

First Time Homebuyers Crash Course



**Created By
Climate Change Realty**





Your Course Instructor

Hello! I'm Ethan Shapiro, Founder of Climate Change Realty. I began my career in real estate as investor hobbyist in 2019. In 2020 I moved to Boulder, Colorado to start my real estate firm Climate Change Realty. We're the only company in the world that donates 50% of our revenues to 501(c)(3) environmental non-profit organizations!



COURSE CONTENT

- 1. The Financial Benefits Of Homeownership**
- 2. Understanding A Real Estate Transaction From Start To Finish**
- 3. How Much Can You Afford To Spend On A Home**
- 4. How To Understand And Improve Your Credit Score**
- 5. How To Find A Solid Mortgage Lender**
- 6. How Do Real Estate Agents Work**
- 7. How To Find A Great Real Estate Agent**
- 8. How To Find The Right Home**
- 9. How To Buy A Very Specific Home**
- 10. How To Determine The Market Value Of A Home**
- 11. How To Negotiate The Price And Terms Of An Offer**
- 12. How To Purchase A New Build Home**

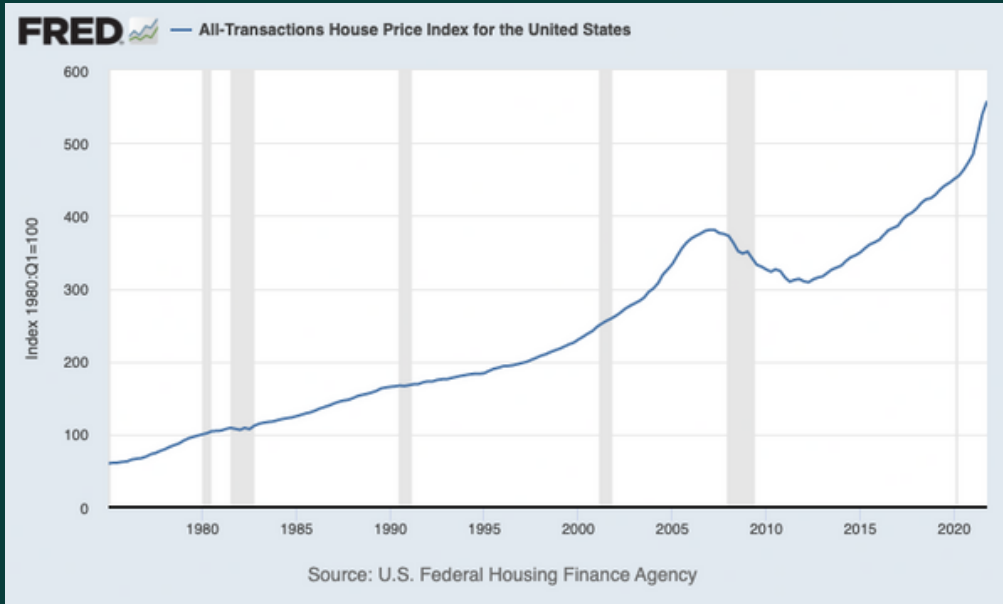
Real Estate Basics



The Financial Benefits Of Homeownership

- Inflation - Dollars have less buying power the more time that passes.
- Time Value Of Money- Money is worth more today than it is tomorrow.
- Borrow Money - When you borrow money, the longer you go without paying it back, the less the debt is worth.
- Buy Real Estate - You can use debt which decreases in value, to purchase real estate which increases in value.
- Interest - The person you borrow money from will charge you a fee to borrow the money, that fee is called interest.
- Interest Tax Deduction - All of the money you pay each year in interest on a mortgage will decrease the amount you owe in taxes.
- The Power Of Leverage - You will make more money if your house increase by 2x than if you invest in a stock that increases 3x, because most of the money you make on your house was originally borrowed money, so you are able to use leverage or someone else's money to make more money for yourself.
 - Example - Invest \$100,000 in a stock and it triples it would be worth \$300,000. Invest \$100,000 in a \$400,000 house and it doubles it will be worth \$800,000 and you'll owe less than \$300,000 meaning it will be worth at least \$500,000 to you.

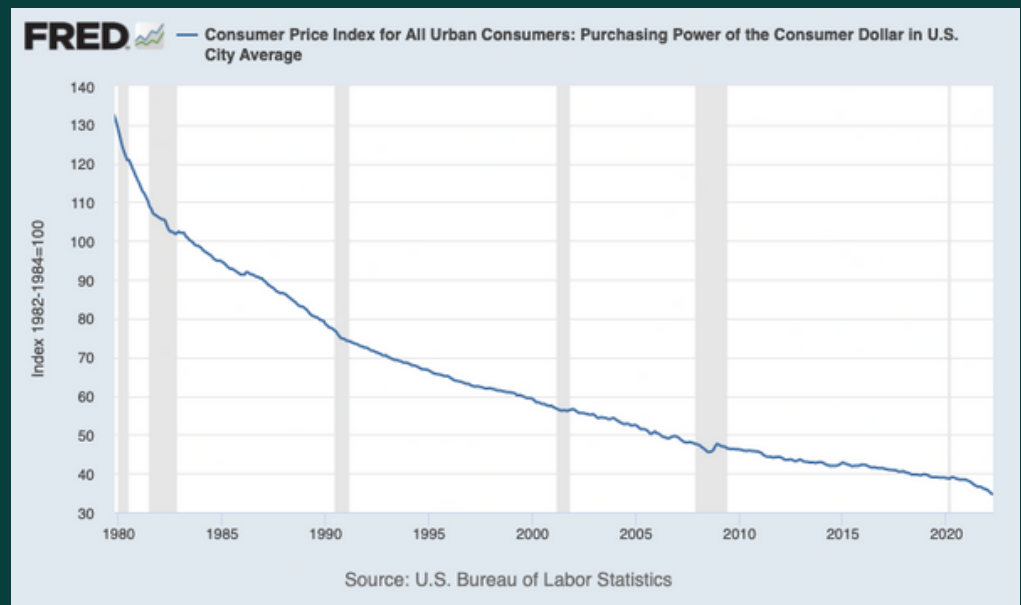
The Financial Benefits Of Homeownership



Value Of American Homes Since 1980



Purchasing Power Of US Dollars Since 1980



Understanding A Real Estate Transaction From Start To Finish

- A transaction is when a seller has something to sell and a buyer wants to buy that something.
- Real estate is too complex and expensive to simply sell in one day and requires a lot of time and paperwork.
- Step One: Contact 2-3 Mortgage Lenders.
- Step Two: Contact A Real Estate Agent.
- Step Three: Shop For Homes (View At Least 3-5 Homes Before Buying.)
- Step Four: Make An Offer And Win!
- Step Five: Shop For Homeowner's Insurance.
- Step Six: Conduct A Home Inspection.
- Step Seven: Complete The Home Appraisal.
- Step Eight: Receive The Final Loan Approval.
- Step Nine: Complete The Closing.
- Step Ten: Move Into Your Home!



How Much Can You Afford To Spend On A Home

- You will have to decide how much you can afford to spend on a home, but there are some hard and fast rules you cannot avoid.
- Down Payment - Money you will spend at closing to secure your home and your loan, this will have the greatest impact on your monthly mortgage payment. This is also known as your starting equity position.
- Down Payment Min/Max - You can put as little as 3% down on your home and all the way up to 50% or more!
- 20% Rule - If you put less than 20% down, most lenders will require you to purchase mortgage insurance which is an additional fee on top of your regular interest payments.
- Interest - The money you will pay to your lender each month as a fee to borrow money today. This fee is paid over 15-30 years and is tax deductible.
- Mortgage Insurance- An additional fee paid monthly if you use less than 20% as a down payment.
- Debt-to-Income Ratio - Your monthly debt obligation divided by your pre-tax/gross monthly income.
- Debt-to-Income Min/Max - You can almost never exceed a DTI of 50% and most experts recommend a DTI in the mid 40's.

How Much Can You Afford To Spend On A Home

- Closing Costs - One time fees you have to pay to buy your new home, there are several and the total is usually between 1-5% of your loan's value.
- Credit Score - A rating given to you by the credit reporting agencies which will determine the interest rate lenders will charge you.
- Best Score - If you have a credit score of 740 or higher you should get the best interest rate possible.

**How Much You Owe Each
Month In Debt Payments**

+

**How Much You Will Owe
Each Month On Your
Home**

**How Much Money
You Make Each
Month Before
Taxes**

Must Be < 50%

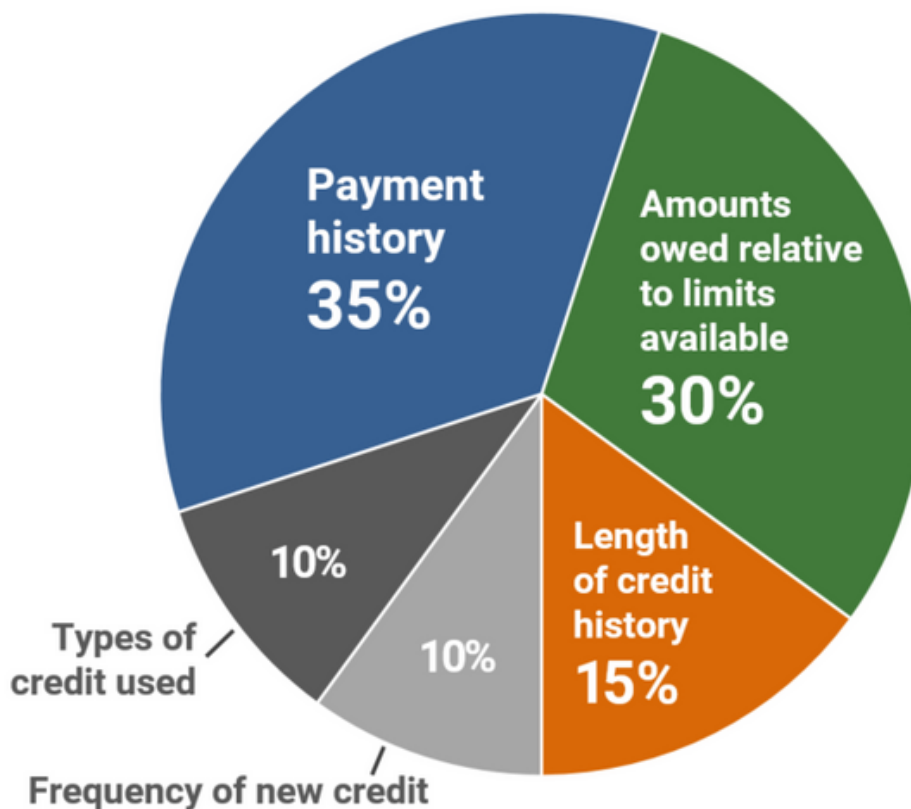
How To Understand And Improve Your Credit Score

- Visit www.creditkarma.com to view your score for free.
- Your credit score is solely based on your past and present relation to debt or borrowed money.
- 35% of your score is based on payment history.
- 30% of your score is based on credit utilization, or how much of the money you are eligible to borrow that you go ahead and actually borrow.
- 15% of your score is based on your average age of credit.
- 10% of your score is based on how many hard credit enquires you've had.
- 10% of your score is based on how many different types of credit you can manage.
- 65% of your score comes from payment history and credit utilization history so just pay your bills on time with no exceptions and don't borrow too much money.
- Try to slowly increase your credit line/eligibility each year by opening up new lines of credit.

How To Understand And Improve Your Credit Score

What Factors Determine a Credit Score?

Your credit score is a three-digit number indicating your creditworthiness to lenders. Here are five key factors that make up your score.



SOURCES: St. Louis Fed. Understanding How a FICO Credit Score is Determined - Continuing Feducation Video Series, Episode 1. Kaufman, Rob. "Five Factors that Determine a FICO Score," myFICO blog, Sept. 23, 2016.

FEDERAL RESERVE BANK *of* ST. LOUIS

The average credit score in the United States is 698, based on VantageScore® data from February 2021.

How To Get What You Want



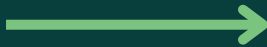
How To Find A Solid Mortgage Lender

- Speak with 1) a local credit union 2) a large institutional lender and 3) a mortgage broker recommended by your real estate agent.
- Compile These Documents - 30 days pay stubs, 2 years of W-2 forms or 1099 forms, 2 years of tax returns, 2 months of bank statements, and your driver licenses.
- Try to assess the quality of each mortgage lender you speak with, ask who will be your point of contact during the transaction.
- Ask each lender for their Section A fees, this is the only fee that is completely controlled by each individual lender.
- Ask for a TBD loan estimate form from each lender to easily compare the different options they offer.
- Pay attention to how long it takes for a lender to get back to you, more than 24 hours can be problematic.



How To Find A Solid Mortgage Lender

Section A Example



Closing Cost Details

Loan Costs

| | |
|-------------------------------|----------------|
| A. Origination Charges | \$1,802 |
| .25 % of Loan Amount (Points) | \$405 |
| Application Fee | \$300 |
| Underwriting Fee | \$1,097 |

FICUS BANK

4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 2/15/2013
APPLICANTS Michael Jones and Mary Stone
123 Anywhere Street
Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
Anytown, ST 12345
SALE PRICE \$180,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE ☒ Conventional ☐ FHA ☐ VA ☐
LOAN ID # 123456789
RATE LOCK ☐ NO ☒ YES, until 4/16/2013 at 5:00 p.m. EDT
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT

| Loan Terms | | Can this amount increase after closing? |
|--|-----------|---|
| Loan Amount | \$162,000 | NO |
| Interest Rate | 3.875% | NO |
| Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i> | \$761.78 | NO |
| Does the loan have these features? | | |
| Prepayment Penalty | YES | • As high as \$3,240 if you pay off the loan during the first 2 years |
| Balloon Payment | NO | |

| Projected Payments | | |
|---|---------------|--------------------------|
| Payment Calculation | Years 1-7 | Years 8-30 |
| Principal & Interest | \$761.78 | \$761.78 |
| Mortgage Insurance | + 82 | + — |
| Estimated Escrow <i>Amount can increase overtime</i> | + 206 | + 206 |
| Estimated Total Monthly Payment | \$1,050 | \$968 |
| Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i> | \$206 a month | |
| This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i> | | In escrow? YES YES |

| Costs at Closing | | |
|-------------------------|----------|--|
| Estimated Closing Costs | \$8,054 | Includes \$5,672 in Loan Costs + \$2,382 in Other Costs – \$0 in Lender Credits. See page 2 for details. |
| Estimated Cash to Close | \$16,054 | Includes Closing Costs. See Calculating Cash to Close on page 2 for details. |

Visit www.consumerfinance.gov/mortgage-estimate for general information and tools.

TBD Form Example



How Do Real Estate Agents Work

- Real Estate Agent - an individual who is licensed to help people buy, sell, or lease real property.
- Real Estate Broker - a real estate agent that has enough education to run their own business and potentially employ other agents.
- Realtor - a member of the largest real estate trade association in the country, the National Association of Realtors.
- Real estate agents are usually only paid based on commission.
- The seller of the home pays the agent working for the buyer and also pays the agent working for them.
- Working with an agent to buy a home isn't necessarily free, their fees are baked into the price of the home you are buying.
- Real estate agents make more money when the price of the home sold is higher whether they represent the buyer or the seller so watch out for this.



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REALTY



How To Find A Great Real Estate Agent

- There are nearly 2,000,000 licensed real estate agents, and 90% of them are only selling 10% of the homes on the market.
- Honesty is the most important character trait to look for in a real estate agent.
- Just because an agent has been in the business a long time doesn't mean they are an expert, focus more on how many homes an agent has sold rather than how long they have had an active license.
- Check out past client reviews to get a good feel for the reputation of a real estate agent.
- It is better to rely on good data and past client referrals than recommendations from family members or friends for a real estate agent.
- Real estate is a very personal business and people are likely to recommend a friend or family member that is agent to support their livelihood rather than based on how talented a real estate agent they are.
- Find your ideal agent with Climate Change Realty by visiting www.ccrealty.org/agentfinder.

How To Find The Right Home

- View at least 3-5 homes before writing an offer on anything.
- Sit down and take the time to organize your thoughts to determine what you are looking for most in a home.
- Consider these factors before shopping:
 - Privacy
 - Square Footage
 - Neighborhood Quality
 - Access To Amenities
 - Condition Of The Home
 - Investment Opportunity
 - Yard Size
 - Home Layout
 - School District
 - Proximity To Friends And Family
- Try making a checklist or a list of priorities, and understand you won't be able to get everything.
- Use your real estate agent's unbiased perspective to help guide you.

Getting Specific



How To Buy A Very Specific Home

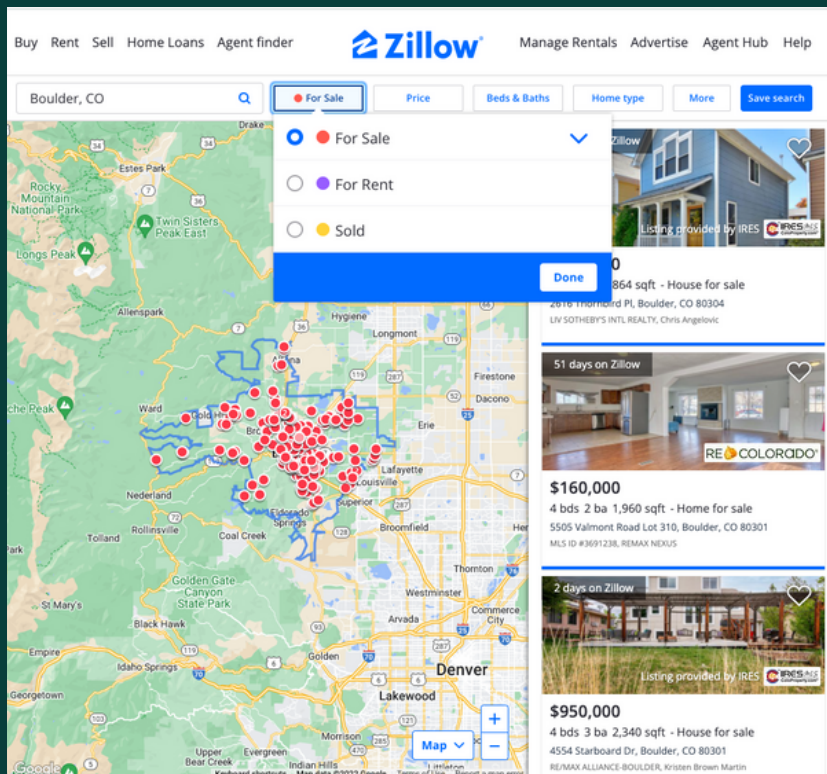
- Patience will be your greatest ally above all else if you looking for the perfect home or a home in a specific neighborhood.
- It is essential you work with your real estate agent to formulate a solid plan and then rigidly focus on execution.
- You must be patient but also nimble, willing to act with fierce intention the moment your ideal home appears.
- If you are picky about your choice of home, you cannot also be picky about price. You should be willing to pay over market value to ensure you get exactly what you are looking for.
- Consider knocking on doors to spread the word about how much you love a particular home or neighborhood. Begin building rapport with neighbors and to try to find deals before they hit the market.



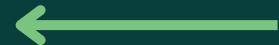
How To Determine The Market Value Of A Home

- You do not have to rely solely on your real estate agent to determine the market value of a home.
- Visit www.zillow.com and switch your search from "For Sale" to "Sold" to see what previous homes have sold for in the area.
- Check out details like beds, baths, square footage, and acreage and compare these details to the details of the home you would like to buy.
- If you are lucky, there will be photos from the last time a home sold and you can compare these photos to the home you would like to buy.
- Your real estate agent has access to more robust data sources like the MLS and has more experience pricing homes, but is never a bad idea for both of you to try to determine the market value of a home.
- At the end of the day a home is worth what the highest bidder is willing to pay for it.

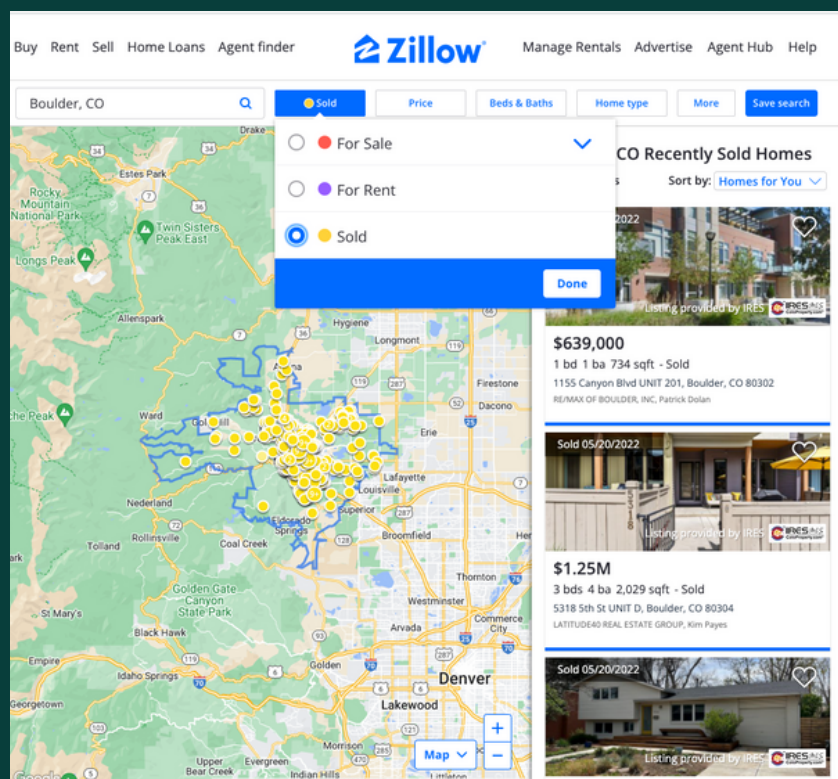
How To Determine The Market Value Of A Home



Click For Sale



Switch To Sold

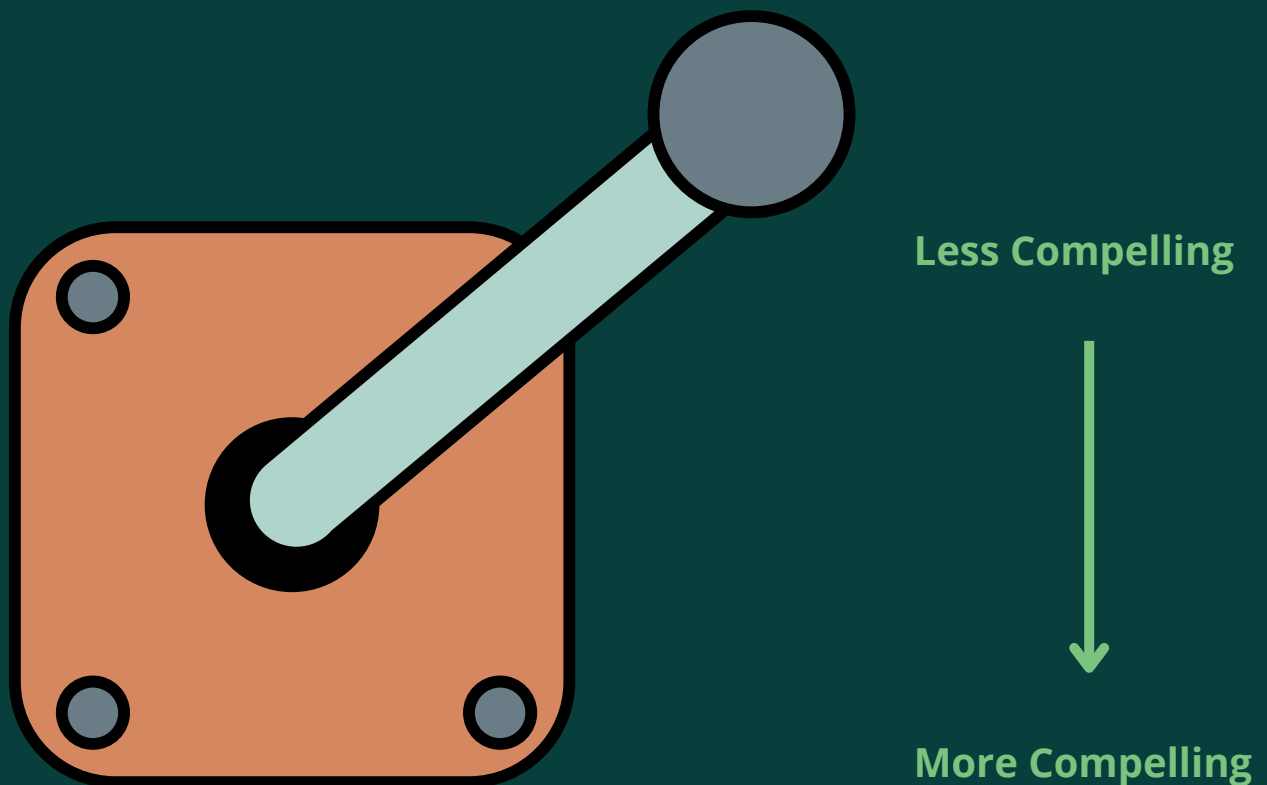


How To Negotiate The Price And Terms Of An Offer

- A good deal is when both parties feel like they are getting what they want.
- Negotiating in real estate is all about leverage.
- The three main levers you can move around to improve the appeal of an offer to purchase a home are; 1) Purchase Price 2) Inspection Contingencies and 3) Financing Contingencies.
- The higher a price you can offer, the happier the seller will be.
- Inspection Contingencies are broken down into two parts:
 - Inspection Objection - the legal right to request that the seller fix anything wrong with the property.
 - Inspection Termination - the legal right to cancel the transaction and receive your earnest money deposit back due to the condition of the property.
- Financing Contingencies include any stipulations your mortgage lender requires to approve you for the loan. If you cannot get approved, you have the legal right to cancel the deal and receive your earnest money deposit back.
- Include proof of funds with your offer and have your lender call the agent selling the home to validate your creditworthiness and their willingness to lend you the money to purchase the home.

How To Negotiate The Price And Terms Of An Offer

- An appraisal gap occurs when the independent third party your lender sent to verify the market value of the home you are buying says that the home is worth less than you are paying for it.
- Appraisal gaps must be settled in order to receive a final loan approval, so either the buyer will have to bring extra money to the closing table, the seller will have to reduce the purchase price, or another agreement must be made to save the deal.
- Discuss these levers with your real estate agent before you visit any homes and determine what you are comfortable with offering.



How To Buy A New Build Home

- Buying a new build home can sometimes be similarly priced or even less expensive than buying a resale home.
- Ask the sales officer representing the builder if you can receive a discount on the purchase price if you do not work with a real estate agent and see what they say. Regardless, it is highly recommend to have professional representation throughout the transaction process.
- Talk to several mortgage lenders and compare their offers to the offer from the lender who works for the builder, there is usually a large discount if you work with the builder's lender.
- Realize that the home's "starting at" price is significantly less than what you will end up paying for the home if you want all of the essential features.
- Visit at least two different sites, check out two different building companies, and view at least two different floor plans before making a decision.
- Expect earnest money deposits to be significantly higher for new build homes than resale homes.
- Get in touch with the contractor managing your project once you go under contract and do not hesitate to reach out to them throughout the process.

How To Buy A New Build Home

- Book a pre-drywall inspection and a regular inspection 1-2 weeks before closing.
- Expect your monthly mortgage payment to increase within the first year of moving into your new home because your property's new assessed value after building a home on the lot will greatly increase your overall tax bill.
- Be sure to be flexible with your move in and move out dates because timelines change a lot with new builds.
- Hold on to your home warranties, broken items can often be covered by the builder for years to come.



Contact Us



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Available- 6am-6pm MST Mon-Sat

THANK YOU

I hope you found this course helpful! We would be delighted to help you find a fantastic real estate agent in your area.

First Time Hombuyers Crash Course
With Climate Change Realty
Written By Ethan Shapiro