



Home Buying

Process overview for beginners

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Disclaimer

This information is based on personal experience and observations and is only for general awareness of the public and not financial advice for an individual or institution. This information can not be used or referenced in a court of law in any location in the United States of America.

I am neither a lender nor a realtor. I am a Product Manager in an IT organization, who just owns real estate on the side. Perform your own due diligence in using this information.

Agenda

- Common Terms
- The Main Stakeholders
- Escrow
- Interest Rate vs APR
- Home Buying Process
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 - New construction home
- Lender Types
- Loan Types
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 - By down payment
- Points
- Mistakes Beginners Make
- Down Payment and Closing Costs
- Documents Needed
- Why 5%
- How to Remove PMI
 - BPO
- Historical Median Prices
- Last 10 Years Appreciation
- Historical Appreciation
- Benefits
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- House Hacking

Common Terms

Realtor

Your agent/dalal - The one who helps you see, shortlist a property, prepares an offer on your behalf and talks to seller's agent.

Mortgage

What we call home loan in India

Lender

Mortgage/home loan provider/financer. Could be a bank or credit union.

Escrow

A third-party money holding account. For example, it may hold It holds money so that your lender can pay property tax on time.

Closing cost

Amount of money you need for registration of property in your name. Includes items such as govt fee for title recording, initial mortgage costs, lawyer's fee etc.

Deed and Title

Deed has details like property lines, maps while title gives rights to use and sale the property. Very similar to what we know as registry in India.

ARM

Adjustable-Rate Mortgage (ARM) aka variable rates of interest on loan.

HOA

Homeowners' association. Has monthly fee. Takes care of common expenses such as streetlights, walkways etc.

Common Terms-2

Points

These are upfront payments as % of your loan amount to reduce interest rates on mortgage.

Earnest Money

Sort of security deposit. Earnest money is the money you pay to the seller to show your good faith and intentions of getting a mortgage to buy the property. Depending on the contract, you may or may not be able to get this money back, if you decide not to complete the purchase at the last minute.

Regulations vary by state too.

PITI cost

PITI is an acronym for principal, interest, taxes, and insurance.

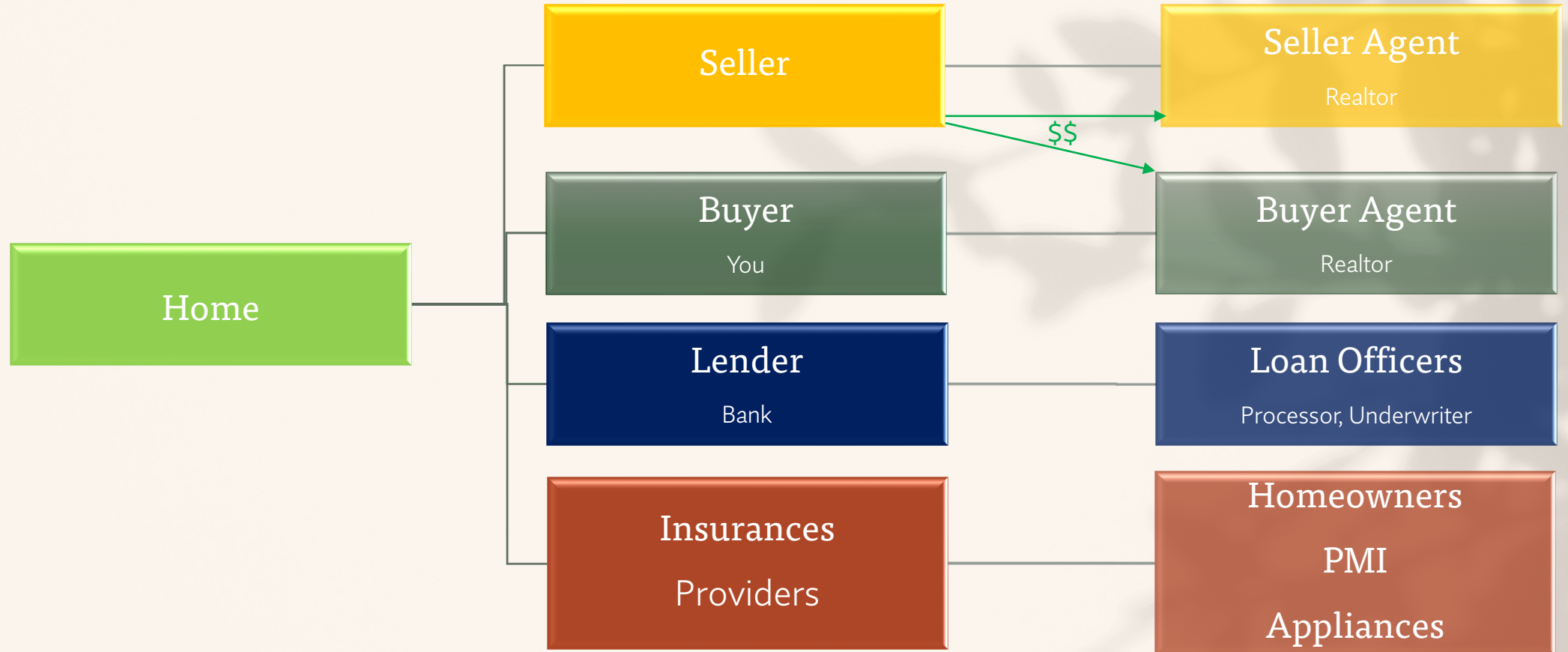
Loan Estimate (Good Faith Estimate)

Approximate costs you will pay at or before closing.

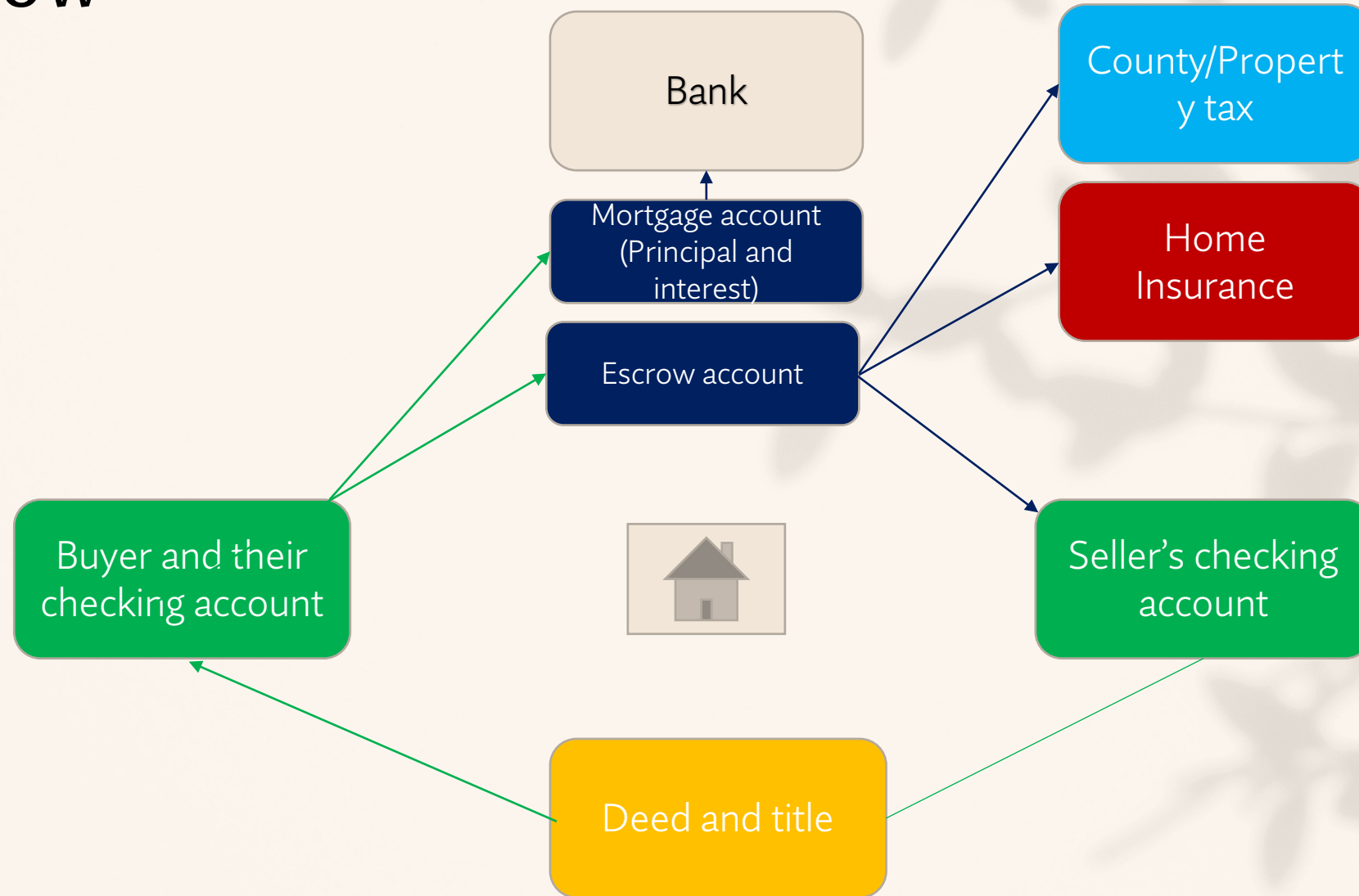
APR (Annual Percentage Rate)

Total amount of interest and fee paid in a year as % of the loan in a year.

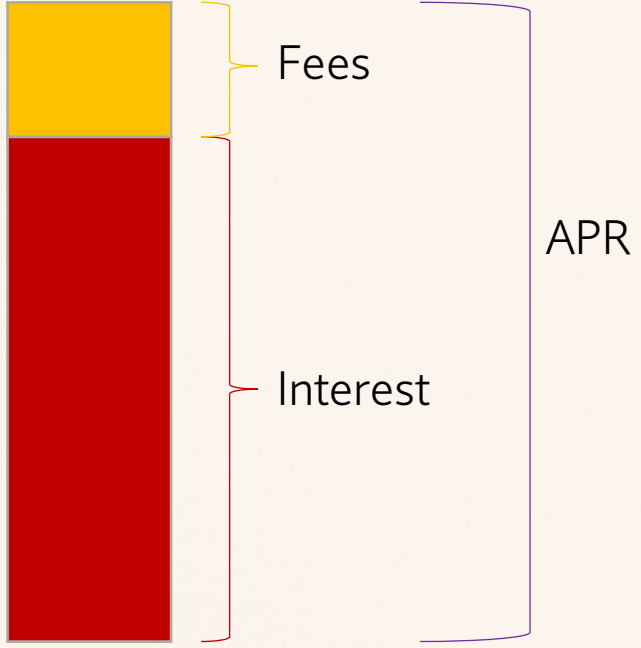
The Main Stakeholders



Escrow



Interest Rate vs APR



Home Buying Process – Existing Home (resale)

Step 1

- Shortlist a city / area
- Local friends/support system
- School district
- Commute time for work
- Distance from airport (40-mile radius)/medical facility (1–5-mile radius)



Step 2

- Decide a budget
- Gauge risk/ comfort level
- Calculate home affordability ([example](#))
- Calculate debt to income ratio ([example](#))
- Decide a max number



Step 3

- Get Pre-Approved
- a lender will check your credit and verify documentation to approve a specific loan amount for a certain period.
- Lock a rate
- Show a [sample](#)

Home Buying Process- Existing Home- 2

Step 4

- Shortlist a property and/or a realtor
- Self search on redfin/Zillow etc
- Decide a realtor
- Shortlist a property
- Ask realtor to give comps
- Review comps ([Sample](#))
- Decide a number for the offer

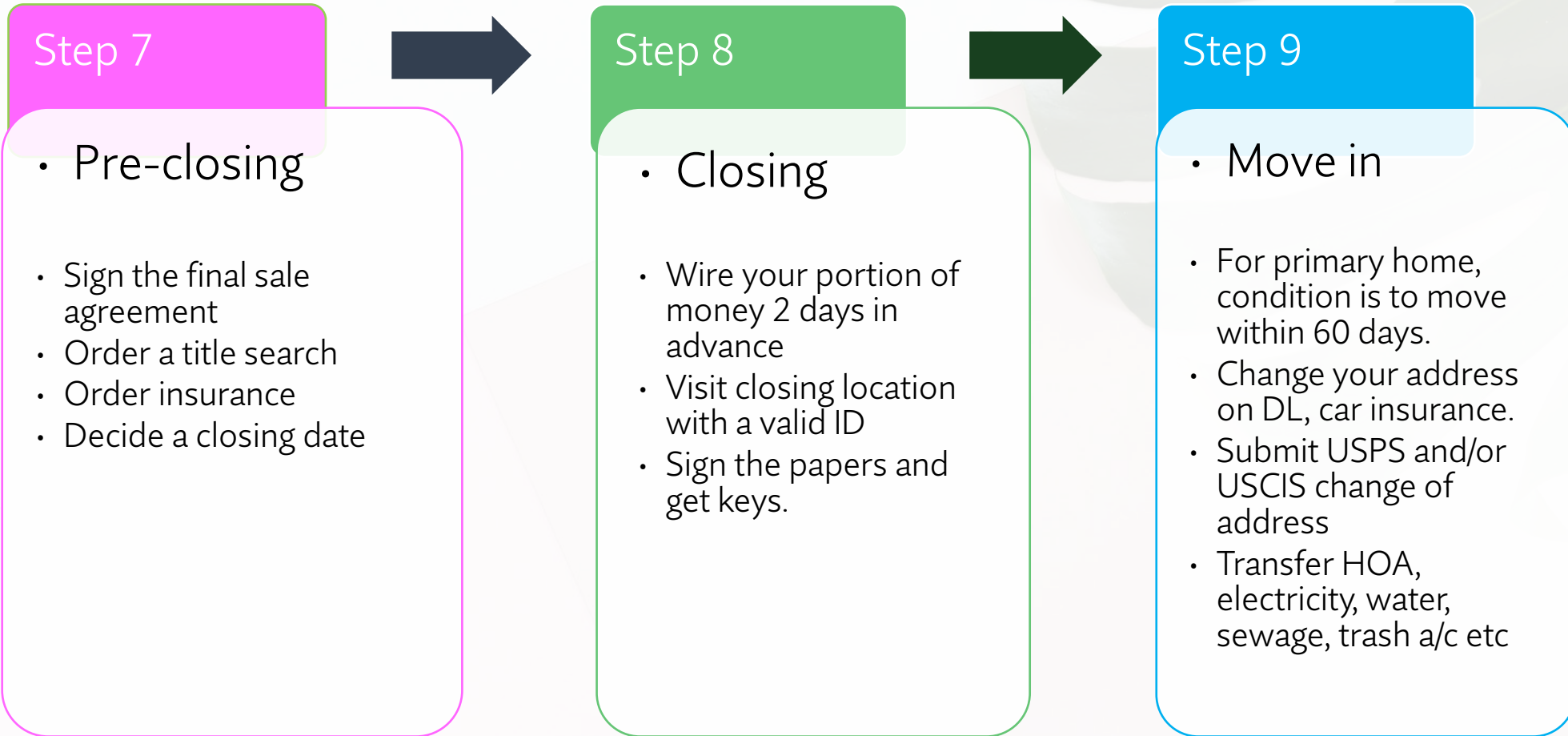
Step 5

- Offer and Option
- Make an offer (send it to seller's agent) [Sample](#)
- Option period (7 day) when you can terminate the offer
- Home inspection usually happens in option period ([report](#))
- Home appraisal decides the value ([report](#)).

Step 6

- Loan Approved
- Offer Accepted
- Home appraisal can drive loan approval.
- Once loan is approved, let seller's agent know.
- If offer is accepted, deposit earnest money in escrow (3 days)
- Review good faith estimate. ([Sample](#))

Home Buying Process- Existing Home- 3



Home Buying Process – New Home

Step 1

- Shortlist a city / area
- Local friends/support system
- School district
- Commute time for work
- Distance from airport (40-mile radius)/medical facility (2–5-mile radius)



Step 2

- Decide a budget
- Gauge risk/ comfort level
- Calculate home affordability (example)
- Calculate debt to income ratio (example)
- Decide a max number



Step 3

- Get Pre-Approved
- a lender will check your credit and verify documentation to approve a specific loan amount for a certain period.
- **Lock a long-term rate**
- Show a sample

Home Buying Process- New Home- 2

Step 4

- Shortlist a project, builder and a model
- Self search on newhomesource/ redfin / Zillow etc
- Class A – Toll brothers, Taylor Morrison etc
- Class B – Lennar, Mi homes etc
- Class C – DR Horton, Pulte etc

Step 5

- Sale contract and Options
- Sign a contract
- Select customizations
Sample
 - Electrical
 - Fans
 - Lights
 - Mirrors
 - Flooring
 - Doors, knobs
 - Countertop, sink etc

Step 6

- Building
 - Preconstruction meeting
 - Excavation
 - Foundation
 - Framing
 - Roofing
 - Plumbing, electric etc
 - Dry wall, touch ups
 - Final inspection

Home Buying Process- New Home- 3

Step 7

• Pre-closing

- Submit the latest docs such as pay slips, tax return etc
- Decide a closing date



Step 8

• Closing

- Wire your portion of money 2 days in advance
- Visit closing location with a valid ID
- Sign the papers and get keys.



Step 9

• Move in

- For primary home, condition is to move within 60 days.
- Change your address on DL, car insurance etc
- Submit USPS and/or USCIS change of address
- Open HOA, electricity, water, sewage, trash a/c etc

Lender (financer) Types

Type

- Banks – Chase, Wells Fargo, etc
- Credit Unions – DCU, Navy Federal
- Builder agencies – TBI Mortgage, Lennar Mortgage etc

Benefit

- Easy, formal, and established process, everything online (usually up to date on technology), can connect to current accounts. But short lock rates (~60 day). For profit entities.
- Usually, flexible terms such as no PMI, more exceptions, usually operate in a geographic area. But more documentation usually. Non-profit entity. More like grameen bank or cooperative banks in India.

Longer rate locks but 0.25% higher rate usually

- Free rate refresh in case of builder delays
- Ultimately in 1 year they sell those investors like Chase or other banks who buy bulk loan books

Primary Home - Loan Types by Rate

Fixed

- Fixed term/duration (10/15/20/30 yrs)
- Fixed interest rate
- Mortgage News Daily
- Current averages
 - 15 year fixed – 4.90%
 - 30 years fixed – 5.62%

ARM (Variable)

- Variable interest rates for different durations
- Prime plus rates
- 5/1, 7/1, and 10/1 rates
- Current averages
 - 5/1 – 5.87%

Primary Home - Loan Types by Down Payment

Conventional (Conforming/most common)

- 5% down (has PMI- Private Mortgage Insurance)
– explain what is PMI
- 10% down (has PMI)
- 20% down
- Limits apply
 - From 548k to 823k depending on county

Others

- 3% down – FHA (Federal Housing Assistance)
 - Limits apply – such as 970k in NJ and Fremont, CA, 450k in DFW
 - Need mortgage insurance premium (MIP)
- 0% down – VA (forces/veterans)
- If loan amount exceeds ~647k number – Jumbo
 - Minimum 20% down usually and sometimes 10%
 - Current interest rate avg of 4.85% for 30 years

Points

These are upfront payments as % of your loan amount to reduce interest rates on mortgage. Each mortgage discount point usually costs 1% of your total loan amount and lowers the interest rate on your monthly payments by 0.25%.

Loan	Mortgage Points	% Cost of Loan Amount (usually)	Dollar Cost	Post Point Interest Rate	Total Interest Paid in 30 Years (~)	Relative saving in 30 Years
500k	0	0	0	5.5%	522k	0
	1	1%	5000	5.25%	494k	28k
	2	2%	10000	5%	466k	56k
	3	3%	15000	4.75%	439k	83k

Mistakes Beginners Make



Common

- Rely on youtube or social media.
- Depend totally on friends.
- Chase and buy a dream home in stead of needed home
- Compare single family home PITI/EMI to condo rent payment (1200 vs 3000)
- Forget that EMI has a principal component
- Wait for 20% down payment

Uncommon

- Not locking the rate in time
- Pay one year property tax in advance on value not land even if closing is in Sept or after.
- Not keeping enough money for closing

Down payment and closing costs



Sources of down payment

- Cash from checking/ savings account
- Borrow from 401k (up to 50k)
- Withdrawal from 401k (up to 50k)
- Sale of stocks
- Money transfer from India (available in a US account)

How much you need approximately?

- 5% down payment
 - 25k for 500k home
 - 35k for 700k home
- 3% closing cost
 - 15k for 500k home
 - 21k for 700k home

How much total you need approximately?

- Total
 - 40k for 500k home
 - 57k for 700k home

Documents you may need



Pre-approval

- Last two tax returns, W2 or 1099s etc
- Last two months bank statements (checking and savings)
- Statement of the retirement accounts (401k etc)
- Monthly debt obligations such as car loan, personal loan, credit card loan etc.
- Authorization to pull credit with SSN. One hard enquiry remains valid for 120 days. You can seek multiple lenders during those days.



Approval

- Refresh of pre-approval docs (if beyond 4 months)
- Loan application and applicant ID
- Sale contract
- Address history for last two years
- Job and location confirmation (work location vs remote) and pay slips
- Appraisal, inspection, title search reports if any
- Letter of source of fund in case of a big deposit



Closing

- ID (Passport or DL preferred)
- Cashier's check if money isn't wired

Example of Equity Building

500k

Expense Head	Dollars
Home Price	\$500000
Down Payment (5%)	25000
Loan Term	30 years
Interest Rate	5.45%
Start Date	Aug 2022
Include Options Below	Yearly
Property Taxes (1.2%)	6000
Home Insurance	1500
PMI Insurance	1200

PITI Details	Monthly Dollars
Mortgage Payment	\$2,682.12
Property Tax	\$500.00
Home Insurance	\$125.00
PMI	\$100.00
Total Out-of-Pocket	\$3,407.12

Appreciation	Yearly
Property	500000
5% (yearly)	25000
Equity built (1 st year)	6457
Gain	31457

SI No	Date	Beginning Balance	Interest	Principal	Ending Balance
1	Aug-22	\$475,000.00	\$2,157.29	\$524.83	\$474,475.18
2	Sep-22	\$474,475.18	\$2,154.91	\$527.21	\$473,947.97
3	Oct-22	\$473,947.97	\$2,152.51	\$529.61	\$473,418.37
4	Nov-22	\$473,418.37	\$2,150.11	\$532.01	\$472,886.36
5	Dec-22	\$472,886.36	\$2,147.69	\$534.43	\$472,351.94
6	Jan-23	\$472,351.94	\$2,145.27	\$536.85	\$471,815.09

Why 5% - Examples by home value

400k home

20% down

5% down with PMI

Year	Price	Need 20%	Saving each year	Gross Saving	Appreciation	Shortfall
2020	400000	80000	20000	20000	11%	60000
2021	440000	88000	21000	41000	17%	47000
2022	515000	100000	22000	63000	(-5%)	37000
2023	489000	97800	23000	85000		12800

5%	Appreciation	Appreciation Dollars	PMI	Difference
20000	11%	44000	2400	41400
-	17%	74800	2400	72400
-	(-5%)	(-26000)	2400	(-28400)
-			Net	85000

Why 5% - Examples by home value-2

Expense Head	Dollars
Home Price	\$500000
Down Payment (5%)	25000
Loan Term	30 years

Year	Appraisal	Equity Contributed	Appreciation @ 5%	Total Equity Built	% of Initial Value
Year 0	500000	25000	0	25000	5%
Year 1	525000	5000	25000	55000	11%
Year 2	551250	5000	26250	86250	17.25%
Year 3	578812	5000	27562	118812	23.76%

Year	Loss in PMI	Opportunity loss @15%	Yearly loss	Appreciation Gain	Net Gain
Year 0	2400 (12x200)	3750	(-6150)	0	(-6150)
Year 1	2400	4312	(-6712)	30000	17138
Year 2	2400	4960	(-7260)	31250	23990
Year 3	2400	5703	(-8103)	32562	26859

Getting rid of PMI

Criteria

Change in value

Appreciation

Improvements

Process

Request for BPO (Broker Price Opinion)

What is [BPO](#)

Reappraisal

New equity

Example

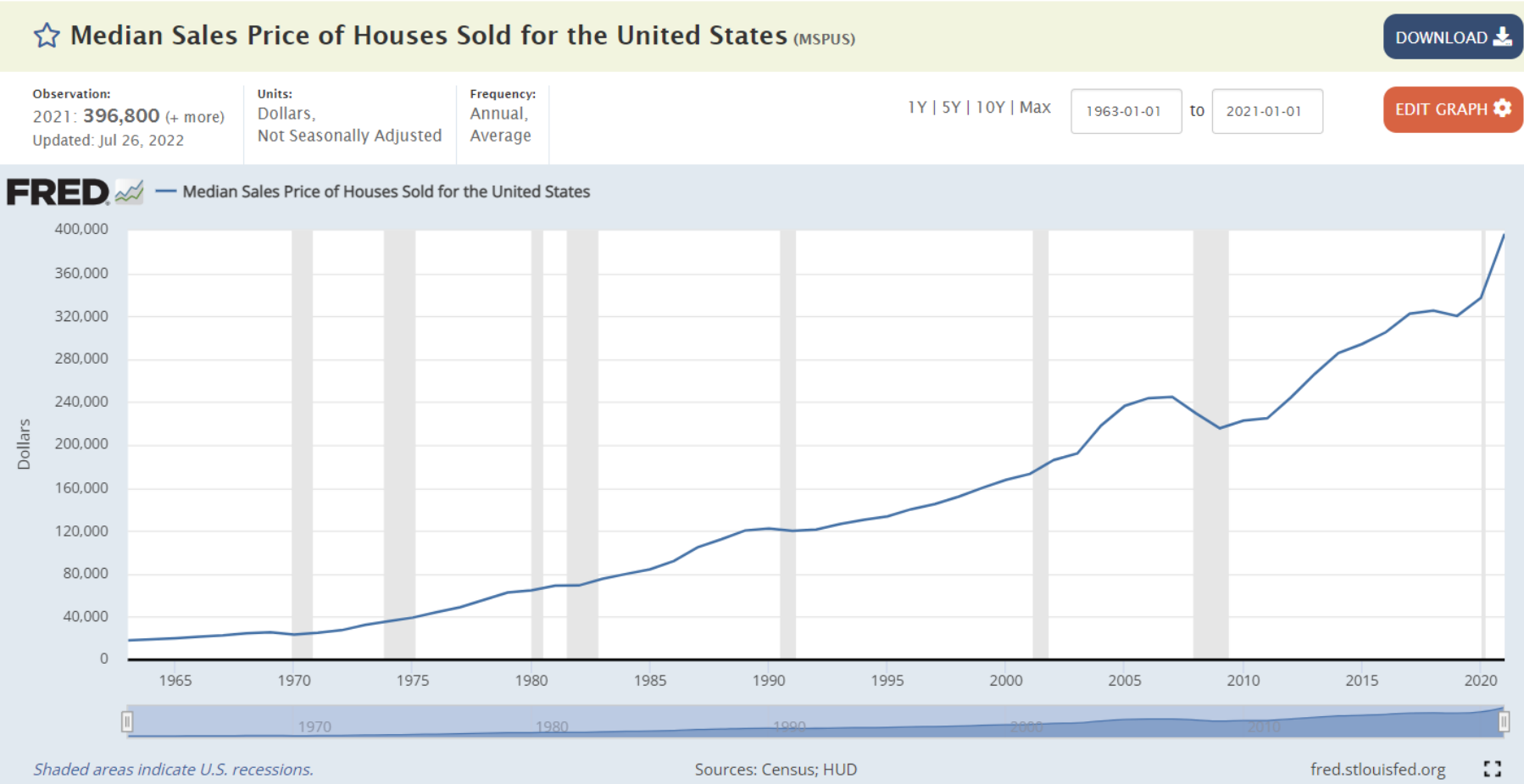


Example of BPO Calculation

Expense Head	Dollars
Home Price	\$500000
Down Payment (5%)	25000
Loan Term	30 years

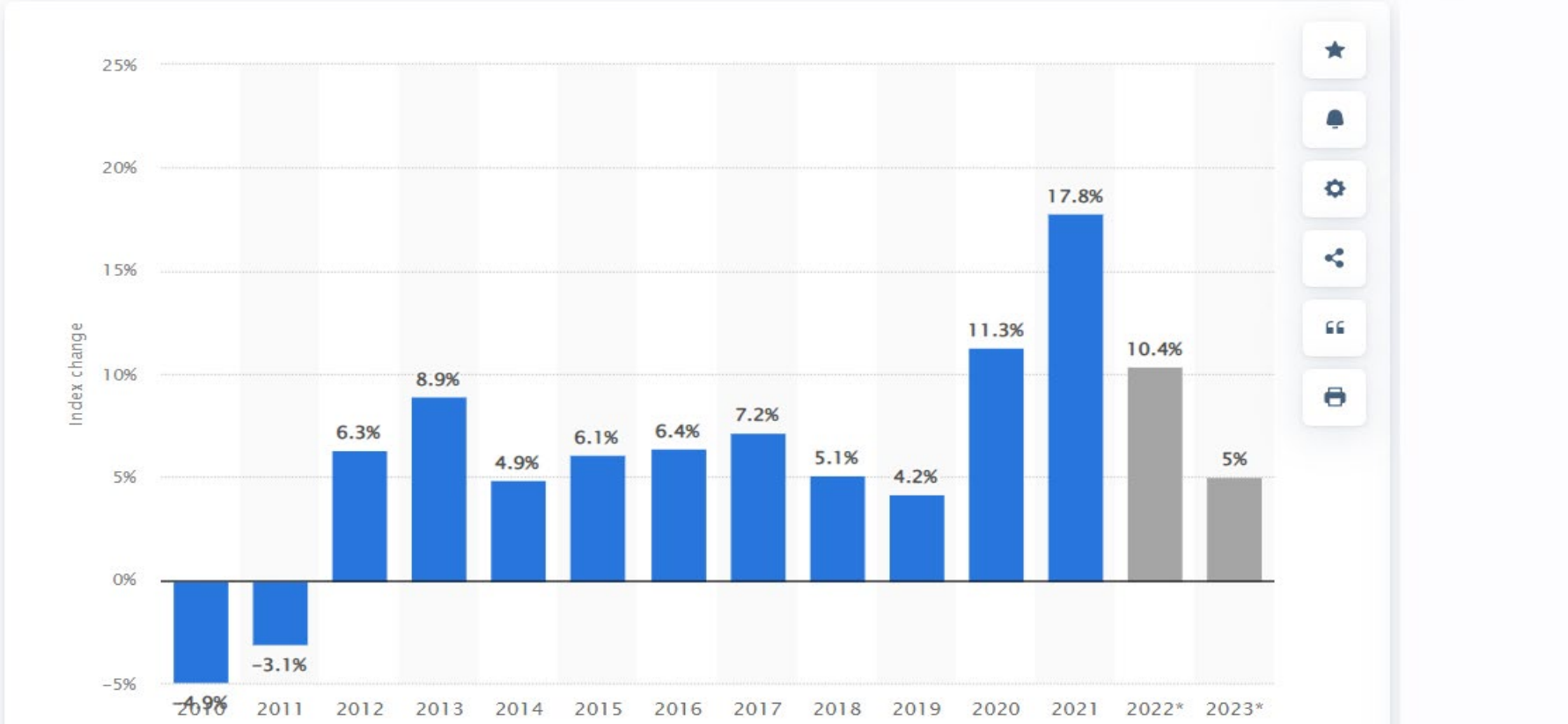
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Historical Median Prices and Recessions



Last 10 Years Appreciation

Freddie Mac House Price Index price appreciation from 2010 to 2023



Historical Appreciation

U.S. National Home Price Changes (1891- 2019)											
Year	Nominal	Real	Year	Nominal	Real	Year	Nominal	Real	Year	Nominal	Real
1891	-10%	-12%	1917	2%	-16%	1943	11%	8%	1969	7%	1%
1892	2%	8%	1918	6%	-14%	1944	17%	14%	1970	8%	3%
1893	4%	-4%	1919	10%	-5%	1945	12%	10%	1971	4%	1%
1894	17%	30%	1920	10%	7%	1946	24%	6%	1972	3%	0%
1895	-9%	-5%	1921	-2%	9%	1947	21%	12%	1973	3%	-6%
1896	-13%	-15%	1922	1%	4%	1948	2%	-1%	1974	10%	-2%
1897	3%	6%	1923	1%	-1%	1949	0%	2%	1975	7%	0%
1898	6%	4%	1924	0%	0%	1950	4%	-2%	1976	8%	3%
1899	-4%	-6%	1925	5%	2%	1951	6%	0%	1977	15%	8%
1900	14%	-3%	1926	-4%	-3%	1952	4%	3%	1978	16%	7%
1901	-16%	-14%	1927	-4%	-1%	1953	12%	11%	1979	14%	0%
1902	18%	15%	1928	1%	3%	1954	1%	1%	1980	7%	-5%
1903	2%	-8%	1929	-2%	-3%	1955	0%	0%	1981	5%	-4%
1904	5%	9%	1930	-4%	2%	1956	1%	-2%	1982	1%	-3%
1905	-12%	-15%	1931	-8%	1%	1957	3%	0%	1983	5%	1%
1906	19%	19%	1932	-10%	0%	1958	1%	-1%	1984	5%	1%
1907	10%	6%	1933	-4%	-5%	1959	0%	-1%	1985	7%	4%
1908	-10%	-8%	1934	3%	1%	1960	1%	-1%	1986	10%	8%
1909	-2%	-6%	1935	10%	7%	1961	1%	0%	1987	8%	4%
1910	8%	-3%	1936	3%	2%	1962	0%	-1%	1988	7%	3%
1911	-2%	4%	1937	3%	0%	1963	2%	0%	1989	4%	0%
1912	4%	5%	1938	-1%	2%	1964	1%	0%	1990	-1%	-7%
1913	0%	-7%	1939	-1%	-1%	1965	2%	0%	1991	0%	-3%
1914	4%	3%	1940	3%	3%	1966	1%	-2%	1992	1%	-2%
1915	-8%	-10%	1941	-8%	-18%	1967	2%	-1%	1993	2%	-1%
1916	9%	-3%	1942	3%	-6%	1968	4%	-1%	1994	3%	0%
									Ann.	3.2%	0.3%

Benefits

Near term

Freedom/control on dwelling

Stability

Tax benefits

Deductions

Closing costs

Interest

Points

Long term

Appreciation

Equity

Capital gains exemptions

250k for single

500k for married

Less fluctuations in the asset class



Some Tips

Most important: In our experience, single family homes have given far better returns compared to apartments/condos/townhomes.

Existing Homes

- Find out recent median prices
- Look for per sqft averages in the target area
- Must do both home inspection and appraisal
- Make a decent offer and then revise the price based on appraisal
- Be open (give and take) and direct in negotiations
 - 500k offer
 - 480k – appraisal
 - 490k – fair mid point.

New Homes

- Focus on suburbs
 - Areas where new freeways, constructions are coming up
 - Large multi builder community (>1000 homes)
 - Try to stay around 40-mile radius of the major airport
 - Commercial shops, schools come up eventually
 - New schools often have better grades due to the latest technology and facilities.
- Negotiate teaser rates or closing costs discounts
- Most builders do not reduce listed prices unless homes are not selling at all. I have seen 10k discounts on 400-500k homes in some cases.

House Hacking

What it means

- Stay in the house for 1 year
- Then make it rental
- If 75% of rental income covers your PITI then you can apply for a fresh loan
- Another type is buying a multi family unit then stay in one unit and rent others.
 - Unit rental
 - Room wise rental
 - Room wise air bnb

Suits whom

- Single person
- Single earning families
- Traveler souls
- Families with small kids

Benefits

- Save tremendously on interest
- Every year a new house
- (up to 10 houses)

Example of House Hacking

500k

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Home Price	\$500000
Down Payment (5%)	25000
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Interest Rate (Primary home)	5.45%
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Home Insurance	\$125.00
PMI	\$100.00
Total Out-of-Pocket	\$3,407.12

Interest	Rate	Total interest paid
Interest rate as primary home	5.45%	490561
Interest rate as investment home	7.45%	1189807
Difference	2%	699246

Websites I use

URL

Purpose

- <https://www.mortgagenewsdaily.com> – for accurate interest rates
- <https://www.wellsfargo.com/goals-credit/debt-to-income-calculator/> - Debt to income ratio
- <https://www.wellsfargo.com/mortgage/home-affordability-calculator/> - Home affordability
- <https://www.calculator.net/mortgage-calculator.html> - Mortgage calculations
- <https://fred.stlouisfed.org/series/MSPUS#0> – Median sale prices
- <https://themortgagereports.com/61853/30-year-mortgage-rates-chart> - Trending of interest rates



Thank you

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