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FIRST TIME HOMEBUYER'S GUIDE



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If you're ready to purchase a home, but not sure where to begin, you're in a similar situation as most first-time homebuyers. Purchasing a home is a complex and time-consuming task. While the reward and benefits of owning a home are great, becoming a homeowner can be overwhelming if you're not sure where to start. This homebuyer's guide will equip you with the knowledge and point you in the direction to begin your home buying journey.



1. DETERMINE YOUR BUDGET

When you make the decision to purchase a home, a good way to begin is to determine your budget. Purchasing a home is a major financial decision, and although it can save you money in the long-run, the short-term costs can be very expensive. Determining the maximum amount that you can spend on the total costs to purchase a home will help to ensure that you do not find yourself in an undesirable financial situation.

HOW MUCH MONEY DO YOU NEED TO BUY A HOME?

The price of a home will vary depending on a variety of things. When trying to determine how much you will need for a home, you will need to consider both direct and indirect factors, as well as obligatory costs that affect the price of a home.

Indirect Factors:

Location – Location factors that affect your life and your lifestyle are important, and thus factor into the cost of a home. For instance, proximity to good schools, centers of faith or dining and shopping and even the region or state where you choose to live are location factors that can either raise or lower your home cost.

Comparable Properties – Comparable properties are the properties that are for sale or have recently sold in the area where you choose to buy your home. While comparable properties will not precisely determine the cost of your home, they can be a factor in helping to ensure the value of a neighborhood or community.

Real Estate Market – The real estate market fluctuates daily due to rates, demand for and the supply of housing, thus affecting the cost of your home.

Direct Factors:

Inspection – Depending on your home, you may opt to have inspections completed – such as a home inspection, pest inspection, chimney inspection, electrical inspection, and a heating and air conditioning inspection. These will increase the cost of your home purchase.

Appraisal – An appraisal is a formal process for evaluating your property's value and is required by most states. The appraisal cost will vary per home, and is necessary to have before receiving financing.

Home Condition – It's not uncommon for first-time homebuyers to purchase a fixer-upper or a home that requires repairs or maintenance. If you are interested in a fixer-upper, it's a good idea to get estimates of repairs to give you a realistic portrait of the total cost of your home.

Obligatory Costs

- **Payment (Good Faith Deposit)** – A Good Faith Deposit is a payment made by a buyer to show that he or she has the intention of completing a deal and is typically ranges between 1% and 3%.
- **Closing Costs** – Closing costs are expenses over and above the price of the property in a real estate transaction and include, but are not limited to: origination fees, appraisal fees, title searches, property taxes, and other fees.

1. DETERMINE YOUR BUDGET
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HOW DO YOU SAVE TO BUY A HOME?

Whether your home buying journey is starting off, or you started saving prior to reading this guide, saving for a home is an important part of the journey. Like the factors and costs that we mentioned above, saving for a home can have an impact on your home price. The more you save, the more you have for a down payment, which can make monthly payments lower.

Some things that you can do to save for a down payment on a house are:

- **Eliminate unnecessary expenses** – There are many ways to save money by making lifestyle changes that prioritize smarter spending. For instance, buying groceries and making lunch versus eating out for lunch can save nearly $800 a year. You can also save $3,000 a year by replacing your monthly cable service with Netflix or similar streaming accounts. The idea is to make small changes in your spending habits to reap a greater savings in the future.
- **Open a savings account** – It's easy to say that you want to save money, but that's hard to do when the money you're saving is not separated from your spending money. Opening a savings account can ensure that you cast the money you're saving to an account that is not as easily accessible. You can also allocate partial amounts of your direct deposit to a savings account so that saving will become an automatic part of your financial activity without you having to remember or struggle to do it.

In addition to saving, you should also take actions to improve your credit score. Your credit score is a key factor for the type of home financing you may qualify for. It also affects the amount required for an initial payment, the financing amount, and the profit rate you are offered from Guidance Residential.

Credit monitoring companies such as Transunion and Experian can provide you with a credit report, including your credit score so that you know where you stand. Once you know your credit score, you can take appropriate actions to adjust it.

- **Dispute any errors that you see.** It's not uncommon for credit reports to contain errors. If you see any, contact the organizations that supplied the information. Be sure to have documentation that refutes the error. This process may take time, so it is important to start sooner than later.
- **Pay bills on time.** If needed, set up automatic drafting from your checking account to pay your bills. This will guarantee that your bills are paid on time without you having to remember all of the due dates.
- **Pay off debt.** The higher your debt-to-credit-ratio, the worse your credit score will be. Being intentional about paying off debt will improve the debt-to-credit-ratio so that it does not look like you have more debt than you can afford. The goal is to use less than 50% per account of your available credit.
- **Erase one-time mistakes.** Believe it or not, you can contact companies and ask them to remove late payment marks from your record if those instances are a one-off. Small adjustments can be an easy boost for your credit score.



2. RESEARCH FINANCING OPTIONS

Finding a home finance provider that offers services tailored to your lifestyle is important. And, if you're a first-time homebuyer, you will want to research finance providers and their services to make the best decision. In the past, a major stumbling block for Muslims wanting to own a home was their difficulty finding financing that didn't require the action of paying interest.

Most conventional home financing is interest based. The good news is that Shariah-compliant home financing has become increasingly available. Guidance Residential is a Shariah-compliant home financing provider that was created to help the underserved Muslim American segment achieve homeownership without compromising their faith. While Guidance Residential's program is Shariah-compliant, it is open to consumers of all faiths.

PRE-APPROVAL AND CONDITIONAL APPROVAL

The financing process generally begins by obtaining Pre-Approval. It is possible to start with a quick Pre-Qualification early in your journey if you would like to obtain a rough estimate of the home price you may be able to afford. But you can also skip that optional step and move directly to your Pre-Approval Application. Being Pre-Approved means that you are ready to seriously begin looking for a home — Realtors typically expect you to be Pre-Approved before they show you homes.

You can apply for Pre-Approval online through a streamlined process at www.GuidanceResidential.com. Our new digital tool walks you through each step so you can complete it at your convenience. When you fill out your Pre-Approval application, you will submit documentation of information such as income, employment and savings. A financier will verify your application and let you know what financing you may qualify for. At any time, if you need help, you can speak with an expert Account Executive for further assistance.

Pre-Approval is confirmation that you meet the financier's requirements based on information received in the application and credit reports a well as a verification of your income. You will discover later in the home buying journey, that having Pre-Approval can put you at an advantage over other homebuyers. It allows you to move more quickly to place an offer on a home, and home sellers are more likely to take homebuyers with Pre-Approval more seriously and prioritize their offers.

2. RESEARCH FINANCING OPTIONS

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FINANCING OPTIONS

The types of financing available is also important to research. For one, you want to be sure that you can get financing for the type of property that you are interested in purchasing. Secondly, you want to be sure that the financing is truly Shariah-compliant. Guidance Residential offers a variety of competitive financing options for first-time homebuyers.

Types Of Financing We Offer:

Purchase financing

- First-time Homebuyer's Program with the option to pay as little as 3% down
- Fixed and Adjustable rates for 30-, 20-, and 15-year contracts
- Conforming and Conforming Jumbo financing
- Single family, condominiums, townhomes, Planned Unit Developments and 2 to 4 units financing
- Owner occupied, second home and non-owner occupied (investment property) financing

THE DECLINING BALANCE CO-OWNERSHIP PROGRAM

Whatever your property choice may be, you will find peace in knowing that our financing process is based on a co-ownership program that allows you to become a homeowner and still follow Shariah principles.

In the **Declining Balance Co-ownership Program**, Guidance Residential and the homebuyer engage in a co-ownership venture where each owns a percentage of the home, in proportion to the equity they each contributed. Homebuyers are required to make monthly payments to Guidance Residential over a predetermined period of time in order to completely buy out Guidance Residential's ownership in the property, and own the property outright. The monthly payment consists of two portions; (1) an amount for the acquisition of a portion of Guidance Residential's ownership interest (Acquisition Payment) and (2) the other for the exclusive use of the entire property, even though Guidance is a co-owner (Profit Payment).

The **Acquisition Payment** serves in buying Guidance Residential's portion of ownership over the predetermined period of time and the **Profit Payment** is akin to rent or use of property of another.

For instance, if you are looking to buy a $300,000 home and you have $30,000 of your own money to contribute towards the purchase of the home, Guidance will contribute the remaining $270,000 in funds to purchase the home together. Guidance will purchase the property along with you and we will form a co-ownership agreement stating that we both own the property together. Then we set up a 15, 20, or 30-year contract in which you make a monthly payment to Guidance Residential. A portion of that payment will go towards buying out Guidance Residential's ownership. The other portion of the monthly payment is for the exclusive use of the property. The utilization fee that we charge you will decrease every month as our ownership in the property decreases and the portion that goes to buying Guidance's ownership will increase by that same amount so that the monthly payment stays constant.

In accordance with the terms of the co-ownership agreement, you can sell the property at any time and any profit from that sale will be 100% yours. For instance, if after 5 years, you sell this property for $350,000, that extra $50,000 will be all yours.



3. SHOP FOR A HOME

As with other steps in the home buying journey, searching for a home can be overwhelming. Guidance Residential helps first-time homebuyers find peace of mind – not only with Shariah-compliant financing – but also with resources that simplify the process and help you tackle each step. We provide a streamlined process that connects you with the best real estate agents in your local market so you can shop with confidence.

FIND A REAL ESTATE AGENT

Real estate agents are licensed professionals who can make the purchase and sale of your home a more rewarding experience. Agents have access to detailed information regarding properties that are listed for sale on the Multiple Listing Service database or MLS. Although you have similar access through different websites (Zillow, etc.), some of that information may not be as reliable as the data in the MLS. A seasoned real estate agent can also provide insights into a property and its potential problems much earlier in the process thus helping you avoid costly mistakes.

If you're not sure how to find a qualified real estate agent in your area, Guidance Residential can help. We work with our sister company Guidance Home Services, which partners with some of the best agents in the states we operate in. These agents have been pre-screened to ensure that you receive outstanding service and expert advice.



SEARCH FOR YOUR PERFECT HOME AND NEIGHBORHOOD

As a first-time homebuyer, you probably search for homes day and night – which is a good way to expose yourself to options and get a better idea about what you like. At the same time, having too many options can distract you from moving forward with the process and potentially missing out on your perfect home. A good thing to do is narrow down your search.

- **Identify the neighborhood that more closely matches your preferences.** Make a list of must-haves and nice-to-haves to compare what is most important to you in a neighborhood. For instance, close location and proximity to specific public or Islamic schools and mosques or places of worship could be must-have for you while dining and entertainment near your neighborhood could be a nice-to-have option.
- **Select homes within the neighborhood that fit your price range.** Consult your real estate agent for advice and information if you find it difficult to narrow down your home choices.
- **Take tours and attend open houses for as many homes as you need to find the perfect home.** Inspect each home thoroughly, take photos and make notes so that you can reference this information when you're comparing your options.

4. MAKE AN OFFER

In a competitive real estate market, or one where homes sell almost as quickly as they are available for sale, the person who ends up acquiring the property is often the one who offers the price the seller is asking, or sometimes a higher amount. In a slow market, in contrast, the successful bid may offer significantly less than the asking price.

When you're ready to make an offer, ask your experienced real estate agent, who is sensitive to your goals and your values, to make a bid or price offer. Unless the owner is selling without a broker, you don't make the offer directly. If there are negotiations and several rounds of offers, all of them are handled through
your agent.

If your bid is accepted, you normally make a small deposit, often 1% of your offer price, to secure your commitment. The amount – and what this payment is called – vary from place to place around the country. In some areas, it's called a binder, in others a good-will payment, and in in others, earnest money. In most cases, the amount is applied to the initial down payment you owe if you sign a contract. If the deal falls through, you often – but not always – get the money back. It's a good idea to ask before you make a payment.

As soon as your offer is accepted, you and the seller will sign off to agree on the terms:

- The amount that is due
- The property that is covered by the price, including appliances or furnishings
- When the sale will be finalized
- The contingencies, or situations, that would void the agreement, such as your inability to get financing within a certain period

Most of the language in the contract is standard – commonly known as boilerplate – but there may be some very specific provisions as well. For example, the sellers may want to make the sale contingent on their being able to move into their new home on schedule.

It is a good idea to arrange for a licensed home inspector to evaluate the property as soon as your offer is accepted. Your financing provider or real estate agent may recommend a firm or independent contractor.

The inspector's job is to uncover any serious structural or maintenance problems that could require expensive repairs. You'll pay a fixed fee for the inspection, typically several hundred dollars.

4. MAKE AN OFFER

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APPLY FOR FINANCING

Once your offer is accepted, you will update your application that began with your Pre-Approval, to add the details of the home you wish to buy. During the application process, you will need to provide additional documents and signed paperwork before you can be approved for financing. This process takes an average of 30 to 45 days but can be reduced dependent upon third party vendors' timeliness, your credit profile and responsiveness in providing requested information or documents.

If you're approved, you'll get a written commitment letter stating the terms of your contract and how long you have to set a closing date.



5. CLOSE ON YOUR HOME

The final stage in your home buying journey will be to close on your new home.

You must be able to obtain a free and clear title to the property. The title provides assurance that no other person, organization, or government has any legal or financial claim that would limit ownership rights. Without this title, the buyer takes the risk of losing the money invested in the property should there ever be a court-imposed settlement requiring the new owner to make good on the claim.

To obtain this title, you pay a title company or title attorney to examine the public record for any outstanding claims against the property and provide title insurance to protect your investor's interest in the property. One benefit of working with a real estate agent, is that he or she will help to facilitate communication with the parties necessary to complete your closing – including the title company. You can also protect your equity by buying owner's coverage for an extra charge.

Your Account Executive will make sure that you are provided with a closing cost estimate, which is the amount you will need to bring to the closing in the form of a cashier's check or wire transfer. Avoid making large purchases and taking on new debt – such as furniture, home appliances, or vehicle – so that you do not delay or stop the closing process.

The closing itself and signing of paperwork typically takes 1-2 hours. Then, enjoy your new home and find comfort in knowing that you became a homeowner without compromising your faith.



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