

Episode 3

Nadeska Alexis: [00:00:00] Hey, I'm Nadeska Alexis, and this is Beginner to Buyer. Beginner to Buyer is powered by Chase Home Lending, and you can get more great tools and useful information to help you buy your first home anytime by visiting BeginnertoBuyer.com.

I hope you're feeling a little more confident about making some moves toward homeownership after our last conversation with Keosha Burns. Now we're going to talk about money, because, of course, cost is one of the most overwhelming factors of homeownership. This is a huge investment for you, you probably spent a lot of time saving up to get to this point, but planning ahead makes all the difference. Knowing what you can afford makes the whole process more manageable and having a good grasp on your personal finances is what prepares you to have confident and well-informed conversations with lenders and agents.

Nadia Harrald: [00:00:48] I'm Nadia Harrald. I live on the south side of Chicago. I am a mom of a nine-year-old daughter, nine going on 19. Right now I feel like I'm in a preface of transitioning in life. I'm definitely of course looking for a place to call home for me and my daughter. You know, I'm a single mom, so this journey has, in practice, has definitely been hard, I'll be honest. But I have faith that we will definitely find something that is perfect for us. I am at home with my parents and it's, I would say it's bittersweet. Of course, I would love my own things, I would love for my daughter to have her own space, but at the same time I do get the support from my parents, so I'm very thankful and blessed about that.

Nadeska Alexis: [00:01:39] Yeah. You know, it sounds like you have a really strong support system, but at the same time, I can understand you wanting a little bit more independence. So when did you start seriously considering wanting to buy a first home?

Nadia Harrald: [00:01:50] Actually a couple of years ago, I talked to this financial advisor and she's also a single mom. I was just talking to her because I was really serious about getting out of debt and beginning more serious about my finances. By then I was in a couple of holes, credit card wise, and I was just like, "Oh my God". I asked her, she said questions after, and I asked her what is something she would have done different. She said she would have bought a rental investment property first instead of purchasing a home. And I was like, "Wow, I want to see what that route is about."

Nadeska Alexis: [00:02:29] People I think start off with maybe just what they want that house to be like, that dream house, but I think it's also great that you approached it by first considering your finances. How are you feeling about your overall financial picture at the moment?

Nadia Harrald: [00:02:43] I am still a work in progress, I will say, but I feel like I'm better than I was a couple of years ago. Of course, I still have questions, like "Okay, what do I need? Where am I at?" type things. I try to do my own research, but it can get a little overwhelming at times where I'm just like numbers and me do not mix, let me talk to a professional and break this down.

I guess my main concern is what would be a comfortable amount to save up? Because I know there's a down payment, I hear that some people end up not having to pay a down payment or putting a little bit down from their savings, but I know there's other attorney fees, or escrow, and all that great stuff, inspection fees. So I just wanted to know, I know more is always better, but if there was a ballpark figure of what would be a comfortable amount, like a minimum. Also how will the amount affect me getting a house?

Nadeska Alexis: [00:03:50] I'm not sure how close you are with your parents. Is this something you're able to talk to them about and get advice or any other friends or family that you're able to bounce ideas off?

Nadia Harrald: [00:03:59] I did try to get their help and they just don't understand it, so I kind of feel like I'm starting this journey on my shoulders, like it's on me to break generational curses. It's a lot of firsts for me. I'm trying to show my daughter the path for her as well, so, yes I've talked to my parents, that's a no go, but they still help.

Nadeska Alexis: [00:04:25] Yeah. I mean, being the first person in your family to make a big move like this, especially not even just buying your own home, but thinking about it as an investment property, I understand that it's very difficult. It can be scary. It sounds like you've thought about this from so many different angles, personally for you and your daughter, how this can benefit you financially in the long run. How would you describe what homeownership really means to you?

Nadia Harrald: [00:04:49] I feel like homeownership means having something that you worked hard for and you can just really call your own. I feel like that's so fulfilling and people who get to experience that, I feel like they should be so proud of themselves. When you finally get those key rings, finally get the home of your dreams, in the area you want, it's just like "I did it, I did it". It's a huge accomplishment.

Nadeska Alexis: [00:05:21] I was happy to hear that Nadia is already thinking about this investment from a financial perspective, because it's easy to get caught up in what you think your dream home could or should look like. I mean, let's be honest, we've all imagined it. Personally, I have about four different Pinterest boards for my future dream house, but you can't forget to be realistic about what you can comfortably afford right now. Nadia asked a couple of really important questions. How much should I save? And what about student debt? I think a lot of millennials, and most of my friends included, feel like their student loans are a huge hurdle when it comes to making big financial decisions. But thankfully, we do have some resources available to help us deal with the numbers, like Arielle Figueroa. Arielle is a certified financial planner who works with clients and especially millennials to achieve stability and sustainable homeownership skills.

So Arielle, obviously for a first-time homebuyer, financial planning is a really, really important step in the process. It can be a lot to wrap your head around. How can people even begin to plan for such a big investment like buying real estate?

Arielle Figueroa: [00:06:25] Wow, that's a great question, and it's so nuanced. There are so many different pieces to planning to make a huge investment, like purchasing your first

home, especially when it's your first home. I usually like to take a three-pronged approach when I'm talking to clients, we can call it the ABCs of preparing for a home. A is assets; making sure that you're saving enough money for the purchase of the home and all the ancillary costs that come along with it. But even more importantly than that, making sure that you have a well-stocked emergency fund covering between three and 12 months of expenses. The more complexity that you have in your financial situation, meaning if you have kids or if you have a business, the more money you should have in that emergency fund beforehand.

B is budget. Making sure you have a budget, how much your expenses are, how much your income is and what the difference between those two things is.

And C is credit. Making sure that you're paying attention to your credit score, that you're paying off your debt, or at least paying it down consistently, and making sure that you're utilizing your credit very wisely.

Nadeska Alexis: [00:07:31] Alright, the ABCs, that's an amazing way to break it down. I would love to deep dive a little bit into more of those, starting with a question that's really popular. People are always going to wonder, how much money should I have saved before buying a home? And I think as you mentioned, there's a few variables depending on your financial situation. What's the best way to calculate the right amount that you personally should have saved?

Arielle Figueroa: [00:07:51] That's a fantastic question. And you're absolutely right, that's a common one. I think that "should" is really relative. It's going to depend a lot on how much the house costs, of course, will determine the percentage of your down payment and how much your closing costs are. You also want to count for things like buying furniture, any repairs that need to be made to the home, any ancillary things that come along with the process of moving: moving expenses, storing your furniture, if you're going to be storing it too. And again, just going back to the idea of having that emergency fund. Just making sure that you've covered, not just for the best case scenario, but for the worst case scenario. My job as a financial planner is really to accommodate for those worst case scenarios. People don't love to think about it but they do happen and making sure that you have enough money saved for all of those things, in addition to the down payment and closing costs that go along with the purchase of the home is extremely important.

Nadeska Alexis: [00:08:48] Okay. Thank you. So you definitely just outlined some of the other financial considerations that you should make. Like you said, having those emergency funds ready in case anything comes up. Another pretty common question we get, a lot of us are dealing with this, is debt. If someone is dealing with debt, does that mean that they can't buy a home, or are there just certain considerations and plans that they need to make?

Arielle Figueroa: [00:09:08] Yeah, debt does not mean that you can't buy a home. A lot of us, especially younger folks, have student loans that they're paying off. A lot of us have credit cards and other types of debt that's outstanding when thinking about buying a home. I firmly believe that you do not have to pay off every single penny of debt that you owe before you buy a home. Many of us would probably be 60, 70 by the time that happens. So that would

be kind of silly because during all that time, you're paying rent. But I do think that you need to look at the opportunity costs. You need to decide, is your debt burdening you in a way that's going to make it hard for you to afford the payment on your home? In that case, maybe it's a good idea to think about paying down the debt, or at least getting a handle on your budget before you go ahead and make that home purchase. And if you feel like your debt's under control, you're making regular payments, you've seen those balances going down, as long as you can qualify for the mortgage, and the best way to find that out is to talk to your loan officer or your bank and see what that would look like, then there's no reason why debt should prevent you from being able to purchase a home.

Nadeska Alexis: [00:10:18] Okay, and say you do still qualify for the home, you feel like you have a handle on things now, are there steps that you should take to continue managing that debt while you move forward with the process of buying your home?

Arielle Figueroa: [00:10:28] Absolutely, yes. One of the things that I always look at with clients before they're thinking about pulling the trigger on a home buying purchase is, are they regularly saving towards their other goals? And are they still setting aside enough money to continue to pay down debt before they buy the home? And even after they buy the home, will they continue to be able to do that? And that kind of goes back to the idea of creating your budget.

So we have income at the top, and then we subtract for living expenses, the things that are non-negotiable; a place to live, probably not something you want to stop paying for, food on the table, probably not something you want to stop paying for. All of those most important things come out first. After that comes savings and minimum debt payments. We want to make sure that you're not going to be sacrificing the ability to pay off your debt and save for your other financial goals, if you are going to buy a house. And then whatever's left over is your discretionary money. That can be used towards things like short-term goals, spending, and potentially saving a little bit extra or paying a little bit extra towards your debt so that when you do go to buy your home, you have that flexibility in your financial situation too.

Nadeska Alexis: [00:11:42] Wow. Just thinking about debt as something big looming over you can be really overwhelming, but the way you break it down in tiers makes it sound a lot more manageable. So I hope that's something that our listeners take away from everything that you just explained.

Arielle Figueroa: [00:11:54] When you talk about grants and assistance for paying down debt, what immediately comes to mind for me is student loans. Especially if you have federal loans, then you probably would qualify, depending on what your income level is, for income driven repayment plans. That also ties in pretty closely to student loan forgiveness. If you're working in a public service organization, or if you're working for a public institution, then public service student loan forgiveness might be an option for you. But even if you're not, and you are able to qualify for an income driven repayment plan, you may also qualify for longer term taxable student loan forgiveness.

Nadeska Alexis: [00:12:32] Okay, wow. So there are some options that's really, really great to know. And, even just debt aside, if this is your first time buying a home, and you're just

worried about your income and having to keep up with some of those regular bills that we all have to like putting food on the table, like you said, are there assistance programs available? And like, what should your financial standing be for you to qualify for some of those?

Arielle Figueroa: [00:12:53] Unfortunately, it's been my experience that grants and assistance are a little harder to find than people think they are, and in my opinion than they should be, but they are available. Usually they're location or organization based, so the best place to look for assistance with finding those is talk to your employer, talk to your lender, talk to your real estate agent, and talk to your friends, family, and other organizations like your church or community organizations that you're a part of to find out what's out there. We really need to, I think, as a public, be more diligent about making available those opportunities to people, especially who really need them financially to be able to buy a home and build their wealth. But we don't have that yet, so the best place to look is to ask around and try to find out what's out there from the people that you trust, and they can point you in the right direction for some of those things.

Nadeska Alexis: [00:13:50] Okay, that's great. Because of course, once it comes to buying a home, one of the biggest financial pressures is having enough for a down payment, right. I think that's where things can get a little bit scary to some people and a lot of people, first-time buyers, are wondering how much should I actually be saving for my down payment?

Arielle Figueroa: [00:14:06] Yes. That's a great question. More importantly than the down payment itself is having that emergency fund, having that cushion to fall back on if things go poorly. So, if that means putting less money down, then in my opinion, that's okay. The most money that you can have to pick you up in case of an emergency is going to be the ideal situation. That said, there are some requirements that your bank will have or your lender will have in terms of how much you need to put down. And how much you put down will also determine, number one, how much your interest rate is, number two, how much your payment is, and number three, whether you need to pay mortgage insurance in addition to your principal interest taxes and homeowner's insurance.

Nadeska Alexis: [00:14:49] Definitely a few things to consider. And you know, of course, when you're putting in an offer, you want to make sure your offer is competitive enough, especially if you've already fallen in love with that house and can see yourself living there. But what's the most realistic way, do you think, to plan ahead so you can put in a competitive offer, but at the same time, you're not overextending yourself financially?

Arielle Figueroa: [00:15:09] So glad you bring this up. One of the things that a lot of people don't know is that you typically can, depending on your lender or bank that you're working with, do what's called a mortgage credit commitment letter, sometimes they call it something slightly different. But what that means is, beyond the pre-approval process where your lender will run your information through the computer system, the computer will say, based on these risk factors, based on your profile, you are or aren't qualified, we actually take that a step further and you can send your paperwork and all of your information along to an underwriter to review before you're even under contract on a home.

There's the second piece that will come later, which is getting the property itself approved, making sure the appraisal comes in at the right value, making sure it passes inspection, all of those other pieces regarding the property itself. But if you can knock out the part where you, yourself, your income, your assets, your credit has been reviewed and qualified by the underwriter, that looks really, really good to a potential seller. Because it shows them that number one, you actually will qualify for the loan, you yourself, as long as the property is good, and number two, that you've gone above and beyond doing your due diligence, which will save some time and, and reduce the amount of time it will take to finalize that closing process.

Nadeska Alexis: [00:16:23] I'm sure it definitely gives you a lot of confidence, if you go through that underwriting process early and you know where you stand, right. It makes things a lot less dicey. You know, some people plan for years to buy their first home. Some people may wake up today and feel like, "Look, this is something I feel like I'm finally ready to do", but that does not always necessarily mean that it's the perfect time for you financially. Are there any financial red flags that you think would indicate that someone should maybe wait to buy a home?

Arielle Figueroa: [00:16:49] Absolutely. And again, I think it just goes back to those ABCs. So assets, do you have enough saved? If you feel like putting the money for the down payment, closing costs, buying furniture, making repairs, all of the things, is going to wipe out your savings, to me, that is the number one financial red flag that I see all the time. Stop, wait, do not pass go. Make sure you save a little more money before you even start looking at houses because quite honestly, the temptation is real when you're looking at houses online and you're saying, "Ooh, I love this house. It's, it's so wonderful. I can imagine myself there". That visualization is really good for achieving your goals, but at the same time, it can really make you want to move faster than is probably appropriate for your situation.

The second red flag that I look at is the payments. So again, that's the B, the budget. If after you purchase this home, you won't have any flexibility in your budget to continue saving towards an emergency, to continue saving for the extra expenses that might come along with homeownership, that's red flag number two. You want to make sure that the home you buy will still allow you to keep working towards your other goals.

And then C is the credit. So if your score is less than 700, it doesn't mean you can't qualify, but it's probably a good idea to work on rebuilding or improving your credit a little bit more so you can get the best interest rate, so you can get the best terms on your mortgage, and so that you know that you're going to be able to qualify for that home without any issues when you do go through the underwriting process.

Nadeska Alexis: [00:18:22] Amazing. Those are really, really helpful and practical tips, because like you mentioned, there, there are a lot of expenses that come up once you're buying a house. It's a lot different to renting, so I was wondering if you could tell us a little bit more about the concept of practicing your payment, you know, which means really, really understanding how much mortgage that you can afford when you're considering your other expenses as well.

Arielle Figueroa: [00:18:43] Yes. I love that, practicing your payment. That's a great way to phrase it. And I also love that you said the word afford versus qualify because there's a huge distinction there. Your lender will tell you how much you can qualify for. There's a calculation that's involved in that, a certain percentage of your gross income can be utilized towards all of your debt payments, including your new mortgage. But when they look at those numbers, they're not looking at things like living expenses, medical expenses, things that don't show up on your credit report, but that are part of most people's daily lives.

As far as practicing your payment is concerned, I usually like to take the approach if you're currently renting to at least save the difference between your new proposed mortgage payment and your current rent payment, and then add on 10% of what your new payment will be on top of that. If you're not renting, then whatever the new mortgage payment is plus 10% on top of that as well, but since you're not paying rent, you can save a lot more than if you are currently renting.

That'll do three things. Number one, it'll show you that you're practicing that payment. You can comfortably make the payment and continue to save at the same time. Number two, it'll show the underwriter that you have a history of savings and that you can in fact afford this payment, which especially if you're a first-time homebuyer can really be a qualifying factor, it can really sway the decision in your favor. And number three, it will really help you save all of the money that you need for that home purchase as quickly as possible. And again, make sure that you still continue to have that cushion afterwards so that if something goes wrong, if any repairs are needed, if you have an emergency come up, that you can easily cover that without stressing out about where the money is going to come from.

Nadeska Alexis: [00:20:25] Yeah, it's always exciting to buy your first home, and then that first big repair comes up in the first six months, it seems to be a rite of passage, honestly. And for people like me who went into the process just completely green and really figuring it all out as they go, can you tell us some other top line costs that are really associated with owning a home? Because there were some surprises for me my first time.

Arielle Figueroa: [00:20:48] Oh, yeah. I think the thing that really surprises people the most is exactly what you said. When you're used to renting and your landlord fixes everything for you, it's easy to disregard the cost of those repairs because it's included in your rent. When you own your home, you are your landlord in a way, you're responsible for fixing all of the things that break. For me, it was the garage opener, which is so random, but one day our garage just wouldn't open. And I was just so surprised and shocked by it, even though I knew logically that, "Hey, there's going to be repairs that are going to have to happen, make sure we have a cushion for that". It just, whenever it happens it always just comes out of the blue and at the worst time too.

I think the other things too is, again moving costs, that's something that a lot of people really don't prepare for, and storage fees potentially. Then little things like changing the locks, getting a home inspection, making upgrades, painting. Things that aren't necessarily urgent, but probably should be done fairly soon after you buy the home. They can all add up too, and people are always surprised by how quickly they do.

Nadeska Alexis: [00:21:57] I can tell that you do this for a living because changing the locks is definitely one that got me after closing. I was like, "We made it, we're finally here", and I was like, "Oh no, wait, there's still stuff to do that's pretty important", and you don't want the previous owners having keys to your house, right? So, Arielle, you've given us a lot of amazing information and helpful tips to consider. If someone has been really financially responsible, they've been planning, they've been managing their debt and saving for a long time, now what are some signs that should make them feel confident that they're ready to move forward with the purchase?

Arielle Figueroa: [00:22:27] Yeah, that's a good question because I think a lot of times it's one end of the spectrum or the other. People are in way too much of a rush and they're super, super excited, but they don't have preparations in place to buy a home. But on the other end of the spectrum, we see people all the time that are ready to go, they have a good well funded emergency fund, they have extra savings towards their other financial goals, they can easily and comfortably afford the payment on their new home that they're purchasing and still continue to meet those other goals and their expenses, and their credit's in great shape, but they're afraid to take that next step, just because they've been working on the process of preparing for so long that they're still in that preparation mode. So as long as you meet those ABCs - the assets, the budget, and the credit - everything under that is covered like we just talked about, then it's definitely okay to take that leap of faith. And if you're still nervous, the best thing to do is talk to somebody you trust, a parent, a friend, your spouse, and just say, "Okay, is it time? Are we ready? We are? Okay, good. I'm going to need some support, but it's okay. We can take this leap of faith".

Nadeska Alexis: [00:23:34] Thank you, Arielle. Yeah, I think with any big decision you make in your life, there's always going to be a little bit of nervousness involved, but that's honestly part of the fun. Then you can look back later and be proud of yourself for making it through that.

After chatting with Arielle, it seems pretty clear that there are a few different paths you can follow to homeownership, it'll just take some strategy and some thoughtful financial planning to figure out which one is right for you. At the end of the day, remember that what you can afford is a personal decision and getting a handle on that right now is the key to setting yourself up for long-term success. Having a strong understanding of your financial situation will also help you navigate the mortgage qualification process. So we'll get into more details about that next time.

Until then you can check out BeginnertoBuyer.com to learn more. Beginner to Buyer was created by Magnet Media and Chase Home Lending. Our executive producers are Keosha Burns and Akash Vaswani. Our lead producer is Anna McClain, our audio editor is Will Watts, and Kelly Drake is our production assistant.