BUY YOUR FIRST HOME TODAY!

Empower Your Life
Build Your Wealth
Own the Home of Your Dreams

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ABOUT THE AUTHOR

John W. Mallett has personally originated over one billion dollars in mortgage loans over the last two decades. Many people refer to John as *America's Mortgage Coach*™, with the unique ability to demystify the complexity of mortgages into easy to understand concepts. John is the founder and President of MainStreet Mortgage, located in Westlake Village, California. He received his undergraduate degree from Brigham Young University and an MBA degree from the University of Southern California. John and his wife, Carol, are the parents of three phenomenally talented and amazing children and reside in Southern California.

ACKNOWLEDGMENTS

Six years ago at 2am in the morning, I finished the first draft of my book. Late at night for months, I typed every word myself while sitting on the couch in my living room with my laptop. There was one problem. After reading the manuscript, I thought, "This is the most boring book I have ever read on mortgage financing." I'd fallen short of writing a book that was interesting, easy to understand, and educated people about the most important investment they will ever make.

I needed big time help. Remarkably, it came in unexpected ways at exactly the right moment. The result of all that effort on the part of many people, is the creation of what you are holding in your hands—a book on mortgage financing that I hope you will find interesting, informative, and easy to understand. As I learned over many years, that is no small task when it comes to the complexities of home financing.

I would like to thank my good friend Kevin O'Donnell who told me "I had to write a book" and helped me take the first baby steps as an author. I am deeply grateful to Ken Corr who is a friend, mentor, a writing and life coach. This book would not have materialized without Ken's support. Special thanks to Scott Coady, my life coach and friend, who has given me so many lessons and been a catalyst for life changes for which I am profoundly grateful.

I am particularly indebted to Ramona Rowen. She does not know this, but the lunch we had at Jack's discussing deeper thoughts about homeownership was a turning point. I am incredibly appreciative for the many volunteer readers who provided phenomenal support, giving generously of their time to read the manuscript and share their comments. They include Theresa Smith, Joelle Hannah, Noah Crowe, and Maria Chen – a fantastic loan officer and owner of *The Loan Story*. There is Kathy Brown, an excellent loan officer and owner with Liberty Financial, and the Parkside Lending team, including my dear friend Vince Lombardo, Greg Schatz, Brooke Roehrick, Andrea Collette, and Kevin Moreen. Special thanks to Karen Bennett for her detailed work, and to Royal Peterson, Ken Mallett and Lance Vance. Kudos to Christopher Smith for his exceptional insights and encouragement.

A special thanks to my extended family Joanie and Richard Young for their support and mentoring that provided the environment to grow and refine my skills as a mortgage professional. Gratitude to Bill Carter and Arden Hjelm for their unending support and encouragement. Above all I am in deep gratitude to my wife Carol who I love and adore and for her steadfast patience and support.

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JOIN THE AMERICAN HOME BUYING REVOLUTION!

INTRODUCTION

HELPING YOU BECOME A HOMEOWNER IS PERSONAL

My father walked out on our family when I was eight years old. Whatever financial security we had was gone in a heartbeat. I was the youngest of four siblings, and from then on we were raised by my single mom. She did everything in her power to keep our family afloat, but our descent into deep poverty was relentless. Within a few years, we went from living in a nice house in a beach community to barely surviving in an apartment in a federal housing project where the career path for many of my school friends began in juvenile hall, advanced to the county jail, and ended in prison.

When I was twelve, our lives suffered another hard blow when Mom was diagnosed with multiple sclerosis. It fell to me to be her caregiver. We survived on food stamps, welfare checks, the support of our church, and various odd jobs I picked up, from delivering newspapers to selling Christmas cards door to door. Somehow we managed to keep things together.

My mother died suddenly when I was 18 years old. It hit home how fragile life is and how, in spite of hard work, a good heart, and the best of intentions, people can spend their entire lives on the edge financially, not knowing from week to week if there will be a roof over their head and food on their plate. Deep inside, I knew it didn't have to be that way, and there was something better for myself and for others. This sense of possibility propelled me forward. After supporting myself through college, I chose to enter the home financing industry. It was here that I discovered that my intuition was right and financial security and abundance are possible for almost everyone.

Jump forward to 2007 when the subprime catastrophe hit and the housing market crashed. I was on the front lines seeing it all happen before my eyes; people coming to me who had gotten risky loans from unscrupulous lenders and were losing everything—not just their homes, but their relationships and their health. I knew it didn't have to be this way, and now I understood where people had gone wrong. I had the knowledge to help people—if they would listen— and make sure this never happened to them again. I could show them a better path forward so their new home would be a source of financial security that could never be taken away.

I could no longer stand on the sidelines and felt called to write this book.

I understand that you bought this book because you're focused on the initial sprint to get the best financing you can to buy your new home. I guarantee this book will give you the insider information and tools you need to implement a strategy to secure that financing. But buying your home is just the first step on your journey. My goal is helping you see how success is ultimately measured by a combination of getting the right mortgage AND managing your mortgage, so you keep as much money in your pocket and as little as possible going into your lender's until you own your home free and clear. This combination of a strong initial sprint AND a successful long distance race is the key to turning your home into a source of financial security and a key element to achieving a balanced life.

Before getting into the specifics of a winning strategy for obtaining the ideal home loan, I want to share with you a principle that I adhere to which is that Homeownership is a Sacred Trust™. Here are the key attributes of this principle and why I believe it can serve as a valuable guide for new homeowners:

- Respecting that your new home is a sacred trust means understanding that what you are buying is not just a house—it is your and your family's home, the setting for many of your most rewarding personal and family experiences.
- Respecting that your home is a sacred trust means understanding that it's an investment unlike any other. Buying other real estate in addition to your home can be an excellent investment, and comparing those investments to investing in the market makes great sense. But the return on the investment in a home where you live, where your children grow up, and where you and your partner may grow old, involves the experiences shared there and the security it provides into retirement. That return on investment is priceless!
- Respecting that your home is a sacred trust means not using it as your private bank. I can't tell you the heartbreak I've seen when people pile up debt against their home, watch their investments or business swept away, and lose their marriages, families, and, quite literally, the roof over their heads.

- Respecting that your home is a sacred trust means only borrowing money against it with the primary purpose of improving your home, raising its value, or making it more livable.
- Respecting that your home is a sacred trust means working diligently to own it free and clear, so it becomes the cornerstone of long-term financial security. The beautiful thing about owning your home free and clear is it levels the playing field with the wealthiest of individuals because you no longer have to earn a traditional income to support your housing costs, which can run as high as 45% to 55% of your gross income.

If you make it your intention to follow the principle that homeownership is a sacred trust, I promise that you and your loved ones will be deeply grateful for many years to come.

* Throughout this book, all interest rates are current as of January 2019.

CHAPTER 1

FIRST-TIME HOME BUYERS—YOUR TIME HAS COME

The purpose of this book is to ignite a home buying revolution that motivates potential first-time home buyers to get out of the home rental grind and get into the homeownership game. If you are a Millennial or a Generation Y, I've written this book especially for you. With the current availability of a wide range of home financing options, we are now in the perfect storm for buying your first home. It is now easier than you might realize to responsibly buy your first home—with excellent interest rates and loan terms. I use the word, "responsibly," because, unlike during the subprime debacle, lenders today require you to verify your income and capability based on updated loan guidelines that help you qualify for attractive financing that you can afford.

A fundamental reason for writing this book is explaining how current financing guidelines open up a path to owning a home for countless individuals and couples. I want you to know about and take advantage of these guidelines. Changes made by Fannie Mae and Freddie Mac, the government agencies that buy or insure about 50% of all mortgages, have made it possible for more people to embrace the dream of homeownership. Because this news is taking time to get out, many people, especially young people, are missing out on a remarkable opportunity to experience the benefits of owning a home, including pursuing a path to financial security.

COACHING YOU TO SUCCESSFULLY BUY YOUR NEW HOME

Mortgage lending is not rocket science, but it takes determined effort to get through the steps to homeownership. My commitment is to professionally coach you through the process of buying your first home. While it is surprisingly easy to qualify for home financing, it's a very different matter to actually get your loan and close on your home without the typical drama and stress many home buyers experience.

YOU NEED A HOME BUYING STRATEGY—PERIOD

You're holding in your hands what I believe is the most valuable book you'll ever read on mortgage financing. I've packed it with insider knowledge to help you create a successful step-by-step strategy for buying your new home and ensuring that your home is a source of financial stability for decades to come.

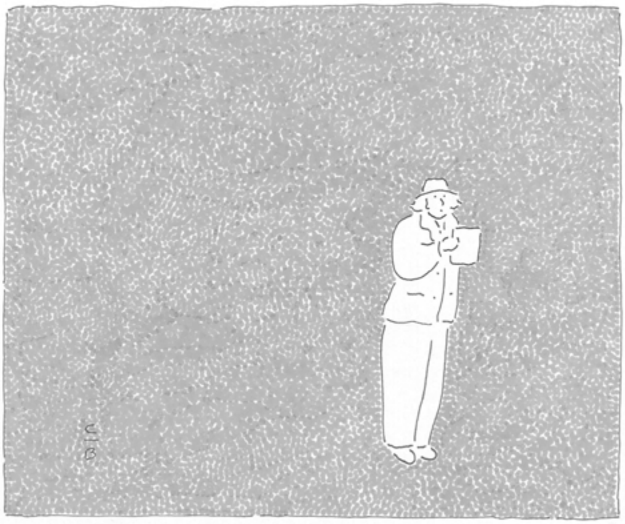
If you enter the home buying process without a solid strategy for success, prepare for an enormous amount of stress and the real chance of heartbreak in the short-term or somewhere down the line. The process is fraught with unexpected twists and turns, and it can feel like forces beyond your control are conspiring against your goal of finding and then getting the financing to buy your new home.

"In a nutshell, if you can prove to me that you don't need a mortgage, I'll give you one."

Here are some key components of the successful home buying strategy we will explore in this book:

- Creating your personal home buying team, finding a qualified mortgage professional that you can trust, and learning the essentials of working with a knowledgeable real estate professional.

- Asking the right questions and watching out for danger signs when applying for a mortgage. I'll explain how credit scoring works, how to improve your credit report, and how a lender determines the value of your home and the size of mortgage you can afford. You'll discover that getting approved for a loan is not as hard as people often believe.
- Understanding the many types of mortgage products, why some mortgage products are better suited for your situation than others, and different strategies for qualifying for a mortgage.
- Understanding the *Tax Cuts and Jobs Act of 2017* and how it may benefit you as a home buyer.
- Learning why it's vitally important to find and work with a dedicated, experienced and qualified mortgage professional. The Wall Street Journal reported that people buying a newly built home from a builder had a 30% greater chance of getting approved for a loan than people purchasing an existing home. Why? Because the mortgage professionals working with the builder took the time to lay out a strategy to get their buyers approved. Getting a loan approved is not rocket science—if you know what you're doing.
- Using the insider knowledge that I give you to avoid being deceived by false advertising and offers too good to be true. You'll learn about the traps of adjustable rate mortgages, and how to avoid them. You'll get the secrets to securing the best competitive loan rate.



"For an explanation of the financial terms of this loan, please enroll in a continuing-education economics class at your local community college."

It's essential that you arm yourself with the knowledge that enables you to avoid making costly mistakes and to lower the stress of buying your new home. By the time you finish this book, you will know the questions to ask. And you will understand many of the answers better than some of the professionals with whom you're working!

ARE YOU PART OF THE 40%?

A survey conducted by Fannie Mae several years ago estimated that 40% of people who were renting could qualify to buy a home but did not know it! I believe this still holds true today. Think about that for a minute: 40% of people renting could be benefiting from owning a home but don't explore the possibility because they erroneously believe they don't qualify.

Lots of people have heard on the radio, read in the newspaper, and seen on TV that "you cannot get a loan" or that "money is tight." Is it any wonder that many potential first-time home buyers have stayed away from purchasing a home? Does this mean you cannot get a loan? *The answer is a resounding no!* There is often more money to lend than the lenders know what to do with.

Consider the story of Ted and Alice, a couple referred to me by a real estate professional they met at an open house. Even though they knew they couldn't qualify to buy a home, they were out on a Sunday afternoon, killing time and dreaming about having a place of their own. Ten minutes into our interview it was apparent to me that they were qualified to buy a home! After checking their credit and verifying their income, I gave them a pre-approval letter, and they were in their new home in sixty days. This type of experience was not a one-time occurrence. I see it happen all the time!

YOUNG PEOPLE AREN'T BUYING BUT SHOULD BE

In *The Atlantic*, Derek Thompson makes the observation, "This is the perfect time for many people to buy their first home, but fewer younger people are buying homes than was the case even ten or twenty years ago." He explains that "between 1980 and 2000, the percentage of late twenty-somethings who owned homes declined from 43% to 38%. The share of people in their thirties had slipped from 61% to 55% during that same period."

According to a recent Federal Reserve study, after the great recession that took place between December of 2007 and June of 2009 (National Bureau of Economic Research), the rate of young people getting their first mortgage dropped yet again. An analysis published by the National Association of Realtors in 2017 indicates that "the share of first–time buyers has declined to 34 percent, which is the fourth–lowest rate since the survey's inception in 1981." Let's explore some reasons why a lot of people who qualify to buy a home today are passing on a great opportunity.

MARRIAGE AS THE TRIGGER FOR BUYING

There are several reasons why this decline is happening, but one primary reason is pretty clear. It's the drop in the number of young people getting married or waiting to tie the knot at a later age.

In her article, *Delayed Marriage Equals Delayed Homeownership*, Mollie Carmichael writes that "traditionally, marriage has been the igniting factor in motivating people to buy a home. The rate of individuals getting married between the ages of 25 to 29 has declined by 43% between 1970 to 2013." She adds, "The housing market is unquestionably fueled by life-stage change, particularly the change of marital status and the addition or subtraction of children. These changes significantly affect where consumers want to live and what kind of home and community they will choose."

A strong case can be made that waiting until you're married to buy a home is no longer the best strategy. In a few pages, I will share a story about a client of mine, a single man in his late 20s, who got tired of paying increasingly high rent and took the leap of becoming a homeowner himself.

YOU HAVE STUDENT LOANS? YOU HAVE OPTIONS

Some analysts suggest that many young adults can no longer buy a home because of high student debt. They argue there is a correlation—and likely a causal relationship—between increased student loan debt and the decline of home-buying by young adults. As a result of the opinions of these analysts, we've seen a wave of major media articles with titles such as, *How Student Debt Crushes Your Chance of Buying A Home*, or, *College Debt is Still Keeping Grads from Buying Homes*.

In *The End of The American Dream?*, Jason N. Houle and Lawrence Berger argue that, while student debt can influence a person's ability to buy a home, it's not the primary cause of lower homeownership among young adults. For example, by 2013 the average student loan debtor owed nearly $25,000 compared to $13,000 in 1992, both in constant 2013 dollars. Their argument is that while this is certainly an increase, the higher payment is not typically a factor in determining whether student loan debtors qualify for home financing.

Consider the following: estimated student loan payments in 2013 were approximately $250 a month compared with $120 a month in 1992. This difference of $130 a month is often not material to qualifying for a mortgage. What typically hinders a person's ability to qualify is *bad debt* such as excessive credit card and auto loan debt. In the Appendix, I explain the difference between good debt and bad debt when addressing debt management. While having no debt is the best option, the key factors are the type of debt you have and how you manage it.

To understand the relative impact of other debt and student debt on qualifying for financing, let's take the example of Ken and Amy. Their total income is $68,000 a year. With no debt except a monthly student loan payment of $200, they easily qualify for a loan of $381,000. However, if their *other debt* were to rise an additional $500 a month, the loan they qualify for with conventional financing would drop to $295,000 based on the increased debt they're carrying. By other debt, we mean, in addition to their student loans, any auto loans, and credit card payments. Similarly, if their income goes up, or their debt drops again, they'd qualify for a larger loan. Just for future reference, when I refer to *conventional financing*, it means loans that are insured by Fannie Mae or Freddie Mac, the governmental agencies that buy these loans.

Having student loan debt does not, in itself, preclude you from getting home financing. The key is looking at the relationships between your monthly income, your monthly student loan payments, and your other debt payments.

UNMARRIED COUPLES OR FRIENDS QUALIFY

The conventional wisdom once was, "First comes love, then comes marriage and then comes the mortgage." This sequence is no longer the case—and hasn't been for quite a while. A 2013 study by Coldwell Banker Real Estate showed that one in four couples between the ages of 18 to 34 had bought a home before they were married, and 14% of home-buying couples who were 45 years old or older were also unmarried.

In my home financing practice, the driving force pushing unmarried couples to buy real estate is that the expense of renting is now in the same ballpark as the cost of buying. Most of my clients abhor the idea of paying rent when, with their combined income, they can easily qualify to buy a home, build equity, and become financially stable. I use the term *equity* frequently in the book, and my definition is that equity is the difference between what you owe on your home loan and the value of the property.

If you're an unmarried couple thinking about buying a home, be aware that there are some blind spots that can lead to unfortunate results without proper planning. Many unmarried couples don't realize that if their relationship splits up, the process of disposing of their property can, in some cases, actually be more complex than with a traditional divorce. The laws protecting married couples often aren't available when dealing with the financial assets of unmarried couples. Be sure to talk with your mortgage professional or a qualified attorney about these sorts of issues before buying a house. The good news is that with proper planning, owning real estate can empower and strengthen your relationship!

Groups of friends who decide to buy a home together should follow the same advice of checking with a trusted mortgage professional to develop a workable plan. One characteristic they share with most unmarried couples is that individually they can't qualify for mortgage financing, but by pooling their income and savings, they can become homeowners. But proper planning in advance of buying is a must. When buying a house with friends, I recommend you consult with an attorney who can help you draft a document that outlines the terms of your group venture to purchase a home. In this case, it is definitely true that an ounce of prevention avoids a pound of cure.

Many finance professionals discourage buying real estate unless you are married, but my belief is that, with proper planning and total transparency, both unmarried couples and groups of friends can buy real estate jointly, and effectively build wealth. I have watched numerous clients of mine, both single or unmarried couples, surprise even themselves as they quickly moved from being frustrated renters to home buyers to very happy homeowners.

SINGLES—DON'T SIT ON THE SIDELINES

Mark was single, in his late twenties, enjoying life, and working as an IT manager for a start-up. He was driven by the desire to succeed, putting in long hours at the office before spending late evenings having a good time with friends. Mark and most of his friends believed that owning a home should wait until they were married, or at least in a committed relationship.

What finally pushed Mark to rethink his perspective was that his landlord raised his rent for the fifth straight year. He arrived at my office, frustrated and angry, and resolved to do something about his situation. His rent had just increased to $1,750 a month. We calculated that if he continued renting his apartment, and his rent increased 5% each year, in five years he'd be paying $2,233 a month!

Mark had a good job, good credit, and made about $75,000 year. His biggest debts required monthly payments of $300 on his student loan, $375 on his car loan, and $150 on his monthly credit card balance of $5,000.

Mark had some savings but feared that his limited down payment funds made it unlikely he could get a loan. At the same time, if his rent kept rising, it would get even harder to save for a down payment. He was facing a *catch 22* situation, with no easy solution in sight.

Mark was also under the impression that money was tight, the loan process was complicated, and it was more difficult than ever to buy a home. He's not alone in this perception, as many people make the false assumption they can't qualify. You may be one—so please keep reading!

Mark was stunned when I showed him that with conventional financing, he could buy a home immediately with as little as 3% down—and the entire down payment could be a gift from family members. Allowing family members to gift the buyer the full amount of the down payment is a huge change in conventional financing and enables tens of thousands more people to now qualify to buy a new home. If you have little or no money for a down payment, don't despair, there are new options out there for you!

After pulling Mark's credit and looking at his pay stubs and tax returns, I qualified Mark for a home purchase of up to $252,000. In our market area, he could buy a nice condo, a strategy Mark was comfortable with due to his extensive travel schedule. He needed just $7,560 for the down payment, plus the closing costs. The total cash required to close the deal was about $14,100. Mark had $12,000 savings in the bank and felt his parents could gift him the additional funds needed for the purchase.

I decided to dig a bit deeper into Mark's situation and discovered he had just eleven months left on paying off his auto loan. He was unaware that when there are ten months or less remaining on an installment debt, as opposed to credit card debt, the lender doesn't count those payments as part of your debts. By making just one more car payment, he moved within the ten-month range and the lender deleted his $375 car payment from his total debt load. The result: Mark now qualified for a loan of $318,000, which would enable him to buy a home with a purchase price of $327,800, an increase of over $73,000. That extra bump in price gave Mark the chance to acquire a three bedroom home if he wanted.

Mark was thrilled. He decided that if he bought the three bedroom house, he could rent out two of his rooms to close friends. After collecting their rent of $850 a month each, Mark's monthly out of pocket costs for a mortgage payment of $2,568 would be just $868! This amount was a decrease in his current monthly rent payment of $882, and he could put the $882 a month difference toward paying off his student loan and credit card debts.

As you'll see shortly, Mark's story is not an outlier. He's one of many first-time home buyers who've walked through my doors believing it was a long shot to get home financing, only to discover, often in a matter of minutes, that they were in far better shape than they thought.

BEING MARRIED HAS ITS ADVANTAGES

Meagan and Paul were a newly married couple in their early thirties. Both had stable jobs, earning a total of $95,000 between them. Paul's credit was solid, but Meagan's credit was trashed because of a previous financially disastrous marriage. They were renting and unhappy that even the simplest improvements they made to their home came out of their pockets. Adding further salt to their wounds, their rent was increasing every year.

Meagan and Paul attempted to live frugally and save money by renting an apartment in a low-quality complex for $1,600 a month. They were on the third floor, there was no elevator, and climbing the stairs was a killer. They desperately wanted their own place, and unbeknownst to them, they were part of the 40% of renters who incorrectly believe they can't qualify to buy a home.

One weekend, Meagan and Mark went window shopping at open houses, not thinking they qualified for a loan but wanting to explore their dream of owning a home someday. They fell in love with a home for $410,000 and decided to stop by my office on the "outside chance" they could get some form of financing.

When I met with Meagan and Mark, they were surprised to learn there was a decent possibility of qualifying to buy the home they'd just looked at. They'd saved around $20,000 for a down payment but thought they'd need twice that much. When I did some investigating of Meagan's low credit scores, I learned her problem was some small collection accounts that her ex-husband was responsible for but never paid.

With Meagan and Paul sitting in my office, we called the five collection agencies, telling them she would pay their account to zero if they would send a letter of deletion that expunged the account and made it disappear from her credit report. Three of the five collections agencies agreed to delete the account. Within ten days, Meagan's credit score increased by fifty points! This sort of turnaround is something that frequently happens in my practice. In Chapter 4, I'll walk you through strategies for raising your credit score—in just a matter of days!

The most exciting news for Meagan and Paul was that they moved into the new home of their dreams within sixty days. Just think, in a couple of months, you could be Meagan and Paul and own your own place too!

GET IN THE HOMEOWNERSHIP GAME NOW

I love those two stories about Mark, Meagan, and Paul because they demonstrate how first-time home buyers can successfully navigate a reasonably quick path to owning a home. Their experiences provide valuable lessons worth reviewing:

- **Get in the homeownership game now:** Both single and married home buyers have learned it can be costly to wait to buy because of uncertainty about their job situation or remaining in the area. Many of my clients have realized that job changes can take months or years, and they could be paying down a mortgage, avoiding rent increases, and owning a home whose value may rise over time.
- **Renting gets more expensive:** Renters are getting frustrated because rents are going up. Based on numbers from the 2018 U.S. Census Bureau, median rents nationally have increased an average of 4.36% each year from 2012 to 2017. Many renters have been surprised to discover that a mortgage payment can be comparable to their current monthly rent payment. Also, many single buyers realize that it's relatively easy to find friends who will rent from them and help offset their mortgage payment.
- **Entire down payment can be a gift:** Current guidelines for conventional loans now allow 100% of the down payment in the form of a gift from family members. In the past, this had only been an option with Federal Home Loan Administration (FHA) financing, so it's a real game changer.
- **Down payments as low as 3%:** Buyers can get conventional financing while putting down just 3% of the purchase price of the home. To buy a median-priced home in the United

States, estimated by *Zillow* to be $231,700 in June 2018, you need a down payment of just $6,951, all of which can be a gift from a family member.

- **Low interest rates:** As interest rates continue to be near historic lows, low rates result in lower monthly payments and make it easier to qualify and get a larger mortgage.
- **Lender paid mortgage insurance:** Lenders also give buyers the option of a slightly higher interest rate rather than paying monthly mortgage insurance. This option enables many more people to qualify for financing to buy their first home.
- **High credit scores not necessary:** Meagan and Paul's case shows that credit scores don't have to be excellent to get financing. Even with a lower credit score, you can still qualify to buy your new home.
- **100% financing for Vets:** Veterans and active military have access to VA financing from the Veterans Benefits Administration that covers 100% of the purchase price, which means not needing to put any money down.

The bottom line is there are more home financing options available than ever before! By the time you finish this book, you'll know what they are and have a good idea which is the best for you!