
HOMEBUYER'S
GUIDEBOOK
• THE JOURNEY TO HOMEOWNERSHIP •

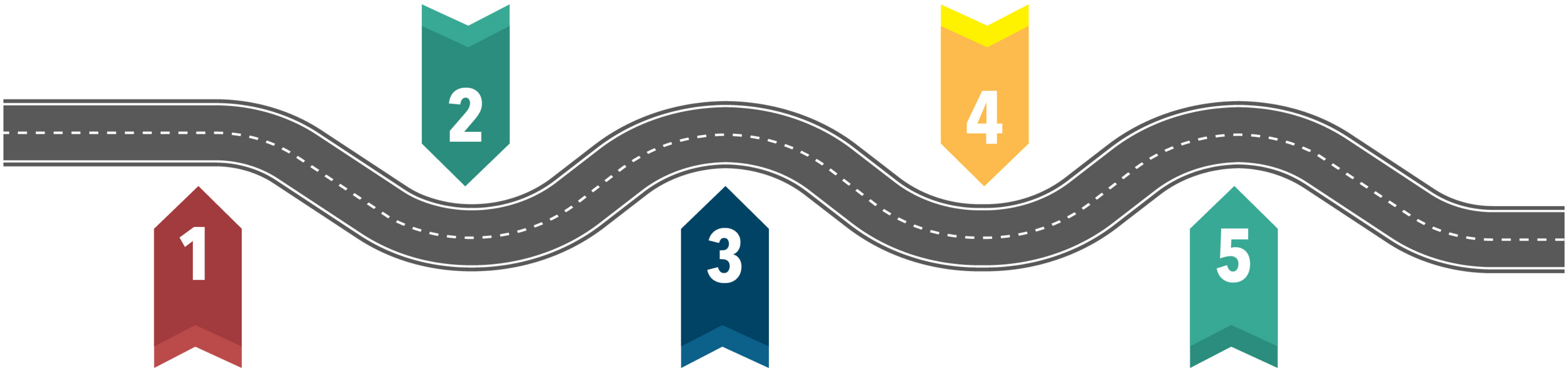
GETTING STARTED

Buying a home is one of life's most exciting adventures. Being a homeowner gives you the opportunity to put down roots, become part of a community, and build your wealth for the future. But the journey to becoming a homeowner is no small feat.

The good news is, you've come to the right place. This Homebuyer's Guidebook has everything you need to get acquainted with the homebuying process, from getting a mortgage to receiving the keys to your new home. As you move through the process, remember, we'll be here to answer any questions you have and guide you each step of the way.

Ready to embark on your homebuying journey?

Below is an overview of the major steps you'll encounter along the way.
Read on for more detailed information about each part of the process.



GET PRE-QUALIFIED

Know how much you can afford before you start shopping.

FIND A HOME

Discover your dream home and make an offer.

GET THE RIGHT MORTGAGE

Choose the right loan program for your situation.

CLOSE ON YOUR HOME

Become the legal owner of your new home.

MOVE IN

The end is just the beginning!

YOUR GUIDES

A look at everyone involved in the homebuying process

Lending Team

Loan Officer: Your guide from application to closing. They'll help you find the right loan and keep you informed through the entire process.

Processor: Reviews your loan application to make sure it's complete and accurate before handing off to the underwriter.

Underwriter: They assess your financial situation and the loan guidelines to make the final decision on your loan.

Real Estate Agent

Buyer's Agent: Helps you find a home and negotiates the offer on your behalf. Be sure to talk to a few agents before choosing one.

Listing Agent: Represents the seller and helps them negotiate the price and terms in the sale of the home.

Home Inspector

Examines the condition of the home you're looking to buy, helping to identify any major issues with a home before closing.

Appraiser

Provides an unbiased estimate of the fair market value of the property you're considering by taking a variety of factors into consideration.

Title Company

Ensures the property title is clear of any liens or claims and prepares a title insurance policy for the property.

Closing Agent

Acts as an impartial third party, playing the important role of overseeing the final details of the real estate transaction.

SECTION 1

Know What You Can Afford

Get Pre-qualified

Before you start looking at houses, work with your loan officer to get pre-qualified, which will let you know how much home you can afford. This can help you narrow your home search to houses within your budget, give you an idea of how much you'll need for a down payment, and help you identify budgeting goals to work toward.

To determine the loan amount you can qualify for, your lender will look at your income, debts, savings, and assets.

As a general rule of thumb, your monthly housing expense should not exceed 28% of your gross monthly income.

While getting pre-qualified can be a big advantage during your home search, it's not a guarantee for a loan. Getting approved for a mortgage happens later in the process. Jump to page 4.2 to learn more about the mortgage application and approval process.

Qualifying for a Loan: What Lenders Look At

Lenders look at a variety of factors when determining if you qualify for a loan.

The 4 Cs of Credit

1. **Character** represents your credit history or financial integrity. Your credit score, how much credit you've used in the past, and whether you make your payments on time are examples of your financial integrity.
2. **Capacity** represents your ability to repay a loan. The amount of your income and assets are compared against your monthly debts to make sure you can afford a loan
3. **Collateral** is the asset securing the loan — in other words, the value of the home itself. If you default on your payments, the home can be repossessed by the lender.
4. **Capital** is how much money you're able to invest in the collateral, represented by your down payment. The amount of capital you contribute shows that you have "skin in the game" and reduces the risk to the lender.

Understanding Loan-to-Value (LTV)

LTV expresses how much you're borrowing compared to the value of the home. A lower LTV is preferred because it represents less risk to the lender. This ratio is calculated as:

$$\frac{\textit{Amount Borrowed}}{\textit{Appraised Value of Property}} = \textit{LTV}$$

For example, let's say you need to borrow **$90,000** to purchase a **$100,000** home. Your LTV ratio would be **90%**.

$$\frac{\$90{,}000}{\$100{,}000} = 90\%\ \textit{LTV}$$

The higher your down payment, the lower your LTV. This is important because a LTV higher than 80% (in other words, a down payment less than 20%) typically means you'll have to pay mortgage insurance. Jump to page 2.2 to learn more about how mortgage insurance works.

Understanding Debt-to-Income (DTI)

DTI shows how much debt you have compared to your monthly income. This debt includes credit card bills, auto loans, alimony or child support and other regularly monthly payments you make. The lower your DTI, the better your chances are of qualifying for a loan. The ratio is calculated as:

$$\frac{\textit{Total Recurring Monthly Debt}}{\textit{Gross Monthly Income}} = \textit{DTI}$$

For example, let's say your total monthly debts add up to **$2,000**, and your gross monthly income is **$6,000**. Your DTI ratio would be **33%**.

$$\frac{\$2{,}000\ \textit{Debt}}{\$6{,}000\ \textit{Income}} = 33\%\ \textit{DTI}$$

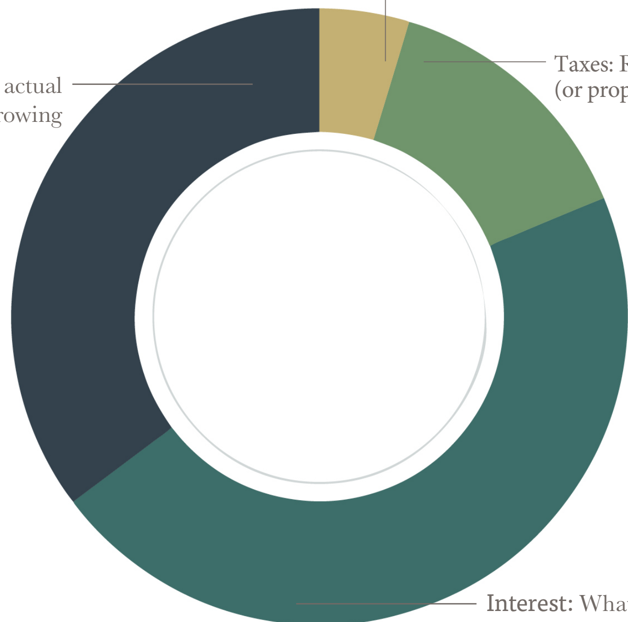
Remember, your monthly housing expense (not including other debts) should not exceed 28% of your gross monthly income.

SECTION 2

Costs That Come With Buying a Home

Anatomy of a Mortgage Payment

Your monthly mortgage payment is made up of the following elements:



Understanding Escrow

You may have noticed that taxes and insurance make up a portion of your monthly mortgage payment. These are called **escrow payments**.

Each month, your lender will collect money from you (in your monthly mortgage payment) and put that money into an escrow account to pay your property taxes and insurance on your behalf. This not only protects the lender's investment but also makes it easier for you to pay these expenses, rather than having to plan for hefty tax bills or insurance premiums on your own.

Your escrow payments include the following:

- **Real Estate Taxes:** A percentage of your home's assessed value that gets paid to your local government to fund roads, schools, and other local services. This amount is determined by your lender, so keep in mind that you may receive a refund or have to pay a balance at the end of the year.
- **Homeowners Insurance:** Protects your home in case of theft or acts of nature, such as fire, hail, or tornadoes. These policies typically exclude floods and earthquakes.
- **Mortgage Insurance (if applicable):** If you put down less than 20% when you buy your home, most loan programs require that you pay mortgage insurance. We'll take a closer look at how mortgage insurance works on the next page.

What Is Mortgage Insurance?

Mortgage Insurance (MI) is also referred to as private mortgage insurance (PMI) or a mortgage insurance premium (MIP), depending on the type of loan you choose — protects the lender in the event that you fall behind on your mortgage payments. If you put down less than 20% when you buy your home, or if you take out an FHA loan, you'll have to pay MI.

By the way...

Some loan programs, like VA loans, don't require MI, no matter how big or small your down payment.

How Mortgage Insurance Can Benefit You

While MI places an added expense on your monthly mortgage payment, it can be worth it by helping you purchase a home sooner. For example, let's say you only have 5% saved up for a down payment. Rather than waiting to save up for a full 20% down payment, which could take years, you could purchase a home now with your 5% down payment and pay MI as a trade-off.

Once you have enough equity built up, you may be able to cancel your MI. That's because as you build equity, your LTV decreases. Remember in an earlier section how we said borrowing $90,000 to purchase a $100,000 home would equal a 90% LTV? In that scenario, once you've built up enough equity and your LTV reaches 80% (i.e., once you owe $80,000), you can request to have your MI canceled.*

**Mortgage Insurance requirements vary by loan type. Talk to your lender to learn more about how MI works.*

What is Equity ?

Equity is the amount of home you actually own. Equity builds gradually as you pay down your mortgage and can also increase as your home's value appreciates over time.

*Under certain circumstances, you can request to get rid of MI once you have 20% equity in your home.**

Closing Costs: Fees You Should Know About

In addition to your down payment and monthly mortgage payment, there are several other costs that come with buying a home. These are called closing costs.

Closing costs often represent one of the most unexpected expenses for homebuyers. They typically account for 2% to 5% of the home's purchase price, so it's important to save for them ahead of time. Closing costs are due on closing day, or the day you sign your loan paperwork and the property title is transferred into your name. Everyone's closing costs vary slightly, but below are some examples of what might be included:

- **Appraisal Fee:** A fee paid to the appraiser to estimate the fair market value of your home.
- **Attorney Fees:** If your state requires an attorney to be present at closing, you'll be responsible for any applicable attorney fees.
- **Credit Report Fee:** A fee paid to the lender that covers the cost of pulling your credit report. Your lender looks at your credit history to determine your creditworthiness, or how likely you are to repay your debt.
- **Discount Points:** An optional, upfront fee that you can pay to lower your interest rate over the life of your loan. One point typically equals 1% of the loan amount.
- **Home Inspection Fee:** A fee paid to the home inspector for assessing the home's condition and identifying any needed repairs.
- **Origination Fee:** A fee charged by the lender for originating or creating the loan. Typically 1% of the loan amount.
- **Prepaid Expenses:** A portion of your property taxes, homeowners insurance, and accrued mortgage interest will need to be paid up front at closing.
- **Recording Fees:** Fees paid to your local government for recording the real estate purchase and making it a part of public record.
- **Title Service Fees:** Fees paid to the title company covering the title search, title examination, title insurance, and in some states, the fee for facilitating your closing.
- **Transfer Taxes:** A tax imposed on the transfer of the title from the seller to the buyer.

To learn more about closing and how it works, jump to page 5.1.

Negotiation Tip

You can negotiate with the seller to pay some or all of the closing costs. If the seller won't pay and you can't afford your closing costs, talk to your lender about adding the closing costs into your loan.

Other Expenses to Save For

Aside from the actual real estate transaction, there are several other fees that come with buying a home. These will vary depending on your situation, but be sure you also save for:

- **Moving costs.** From packing supplies to hiring a moving company, moving can hit you with a lot of unexpected expenses. Make sure you budget and save for these ahead of time.

- **Maintenance and repairs.** Owning a home includes the added responsibility of upkeep. If an appliance breaks down or your roof starts to leak, you'll have to cover the costs to repair it.

- **Utility bills.** Moving from an apartment to a house? If you weren't paying for water and garbage before, be aware that you'll be responsible for these charges going forward, in addition to your normal utilities.

- **Homeowners' Association (HOA) fees.** If you move to a condo, townhouse, or subdivision, you may have to pay a monthly HOA fee to cover amenities, which may include trash removal, lawn care, and access to a community clubhouse, pool, or golf course, to name a few.

SECTION 3

Finding a Home

Once you're aware of all the costs involved and have worked with your lender to determine what you can afford, it's time to begin your search for a home.

Finding a Real Estate Agent

Your real estate agent is a valuable partner in the homebuying process. They will help you find your dream home and present the offer to the seller on your behalf.

When looking for an agent, start by asking your friends, family and even your lender for a referral. Be sure to talk to a few agents before you decide.

Here are a few things to consider when looking for an agent:

Licensing. All agents and brokers are required to be licensed by the state in which they do business. Do a quick internet search to verify your agent's license is in good standing and that no disciplinary action has been taken against them.

Experience. Has the agent been around for just a few years, or are they a seasoned professional? Do they have experience in your market? Are they unafraid to negotiate to get you the best deal? These are all important factors to consider to make sure you find an agent that's right for you.

Reputation. One of the best ways to identify a good agent is by what past customers say about them, so be sure to read reviews online before choosing your agent. Doing so will give you insight into the opinions and experiences of other homeowners and will help you make a more informed decision.

Finding the Right Home

Home hunting can be an exhilarating yet draining process. What should you look for, and how do you keep track of the features you loved, as well as the things you didn't? Here are some things to consider each time you view a new property.

RESEARCH

- ☐ Neighborhood Safety and Amenities
- ☐ Traffic and Noise Levels
- ☐ Local Neighborhood Home Values
- ☐ HOA or Other Additional Fees

INTERIOR FEATURES

- ☐ Flooring, Windows, & Ceiling
- ☐ Walls
- ☐ Bathrooms & Kitchen
- ☐ Rooms
- ☐ Stairs
- ☐ Doors
- ☐ Systems

EXTERIOR CONDITIONS

- ☐ Roof
- ☐ Foundation, Driveway, & Pool
- ☐ Siding
- ☐ Landscaping & Curb Appeal
- ☐ Garage
- ☐ Patio/Deck
- ☐ Pests

Making an Offer

Once you've found the home you love, it's time to make an offer. The offer, or purchase agreement, is a legal document that outlines the terms and conditions of the sale. This may include but is not limited to:

- Address and legal property description
- Purchase price
- Down payment amount
- Earnest money that must be paid
- Expiration date for the offer
- A commitment by the seller to provide a clear title to the property
- Target closing date
- Target move-in date
- Any contingencies the agreement is subject to, such as the buyer's need to obtain a mortgage or get a home inspection

In some states, your real estate agent will prepare this document, or the state may require an attorney to draft it. Be prepared for the seller to come back with a counter offer before fully signing off on the deal.

What Is Earnest Money?

Earnest money is a deposit you put down when making an offer. It's a sign of good faith to show you're serious about the transaction. The amount varies, but it could be between 1% and 3% of the purchase price. The money gets held in an escrow account until the transaction is finalized, at which point it will go toward your down payment.

More About Escrow?

An escrow account is simply a third party account used to hold money for two parties during a transaction.

If you recall, the term escrow account was mentioned earlier when we talked about the taxes and insurance that your lender collects as part of your monthly mortgage payment. This is just one example of escrow. The earnest money you put down when you make an offer on a home is another scenario where escrow is involved.

The Home Inspection

After both parties have signed the purchase agreement, it's time to get a home inspection. A home inspection is not typically required to buy a home, but it is strongly recommended. In some cases, it may be a contingency on your purchase agreement, meaning it must take place, or the deal will be void.

Why You Should Get a Home Inspection

A home inspection is a thorough examination of the property that identifies the home's structural and mechanical condition and points out any needed repairs. On average, an inspection costs between $300 and $600, although cost varies depending on the location, age, and size of the house. While a home inspection will cost you a small sum of money up front, it can help you know what you're buying. For instance, if the property needs major repairs, an inspection will help you know ahead of time. Keep in mind, you may be able to negotiate with the seller to pay for repairs.

SECTION 4

Getting a Mortgage

The offer has been accepted, and the home inspection has been completed. Now it's time to apply for a loan and secure your mortgage commitment.

Get the Right Mortgage for Your Situation

When it comes to home financing, there's no one-size-fits-all approach. There are a variety of loan programs available to meet your specific financial situation, and you should talk to your lender about which one is right for you.

What Type of Loan Is Right for You?

LOAN PRODUCTS: FIXED RATE VS. ADJUSTABLE RATE MORTGAGES (ARMS)

Fixed Rate: The interest rate for this type of loan stays the same throughout the life of the loan, meaning the rate will not change 10, 20 or 30 years from now. It's a good choice if you want stable payments and plan to live in your home long-term.

Adjustable Rate (ARM): The interest rate for this type of loan fluctuates over time, affecting your monthly payment. It's a good option if you only plan to live in your home for a few years.

LOAN TYPES: CONVENTIONAL VS. GOVERNMENT-SPONSORED

Conventional loans. *With a conventional loan, the lender assumes the risk for lending you money. As a result, conventional loans have more stringent credit requirements and higher down payment requirements.*

Conforming loans are those that adhere to loan limits set by the Federal Housing Finance Agency (FHFA). As of 2020, the conforming limit is $510,400 for one-unit properties.[3]

Jumbo loans are those that exceed the conforming loan limits. Interest rates are usually higher on jumbo loans because they represent greater risk to the lender. There may also be stricter credit standards and underwriting requirements.

Government-sponsored loans. *With a government-sponsored loan, the government backs the loan, or assumes the risk for lending you money. They typically have lower credit and down payment requirements to make it easier for you to obtain a mortgage.*

Federal Housing Administration (FHA) Loan. FHA loans allow you to purchase a home with as little as 3.5% down. Because of the low down payment, borrowers are required to pay a mortgage insurance premium (MIP) on top of their monthly payment.

U.S. Department of Veterans Affairs (VA) Loans. VA loans provide 100% financing to eligible veterans, active duty members, reservists, National Guard members, and surviving spouses.

Rural Development Loans. These loans are available for homes in select rural areas and require 0% down; they do require mortgage insurance.

[3] In high cost areas of the country, where 115 percent of the local median home value exceeds the baseline loan limit, higher loan limits will apply.

Paperwork You'll Need for the Loan Application

When it comes time to submit your loan application, your lender will ask for a lot of different documents. Use this checklist to help get your paperwork in order.

- ✔ Tax returns
- ✔ W2s and/or 1099s
- ✔ Recent bank statements
- ✔ Recent paystubs
- ✔ Residence history
- ✔ A list of all your debts, such as credit cards, car loans, student loans
- ✔ A list of all your assets, including investment and retirement accounts

Additional documents may be required. Check with your loan officer for a complete and final list.

Application Process

Once you've submitted your loan application, it triggers a series of events that must take place before you get your loan approval.

The Loan Estimate

Within three days of submitting your application, your lender must provide you with a Loan Estimate (LE), which is a form that outlines the details of the loan that you've applied for. This is not a loan approval but rather a summary of what your loan will look like should you decide to move forward.

Processing

If you decide to move forward, the application will then get turned over to the processor, who reviews the loan file to make sure all the necessary paperwork is present. The processor will work with your loan officer to collect all the documentation needed for the loan. During the processing stage, an appraisal will be ordered on your prospective property to ensure that the home is worth the amount of the loan for which you have applied.

Appraisal

At this stage, a licensed third party will evaluate the property to ensure it is worth the sales price. The appraiser will consider a variety of things including the home's condition, age, size, other home sales in the neighborhood and the estimated replacement cost of the property.

Application Process (cont.)

Underwriting

Once the processor has compiled your complete loan file (i.e., the application and all supporting documents), the underwriter reviews the application in detail to make the final decision on your loan. This includes reviewing your employment history, credit history, and the appraisal report. The underwriter also ensures your mortgage meets current loan product guidelines. If the underwriter requests further documentation, you will be required to provide it before going forward. This happens often, so don't be alarmed if you're asked to provide additional paperwork.

Loan Commitment/Approval

If the underwriter approves your application, you'll receive what's called a loan commitment letter, which confirms your approval for the loan. This document outlines the details of your loan, including the amount being borrowed, the interest rate, and the term or repayment period.

Once you've received your loan commitment, the next step in the process is closing on your home.

What NOT to Do During the Loan Process

Once you're cleared to close, you may want to go out and celebrate by buying new furniture or appliances, but doing so could jeopardize your loan approval. Here are some steps you should avoid taking until you've closed on your home.

1. **Don't** apply for credit (such as a new credit card, car loan, or financing for furniture or appliances)
2. **Don't** make major purchases
3. **Don't** liquidate funds
4. **Don't** make large deposits
5. **Don't** switch jobs

All of these factors could impact your final closing, even if you've already been approved.

SECTION 5

Closing On Your Home

What Is Closing?

Closing is the final part of the homebuying process where you commit to your mortgage and become the legal owner of your new home. On closing day, you'll sign your loan paperwork, and the property title will be transferred into your name.

Who will be present at closing?

The parties who will attend your closing may vary, but in general, you can expect to see:

- You (the buyer)
- Mortgage lender
- Seller
- Seller's Agent
- Title company
- Attorneys (if applicable in your state)
- Closing agent

Before You Close

To ensure a smooth closing, make sure you've taken the following steps prior to closing day:

1. Get a home inspection.
2. Get a homeowners insurance policy.
3. Determine who your closing agent will be.
4. Review the Closing Disclosure and make sure any errors are corrected. The lender is required by law to provide this three days before closing. After the Closing Disclosure is issued, you must wait three days to close. If any fees change, another disclosure must be issued and you must wait an additional three days.
5. Ask your lender to provide you with a copy of your other closing documents so you can review them in advance. These include the promissory note and mortgage (also known as the security instrument or deed of trust).
6. Find out how much money will be needed to close and how to provide payment (e.g., cashier's check, wire transfer).
7. Do a final walk-through of the home 24 hours before closing to ensure all agreed upon repairs have been made.

On Closing Day

The big day has finally arrived! Make sure it goes off without a hitch by following these tips.

What to Bring

- Photo ID
- Cashier's check or proof of wire transfer to cover your down payment and closing costs
- Checkbook (in case there are any last minute changes)
- Proof of homeowners insurance, your purchase agreement, and a copy of the home inspection

What to Expect

Be prepared for a lot of paperwork. You'll likely be required to sign two, possibly three, copies of each document. Plan for this to take a few hours. Don't rush it, and be sure to ask a lot of questions. If something doesn't make sense to you, ask.

Even if your state doesn't require an attorney to be present, you have the option to hire one anyway, to ensure you understand everything you're signing.

SECTION 6

Moving In

Congratulations! You're a Homeowner!

You've finally made it past closing. Now it's time to move in! Below are some final reminders to help you get started on the right foot as a homeowner.

- File your closing paperwork in a safe place
- Change your address with:
  - The U.S. Postal Service
  - Your bank and credit card companies
  - The Department of Motor Vehicles (update your ID or driver's license)
  - Your insurance company, internet provider, and phone company
- Switch utilities into your name
  - Water
  - Electric
  - Gas
  - Garbage

We're Here to Help

As you're lender, our job is not only to guide you through the mortgage process, it's also to be here to answer any questions you have about your mortgage even after closing.

Feel free to reach out to us. We're here to help.

NOTES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