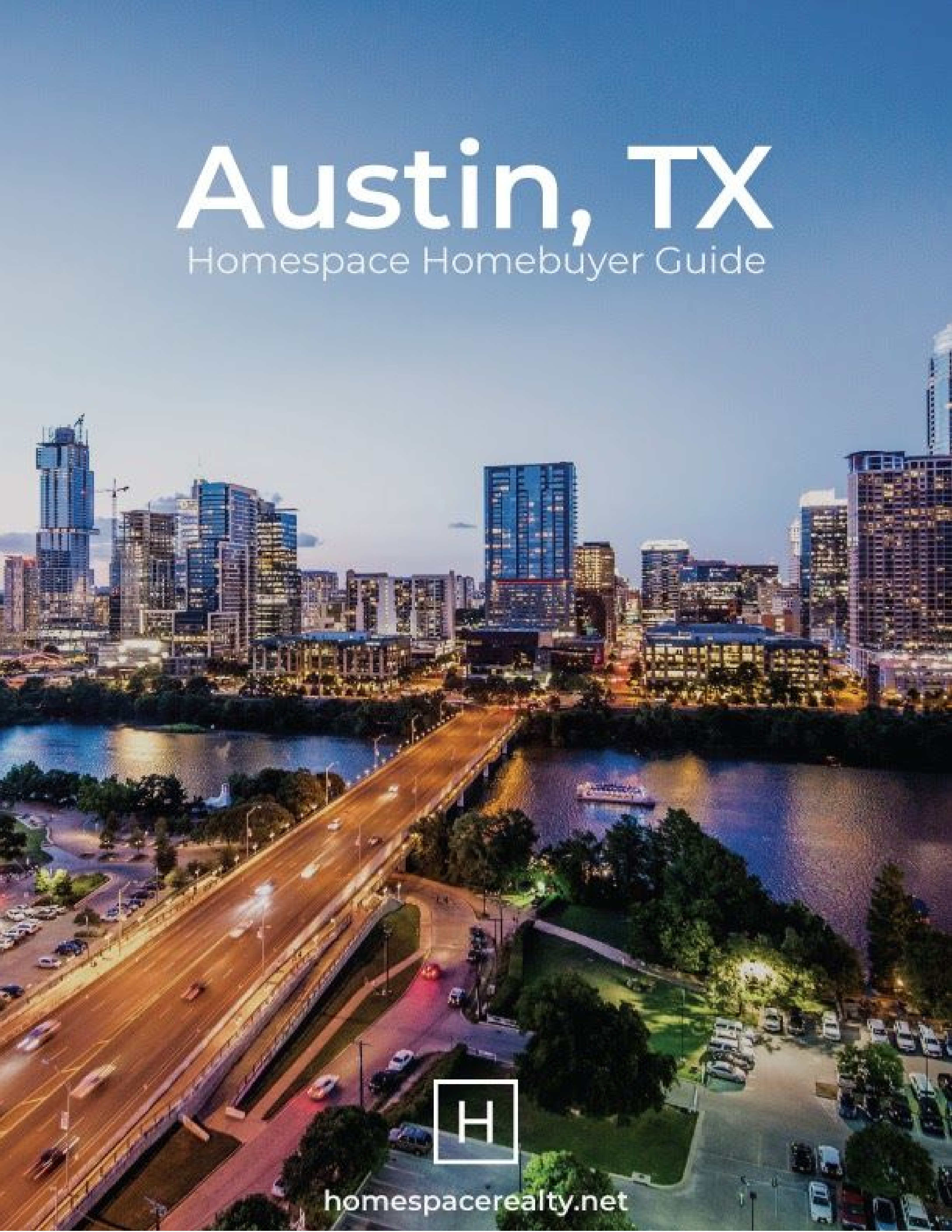
Austin, TX

Homespace Homebuyer Guide



homespacerealty.net

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By: Sara Schiman

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Introduction

Hi! I’m Sara from Homespace Realty. Thanks for downloading the Homespace Homebuyer Guide.

At Homespace, clients are priority number one. Education is a huge part of how I do business and my goal is to make the haziness surrounding the real estate industry simpler.

In this guide we’ll walk step by step through the basics of buying a home in the Austin, TX area. Whether you’re a first time homebuyer or a seasoned pro looking for a refresh, my hope is that this guide provides the clarification you’re looking for.

I absolutely love what I do and am always available to answer real estate questions. Please contact me any time if you’d like to talk about housing in Austin, TX!

Contact Me

1 Finding a Realtor

- Why work with a Realtor
- Questions to ask a Realtor
- Where to find a Realtor
- Choosing a Realtor

Why work with a Realtor?

Having a Realtor on your team is kind of like having a music conductor in front of an orchestra. Their job is to know the details that most people never think about, and to guide everyone involved through a seamless process.

Buying a home is one of the largest financial decisions of most people's lives, and working with a Realtor who knows the "ins and outs" of the industry can make all the difference.

There are over a million Realtors in the United States, and the choice of which one to work with is yours to make. Let's take a look at some interview questions you can use to make sure you match with the right Realtor for you.

Questions to Ask Realtors

"If you think it's expensive to hire a professional, wait until you hire an amateur." – Red Adair

As a best practice, interview any Realtor you're considering hiring to make sure they'll be a good fit. To the right are a few examples of questions you can ask.

Getting answers to these questions can help you to make an informed decision on who to work with. Whomever you choose will be managing your home search, contract negotiations, and closing timeline, so choose wisely! If you get stuck and need a solid Realtor referral for your area, **contact me** and I'll reach out personally to help or connect you with someone excellent.

Questions

1. How long have you been licensed? Is this your full time career?
2. How many homes have you sold in the past year?
3. Do you specialize in specific areas or property types? How familiar are you with the area I'm looking to buy in?
4. Can I read some of your past reviews?
5. How and when will you communicate with me during the home buying process? Do you keep specific business hours? Are you available on weekends?
6. Do you have a network of professionals like lenders, title companies, inspectors, handymen, plumbers, insurance agents, etc. to assist me through the process?
7. How many clients are you currently working with? Will you be helping me or will I be touring with an assistant?
8. After closing, will you send me updates about my home, my neighborhood, and the market each year? Do you plan to stay in the real estate business?

Best Places to Find Realtors

Homespace Realty

Homespace is a data driven business. My clients are typically people who care about the ‘numbers’ behind a home just as much as the home itself. Providing market data, year over year appreciation statistics, and specific details about each home on tours helps ensure that Homespace homebuyers end up with a home that will also be an investment for years to come.

I understand that Homespace may not be the right fit for every client, and that savvy consumers are doing more and more of the preliminary home search on sites like Zillow, Redfin, and Realtor.com.

Keep in mind that the Realtors listed on these websites are either the listing agent for a specific property (representing the seller, not you) or are a Realtor who has paid to have their contact details displayed there, like an ad. Make sure you do your research on any Realtor you’re thinking of working with!

Zillow

Redfin

Realtor.com

2 Affordability

- What is DTI
- How to Calculate DTI

How Much Can You Afford?

“A budget is telling your money where to go instead of wondering where it went.” - Dave Ramsey

If you’re buying a house in cash, the ‘affordability answer’ is simple: how much cash do you have? That’s how much house you can afford. However, if you’re like most American homeowners who take out a home mortgage to buy property, your affordability is based on your DTI, or debt to income ratio.

Your debt to income ratio is all your monthly debt payments divided by your gross monthly income. Lenders use this formula to make sure that the loan you say you want is a loan you can actually pay back every month.

Let’s walk through the calculation together. I highly recommend gathering your own numbers to plug into the equation. If you get stuck, scroll to the next page to see an example.

Calculating Your DTI

Step 1 - Add up your monthly debts. Include the following:

- Your monthly rent payment OR the amount you're comfortable paying towards a home each month

- All loan payments (student, auto, etc.)

- Minimum monthly credit card payment

- Alimony or child support

Note: Living expenses such as cable, gas, electricity, groceries, etc. are not considered part of your DTI.

Step 2 - Add up your monthly income.

Include the following:

- Your monthly income from your primary job and any part-time/side jobs

- Any other regular income including income from investments, passive income streams, child support, alimony, etc

Step 3 - Divide your monthly debt by your monthly income.

Next, divide your total monthly debt by your total gross monthly income (income before taxes).

Step 4 - Your Result

The result should be a decimal or percentage that represents your debt to income ratio.

Generally, the max DTI allowed by lenders in the Austin area is around 45%, though this can vary based on the type of loan and lender you choose. Meeting with a lender is the only way to be 100% sure you'll be approved for the loan you want, and we'll go over the importance of this in the next chapter. If your DTI percentage is on the lower end, your chances of getting approved are quite high. If you do happen to have a higher percentage, still meet with a lender so they can talk with you about ways to reduce your debt or look into alternative loan options.

DTI Example

Debt

Bob Buyer rents a place for $1,700 per month and wants to buy a home with the same monthly payment. He pays $200 towards his student loans each month, owns his car ($0) and has two credit cards that he pays off each month with a $25 minimum required payment. His total monthly debts are $1,950.

Math

Rent	$1,700/m
Student Loans	$200/m
Car Loans	$0/m
Credit Card #1	$25/m
Credit Card #2	$25/m
Total Debt	**$1,950**

Income

Bob earns $65,000 per year at his full-time job. He does not work any other side jobs. Bob's salary divided by 12 months = $5,415 per month before taxes.

Math

Job	$5,414/m
Other Income	$0/m
Total Income	**$5,415/m**

DTI Total

When we divide Bob's monthly debt of $1,950 by his monthly income of $5,415, we get a debt to income ratio of 0.36, or 36%.

Math

$$\frac{\textit{Debt} \quad \$1{,}950}{\textit{Income} \quad \$5{,}415}$$

Total DTI	**0.36 *or* 36%**

3 Pre-approvals

- What is a Pre-approval Letter
- Banks vs Private Lenders
- Questions to ask Lenders

Pre-Approval Letter

"Success is where preparation and opportunity meet." - Bobby Unser

Once you've selected a Realtor and have an idea of what your debt to income ratio looks like, the next step is to get a pre-approval letter. A pre-approval letter is a document from a lender that states exactly how much money you can borrow for a mortgage.

Your pre-approval letter will also include an estimate of what your interest rate will be. An interest rate is the percentage amount a lender charges to loan you money for your home purchase.

Interest rates vary from borrower to borrower based on creditworthiness, size of down payment, and loan program type. In general, the better the credit score you have, the lower your interest rate will be.

Why Get a Pre Approval

It's important that you get a pre-approval letter before you house hunt, for a couple of reasons.

You'll know exactly what your budget is.

Imagine the disappointment of finding a home you can really see yourself living in, and then learning that your DTI is too high to purchase it. Having a pre-approval that takes all potential property tax rates, HOA payments, and monthly mortgage payments into consideration can protect you from this very possible scenario.

Your offer will be more competitive.

Although a pre-approval letter isn't required when submitting an offer in Texas, many sellers will not accept an offer without proof of solid financing from a reputable source (a.k.a. your lender). Especially in a multiple offer situation, having a pre-approval letter shows that you're serious about buying a home and have a plan for how you're going to pay for it.

Realtors will take you more seriously.

Most Realtors don't get compensated until you close on your property, meaning all those hours of house hunting, researching and planning are them working for free. To protect their time and minimize risk, many Realtors will only take clients house hunting after they have been pre-approved.

The good news is, getting a pre-approval is free and relatively simple! Here's how it works:

After you've talked with your Realtor, they'll likely refer you to a lender to get pre-approved. When you meet with the lender they'll talk with you about how much you're looking to spend on a house, what your down payment options are, and what loan products would be best for you.

To get a pre-approval letter, your lender will need to check your credit score, collect a few years of income history documents, and go over your monthly income and debts (DTI). Once they've reviewed all your finances, your lender can write up a preapproval letter for you and your Realtor to use when house hunting. This process often takes less than 48 hrs.

Banks vs. Private Lenders

When choosing a lender, keep in mind that who you pick will be responsible for managing your loan all the way through closing. Many buyers have a first instinct of getting pre-approved with their bank, but be sure to look into other options before making a final decision. Here's why:

1. **Availability.**
   It's rare to find a bank lender who will do business over the weekend or after 5pm, which can cause major problems when working with contract documents and deadlines.

2. **Lending Criteria.**
   While there are exceptions to this rule, generally banks have a tighter set of criteria on their lending standards. They may have fewer loan products available, be pickier on credit scores, or charge higher interest rates than local lenders.

Your Realtor should have a list of lenders who deliver great service and have low rates. Utilize them! A good lender can be a lifelong resource.

Questions to Ask Lenders

"Ignorance is a temporary affliction, remedied only by asking the right questions."- Colin Wright

Here's a brief list of questions to ask potential lenders when you're shopping for home loans. If you'd like a list of great lenders in the Austin area, **contact me**.

Once you have a pre-approval, avoid making any changes to your credit. Wait until you've closed on the home to make any large purchases and don't take out any new loans. Decisions like buying a new car or financing a new sofa will alter your DTI and can negatively affect your home loan.

Questions

1. What are my down payment options?
2. What will my monthly payment be?
3. What purchase price fits within my budget?
4. Do you participate in down payment assistance programs?
5. What fees will be included in my loan?
6. What are my estimated closing costs?
7. How quickly can you close?
8. How do you communicate with borrowers during the loan process?
9. Will you match a more competitive loan estimate?

4 Mortgages

- What is a Mortgage Payment
- PITI
- Private Mortgage Insurance

Mortgage Payments

Definition

Mortgage Payment
A regular payment that includes a portion of the principal and interest owed on your property.

Let's talk about mortgages. When you own a home, your mortgage payment is a regular payment that includes a portion of the principal and interest owed on your property. In simple terms, it pays for your home each month, kind of like rent.

The first thing to know is that a mortgage payment is made up of four parts called PITI: principal, interest, taxes, and insurance. HOA dues will also influence your monthly payment so don't forget these, either! Let's break down PITI step by step.

Principal & Interest

Definitions

Principal: The amount of money you borrowed for your home

Interest: The fee paid for borrowing the principal

The first part of your mortgage payment is principal and interest (PI). The principal is the amount of money you borrowed for your home (purchase price - down payment = principal).

Interest is the fee paid for borrowing the principal. This fee is expressed in the form of a percentage called the “interest rate”. The interest rate you lock in will depend on several factors including your credit score, down payment amount, and length of your loan.

A typical loan will be between 180 and 360 months, or 15 to 30 years. To get a better idea of how this works, let’s walk through an example.

Principal & Interest Example

Principal

Let's say you buy a house that costs $250,000 and put 20% as a down payment.

Your total principal would be $200,000.

Math

$$\$250,000 \times 20\% = \$50,000$$

$$\$250,000 - \$50,000 = \$200,000$$

Total Principle	**$200,000**

Interest

You meet with a lender and determine that your interest rate will be 4.5% on a 30 year loan, for a total principal and interest cost of about $1,013 per month.

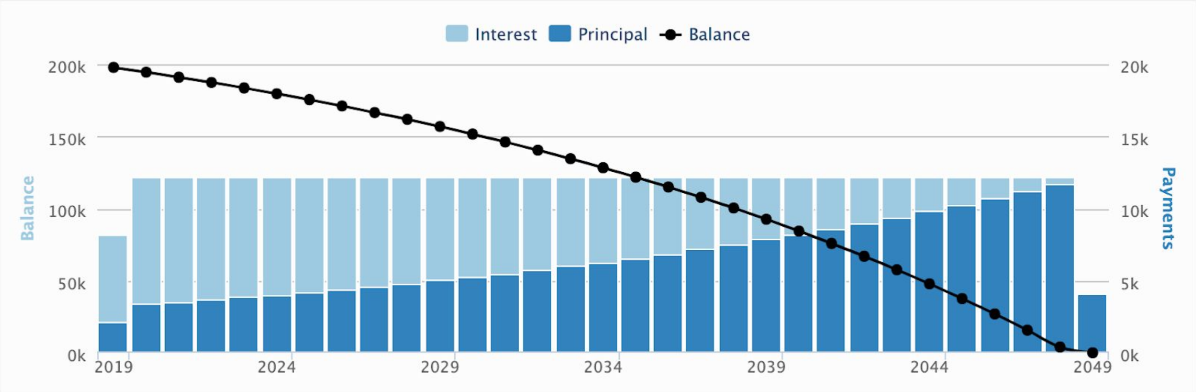
Math

Interest Rate	4.5%
Loan Term	360 months
Total Monthly P&I	**$1,013**

The total amount you pay towards P & I each month will be the same for the life of the loan. For the first few years of your mortgage, more of the monthly payment will go towards interest. As you get closer to the end of your loan, more of the payment will go towards the principal. Take a look at the chart below to get a better understanding of this.

$1,013.37
Monthly Payment

$364,813.83	$164,813.83	Apr 2049
Over 360 Payments	Total Interest	Pay-off Date



First Six Months of Loan

Month	Principal	Interest	Total Paid	Balance
May 2019	$263.37	$750.00	$1,013.37	$199,736.63
Jun 2019	$264.36	$749.01	$1,013.37	$199,472.27
Jul 2019	$265.35	$748.02	$1,013.37	$199,206.92
Aug 2019	$266.34	$747.03	$1,013.37	$198,940.58
Sep 2019	$267.34	$746.03	$1,013.37	$198,673.24
Oct 2019	$268.35	$745.02	$1,013.37	$198,404.89

Last Six Months of Loan

Nov 2048	$990.86	$22.51	$1,013.37	$5,010.96
Dec 2048	$994.58	$18.79	$1,013.37	$4,016.38
Jan 2049	$998.31	$15.06	$1,013.37	$3,018.07
Feb 2049	$1,002.05	$11.32	$1,013.37	$2,016.02
Mar 2049	$1,005.81	$7.56	$1,013.37	$1,010.21
Apr 2049	$1,010.21	$3.79	$1,014.00	$0.00

With most loans, you can make extra payments towards your principal, which will reduce the length of time you'll have a mortgage payment due for the property.

It's worth noting that if you pay cash for your home (or once you pay off 100% of the principal) you stop paying principal and interest (PI) altogether which drastically reduces your monthly payments. This is one of the biggest upsides to buying a home instead of renting!

Property Taxes

The next part of your mortgage payment is the one you'll likely never get rid of; property taxes. Property taxes are a real estate tax imposed by the government and vary based on the state, city and even the neighborhood you decide to live in. The average property tax rate in Texas is 1.94, but tends to be higher in metropolitan areas like Austin.

Property taxes can greatly affect how much your monthly payment increases, and even how much house you can purchase. Take these two houses for example:

How it works

House A costs $250,000 and has a property tax rate of 2%. House B, in the same city but different neighborhood also costs $250,000 but has a property tax rate of 3%. When we look at that in terms of dollars (working with the same down payment and interest rate figures in the example above), you can see the difference it makes on a monthly payment.

House A	House B
Cost $250,000	Cost $250,000
Tax Rate 2%	Tax Rate 3%
Monthly Payment $1515	Monthly Payment $1720

Insurance

The final part of a standard mortgage payment is home insurance. Think of home insurance like renters insurance; it protects your property in the event of accidental damage, theft, personal liability, plumbing and electrical issues, and some natural disasters.

Home insurance is typically charged as an annual amount and billed monthly with your mortgage payment. All lenders require home insurance in order to secure a loan. Keep in mind that home insurance is not the same as a home warranty, which is additional, optional coverage you can buy to cover systems and appliances inside your home. To learn more about the difference between the two, **check out this article**.

So there you have the four parts of a mortgage payment; principal, interest, taxes and insurance! Understanding the monthly costs of home ownership will help you become a savvier homeowner and investor.

Private Mortgage Insurance (PMI)

Gotcha! There's one last piece of the monthly mortgage payment to consider; private mortgage insurance, often referred to as PMI. Private mortgage insurance comes in handy (and is typically required by the lender) for buyers who are unable or uncomfortable with putting 20% of a home's purchase price towards a down payment.

How it works

Say you want to buy a house and are planning to put 5-10% of the purchase price as a down payment. Most lenders will still grant you a loan, but they'll charge an extra fee each month until you have a 20% equity stake in your home.

For most people, PMI is "worth it" because it enables you to buy a house for less money up front, allowing you to enter the market sooner or invest those extra funds elsewhere. In hot markets like Austin, the annual property appreciation has the potential provide equity to homeowners relatively quickly, causing the extra PMI charge to drop off after just a few years.

5 House Hunting

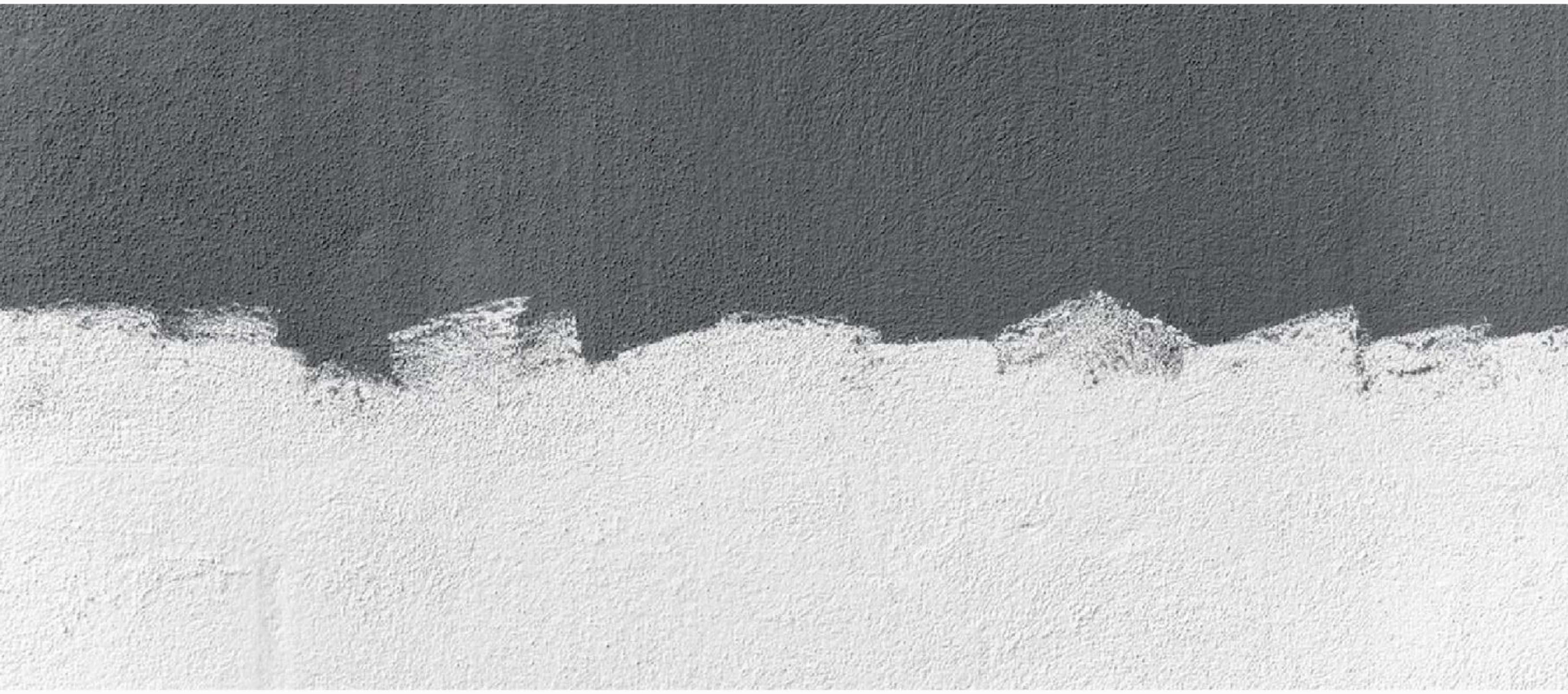
- Real Estate Websites vs. MLS
- New Construction vs. Resale

Real Estate Websites vs. MLS

Many homebuyers begin their search on websites like Zillow, Trulia, Redfin, etc. These sites are a great place to start when you're doing preliminary research on homes in your area, but are not the best tool to use when you're actively house hunting. All of the above sites syndicate from the MLS, and are usually a few hours to a few days behind 'real time'. This means that the listings you're finding could already be under contract by the time you see them for the first time!

Realtors have access to a private database of homes called the Multiple Listings Service, more commonly referred to as the MLS. The MLS has the most up to date information on properties and price changes, so when new homes are listed your Realtor will know right away.

Your Realtor can give you access to a free client portal through the MLS so you can be one of the first people to see new properties hit the market and schedule a tour before everyone without MLS access even knows it's an option.



New Construction vs. Resale

When you buy a car, you can purchase new or used; properties work the same way. All property types including single family houses, townhouses, condos, duplexes, etc., can be classified as one of two types of builds; new homes or resale homes.

A new home is a property that has just been built or is in the process of being built. A resale home is a property that someone else has owned and is now selling. Both types have pros and cons to them, so ask your Realtor to explain the differences or **read more here**.

Cosmetic Issues vs. Red Flags

As you're out touring properties, keep an eye out for cosmetic issues vs red flags. A cosmetic issue might be something like old carpets, dated countertops, and paint color, while red flags can sometimes be a little less obvious like rotted wood, poor ventilation, improper drainage, uneven foundation, plumbing issues, old electrical panels... the list goes on and on.

Cosmetic issues are things that can be changed relatively easily and that don't affect the overall functionality of the house. Red flags tend to be more involved, costly, or difficult to fix.

Working with an experienced Realtor and getting a home inspection are your best bets to discover any red flags and make sure you purchase a home that is safe and efficient. We'll go over home inspections more in a later chapter.

Homeowners Associations

Definition

Homeowners Association (HOA)
Organizations in a community that make and enforce rules for properties in that area.

Homeowners Associations, commonly referred to as HOA's, are organizations in a community that make and enforce rules for residential properties in that area as well as offer neighborhood amenities. Every HOA has a different level of involvement but they'll each charge a fee to live within that HOA.

The fees could be very low or very high, and paid monthly, quarterly, or annually. An HOA fee will affect your monthly mortgage payment, so be sure to ask your Realtor if a property you like is within a mandatory Homeowners Association.

6 Offers

- Writing an Offer
- Earnest Money
- Option Fee

Writing an Offer

Once you've found a property you'd like to purchase, things get exciting! Your Realtor will write an offer based on the terms you discuss, and as long as you've already gotten a pre-approval there isn't much for you to do but sign the offer and wait to hear back.

There are several terms that your Realtor will discuss with you while drawing up an offer, and since contracts are each very unique, I won't be diving into most of those in this guide. However, let's talk about two parts of the contract that will require fast action on your part once your offer is accepted.

1. **Earnest Money**.
   Earnest money is a deposit that shows a buyer's seriousness in buying a home. In Austin, it's common for buyers to pay 1% of the purchase price as earnest money, but you may be advised to pay more or less depending on the market and the home. The earnest money will go towards your down payment/closing costs as long as you see the contract all the way through. It can also be forfeited to the seller if you default on the contract. Make sure to ask your Realtor to explain both scenarios before you submit an offer.

2. **Option Period and Option Fee***.
   Texas is unique from many other states in that the contract has a section for an option period. An option period gives a buyer the right to terminate the contract for any reason within a certain number of days in exchange for paying an option fee, which can be any amount but is usually a few hundred dollars. This period gives you time to get a home inspection, tour the house again, etc.

*When purchasing new construction, a different contract is typically used. Option periods are not usually allowed by the builder on new construction homes. Make sure to work with a Realtor even when buying new, as details like this can have a huge impact on the homebuying process.

If you end up canceling the contract during the option period, you're only out the option fee, and get your earnest money back. If you decide to move forward with the contract once the option period ends, the option fee can be applied to your down payment and/or closing costs.

Both the earnest money and option fee are 'due' within a few days of the contract being accepted. These are deadlines you do not want to miss because defaulting on the contract could cause you to lose your earnest money as well as the house itself. As a best practice, keep a close eye on your phone and email so that your Realtor can reach you for anything urgent.

7 Closing

- Title Companies
- Closing Day

Accepted Offer

There’s a ton of work that happens before closing, and your main job as a buyer is to be timely and responsive to emails. Your Realtor, Lender, and Escrow Officer at the title company will be working diligently to get all the documentation in order for a successful closing.

From the time your offer is accepted to the time you close, you’ll likely receive several emails from the title company working your file.

Title Companies act as intermediaries between everyone involved in a real estate transaction (Realtors, lenders, sellers, buyers, etc.). They handle all of the money that trades hands so that all bills can be paid for by a neutral third party at closing.

They also provide a state regulated title insurance policy to homebuyers so that you can be confident that you’re receiving a property that is 100% yours, without any past bills or liens tied to the home from previous owners.

On closing day, you’ll typically meet with your Realtor at the title company’s office to sign a big stack of paperwork and receive the keys to your new home once everyone has signed and all the monetary deposits are accounted for.

8 Celebrate

If you've gotten this far, congrats! The hard part is done and hopefully you are well on your way to becoming a proud new homeowner.

Clients who work with Homespace can rest easy knowing that help is always just a phone call away, even after closing. Whether you want help figuring out how to file a homestead exemption, need a handyman referral, lost a copy of your paperwork, or want an opinion of how much your property is worth years down the line, Homespace is always here to help.

I'd love to be your resource for all things real estate, so if you have any questions **please reach out**!