

  
**UNLOCK**  
**YOUR TOTAL**

**HOME BUYING**  
**POWER!**



**CHURCHILL**  
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# YOUR HOME BUYING POTENTIAL

If you're thinking about buying a new home, you may be asking yourself, "How much can I afford?" It's easy to get caught up in that very important question, but it's also important to **look at the whole picture** and **understand your total buying power** (or your home purchase potential).



# 1

## MAXIMIZE YOUR BUYING POWER

Four things you can control that impact your total home buying power:



### DOWN PAYMENT

The more money you put toward your down payment, the less you will need to borrow. And with a down payment of 20% or more of the home's purchase price, you will avoid paying Private Mortgage Insurance (PMI). **A higher down payment may also lower your interest rate.**



### ASSETS

This includes everything from investments, savings, and money in bank accounts.



### CREDIT HISTORY

Different credit profiles will cause your interest rate to be higher or lower.



### DEBT-TO-INCOME RATIO

This is all the debt you owe each month divided by your gross monthly income. **You want this ratio to be as low as possible.**

### DON'T FORGET!

Gross monthly income is the amount of money you have earned before taxes and other deductions are taken out.

# 2

## WHAT DETERMINES THE PRICE OF A HOME?

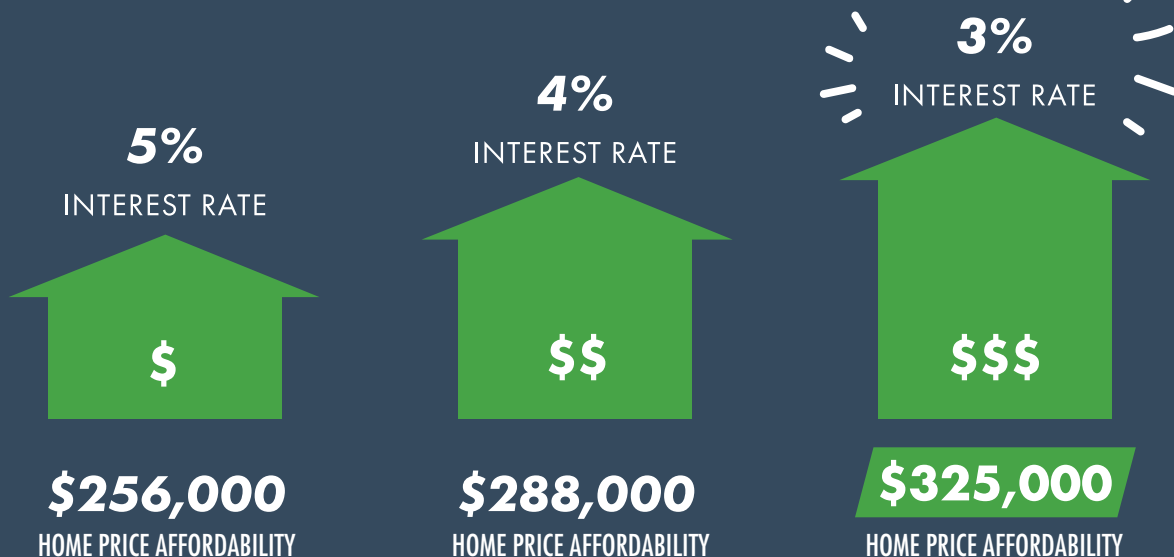
There are many factors that can affect how much you pay for a house, but the main two are:

### FACTOR #1: INTEREST RATES

The economic challenges brought on by the COVID-19 pandemic caused interest rates to drop this year (and they were already historically low before we had even heard of the coronavirus). According to analysts, interest rates are expected to remain low throughout 2023 and possibly beyond. This is great news for home buyers. **When rates are low, your monthly payment will be lower, which ultimately increases your home affordability.**

LOOK AT HOW A 1% CHANGE CAN IMPACT HOW MUCH HOME YOU CAN BUY.

### The Buying Power of a \$1,500 Payment\*



The values above are based on a conventional fixed-rate loan at 80% LTV, credit score above 740, no mortgage insurance or discount points, and estimated closing costs of \$10,000. Your APR will vary based on your loan amount, down payment, and finance charges. Programs, rates, terms, and conditions are subject to change without notice. All financing is subject to income, credit, and collateral approval. This is not a commitment to lend. Rates can change daily. Other restrictions may apply.

## FACTOR #2: HOME VALUES

Home values are what buyers are willing to pay in the current real estate market. These values are typically determined by a few things:



### COMPARABLE PROPERTIES (AKA "COMPS"):

This figures in the sales prices of similar homes in the area that have recently sold. It is one of the best indicators of a home's value. **No two comparative market analyses will be the same since every home has different features**, but computers now make this easier than ever to compare hundreds of homes at one time.



### HOME SIZE:

The value of a home is roughly estimated in price per square foot. Take the price of the home and divide it by the total square footage of the home. For example—if the house has 2,500 square feet and is priced at \$300,000, you will pay \$120 per square foot. **That price per square foot helps determine whether the home value is good or bad.**



### LOCATION:

Appraisers look at three primary indicators when determining value based on location of the house: **quality of the local school district, employment opportunities, and how close the house is to shopping, grocery stores, entertainment, etc.**



### THE U.S. ECONOMY:

We have all seen the housing market struggle due to the economy. Whether it is due to unemployment factors, a recession, or just slow economic conditions in general, **home values will fluctuate.**





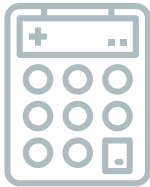
### UPGRADES:

Updates can add significant value to a home, especially if it is an older home. The key here is to **know what upgrades matter the most to home values**. A finished basement, hardwood floors, and a new roof are just a few of the updates that help add value to a home.



### LOCAL HOUSING MARKET:

**This is based on the number of buyers and sellers in the market.** If there are fewer houses listed for sale, home values could rise (this is called a seller's market). If there are plenty of houses for sale, but less buyers, home values could go down (this is called a buyer's market).



### CONDITION AND AGE:

Wear and tear in a home is normal, but **if the home is in good condition (or is newer) this usually helps drive up the value.**



# 3 THE IMPORTANCE OF EQUITY

To become a home buying powerhouse you need to know about equity. Home equity is the amount of interest a home has built over time. **Your equity can increase over time if the property value increases or if you pay down your mortgage loan balance.**

Equity is viewed as an asset and makes up a portion of your total net worth. It's also an important part of building wealth and is typically considered to be a long-term strategy.

U.S. year-over-year home price appreciation averaged 3.8% per year according to Black Knight, Inc. This is slightly lower than the 25-year average of 3.9%. **Most recently, median home sale prices made the largest increase on record, skyrocketing 15% year-over-year for the first week in October 2020.** The previous largest increase was 14.5% seen in September 2005.\*\*





## BUILDING EQUITY AS A FIRST-TIME HOME BUYER

As a first-time home buyer, you should look for a house that you can add value to; this helps to ensure a boost in equity. **Make sure you take advantage of all the resources available to help you during the house hunting process**, including up-to-date search listings in the HomeScout home search app, your Realtor®, and your Home Loan Specialist.

You can increase the value of a home by making improvements, living in an area with rising property values, or by paying down your mortgage principal. (which is the outstanding balance of your mortgage). **As more monthly mortgage payments are made, the mortgage principal is reduced.**

## UPSIZING FROM YOUR CURRENT HOME TO A NEW ONE

If you're already a home buyer and you're looking for more space, figuring out how much equity you've built up in your home is easy. **You just need to know what your current home is worth** (you can find this out by having an appraisal done) **and what you owe on your mortgage.**

Once you have this information, you just **subtract the amount you owe on your mortgage from the value of your home. The remainder is your home equity** which helps you gain momentum for your next home purchase.

## A HOME EQUITY EXAMPLE:

Original home value **\$300,000**  
 Growth in value **+\$40,000**  


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 New home value **\$340,000**

Original loan balance **\$300,000**  
 Total payments with down payment **-\$50,000**  


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 New loan balance **\$250,000**

NEW HOME VALUE	NEW LOAN BALANCE	TOTAL EQUITY
<b>\$340,000</b>	<b>-\$250,000</b>	<b>= \$90,000</b>



# 4 YOUR WEALTH BUILDING TOOL

Owning a home is a wealth-building tool that will pay off through equity increases and price appreciation. **Now's the time to unlock your true home buying potential.**

You may be a long way from retiring, but think about buying a home as a long-term investment. **Even with property taxes, insurance, and upkeep, it's likely you'll pay less than you would if you were to rent.** And if you can pay off your home before you retire, you can always downsize and pocket the extra cash.

## Follow these steps to find out how much house you can afford:

### STEP 1

Add up your total monthly income. (If you have a spouse, include that salary.)

Income #1: **+ \$2,000**

Income #2: **+ \$3,000**

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**\$5,000**

### STEP 2

Multiply your total monthly income by 25% (or 0.25) to get an affordable mortgage payment.

Total Income: **\$5,000**

**x 0.25**

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**\$1,250**



### IMPORTANT!

There are a lot of aspects that can factor into your actual monthly payment. It's important to include insurance, property taxes, and ongoing bills you pay in your budget.

Once you have your budget narrowed down, you need to figure out how much money you will put toward your down payment. **The more cash you put down up front, the lower your monthly mortgage payment will be** and the quicker you'll pay off your home loan.

If you put down 20% or more (of the home's price) you will avoid paying Private Mortgage Insurance (PMI) with a conventional loan and will save big! PMI typically costs about 1% of the total loan value so it's best to avoid it if you can.



### **FUN FACT!**

Nearly 70% of all new home sales were financed using conventional home loans in 2019. This type of home loan is not insured or guaranteed by a government entity (like an FHA loan) but is backed by private lenders.\*



# 5 A TEAM IN YOUR CORNER

We want to be your mortgage advisor for life, to help guide you through each purchase or refinance until you are debt-free. One of the ways we do this is by showing you the **true cost (and savings) of each loan option**. We will guide you to make the best decision based on your budget and financial goals.

We also will show you where you will be in five, 10, and 15 years with debt-free homeownership in mind. It is an easier process than you might think, and keeps the momentum going so you don't want to throw in the towel!

If owning your home sounds like a lofty goal, it is worth sitting down and crunching the numbers with a Home Loan Specialist to see what being a debt-free homeowner would look like for you and your situation.







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## NEED MORE INFORMATION?



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