



The SoFi Guide to **First Time Home Buying**

Everything you need to know about buying
your first home in 2016.





Is 2016 the year?

If you've been thinking about buying your first home, now could be a great time to take the plunge. With interest rates hovering at close-to-historic lows, locking in a reduced rate on your mortgage loan can be a cost-saving move. Also, as rents continue to climb, you might be ready to invest that monthly check in something that can appreciate in value—not to mention something that gives you a tax break come next April.

But today's first-time home buyers also face a number of challenges—things like rising home prices, decreased housing inventory, increased competition, and financial barriers like student loan debt and limited credit history.

Luckily, these factors don't have to come between you and your first home. If you know how to navigate them, you can land a home you love without breaking the bank.

In this guide, we'll cover the issues that currently impact young professionals looking to buy a first home:

- Section 1: Evaluating when it's time to buy a home
- Section 2: Getting started with the home buying process
- Section 3: Picking the right mortgage
- Section 4: Choosing a lender
- Section 5: Navigating the closing process

Along the way, we'll demystify modern mortgage myths around down payments, the pre-approval process, student loans, rising interest rates and more.

If not now, when?

Between the current economic environment and the advent of new mortgage products, this could be a great time to take the leap from renter to homeowner. Read on to find out how to make 2016 your home buying year.



Rent vs. Buy

How do I know when I'm ready to buy a home?

Buying your first home is a huge investment, but that doesn't mean it's a purely financial decision. You may be seeking more space for your growing family, or craving the community aspect of living in a suburb, or maybe you're just feeling ready to achieve that major milestone of being a homeowner.

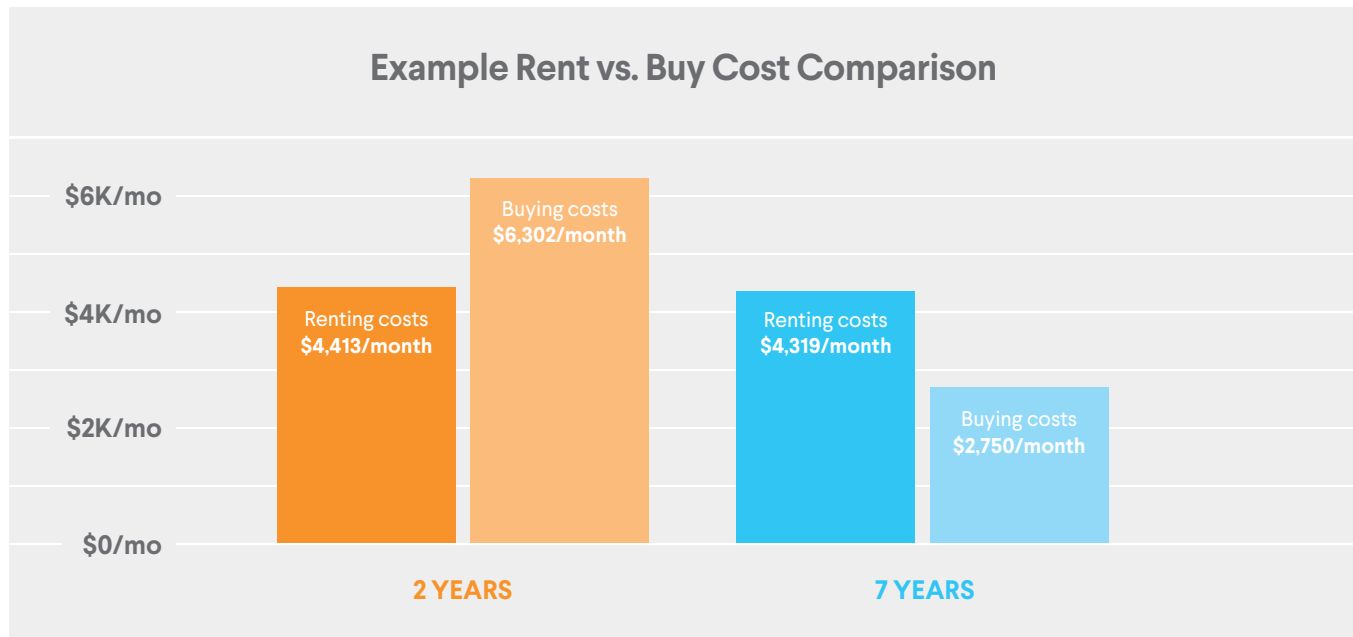
That said, it helps to start with an objective framework that will help you answer the question, "Am I financially ready to buy?" before factoring in the emotional reasons. Here are five signs the answer may be yes.

- 1 **Your budget is big enough** to cover the down payment, mortgage payments and associated homeownership costs, including property taxes and maintenance fees.
- 2 **You plan on staying put for a while**, giving your home a chance to appreciate in value.
- 3 **You itemize your tax deductions** and are likely to benefit from writing off mortgage interest.
- 4 **You have good credit**, which can help you get a lower mortgage interest rate.
- 5 **Rents in your area are high** relative to home prices.

From this list, the two most important factors are: 1) How long you plan to stay in your home and; 2) The ratio of home prices to rents. So how do you know how long is long enough? A [rent vs. buy calculator](#) can help you estimate the breakeven point where it might make sense to invest in a home.

For example, let's say you're a San Francisco renter paying \$4,500/month on a 2-bedroom apartment, and you're considering upgrading to a \$1,000,000 3-bedroom home in Oakland and staying for at least seven years.

At a 25% income tax rate, 3.7% mortgage rate and 3.3% annual capital appreciation rate, the calculator estimates that buying would be 37% cheaper than renting. Staying for only two years? Renting would be 30% cheaper than buying.



Of course, it's important to take these calculations with a grain of salt. Make sure to adjust the calculator settings to fit your situation, and remember that no one can predict the future of housing prices, rents, and taxes. But estimating your breakeven time frame can be a useful data point when answering the question of whether you can afford to buy a home.

After you've assessed the questions above, you hopefully have a better idea of whether buying a home makes sense from a financial perspective. Now you can consider the emotional perspective. For example, do you crave the autonomy of owning your own place? Are you dying to have control over paint colors and tile choices? And are you willing to live without your landlord (and his midnight visits to fix your broken heater)?



SOFI SMART HOME BUYER RECAP

Determining whether it's time to buy a home is both an emotional and financial decision. Start by figuring out if the finances make sense, then evaluate the emotional factors.



MODERN MORTGAGE MYTH:

You need 20% down payment to buy a home

For many years, 20% has been considered the magic number for a mortgage down payment—anything less could tack on expensive private mortgage insurance (PMI).

Fortunately, today there are lenders out there (SoFi included) who offer mortgages with less than 20% down—and without PMI. That said, it's important to consider how adjusting your down payment will affect your interest rate. But if getting into a home quickly is your priority, a low down payment can facilitate that goal. For example, you may be able to buy a bigger home faster if you only put 10% down instead of the typical 20%.

	Typical JUMBO Lender	SoFi
DOWN PAYMENT	\$100,000	\$100,000
DOWN PAYMENT (%)	20%	10%
LOAN AMOUNT	\$400,000	\$900,000
MAXIMUM HOME PURCHASE PRICE	\$500,000	\$1,000,000
PRIVATE MORTGAGE INSURANCE (PMI) ⁽¹⁾	1.77% of loan amount annually on all loans with < 20% down	None
LENDER/ ORIGINATION FEES ⁽²⁾	0.5% of loan amount	None

For illustrative purposes only. This is not a commitment to lend. Terms and conditions apply. Not all borrowers will qualify. See sofi.com/eligibility for eligibility and licensing details.

¹Arch Mortgage Insurance borrower-paid mortgage insurance at 90% LTV; jumbo loan with coverage to 75% LTV

²Freddie Mac 30-Year Mortgage Rate Survey



Getting Started

How do I prepare to buy my first home?

As a first-time home buyer, checking a few boxes early on in the process can prepare you to act fast when the home you want goes on the market. Here are six essential steps for setting up your home buying experience the right way.

1 DOWNLOAD YOUR CREDIT REPORT

Since credit score is often a determining factor in getting approved for a mortgage loan (and snagging the lowest interest rate possible), it's important to know what your score says about you. You can download your credit report for free on an annual basis, which allows you to catch any errors that may be affecting your score. According to FICO, two common reporting errors are late payments and incorrect balances due on open accounts.

If you find any errors on your report, file a dispute with the reporting agency to get them removed. Even when the mistakes are obvious, the process of removing the listings and adjusting your score can take time, so it helps to start on this step as early as possible. Another advantage to starting early is that you'll have more time to pay down outstanding balances, which can also improve your score.

2 FIGURE OUT YOUR BUDGET

Before you download your real estate app of choice and start spending every Sunday at open houses, it's helpful to know just how much house you can afford. That's where mortgage pre-qualification comes in.

After entering just a few pieces of information, you can get an idea of the loan amount and interest rates you're likely to see when you eventually apply for a loan. While a pre-qualification isn't as formal as a pre-approval (more on that below), it will help you keep your initial search confined to only homes in your range (and SoFi's mortgage pre-qualification takes only two minutes with no impact on your credit score).

3 CHOOSE AN EXPERIENCED REALTOR

With all the apps and information available on the web today, you might think that buying a home is as easy as picking your favorite place and extending an offer. The truth is that without an experienced realtor, you'll soon find yourself neck-deep in confusing and time-consuming contracts, negotiations, legalities, and paperwork.

As a first-time home buyer, it really helps to have someone who knows how to navigate the process on your side. A good realtor can also help you save money if they know the neighborhood and/or home well and can give you valuable negotiating advice.

The best part? Typically, the seller (of the home you end up buying) will pay your realtor's fees.

4 BE FRUGAL IN THE MONTHS BEFORE BUYING A HOME

Plan on a little extra scrutiny regarding your finances and spending habits. Most lenders view sharp swings in your savings account balance and increases in revolving debt as big red flags that could indicate you're a high-risk borrower—which can have a negative effect on your ability to get approved or increase the interest rate on your loan. Stability should be your goal, so avoid major purchases and new credit card accounts, at least for the time being.

5 GATHER YOUR DOCUMENTS

Having all your paperwork organized in advance will be a big help. Lenders typically ask for W-2s (if you receive a paycheck), 1099s or profit and loss statements (if you're self-employed), recent pay stubs, two years of tax returns, bank statements, student loan docs and/or credit card statements.

6 GET PRE-APPROVED FOR YOUR LOAN

A solid credit score, submission of all required documents, and a stable financial picture should help you get to the pre-approval stage. Unlike pre-qualification, which gives you a rough idea of how much money you can borrow and at what rate, pre-approval is a more formal step in the process that allows you to submit an offer with confidence that you are officially approved for a loan. Being able to show that you are pre-approved for a loan also puts you on equal footing with competing bids from both well-funded and cash buyers.



SOFI SMART HOME BUYER RECAP

Taking time up front to prepare can make the home buying process easier and more enjoyable. Plus you'll be more ready to act when you find that dream home.



MODERN MORTGAGE MYTH:

You must be fully approved to submit an offer

In a competitive housing market, sellers typically choose the offer with the highest dollar amount and the fewest financing contingencies. This puts a lot of people at a disadvantage, because even when they're pre-approved for the offer amount, financing contingencies make their offer less attractive than all-cash offers.

This is one of the big reasons that the SoFi mortgage is so unique. We fully underwrite our members at the pre-approval stage, so many of our members can choose to submit offers with no financing contingencies and better compete with all-cash offers.

In addition, our pre-approval process is mostly online and exceptionally fast—we try to keep the paperwork at a minimum where possible.



Picking the Right Mortgage

Should I choose fixed, adjustable or interest-only mortgage?

Once your search begins in earnest, one of your first decisions will be what kind of mortgage loan you want to take out—with the usual options being fixed rate, adjustable rate and interest-only. Each of these products has their own unique advantages, but the key is to choose the best option for your particular situation.

FIXED-RATE MORTGAGE LOANS

In a nutshell: long-term predictability

As its name suggests, a fixed-rate mortgage (FRM) has an interest rate that stays the same for the entire life or “term” of the loan, regardless of any fluctuations that might occur in the broader economy. Because of this, fixed-rate mortgage loans offer greater stability and predictability over the long term compared to their adjustable counterparts.

That’s the upside. The downside is that, generally speaking, fixed-rate home loans have higher interest rates than adjustable-rate mortgages (ARMs)—that’s the price you pay for stability and predictability. Of course, the rate you receive from a lender will depend on several variables, including personal factors like your credit score.

For some borrowers, the advantages offered by an FRM outweigh the potentially higher interest rate. This is especially true for home buyers who are planning to stay in a house for a long period of time (i.e. more than 10 years). For example, SoFi offers fixed-rate mortgages with 15- and 30-year loan terms. This means the rate you receive up front will stay the same for 15 or 30 years, respectively—even if rates rise significantly over that time frame.

Bottom line: If you are planning to own your home for the long term and wish to avoid the uncertainty of a variable interest rate, consider choosing a fixed-rate loan.

ADJUSTABLE RATE MORTGAGES

In a nutshell: lower rates, more risk

An adjustable-rate mortgage (ARM) loan is so named because the interest rate changes over time. In many cases, an ARM loan’s rate will stay the same for a specified period of time, such as five to seven years. After this introductory period, the mortgage rate will begin to change—usually once per year.

ARM loans are usually labeled with numbers that delineate: A) The length of the introductory fixed phase, and; B) The frequency of rate adjustments following the fixed phase. For example, SoFi offers a 7/1 adjustable-rate mortgage that has a fixed interest rate for the first seven years, after which time the rate changes annually based on the 1-Year LIBOR index.

So why would anyone want a mortgage loan with a rate that changes over time? Why choose an ARM over the stability of an FRM? The reason can be summed up in a single word—savings. Borrowers who choose adjustable mortgage loans tend to secure lower initial interest rates than those who use fixed-rate loans.

If you’re concerned about the risk of rising interest rates, many ARM loans have caps on how much the interest rate can increase or decrease. There is usually both an annual limit as well as a lifetime limit. For example, an ARM loan may specify that the maximum interest rate adjustment is no more than 2% annually or no more than 6% over the life of the loan.

INTEREST-ONLY MORTGAGES

In a nutshell: initial low payments that eventually rise

As the name suggests, interest-only mortgage loans allow you to pay only the accrued interest on the loan each month for a period ranging from 5 to 10 years. After the interest-only period expires, the loan converts to a more standard structure where both principal and interest are paid on a monthly basis.

Interest-only loans are usually ARM loans, which means the interest rate is typically lower than fixed rates during the interest-only period. Most interest-only mortgages come with a 30-year term, but SoFi offers a 40-year term to reduce payments even more.

The main benefit of an interest-only mortgage is the lower payment required during the interest-only period. This can enable you to buy a home sooner than you thought you could afford it and/or enjoy increased financial flexibility (meaning you can invest the difference in something that could potentially have higher returns than your home).

Because you only pay the interest that is accruing on the mortgage, initial monthly payments are substantially lower than if you were also paying the principal. For example, on a \$1 million, 30-year, 4% fixed mortgage, the initial monthly payment would be \$4,774—with about \$1,440 of that going to principal. On an interest-only mortgage with the same criteria, the monthly payment would be \$3,333.

After the interest-only period ends, you'll see your mortgage payment go up, sometimes substantially. Because of this, interest-only loans are typically better for borrowers who expect to be able to cover those higher payments in the future. For example, if you believe your income will increase before the interest-only period is up.

If the structure of a traditional mortgage has prevented you from buying a home, an interest-only mortgage may provide a solution that helps make that happen in the near future—just make sure you're not biting off more than you can chew.

A CHECKERED PAST?

Interest-only mortgages have been around for decades, but for the most part they weren't attractive to the masses. Typical borrowers were often affluent homeowners who viewed their homes as part of an investment portfolio: interest-only mortgages provided the opportunity to seek better returns with the capital that would otherwise have been used to make a higher mortgage payment.

Then came the housing bubble of 2004 - 2006, when lenders started approving interest-only loans for unqualified borrowers who wanted to keep mortgage payments low while trying to flip houses as quickly as possible. After the bubble burst in 2008, the market for interest-only loans went dormant for several years—and these products were left with a less-than-favorable reputation.

Between the current economic environment and the advent of new interest-only loan products, this type of loan is once again worth considering for some borrowers. Again, the main consideration is that you're not biting off more than you can chew. Meaning you expect to be able to handle the increase in payments once the interest-only period is up.

SoFi offers a variety of mortgages to meet your needs

	30-YEAR FIXED	15-YEAR FIXED	7/1 ARM1	INTEREST-ONLY 7/1 ARM1,2
OVERVIEW	Enjoy fixed payments that won't change over time. A good idea if you'll keep the place for a long time and want to lock in today's low rates.	Pay your loan off faster and enjoy a lower rate vs. the 30-year fixed loan while maintaining a constant rate and payment.	This loan has the lowest starting rate. Payments are fixed for the first seven years, then adjust yearly. A good idea if you think you'll move within 7 years.	This loan has the lowest upfront payment. Pay only interest for the first 10 years, then pay back the principal over the next 30 years. Rates are fixed for the first 7 years then adjust yearly.
MINIMUM DOWN PAYMENT	10% with no mortgage insurance	10% with no mortgage insurance	10% with no mortgage insurance	15% with no mortgage insurance
TERM	30 Years	15 Years	30 Years	40 Years
ORIGINATION FEES	None	None	None	None

¹At the end of 84 months the interest rate and monthly payment for the 7/1 ARM adjusts. At adjustment the new mortgage rate will be the average of the Interbank offered rates for one-year, U.S. dollar-denominated deposits in the London market (LIBOR) as published in The Wall Street Journal, plus a margin of 2.25% subject to annual and lifetime adjustment caps. ²SoFi's interest-only loan is 40-year, 7/1 ARM loan. During the first 10 interest-only years, the minimum monthly payment required is the interest on the loan. Paying the minimum payment during the interest-only period will not reduce the principal loan balance. At the end of the 10 interest-only years, the minimum payment required will increase, even if the interest rate does not change, to include both interest and principal payments.

How much house can you afford¹ with your current rent?

MONTHLY RENT	30-YEAR FIXED with 10% down at 4.12% (4.147% APR ⁴)	7/1 ARM ² with 10% down at 3.495% (3.228% APR ⁴)	INTEREST ONLY ARM ^{2,3} with 15% down at 4.12% (3.66% APR ⁴)
\$2,500/mo	\$570,000	\$600,000	\$850,000
\$3,000/mo	\$675,000	\$725,000	\$1.025 million
\$4,000/mo	\$900,000	\$975,000	\$1.35 million
\$5,000/mo	\$1.125 million	\$1.225 million	\$1.70 million

¹Home price calculations are based on the lowest-available rate for the down-payment and loan listed as of January 12, 2016. Rent is only compared with the initial monthly principal and interest payments. Home price calculations do not include property taxes, HOA fees, or insurance. Nor do they include any tax deductions applicant might be eligible for. ²At the end of 84 months the interest rate and monthly payment for the 7/1 ARM adjusts. At adjustment the new mortgage rate will be the average of the Interbank offered rates for one-year, U.S. dollar-denominated deposits in the London market (LIBOR) as published in The Wall Street Journal, plus a margin of 2.25% subject to annual and lifetime adjustment caps. ³SoFi's interest-only loan is 40-year, 7/1 ARM loan. During the first 10 interest-only years, the minimum monthly payment required is the interest on the loan. Paying the minimum payment during the interest-only period will not reduce the principal loan balance. At the end of the 10 interest-only years, the minimum payment required will increase, even if the interest rate does not change, to include both interest and principal payments. ⁴APR calculations assume \$3,000 in APR-related closing costs considered prepaid finance charges and a \$1,000,000 loan amount.



SOFI SMART HOME BUYER RECAP

Different types of home loans offer various pros and cons. Consider your financial goals and your long-term plans, then choose a mortgage option that best supports those goals.



MODERN MORTGAGE MYTH:

Buying a home in a rising rate environment

After nearly a decade of keeping interest rates at historic lows, the Federal Reserve began the process of raising its key interest rate—the Fed Funds rate—earlier this year. While the Fed’s plan is to slowly and steadily increase rates over the next few years, this long-awaited “liftoff” has implications for first-time home buyers today.

For prospective home buyers considering a **fixed rate mortgage**, an increase in borrowing rates in the short term should only have a minor effect on monthly payments. However, acting sooner rather than later is your best bet for locking down the lowest rate possible.

Prospective home buyers looking to take out an **adjustable rate mortgage** face a greater risk over the next several years, with the Fed forecasting a progression of interest rate hikes. If adjustable mortgage rates rise in kind with rates during this period, the monthly payment and total interest cost on an ARM could increase significantly.

The takeaway? While the Fed’s small rate hikes probably won’t make big waves for mortgage borrowers in the near term, first time home buyers should consider the rising rate outlook when deciding which loan to select.



Choosing a Lender

How do I evaluate the different options out there?

Up until a few years ago, there wasn't a lot of variation between what different mortgage lenders were offering. Borrowers typically compared lenders on interest rate alone, then embarked on a frustrating, paperwork-heavy application process (often with poor customer service from the bank providing the loan).

Luckily, today you have more choices. And with the rise of online and marketplace lenders, there's increased competition which fuels improvements in process, service, and cost. If you want to avoid getting stuck with a not-so-great lender, take the time to shop around. Here are a few questions you can ask when evaluating your options:

- Does the lender offer competitive interest rates?
- Does the lender offer terms and products that suit your needs?
- How much of the process is online vs. on paper or in person?
- How quickly can the lender close once you're in contract?
- What type of origination, lender and other fees are you responsible for?
- What other benefits does the lender offer, if any?

1 Low down payment jumbo loans

SoFi wants to help you become a homeowner sooner. That's why we offer loans with as little as 10% down with no mortgage insurance (PMI) up to \$3 million.

2 Afford more house

With SoFi's flexible debt-to-income limits, you may qualify for more financing than traditional lenders can offer.

3 Pre-qualify online in 2 minutes

See what rates and loan amounts you may qualify for online. No hard credit pull for a pre-qualification.

4 No fees, no catch

No application, origination, or lender fees.

5 30-day close

Typical applications close in less than 30 days.



The Finishing Touches

What do I need to know about the inspection and closing processes?

Once you've found a home you love and the offer is accepted, it's tempting to want to move in as quickly as possible. However, there are two crucial steps that need to happen before you get your hands on the keys: the inspection and the closing process.

THE INSPECTION

Regardless of how perfect a home may seem during a casual walk-through, it's important to identify potential issues that could require expensive repairs down the line. Include a home inspection as a contingency clause when you present your offer.

› Finding an inspector

If the sellers accept your initial offer with the inspection contingency, the next step is to hire a professional home inspector. Here, you have two options: ask your realtor for a referral or hire one yourself. If you're worried that a pre-existing relationship between your realtor and an inspector may influence the report, you can do your own search for an inspector who is affiliated with either the American Society of Home Inspectors or the National Association of Home Inspectors.

› Cost

A thorough inspection using high tech equipment may cost up to \$1,000, but should be worth the investment if you can detect and fix problems prior to taking ownership of the home.

› What's included

The inspector will typically assess the plumbing, mechanical systems, and the structural aspects of the home.

- Plumbing assessments include testing to ensure that toilets flush and that drainage from sinks, bathtubs, and showers is adequate.
- Mechanical systems include electrical wiring, heating, cooling, and ventilation. Each system is run for a period of time to ensure proper operation.
- The structural inspection covers the foundation, support structures, walls, attic, and roof.

When considering the inspection components, the structural assessment is the most complex and important because serious problems may not be easily visible and structural issues are often the most expensive to repair. The most common problems found in this phase are water-related, such as roof/plumbing leaks, mold, and mildew. Additional issues may include a cracked foundation, termites, dry rot, and roof deterioration. If there are severe structural issues, consider hiring a structural engineer for a more in-depth inspection. It's better to know about structural problems upfront than to be surprised down the road since they can be costly to remedy.

› What's next

Once the inspection is complete, you should receive a report within a couple of business days with a detailed account of any problems with the home. With this information in hand, you can go back to the seller for a second negotiation regarding the price of the home and necessary repairs. Generally speaking, this negotiation will have one of four potential outcomes:

- 1 The sellers agree to make all repairs.
- 2 The parties agree to a lower selling price and the home will be sold "as is."
- 3 The sellers agree to pay for some repairs and a slightly lower selling price.
- 4 Damage is so extensive and costly that the purchase of the home under consideration does not make financial sense.

Unless you decide to walk away from the deal, the conditions agreed to by both parties will be added to the final contract and the process can proceed to the final phase.

THE CLOSING PROCESS

Because it's almost completely automated, the closing process is relatively simple for both buyers and sellers. The paperwork is prepared by the various entities participating in the transaction:

- The **escrow company/closing agent** will calculate legal fees, transfer taxes and closing costs, as well as coordinate the transfer of ownership via the deed.
- The **lender** provides documentation of the loan, including the note, the mortgage, closing fees, and other disclosures. The lender will also record the loan for public record.
- The **title company** will furnish documentation of clear ownership. In situations where there is uncertainty of the chain of ownership, title insurance may be suggested.

Prior to closing, you will need to schedule a final walkthrough to ensure that any agreed-upon repairs have been completed and the home has been left in satisfactory condition. If everything checks out, the closing documentation can be signed by the sellers and the buyers. After the documentation and all financial transactions have been verified as complete by the escrow company or closing agent, you will be given the keys. Congrats! That's when you're officially the new owner.



MODERN MORTGAGE MYTH:

Student loans prevent you from owning a home

Since most mortgage lenders require a debt-to-income ratio (DTI) of less than 36%, it can definitely be an obstacle, even for high-earners who have large student loan balances. It seems unfair that investing in education that helps you earn more should hold you back from home ownership.

At SoFi, we use a unique underwriting approach, which allows us to offer flexible DTI limits and ascertain creditworthiness based on other factors outside of the usual financial criteria (things like employment history and merit). The result is that our members can qualify for more financing than they would with a traditional lender. Meaning we see student loans as a good thing.



Conclusion

Making mortgages simple

Buying your first home can be a daunting experience, so it's understandable that a difficult and restrictive mortgage process would be a big barrier to entry. But when the process is fast, easy, and designed to help even first-time home buyers qualify for more financing, the process of buying a home can actually be a positive experience.

At SoFi, we're all about making the hard stuff seem easy. A SoFi mortgage allows our members to focus on the fun of achieving that next big milestone. Because, let's face it, that's really what it's all about.

Ready to get started? Talk to SoFi today. We'll help you discover whether 2016 is the year you make your dreams of homeownership a reality.



About SoFi

SoFi is a modern finance company taking an unprecedented approach to lending and wealth management. We've replaced the impersonal, transactional experience with a long-term partnership, enabling our members to realize the full potential of their money, careers and relationships. Our members constantly push the limits of what life has to offer. Whether looking to refinance their student loans, buy their dream home, or simply seek advice as they ascend in their careers, SoFi provides the products and tools to match their ambitions and propel them to new levels of financial greatness. For more information, visit [SoFi.com](https://sofi.com).