loans people might want to discuss with their lender?

Good question! One example is a Federal Housing Administration, or FHA, loan, which is insured by the federal government and has low down payment requirements. Another is what's called a conventional loan. These aren't backed by the federal government, but they do follow guidelines set by two federal organizations, Fannie Mae and Freddie Mac.

Isn't there something called a jumbo loan, too?

There is. Jumbo loans are for people who need to borrow more than \$548,250 — or even more in high-cost areas, like parts of California. Jumbo loans usually have higher down payment and approval requirement than smaller loans.

Interesting! I know there are also fixed rate mortgages, where the interest rate and principal payment stay the same for the life of the loan.

Yes, and there are adjustable rate mortgages,

... or ARMs ...

... and those may have a fixed rate for a period, but then the interest rate can change annually

... which means your monthly payment changes, too.

Okay, Megan, are we ready to go home shopping yet?

Not quite. First, it's a really good idea to get pre-approved for a home loan.

Oh. What's pre-approval?

It's kind of like a preliminary application for a loan. You give the lender various financial documents, like pay stubs and tax returns. Then the lender thoroughly reviews your financial situation and gives you a letter stating the mortgage amount you'll qualify for.

So, it's like getting pre-qualified for a loan?

Not quite. Pre-qualification doesn't require any documentation. So, it's a faster process — but it's only an estimate of what you might qualify to borrow.

Ahhh — so I bet a seller would rather see a buyer with a pre-approval than a pre-qualification, right?

Right! A pre-approval gives the seller more confidence that you can actually afford to buy the property.

So now we've reviewed our budget, checked out mortgage options and gotten pre-approved. What's next?

Next, let's talk about some of the financial factors of buying a home.

Like down payments?

Yes. There's a myth that you need to have a down payment worth 20% of the home's sale price.

But really, you may only need 3% to 5% with some mortgages. And you may even be able to use gift funds from relatives to bolster your own savings.

Exactly. In fact, the National Association of Realtors says that the median down payment for repeat buyers is 16% and for first-time buyers it's 7%.

So why would anyone put a full 20% down?

For one thing, the more money you put down, the less you usually need to borrow, which means a lower monthly mortgage payment.

Nice!

But also, if you don't put 20% down, you'll pay mortgage insurance.

Which is ...

It's a type of insurance that protects the lender in case you default on the loan. Mortgage insurance usually costs less than 2% of your loan amount and it's typically rolled into your monthly mortgage payment. Plus, you can often cancel mortgage insurance when you have 20% equity in your home...

... but ask your lender for details, just in case.

And crunch some numbers to see if it makes more sense to pay the mortgage insurance or wait to build up a larger down payment.

Megan, can we talk a little about closing costs — all those fees you pay when you're actually buying a home?

Sure. There are a variety of different things you'll pay for at closing — like the home appraisal, title, escrow, credit reporting and more. Your lender will give you an estimate of the fees before closing, but generally they equal about 2% to 5% of the home's price.

The lender will also want you to have reserve funds.

That's cash in savings to cover your mortgage payment for a specific period of time ...

... like 6 months ...

... just in case you have a temporary financial setback.

And, of course, once you own the home, you'll pay homeowners insurance and property tax, usually as part of your monthly mortgage payment.

It's also a good idea to set aside some money every month for home maintenance and repairs.

So, basically, buying and owning a home can be pricey even beyond the sale price. Aren't any of these costs negotiable?

Sure! Part of your real estate agent's job is to help you negotiate the home price with the seller. And they may be able to help negotiate certain closing costs, too.

Megan, you bring up a great point — a real estate agent! They can really be a valuable assistant when you're buying a home. Besides price negotiations and helping you find properties, they can help you understand and get through the complex homebuying process.

Oh ... and if anyone needs help finding an agent, you should check out the Golden 1 Buyer Advantage Program — a directory of 100 real estate professionals who've partnered with the credit union to offer special discounts.

Thanks for that reminder, Miguel.

You can learn more about the program on our website, where you can also find lenders and information on different mortgage solutions.

Your lender may also help with negotiations. In this case the lender may work with you to lower your interest rate — for instance, by allowing you to purchase discount points at closing. You may be able to lower other costs, too, like homeowners insurance and title fees, by shopping around with different providers.

Miguel, I guess that's our show for today!

It is! I hope everyone out there has picked up some helpful tips and feels ready to get started on their next homebuying adventure

Me, too. And remember, if you haven't already done so, you can subscribe to the Golden 1 Financial Wellness podcast on Apple, Google and Spotify. Plus, you can find a ton of other resources ...

... like videos, interactive modules and webcasts.

... Just go to the Financial Wellness tab at golden1.com.

You don't even have to be a member to use them!

Thank you so much for joining us today. This has been Megan ...

... and Miguel ...

... wishing you financial health and happiness — and, as always, reminding you to ...

[both] ... stay golden!

Golden 1 Credit Union is insured by NCUA