FIRST TIME HOMEBUYER

IS HOMEOWNERSHIP FOR YOU?

Homeownership may be an option if you:

- Plan to stay in one location
- Want to build equity over the long-term
- Can afford the maintenance costs of homeownership (repairs, lawn care, etc.)
- Have funds for a down payment and closing costs
- Want the potential tax advantages (consult a Tax Advisor)

STEP 1: THE LOAN

- ***What is a mortgage loan?***
  - o A mortgage is a type of loan that is secured by a dwelling or real property (i.e., the home you purchase). Unless you are paying cash for the home, you'll need a mortgage.
  - o You promise to pay back the lender in monthly payments in exchange for the money used to purchase the home.
  - o If you stop paying, you'll go into default, which means you've failed to meet the terms of the loan and the lender can take back the property (foreclosure).
- ***Types of Loans***
  - o **Fixed-rate mortgage** – Interest rate remains the same for the life of the loan providing you with a stable and predictable monthly payment.
  - o **Adjustable-rate mortgage** – Interest rate is flexible and subject to adjustments — either on specific dates (3-, 5-, 7-year adjustments) or based on market conditions. An adjustable rate mortgage may provide you with a lower rate in the beginning of the loan; however, the payment may increase over time.
- ***What is needed to begin?***
  - o A down payment (5% minimum, 3% in some cases)
  - o A valid social security number
  - o CA ID
  - o Minimum credit score of 620
  - o Completed residential loan application with required disclosures
  - o W-2 forms from the previous two years, if you collect a paycheck
  - o Profit and loss statements or 1099 forms, if self-employed
  - o Federal tax returns from the previous two years
  - o 2 most recent paycheck stubs
  - o 2 most recent months of bank statements (all pages)
- ***Standard Forms***
  - o Residential Loan Application o Purchase Contract o Loan Estimate o Appraisal o Closing Disclosure
- ***1003 Residential Loan Application***
  - o When you apply for a mortgage, your lender will likely use a standard form called a Uniform Residential Mortgage Application, Form Number 1003. Sometimes it's just referred to as a "1003." The lender uses this form to record relevant financial information about an applicant who applies for a conventional one-to four-family mortgage. It's important to provide accurate information on this form. The form includes your personal information, the purpose of the loan, your income and assets and other information needed during the qualification process.
- ***Down Payment***
  - o The most common down payment is associated with purchasing a home. The higher your down payment, the lower your monthly payment will be.
  - o Most conventional lenders offer home loans at 10 or 20 percent down payment, but other lenders such as Savings Bank might even require as little as 3 percent — it depends on the lender.
  - o A conventional loan typically requires 20 percent down to avoid Private Mortgage Insurance (PMI), which can add over $100 to your monthly payment. If the borrower puts a 20 percent down payment ($60,000 on a $300,000 home) toward a home purchase, PMI will not be required.

Benefits of a larger down payment:

- o **Lower interest rate:** A substantial down payment indicates that you are a lower-risk borrower. A sizable down payment may be rewarded with lower interest rates.
- o **Better chance of getting approved for a loan** if you don't have a good credit score, a larger down payment can help you qualify for financing.
- o **Lower monthly payments:** More money down means less to pay each month. It also means less interest paid over the life of the loan.
- o **Keep overall debt level manageable:** When interest rates are high, a larger down payment will help limit the amount you spend on interest by keeping your loan as small as possible.

- ***What could be included in my monthly payment?***
  - o Principal – What you borrowed (also referred to as the loan amount)
  - o Interest – What the lender charges you to borrow the money used to purchase or refinance the home;
  - o Taxes – What you pay in county property taxes and sometimes to your local city/municipality;
  - o Hazard Insurance – What you pay to insure your home from damages (fire, natural disasters, etc.).
  - o Flood Insurance – what you pay to insure your home from water damage that relates to flooding.
  - o There is also Private Mortgage Insurance (PMI) which is usually required on most loans when your down payment is less than 20%. PMI is paid monthly until you reach the 20% equity threshold.

- ***What is an impound/escrow account?***
  - o Taxes and insurance are usually held in an impound/escrow account and paid by the mortgage company when they are due (a portion of your monthly payment goes to fund the impound/escrow account). This can be beneficial — especially for first-time buyers or buyers without significant savings — as you set aside a small amount each month instead of having a large, semi-annual or annual out-of-pocket expense. But, it does increase your mortgage payment and reduce your cash flow each month.
  - o Some lenders require an escrow account and some let the homeowner pay their insurance and taxes directly. However, if flood insurance is applicable, an impound/escrow account is required. Always check with your lender to see what's covered in your monthly payment.
  - o Also, when your down payment is less than 20%, you will be required to have an impound/escrow account.

- ***Pre-approval***
  - o This involves completing a mortgage application and providing the lender with your income documentation and personal records.
  - o The lender pulls and reviews your credit and determines if you can qualify for a mortgage.

- ***Why get pre-approved?***
  - o It saves you time by letting you search for homes within your pre-approved, affordable price range.
  - o Also, you're letting sellers know you're a serious and qualified buyer. Often, if there's competition for a home, buyers who have their financing in place are preferred because it shows the seller you can afford the home and are ready to purchase.

STEP 2: THE HOME

- ***Real Estate Agent***
  - o Real estate agents are licensed professionals who negotiate and arrange the buying and selling in real estate transactions. Once you know how much you can afford and the loan amount you'll qualify for, it's time to find a real estate agent. Real estate agents do a lot of your groundwork up front for you by contacting listing agents to set up showings and help you negotiate the purchase price. The best part is that the buyer does not pay for working with a real estate agent. The service is free for a buyer, as sellers pay all the commission.

- ***Pre-approval Letter***
  - o A pre-approval letter provides documentation of exactly how much you have been approved to borrow. And this documented evidence shows both Realtors and sellers that you are serious in your pursuit of a property. A pre-approval letter can make a big difference for homebuyers.

STEP 3: THE OFFER & CONTRACT

- ***The Offer***
  - o A buyer generally makes an offer "subject to" a property inspection, a satisfactory appraisal and/or full loan approval.
- ***Purchase Agreement***
  - o A Purchase Agreement is the contract outlining the agreed-upon price and terms for the purchase of a home. When you are buying or selling a house, you will sign a purchase agreement that outlines the conditions that both buyer and seller agree to, including the purchase price. It is a legally binding contract between the two parties. A carefully written purchase agreement can help the sale proceed smoothly.
- ***Loan Estimate***
  - o After you give the lender six pieces of information — your name, your income, your social security number to obtain a credit report, the property address, an estimate of the value of the property and the size of the loan you want — your lender must give or send you a Loan Estimate within three business days. The Loan Estimate will outline the projected closing costs and loan terms (i.e., loan type, interest rate, estimated monthly mortgage payments) you discussed with your lender. Carefully review the estimate to be sure the terms meet your expectations. If anything appears different, ask your lender to explain why and to make any necessary corrections.

STEP 4: ESCROW

Escrow occurs between the time a seller accepts the offer and the buyer gets the keys to the new house. Once you and the seller have agreed on a price and have signed a mutually acceptable purchase agreement, your real estate agent will collect your earnest money and deposit it in an escrow account at the Title Company or service specified in the purchase agreement. An escrow account is managed by the title company in order to hold valuables, such as money, property deeds and personal finance documents, on behalf of two agreeing parties until specified conditions are met during a financial transaction.

- ***Earnest Money (Initial Deposit)***
  - o When you sign a contract, you'll also pay a deposit called earnest money, usually $500 to $5000, to show that you're serious about wanting to buy the house. The earnest money is applied towards the purchase price if the deal goes through.

STEP 5: INSPECTIONS

- ***Appraisal Inspection (required)***
  - o A home appraisal is an unbiased estimate of the true (or fair market) value of what a home is worth. All lenders order an appraisal during the mortgage loan process so that there is an objective way to assess the home's market value and ensure that the amount of money requested by the borrower is appropriate.
- ***Pest & Fungus Inspection (optional)***
  - o Also called a termite inspection, this visual inspection is conducted by a state-licensed professional hired to look for signs of infestation or damage to a structure by wood-destroying pests. Pest inspectors look for: Wood-destroying pests, such as termites, carpenter ants, rot fungus and wood-infesting beetles.
- ***Roof Inspection (optional)***
  - o A roof inspection is a report stating the current condition of the roof. An inspection is conducted to uncover any cracked, missing, or aging shingles, loose roof seams, potentially clogging rain gutters, or trouble signs.
- ***Home inspection (optional)***
  - o A home inspection is a limited, non-invasive examination of the condition of a home, often in connection with the sale of that home. Home inspections are usually conducted by a home inspector who has the training and certifications to perform such inspections.

STEP 6: LOAN CLOSING

Now that you have finished all of the inspections, you will need to have insurance before the loan closes. These are some of the common insurances you may be required to have:

- ***Insurance***
  - o **Hazard insurance** protects a homeowner against the costs of damage from fire, vandalism, smoke and other causes. When you take out a mortgage, the lender will require you to take out hazard insurance to protect their investment; many lenders will incorporate the insurance payment into your monthly mortgage payment.
  - o **Flood insurance** is a type of property insurance that covers a dwelling for losses sustained by water damage, as it specifically relates to flooding.
  - o **Private mortgage insurance**, also called PMI, is a type of mortgage insurance you might be required to pay if you put less than a 20% down payment on a conventional loan. PMI protects the lender — not you — if you stop making payments on your loan. You can stop paying PMI as soon as the balance on your mortgage loan falls to 80% or less of your home's value, as long as you are up to date on your monthly mortgage payments.
- ***Closing Disclosure***
  - o Lenders are required to provide you with a written disclosure of all closing conditions three business days before your scheduled closing date. Use that time to thoroughly review details of the Closing Disclosure and to question anything that doesn't match your Loan Estimate (i. e, closing costs, loan amount, interest rate, monthly mortgage payment, estimated taxes and insurance outside of escrow). If there are significant changes, another three-day disclosure period may be needed.
- ***Closing Costs***
  - o Closing costs are the expenses and fees associated with the purchase and sale of a home, such as taxes, title insurance, appraisal, lender fees, and other services carried out during closing. Closing costs vary by lender and service provider. However, the law requires lenders to give mortgage loan applicants what is called a "Loan Estimate" of the closing costs associated with a particular mortgage within three days of receiving the mortgage application. Closing cost amounts vary depending on the buyer's loan program, but they typically range from 2%–5% of the purchase price. The buyer's down payment must also be paid at closing, but it is listed separately from the closing costs.
- ***Close of Escrow***
  - o Close of escrow means that a real estate transaction has been completed and that the sale is final. The seller of the property transfers all documents to the escrow agent, who holds them until the buyer transfers the money for the sale to the agent who ultimately transfers it to the seller. At close of escrow, you'll submit a cashier's check or arrange a wire transfer to pay for your down payment and closing costs, and your lender will wire your loan funds to escrow so the seller and, if applicable, the seller's lender, can be paid. If you make it this far, you'll finally get to take possession of the home.

STEP 7: GET YOUR KEYS!

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EQUAL HOUSING LENDER