Latin American Educational Opportunities Podcast

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My inspiration is you. I make the show for you. My resources will always be free because I want them to be accessible to all. Each week I think about ideas that you will find valuable. I work nights, weekends (and sometimes on vacations!) to find compelling ideas and then make them interesting and accessible. As you know there are costs associated with maintaining a website, and building the podcast. If my episodes, and resources have been meaningful to you, if they have been a source of comfort and insight, please support me. **If you find my work valuable, but are not in a position to support me, please know it makes me happy to know I have been helpful to you**. Drop me a note or tell a friend why you like my show — and thanks.

-Kevin Muñoz

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Episode 15

A complete guide to buying a house in the U.S.

Beginning:

The formal process of buying a home as an immigrant isn't much different from buying a home as a native-born citizen. However, getting a loan can be much more difficult for immigrants. This is a result of structural discrimination against immigrants in the house-buying process. Immigrants' financial profiles don't look like a regular homebuyer's profile and as a result, immigrants are usually marked as more high risk by loan services. Although this does make the process more difficult, it is remedial. The government and specialized financial institutions can help an immigrant buy a house. Much like the retirement account episode, I decided to do this episode in two parts because of how informative it is so make sure you listen to part II next week.

Outline:

1. **Know your rights**
2. **Check your Credit Score**
3. **Budgeting**
    a. Determine how much home you can afford
    b. Saving for the down payment and closing costs
4. **Know your loans**
5. **Choosing a lender**
    a. Documentation
    b. Factors
6. **Pre-approval**
7. **Find The Right Real Estate Agent**
8. **Determine your priorities**
9. **Start house hunting**
10. **Make a smart offer**
11. **Get a home inspection**
12. **Shop for homeowners insurance**
13. **Make sure the home is appraised**
14. **Close on your new home**

1.Know your rights:

Before even thinking about buying a house it's important you know your rights. immigrants suffer from systemic discrimination when it comes to buying a house. Housing and Urban Development is the government agency that oversees housing discrimination issues and resolves complaints. The Fair Housing Act (FHA) is a law that makes it illegal for housing providers to refuse to rent or sell homes to people based on race, color, national origin, religion, sex, familial status, or disability. HUD will hunt down violators of this law and "vigorously pursue enforcement actions against them." As HUD points out "Housing discrimination is not only illegal, it contradicts in every way the principles of freedom and opportunity we treasure as Americans. HUD is committed to ensuring that everyone is treated equally when searching for a place to call home." Some options aren't always protected under FHA, including Owner-occupied buildings with no more than four units, single-family housing sold or rented without the use of a broker, and housing operated by organizations and private clubs that limit occupancy to members.

<u>These are a few of many acts that are specifically banned:</u>

Someone selling or renting out housing can't, on the basis of race, color, national origin, religion, sex, familial status, or disability,

- Refuse to rent or sell housing
- Refuse to negotiate for housing
- Make housing unavailable
- Change terms, conditions, or privileges of the deal

And in regards to Mortgages, can't:

- Refuse to make a mortgage loan
- Refuse to provide information regarding loans
- Impose different terms or conditions on a loan, such as different interest rates, points, or fees
- Discriminate in appraising property
- Set different terms or conditions for purchasing a loan

And in general, can't

- Threaten, coerce, intimidate or interfere with a deal
- Make discriminatory statements in connection with the sale or rental of housing

If you experience discrimination call the HUD office nearest you.

In short, it is important as an immigrant to know your rights in the US. You should also be on the lookout for predatory lending which oftentimes includes unreasonable interest rates and terms.

2.Check your Credit Score

Once you know your rights the next important step you have to take is to check your credit score. Before you begin the process of buying a house, you want to make sure that you're actually in a position to take on this significant milestone. That's why the first step is to check your credit score and review your finances. Obtaining a loan is not always easy. All mortgage lenders will look at your credit score and financial history before agreeing to provide you with a loan. You should be one step ahead of them.

Your credit and financial history will dictate whether you're able to obtain a mortgage and at what interest rate. Buyers with higher credit scores tend to secure better interest rates, so you must get a sense of where you stand before you get deeper into the process. For me, It was extremely important to have a high credit score because to the banks I was seen as a higher risk due to my legal status.

Having a higher credit score meant lenders would have more confidence in my ability to repay my future debts as agreed. A credit score of 620 or higher should allow you to qualify for a mortgage, but government-backed loans may allow for a lower score in some cases as low as 500. I'll go over the type of loans I'm familiar with further into the episode and the requirements as well.

3.Budgeting

Believe me, budgeting is a major key to buying a house and making it slightly less stressful. When my family and I were looking for houses to buy we thought we had saved up a good amount of money but to our surprise, once we saw the closing costs we were short and luckily we were able to cover it with some help from our families and close on the house. So this is why I'm saying budgeting is super important before looking into houses.

My tip is whatever you budget for your house downpayment, closing costs, etc. take your total and add an additional $3-$5k to your budget. Although a mortgage spreads out the cost of buying a house over many years, you'll still need to provide some money upfront to pay for your down payment and closing costs. Unless you're getting a VA loan or a USDA loan – which don't require a down payment – you'll need to make sure you have funds saved for a down payment. The minimum on a conventional loan, like a 30-year fixed loan, is 3%. An FHA loan is available with a down payment of 3.5%. Keep in mind, the larger the down payment, the more equity you'll have, and the lower your monthly mortgage payments will be.

By paying more upfront, you'll save on interest and be less likely to have to pay private mortgage insurance. Along with your down payment, you'll have to save money for closing costs (fees associated with processing and securing your loan). Although the amount you'll need will vary depending on your loan amount and the tax requirements in your area, you can generally expect closing costs to be 3% - 6% of the purchase price.

To ensure you know exactly what you'll owe, your lender will provide you with a Loan Estimate within three days of receiving your home loan application. This three-page form, which is required by law, will itemize the loan terms, projected payments, and closing costs for your potential mortgage, so you are aware of precisely what you'll need to have saved. When budgeting I highly recommend going online and searching mortgage calculators with closing costs so you have an idea of what your numbers might look like depending on the price of the house.

Ask yourself how much can you afford to spend on a house?

Many immigrants prefer to pay cash for a house since getting a loan can be difficult as an immigrant. However, that's obviously not an option for everyone and it certainly wasn't in my case. Instead, the majority save up over the years the money needed for a downpayment on a mortgage for a house as my family and I did.

The rest of this episode will focus on those seeking to buy a home with financing. Especially immigrants.

If an immigrant is seeking financing, then how much he can afford to spend on a house depends on two factors:

- How much a lending institution will loan to them, and
- How much the immigrant is willing to spend.

So the first factor hinges on how big of a loan they can obtain, the second factor hinges on how much they actually want to spend on the house. Many people find it best to purchase a home below their full buying potential.

A mortgage payment consists of four components: principal, interest, taxes, and insurance (PITI).

Generally, a buyer can afford to finance a property that costs between 2 and 2.5 times their income. So, for example, an immigrant earning $100,000 a year can afford a mortgage of $200,000 to $250,000.

So, if a prospective immigrant homeowner is willing to buy a house that costs 2.5 times his income, how much he can actually spend still depends on how much an institution will lend him.

However, if you apply jointly you can afford more house and even split the cost of the mortgage. This is of course if you have the option. I'll give you an example. My family and I applied for a conventional loan between my sister, my dad, and me. This means all three of us would be on the mortgage and are responsible for it. The way a joint mortgage works is it allows two or more people to purchase a home together, and the buyers fill out a joint mortgage application. One of the main benefits of applying for a joint mortgage is that you'll have more income to put toward your home purchase. Including two earners or more on your application means you're more likely to be approved for a mortgage, you may be able to borrow more money and you could purchase a more expensive home. On a joint mortgage, all borrowers' credit scores matter. Lenders collect credit and financial information including credit history, current debt, and income.

Lenders determine what's called the "lower middle score" and usually look at each applicant's middle score. For example, say your credit scores from the three credit bureaus are 723, 716, and 699, and your partners are 688, 657, and 649. Lenders will then use the lower of the two middle scores, which is 657.

The lower middle score system means both applicants' credit scores matter, but the lower score matters most. Therefore, the decision of whether to include a spouse (or another co-borrower) on a mortgage application comes down to which option makes the most financial sense.

If your co-borrower does have bad credit, there are a few options available:

- Improve your co-borrower's credit score
    - Make sure all outstanding credit card debts are paid and that any remaining credit balances are under 30% of their high limit — a significant variable that gets factored into credit scores.
- Find a different co-signer
    - Another option is to find another co-borrower. Ask a relative who has a high credit score to help you get approved for your mortgage. Every lender has different rules for co-signers, so check to make sure you can work with a co-signer.
- Eventually, if you and your partner's credit history improves, you can consider refinancing the current loan and take the co-borrower off the loan and add the partner with improved credit.

4.Know your loans

Now let's cover some of the most common mortgage loan types you'll come across that I'm familiar with. Also, note these are the ones I'm familiar with, there are a few others out there you can look into but generally, these are the ones you'll encounter.

Conventional loan

- Can be used for your primary home or vacation or investment property
- This type of loan is not insured by the federal government
- Generally, lenders require you to pay private mortgage insurance (known as PMI) on many conventional loans when you put down less than 20 percent of the home's purchase price. On our loan, we have to pay PMI because we didn't have enough to pay more than the minimum. We plan to refinance once we reach 20% equity. However, if you can put more towards your down payment in order to get rid of PMI then it's worth it in my opinion.

As I've mentioned before, this is also the loan my family and I went with because in 2019 DACA recipients, and work permit holders didn't qualify for FHA loans. If you don't know DACA recipients do qualify for an FHA loan now under the Biden administration.

Pros of conventional mortgages

- Can be used for a primary home, second home, or investment property
- Overall borrowing costs tend to be lower than other types of mortgages, even if interest rates are slightly higher
- You can ask your lender to cancel PMI once you've reached 20 percent equity
- You can pay as little as 3 percent down on loans backed by Fannie Mae or Freddie Mac

Cons of conventional mortgages

- A minimum FICO score of 620 or higher is often required
- You must have a debt-to-income ratio of 45 percent to 50 percent
- You'll likely need to pay PMI if your down payment is less than 20 percent of the sales price

- Significant documentation required to verify income, assets, down payment, and employment

Who should get one?

Conventional loans are ideal for borrowers with strong credit, a stable income and employment history, and a down payment of at least 3 percent.

Government-Insured Loans

The U.S. government isn't a mortgage lender, but it does play a role in helping more Americans become homeowners. Three government agencies backed mortgages: the Federal Housing Administration (FHA loans), the U.S. Department of Agriculture (USDA loans), and the U.S. Department of Veterans Affairs (VA loans).

- FHA loans
  - Previously not available to DACA recipients but as I've mentioned before now with Bidens administration this has become one more option for us.
  - Backed by the FHA, these types of home loans help make homeownership possible for borrowers who don't have a large down payment saved up or don't have pristine credit. Borrowers need a minimum FICO score of 580 to get the FHA maximum of 96.5 percent financing with a 3.5 percent down payment; however, a score of 500 is accepted if you put at least 10 percent down. FHA loans require two mortgage insurance premiums: one is paid upfront, and the other is paid annually for the life of the loan if you put less than 10 percent down, which can increase the overall cost of your mortgage.
- USDA loans
  - USDA loans help moderate- to low-income borrowers buy homes in rural areas. You must purchase a home in a USDA-eligible area and meet certain income limits to qualify. Some USDA loans do not require a down payment for eligible borrowers with low incomes.
- VA loans
  - VA loans provide flexible, low-interest mortgages for members of the U.S. military (active duty and veterans) and their families. VA loans do not require a down payment or PMI, and closing costs are generally capped and may be paid by the seller. A funding fee is charged on VA loans as a percentage of the loan amount to help offset the program's cost to

taxpayers. This fee, as well as other closing costs, can be rolled into most VA loans or paid upfront at closing.

Pros of government-insured loans

- The lack of PMI, coupled with exceptionally low rates, is what makes a VA loan such a great deal for qualified veterans.
- They help you finance a home when you don't qualify for a conventional loan
- Credit requirements are more relaxed
- You don't need a large down payment
- They're open to repeat and first-time buyers

Cons of government-insured loans

- Many of these loans have mandatory mortgage insurance premiums that cannot be canceled on some loans
- You could have higher overall borrowing costs
- Expect to provide more documentation, depending on the loan type, to prove eligibility

Who should get one?

Government-insured loans are ideal if you have low cash savings or less-than-stellar credit and can't qualify for a conventional loan. VA loans tend to offer the best terms and most flexibility compared to other loan types for qualified borrowers.

You don't need to be legal and documented to buy a home. Many undocumented immigrants own homes. 3.4 million of them to be precise. They either buy with cash or obtain ITIN mortgages.

An ITIN for those who haven't listened to me mention it numerous times in my previous episodes is an individual tax identification number. They are issued by the IRS for immigrants who need to file taxes but are ineligible for a Social Security Number. Some institutions specialize in providing ITIN loans. These loans usually come with a higher 7-8 percent interest rate.

To get an ITIN submit a Form W-7, Application for IRS Individual Taxpayer Identification Number to apply.

For an ITIN loan, an institution will require:

- Government ID Card, Matricula Consular ID, or Passport
- 2 Years employment in the same or similar line of work (can be salaried or self-employed)
- 2 Years Tax Returns using their I-TIN number
- Buyers must be an owner-occupant
- Minimum 20% down payment

Here are a few immigrant-friendly mortgage services:

- Bank of the West offers loans for people without US credit.
- Alterra Home Loans offers loans to people with low or no US credit.
- Quontic Bank specializes in immigrant-friendly services, like loans for foreign nationals.
- Guadalupe Credit Union provides ITIN loans to people in New Mexico.
- The Latino Community Credit Union specializes in financing Latino immigrants
- Small local services can be more immigrant-friendly

Fixed-rate mortgages

Fixed-rate mortgages keep the same interest rate over the life of your loan, which means your monthly mortgage payment always stays the same. Fixed loans typically come in terms of 15 years, 20 years, or 30 years. My family and I have a Convent ional loan of 30 years fixed. But a good tip someone gave us and put into play is to make extra monthly payments towards the principal. Let's say your remaining balance on your home is $200,000. Your current principal and interest payment is $993 every month on a 30-year fixed-rate loan. You decide to make an additional $300 payment toward principal every month to pay off your home faster. By adding $300 to your monthly payment, you'll save just over $64,000 in interest and pay off your home over 11 years sooner.

Pros of fixed-rate mortgages

- Your monthly principal and interest payments stay the same throughout the life of the loan
- You can more precisely budget other expenses month to month

Cons of fixed-rate mortgages

- You’ll generally pay more interest with a longer-term loan
- It takes longer to build equity in your home.
- Interest rates typically are higher than rates on adjustable-rate mortgages

Who should get one?

- If you plan to stay in your home for at least seven to 10 years, a fixed-rate mortgage offers stability with your monthly payments.

Adjustable-rate mortgages

Unlike the stability of fixed-rate loans, adjustable-rate mortgages (ARMs) have fluctuating interest rates that can go up or down with market conditions. Many ARM products have a fixed interest rate for a few years before the loan changes to a variable interest rate for the remainder of the term. Look for an ARM that caps how much your interest rate or monthly mortgage rate can increase so you don’t wind up in financial trouble when the loan resets.

Pros of adjustable-rate mortgages

- You’ll enjoy a lower fixed rate in the first few years of homeownership
- You’ll save a substantial amount of money on interest payments

Cons of adjustable-rate mortgages

- Your monthly mortgage payments could become unaffordable, resulting in a loan default
- Home values may fall in a few years, making it harder to refinance or sell your home before the loan resets

Who should get one?

You must be comfortable with a certain level of risk before getting an ARM. If you don’t plan to stay in your home beyond a few years, an ARM could save you big on interest payments.

5.Choosing a lender

If you are an immigrant, under DACA, or a POC in general I can't stress enough how important it is to find a lender that you'll be comfortable with. For me and my family, we asked around till we eventually found someone who is fully aware of what DACA is and what our limitations are. Our broker has worked with other DACA recipients before and has relationships built with banks that were willing to approve our mortgage. Our real estate agent spoke Spanish so it was easier and more comfortable for our parents. These things matter when you're making a big life decision. Even our lawyer was recommended by someone I trusted and he was great. Having a lawyer and a real estate agent while not mandatory is super important for first-time homebuyers. It might be more costly but as first-time homebuyers who didn't know much in our experience was worth the cost because they will answer all your questions and guide you through the process making sure you understand the process and you're not being taken advantage of by the seller or any other party.

Now let's go over the documentation lenders typically request

A traditional mortgage provider will likely request these documents:

- Last two months of statements for all asset accounts (savings, retirement, brokerage, and checking)
- Last two years' W-2 forms
- Last two years' tax returns
- Most recent month's pay stubs (your last two pay stubs if you are paid every two weeks and your last pay stub if you get paid monthly)
- If you're self-employed, a year-to-date profit-and-loss statement
- 1099s for the last two years
- Copy of driver's license
- Copy of Social Security card

Of course, for new immigrants, providing these documents may not be an option. Some lenders will accept alternative documents to show credit history. This could include:

- Rental history
- Payment history for bills (utilities, gas, electric, water, cable TV, etc.)
- Payment history for non-payroll-deducted medical, life, auto, or renters insurance
- Payment history for School tuition
- Credit history from a foreign independent credit reporting agency
- Written verification from foreign creditors, establishing a credit history.

Now let's move on to the various factors lenders will consider when determining how much to loan a buyer:

- Gross Income
    - This the how much you make before income taxes and includes bonus income, part-time earnings, self-employment earnings, Social Security benefits, disability, alimony, and child support.
- Front-End Ratio
    - This is the percentage of your gross income that you can put towards your mortgage each month. Lenders usually keep this number below 35 percent of total income.
- Back-End Ratio or a debt-to-income ratio (DTI)
    - This is the percentage of your income needed to pay off your other debts, like credit card payments, child support, and other loans. Most lenders won't let this number exceed 36 percent.
- Credit Rating
    - This is the number credit companies give to you to determine the risk of lending you money. This where most immigrants get snagged. Most new immigrants don't have a credit history with American lenders and therefore have a low credit score and therefore won't be issued a mortgage. If they are issued a mortgage it will be at a higher interest rate or annual percentage rate (APR). Immigrants should start building credit soon after entering the country. Credit scores are ranked between 850 (perfect) and 300 (terrible).
- Down Payment
    - This is the amount an immigrant pays in cash for the house. The colloquial norm is that lenders require at least 20 percent of the total price as a down payment. If an immigrant is able to pay more than 20 percent then the deal may be more enticing to the lender.

6. Get Preapproved For A Loan

Getting prequalified for a loan is not a guarantee that you'll actually be able to obtain a loan. When you get prequalified, lenders will only estimate your finances based on the information you provide.

On the other hand, getting preapproved for a loan requires a thorough investigation of your finances that includes the verification of your income, assets, and credit rating. When you get preapproved for a loan, you are guaranteed that you'll be able to obtain the loan, assuming your finances don't change.

A preapproval will tell you exactly how much the bank is willing to lend you and specify the costs of obtaining the loan. Furthermore, getting preapproved will demonstrate to sellers that you're a serious buyer who is ready and able to buy their home.

7. Find The Right Real Estate Agent

There are some buyers who decide that they don't want to work with a real estate agent, but that is often a huge mistake. A real estate agent will represent you throughout the home buying process to ensure that you find the right home, ask the important questions, make an appropriate offer, have the power to negotiate, and receive the necessary disclosures.

Real estate agents take the stress out of the experience by providing buyers with knowledge of the market and skills in the negotiation process. Furthermore, agents' expertise and skill are provided to buyers without charge.

How is this possible? Well, as a buyer, your agent is only paid a commission if you close on a new home. And the commission that they receive is paid through the purchasing price of the house. So, it's technically the seller who pays for your representation.

Therefore, the question shouldn't be: Should you find a real estate agent? It should be: How do you find the right agent?

The way to find a good agent is by asking the right questions. Things like…

- How long have you been working as a real estate agent?
- What makes you different than other agents?
- How many customers/clients are you currently working with?
- What experience do you have finding homes in my price range?
- How knowledgeable are you about my desired area?
- Are you willing to provide me with references?

Real estate agents play a big role in a successful and stress-free home buying experience, so it’s crucial that you find a good one.

Key Takeaways Part I

1. **Know your rights**
    a. Before even thinking about buying a house it's important you know your rights. immigrants suffer from systemic discrimination when it comes to buying a house. Housing and Urban Development is the government agency that oversees housing discrimination issues and resolves complaints.
2. **Check your Credit Score**
    a. Your credit and financial history will dictate whether you're able to obtain a mortgage and at what interest rate. Buyers with higher credit scores tend to secure better interest rates, so you must get a sense of where you stand before you get deeper into the process.
3. **Budgeting**
    a. Ask yourself how much can you afford to spend on a house?
    b. Save for down payment and closing costs
    c. Although the amount you'll need will vary depending on your loan amount and the tax requirements in your area, you can generally expect closing costs to be 3% - 6% of the purchase price.
4. **Know your loans**
    a. There are Government-Insured Loans such as FHA, USDA, and VA
    b. Then there's also a conventional loan
    c. There are other types of loans but the ones I mentioned are the ones you're most likely to encounter
5. **Choosing a lender**
    a. Know the documentation you're going to be asked for so you're better prepared when seeking a lender
    b. Be aware of the various factors lenders will consider when determining how much to loan a buyer
6. **Pre-approval**

a. Getting preapproved for a loan requires a thorough investigation of your finances that includes the verification of your income, assets, and credit rating. When you get preapproved for a loan, you are guaranteed that you'll be able to obtain the loan, assuming your finances don't change.

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Conclusion Part I

While the home buying process can be confusing, I hope to better equip you with the knowledge through this episode. Part II will be released next week so make sure you're following on apple podcasts, Spotify, on Instagram @latinamericaneo, and on my website latinamericaneo.org to be notified when it's released.

Let me know your thoughts on today's episode through Instagram @latinamericaneo

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Bilbiography

https://www.quickenloans.com/learn/steps-to-buying-a-house

https://www.bankrate.com/mortgages/types-of-mortgages/

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https://www.takechargeamerica.org/the-thrifty-homebuyer-how-to-budget-for-your-first-home/

https://www.chase.com/personal/mortgage/education/financing-a-home/how-credit-calculated-on-joint-mortgage

Closing checklist:

https://learn.simplecitizen.com/wp-content/uploads/2018/07/buying-a-house_mortgage-closing_checklist.pdf