

CONSIDERATIONS WHEN BUYING YOUR FIRST HOME

Purchasing your first home is a tremendous financial commitment. There are a number of factors to consider before signing off on that long-term mortgage.

(Please delete before use):

The attached has been given an 'Approved As Is' status by Advertising Review. For advisors who want to use and/or customize preapproved materials, they must first review the Communications and Advertising chapter of the Advisor Compliance Manual. Specifically the sections on Commonly Used Disclosures and Pre-Approved Communications. There, they will find instructions on how to use the correct Broker-Dealer disclosure, use preapproved materials, and how to meet their Books and Records requirements.

Tracking # 1-05358073

Exp. 03/25

So, you're looking to purchase your first home. Congratulations! It's an exciting time, creating a safe and secure home for yourself (and perhaps family) while building equity in a long-term asset.

While selecting the right neighborhood and house are critical for long-term enjoyment, there also are a number of financial factors you should consider.

First, assess any prospective home purchase as a lifestyle investment. The real estate market can be volatile, with home prices fluctuating from year-to-year. If you're not ready to settle down for more than a few years, you might want to consider postponing a home purchase as it might not generate the return on investment that you're expecting.

Ready to settle down? Let's first determine a price range.

How Much Can You Afford?

If you're like most first time home buyers, you'll be taking out a mortgage to purchase your home. In order to qualify for a mortgage, you should meet two common metrics: a housing expense ratio and a total obligations ratio.

- **Housing expense ratio:** This compares basic monthly housing costs (mortgage, insurance, property taxes) to the applicant's gross monthly income (before taxes and deductions). The income includes anything you earn from work, along with pensions, child support, or alimony payments. As a very general rule, to gain approval for a mortgage, your monthly housing costs should not exceed 28% of your monthly gross income.
- **Total obligations ratio:** This is the percentage of the applicant's income that is necessary to cover their total monthly payments — debt payments plus basic housing costs. These payments include student loans, installment loans, and credit card balances that exceed 10 months, all of which are added to the applicant's basic housing costs and then divided by their gross income. This ratio should not exceed 36%.

Additionally, you will most likely need to make a down payment on your purchase, which can vary up to 20% of the home sale price. Generally, if you are able to put down 20% or more, you will receive a more favorable interest rate and avoid having to pay private mortgage insurance (PMI).

Closing Costs

That 20% down payment is significant, but that's not all; there are closing costs, too (the amount necessary to finalize the purchases). These vary widely between 3% and 8% and include home inspection costs, prepaid interest (points), application fees, appraisal fee, survey, title, title insurance, attorney fees, among many others (some depend on the mortgage company). Depending on the home location, you may also have to pay transfer taxes.

Sample Costs

Home Price	\$200,000
Down Payment	0% to 20% of purchase price
Home Inspection	\$300-\$500
Points	1% to 3% of mortgage
Closing Costs	3% to 8% of purchase price

Operating Costs

Owning a home carries far more financial responsibility than renting. In addition to your mortgage payments and annual property taxes, you'll pay for utilities, repairs, insurance, landscaping, trash removal, appliance replacement, repairs, and other items and services.

As for repairs, this is where the home inspection can be so important — it can point out any major infrastructure or appliance issues before you finalize a purchase price, allowing you to negotiate with the seller to address the concerns.

Once you've determined your price range and preferred neighborhood, the fun can begin and you'll visit for sale properties. Remember: Just because you can afford a house doesn't mean that is what it's worth. It's important to survey the values of nearby homes, especially those with similar layouts (bedrooms, bathrooms). The more informed you are as a purchaser, the more financially sound your decision will be in the future.

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors or will yield positive outcomes. Investing involves risks including possible loss of principal. This material was prepared by LPL Financial, LLC.

Member FINRA/SIPC
MC-1365950ART21-1222

