



How to Plan for Buying a Home

A practical guide for future
homeowners



EJUSTACE
ADVISORS

Disclaimers

- The content herein was developed from sources believed to be providing accurate information.
- The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation.
- All investing is subject to risk, including the possible loss of the money you invest.
- Diversification does not ensure a profit or protect against a loss. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.
- The projections and other information generated as part of this analysis regarding the likelihood of various investment outcomes are hypothetical in nature and are not guarantees of future results.
- The projections to be presented are based on a statistical analysis of historical data and market assumptions. Future returns may behave differently from the historical patterns captured in the analysis, and the analysis may underestimate extreme negative scenarios unobserved in the historical period on which the model estimation is based.
- All final investment decisions are the discretion of the client.

Contact info

Ray Eustace
Eustace Advisors
Phone 910-377-5021
ray@eustaceadvisors.com

Course Objectives

1. Assess your readiness to buy a house.
2. Understand mortgage types and credit.
3. Establish a realistic budget.
4. Navigate the buying process.
5. Understand common mistakes to avoid.

The House Buying Timeline

1. Building a Plan

- Target Location, Finances/Budget, Desired House Features, Timeline.

2. Pre-Shopping Tasks

- Credit score, Build a Team, Mortgage Pre-Approval, Exit Plan for current residence.

3. Finding the Right House and Making an Offer

4. Inspections and Closing

5. Post-Purchase

Why Planning Matters

1. Largest purchase for most households.
2. Long-term financial commitment.
3. House buying is a stressful process.
4. Mistakes can be costly.

Renting vs. Owning

This class presumes you have made the decision to buy a house; since each situation is different, I suggest assessing the Rent vs. Buy decision on a case-by-case basis.

Tradeoffs:

1. Flexibility (short-term vs. long-term commitment).
2. Independence.
3. Upfront costs vs. equity growth.
4. Maintenance responsibility (time and cost).
5. Amenities.

I typically recommend against the purchase of a “starter home” intended as a short-term (~5 years) residence, from a financial cost perspective.

Signs You May Be Ready To Buy A House

1. Stable income.
2. Emergency savings in place.
3. Manageable debt.
4. Plan to stay in residence for 5+ years.

Know Your Financial Picture

Build an updated:

1. Balance Sheet
 - a) Understand the impacts of a down payment, closing costs, and post-closing purchases (furnishings, appliances, etc.).
2. Income Statement
3. Budget (two versions: current residence and desired residence)
 - a) Understand the projected changes to housing expenses.
 - b) Update this budget for each house being considered for an offer.

Factors That Lenders Use to Evaluate You

1. Credit score
2. Debt-to-income ratio
3. Assets
4. Employment history

Credit Score Basics

1. Your credit score affects mortgage approval and interest rate.
2. Higher credit score = lower cost.
3. Check reports well in advance of starting your home search and base your homebuying financial budget on the projected interest rates that your credit score will yield.
4. Freeze credit data at least 12 months before intended purchase.

Types of Mortgages

Type	Features	Best For
Fixed-Rate (FRM)	Rate does not change over life of loan; Monthly principal & interest payment is fixed; Higher interest rate than ARM.	Buyers who can afford the higher initial rate and are likely to stay in the home for >5 years.
Adjustable-Rate (ARM)	After initial fixed period, interest rate may increase or decrease based on market; Monthly principal & interest payments may change over time. Lower INITIAL interest rate than FRM.	Buyers who are likely to move within the initial fixed period or shortly thereafter.
FHA, VA, USDA	FHA: loans via private lenders which are regulated by the Federal Housing Admin.. Low down payments; loan max limits; requires PMI. VA: loans via private lenders guaranteed by the Veterans Admin.; no PMI required; as low as zero down payments; requires a funding fee. USDA: offered by the US Dept of Agriculture; as low as zero down payments; requires PMI.	FHA: those with low credit scores or limited down payment funds. VA: veterans, servicemembers, or surviving spouses. USDA: low- to middle-income borrowers in rural areas.

Down Payment Planning

- Be sure to include projected Closing Costs (explained later) in Down Payment planning.
- Down Payment Amounts
 - FHA loans: typical require at least 3.5% down.
 - VA and USDA loans allow as low as zero down payments.
 - Conventional loans: typical require at least 5% down w/ PMI; $\geq 20\%$ down payment avoids PMI.
- State and local assistance programs may help.
- When planning how much you can put down, ensure you have ample resources left in your Emergency Fund and for other short-term needs (furnishing, fees/dues, moving expenses, etc.).
- Gifts are allowed as part of down payments but must be well documented.

Monthly Payment (PITI)

1. Principal
2. Interest
3. Property Taxes
4. Homeowner's and Mortgage Insurance

Monthly cost that is often overlooked: HOA fees.

Other recurring homeowner-related expenses will be discussed later.

Set a Comfortable Budget

1. Avoid being house-poor.
2. Leave room for savings towards other needs and goals.
3. Plan for furnishings and repairs.

Stress-test your post-purchase budget for job changes or ownership cost increases.

Your Home Buying Team

1. Agent

2. Lender

[https://myhome.freddiemac.com/blog/homebuying/6-tips-consider-when-shopping-lender.](https://myhome.freddiemac.com/blog/homebuying/6-tips-consider-when-shopping-lender)

3. Inspector

4. Appraiser

5. Attorney

6. Financial Advisor

Mortgage Pre-Qualification vs. Pre-Approval

	Pre-Qualification	Pre-Approval
Definition	An estimate of how much you might afford.	A lender's conditional commitment to lend you a specific amount.
Process	Basic financial info (income, debts, assets) shared verbally or online.	Full mortgage application with detailed (W-2s, bank statements, tax returns) documentation.
Credit Check	Typically, a soft inquiry (doesn't hurt score) or no check is done.	A hard inquiry (can temporarily lower credit score).
Outcome	A rough idea of borrowing power, not a commitment.	A formal letter stating the maximum loan amount, which boosts your credibility with sellers.

Pre-Qualification is helpful for establishing home affordability, but Pre-Approval is needed when preparing to shop.

Pre-Approval leads to stronger offers, higher odds of offer acceptance and faster closings.

Finding the Right Home

1. Location
2. Features
3. Condition
4. Resale potential

Making an Offer

1. Price
2. Earnest money
3. Other required deposits
4. Contingencies
5. Timeline

Inspections & Negotiations

1. Identify issues
2. Request repairs or credits
3. Know when to walk away

Reference EA House Inspection Guide.

Closing Costs

1. Loan fees (rate buy-down, bank fees, attorney fees, etc.)
2. Title search and insurance
3. Taxes and Homeowners insurance
4. Moving expenses
5. Realtor commissions

Total closing costs are typically 3-5% of home price for the buyer.

Reference HUD Closing Cost Statement.

Life After Closing

Congratulations – you are now a Homeowner!

Be sure to update your budget to reflect changes related to:

1. Rent vs. Mortgage
2. Home Maintenance
3. Property Taxes
4. Homeowners Insurance (much higher than renters)
5. Utilities (typically higher in a house vs. apartment)
6. HOA fees

First-Year Planning

1. Update your emergency fund and short-term savings goals to address:
 - a) Updated recurring costs per previous slide.
 - b) Furnishing expenses (savings goal).
 - c) Maintenance costs (add to emergency fund calculation for unexpected repairs and savings goal for big-ticket items).
 - d) Future improvements (savings goal).
2. Review your Life and LTD coverage due to the new (significant) financial commitment you now possess.
3. Ensure your Estate Planning documents are in place and up-to-date.

House Buying Mistakes to Avoid

1. Trying to time the market.
2. House hunting before getting pre-approved for a mortgage.
3. Not leveraging professional assistance (your house buying team).
4. Not shopping around for mortgage options and assistance programs.
 - Different banks.
 - Various loan types (VA, FHA, conventional, etc.).
 - Government and private home purchase assistance and incentives.
5. Not accounting for all projected costs when building a house budget.
6. Buying more house than you can afford.
7. Buying a “starter” home with plans to move within 5 years.
8. Settling / Sacrificing desired features or location.
9. Draining savings – failing to maintain an Emergency Fund.
10. Letting emotions overwhelm sound financial guidelines. Don’t let aesthetics override practical factors like neighborhood, commute, condition or long-term resale value.
11. Skipping inspections. Structural, plumbing, or roofing issues may lead to large repair bills later.
12. Making big purchases between loan approval and closing, which may impact loan approval.

Key Takeaways

1. Create a task-based timeline.
2. Build a detailed home purchase financial plan. Know your numbers.
3. Identify your home purchase team.
4. Check your credit scores and freeze your credit data.
5. Build savings in line with projected down payment and closing costs.
6. Talk to several lenders. Mortgage rates and terms will vary and have significant financial impacts.
7. Get pre-approved for financing BEFORE starting to look at houses.
8. Research real estate agents.
9. Don't rush the purchase - know when to walk away.

Questions?