First-time Homebuyer's Guide

Learn more about what it takes to become a homeowner

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Are You Ready To Buy Your First Home?

This guide is a great place to start! Gain a basic understanding of how mortgages work and how much they may cost. So you'll know what to expect and be better able to make informed decisions. You're not alone in this. Our experienced mortgage consultants stand ready to help you understand your financing options and work with you every step of the way.

We're here to help you feel more confident in today's real estate market and to help individuals and families reach their homeownership goals every day. And we have good news for first-time buyers — There's never been a better time to shop for a home. Today's historically low mortgage interest rates and "buyers market" home sale prices have pushed housing affordability to its highest levels ever![1]

1. National Association of Realtors. Moody's Analytics. Data through yearend 2010.

The Basics

What is a mortgage?
A mortgage is a loan secured by real estate. You borrow money to buy a home and promise to pay it back over a specified period, for a specified cost. If you stop repaying the loan, your lender may take ownership of the property. Repayment typically happens through monthly mortgage payments.

What does my mortgage payment include?
A mortgage payment consists of principal and interest. If you have less than a 20% down payment, your mortgage payment will include principal, interest and mortgage insurance. In addition, you will be required to make your hazard mortgage insurance, real estate taxes and association dues to your lender on a monthly basis to be placed in an escrow account, and other required expenses that may apply. Your lender will then pay those third parties from the escrow account funds. The principal part of your payment reduces the original amount you borrowed.

- -The interest part covers the fee to borrow the amount you still owe.
- -The taxes and insurance part is collected and held in an escrow account to pay your property tax, homeowners insurance and mortgage insurance (if applicable) expenses on your behalf as they come due.

Note: Use of an escrow account to pay for taxes and insurance is an option, as long as you have at least 20% for down payment. If you choose this option, or you have less than a 20% down payment, your monthly payment to your lender will include property tax and homeowners insurance.

What does "amortize" mean?
Amortize means the process of paying off a debt by regularly scheduled payments that include both principal and interest. In the early stages of your mortgage term, your mortgage payment is mostly interest and only a small portion pays down your principal. As you continue making payments through the years, and because the principal balance is reduced, a smaller portion of each payment is interest and a larger portion of your payment goes toward reducing principal until your entire loan is repaid.

What is homeowners insurance?
Homeowners insurance provides financial protection in the event of losses that are the result of fire, wind, natural disasters or other hazards. Most mortgage lenders require you to have a homeowners insurance policy.

What is mortgage insurance?
Mortgage insurance (MI) protects the lender against financial loss if a customer fails to repay the loan. It is usually required when your down payment is less than 20% of the home's purchase price.

- -FHA-insured loans require a mortgage insurance premium (MIP)
- -VA loans require a funding fee.
- -Conventional loans can be insured with private mortgage insurance (PMI)

What are closing costs?
In addition to the sales price of the home, you'll need to pay for the services of various real estate and lending related professionals who are required to complete a purchase transaction. Depending on your lender, the mortgage you chose, and the location of the home, these "closing costs" can add up to several thousands of dollars. You'll get a better idea of the amount soon after you apply for a mortgage, when you receive a Good Faith Estimate that details the approximate costs you will pay on or before your loan closing. You may be able to add your closing costs to your loan amount to limit how much out-of-pocket cash you'll need to close.

What other costs should be considered?

While homeowners don't have to pay rent, they do have to manage expenses — beyond mortgage payments — that renters never face.

- **Maintenance:** It can be costly to keep a property in top condition. This is particularly true of older homes, where system and appliance warranties may have expired. Home warranty plans provide repair or replacement coverage for certain built-in appliances and major home systems for a specific length of time. They cost a few hundred dollars a year, depending on your mortgage size and where you live.
- **Taxes:** Most communities finance schools and other services through property taxes. Tax rates vary from town to town, so ask your sales professional about taxes in your area. The good news is: whether you pay them directly, or through the tax portion of your mortgage payment, property taxes are usually fully deductible at income tax time. Consult your tax advisor for details.
- **Association dues:** Condominiums and planned unit developments (PUDs) often have homeowners associations that can charge fees as high as several hundred dollars a month. These may be included as part of your mortgage payment. If not, you'll need to budget for them.

How do I know how much money I can borrow to buy a home?

Your mortgage consultant can help you get a ***Priority*Buyer®** preapproval that states the maximum loan amount you can borrow. A ***Priority*Buyer®** preapproval is based on our preliminary review of credit information only and is not a commitment to lend. We will be able to offer a loan commitment upon verification of application information, satisfying all underwriting requirements and conditions, and providing an acceptable property, appraisal and title report. A preapproval is not available on nonconforming products or for certain FHA transactions. Add your preapproved maximum loan amount to the amount you plan to use for your down payment, and you will know your home purchase price range.

How do lenders determine if a customer qualifies for a mortgage?

Lenders look at your credit score, the cash you have available for a down payment and closing costs, your income, and your existing debt and financial obligations. Two ratio guidelines are used.

- **The housing expense-to-income ratio (or front-end ratio)** compares your anticipated monthly mortgage payment to your total household gross monthly income (pre-taxed).
- **The debt-to-income ratio (or back-end ratio)** compares your anticipated monthly mortgage payment to your gross (pre-taxed) monthly earnings and your monthly debt requirements. Monthly debt includes credit cards, car loans, student loans, consumer loans plus other financial obligations such as child support and alimony.

What is a credit score?

The three credit reporting agencies — Experian, TransUnion and Equifax are a clearinghouse for information on the credit rating of individuals and firms. Credit score is a term often used to refer to credit bureau risk scores. It broadly refers to a number generated by a statistical model which is used to objectively evaluate information that pertains to making a credit decision (i.e. credit cards, car loans, student loans, etc) that includes:

- -Your payment history
- -The total amount you owe
- -The amount of time you've had available credit
- -Whether you have any judgments entered against you
- -Whether you filed bankruptcy
- -The number of times potential lenders have reviewed your credit

Information in the agencies' reports is evaluated and interpreted into a "credit score," which help lenders make loan decisions. Credit scores range from 350 to 850, and yours may determine whether you are approved for a loan, the terms of the loan, and the interest rate.

Note: Making large purchases with a consumer loan or credit card just before applying for a mortgage may impact your ability to qualify. Consider needs and priorities carefully.

What can I do to manage my credit score?

- **Pay down revolving debt.** Don't move debt around between credit cards.
- **Make bill paying automatic.** Set up electronic withdrawals from your checking or savings accounts to help you make timely bill payments.
- **Don't open a lot of new accounts.** Instead, hang on to and maintain your older accounts.
- **Contact your creditors if you are having trouble.** Most creditors are willing to work out a payment schedule rather than see you fall delinquent and not pay at all.

What is the difference between a conventional loan and a government loan?

- -A conventional loan is a conforming or nonconforming mortgage product that meets Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) standards and may require a down payment.
- -A government loan is a mortgage product whose requirements are established by a government agency such as the Federal Housing Administration (FHA) or U.S. Department of Veteran's Affairs (VA). Government loans typically have lower down payment requirements than conventional loans.

What is the difference between a conforming mortgage and a nonconforming mortgage?

- -A conforming mortgage has a loan amount and underwriting guidelines that follow standards set by the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).
- -A nonconforming mortgage has a higher "jumbo" loan amount or underwriting guidelines that differ from, standards set the FNMA and FHLMC.

How do I know what kind of mortgage to choose?

There are many types of mortgages available. The chart below shows some that first-time homebuyers often choose. Your mortgage consultant can help you understand your options. So you can make informed decisions.

Loan type		
Fixed-rate mortgage. The interest rate stays the same for the life of the loan.	• Predictable monthly principal-and-interest payments • Protection from rising rates	Often chosen by buyers who plan to stay in their home for a long period of time.
Adjustable-rate mortgage (ARM). The interest rate may go up or down on pre-determined dates to reflect market conditions.	• The initial interest rate is usually lower than that of a fixed-rate mortgage • The initial interest rate can be locked in for different introductory periods • After the introductory period, the interest rate typically adjusts every year	Often chosen by buyers who think they might sell/move or refinance within a few years, or those who think they can make larger monthly payments if the rate adjusts upward.
FHA loan	• Low 3.5% minimum down payment requirement • Generally more flexible qualifying guidelines than conventional loans • Gift funds may be allowed for all or a portion of a down payment and/or closing costs • Financing can be assumed by qualified buyers when the home is sold	Often chosen by homebuyers looking for a low down payment.
VA loan	• Low or no down payment requirement • A wide range of rate, term, and cost options • Flexible qualifying guidelines • Gift funds may be allowed for all or a portion of closing costs • Financing can be assumed by veteran and non-veteran buyers when the home is sold	Available to active-duty or veteran military servicemembers.
Community Development Mortgage Program (CDMP)	• Low minimum 2% down payment requirement • Less-demanding income and debt qualifying guidelines • Down payment and closing cost assistance allowed • No mortgage insurance requirement	Designed to help make homeownership more attainable for low-to-moderate income customers.
***Purchase & Renovate*℠ loan**	• Covers the home's purchase price, plus all the costs of needed repairs, upgrades or renovations • Buy a home, make improvements right away, and pay for them over the life of your mortgage • One application, one loan approval, one closing and one monthly mortgage payment	

What if I am not able to make a 20% down payment?

We have several mortgage products and programs that can help qualified first-time homebuyers achieve their goals with less available cash. Just remember, if you make less than a 20% down payment, you will likely be required to purchase mortgage insurance (MI), which adds to the cost of your loan and may increase your monthly payment. If you know you want to become a homeowner some day, it's never too early to start building up your personal savings.

How can you help me save for a down payment?

Your bank likely has some great online budgeting and savings tools to help you identify need-to-haves, cut back on nice-to-haves, and put aside money you'll need to buy a home. They can probably also help you set up a separate "first home" savings or investment account and have a set amount directly deposited into it every month. The set amount will be automatically deducted from the account where you deposit your paycheck or other income. Ask your banker for more details.

Can I use gifted money to help me make my down payment?

Some loan program guidelines allow you to use monetary gifts from family or friends as part of your down payment. Keep in mind:

- -You will most likely be required to provide written proof that the funds were truly a gift and not a personal loan.
- -There are limits on how much gift money you can receive per year without increasing your tax obligations.

Speak with a financial advisor, tax accountant, and a mortgage consultant to learn more about how these options can impact your overall home financing plans and future goals.

Are there any other down payment sources I may be able to use?

Not-for-profit downpayment assistance programs (DAPs) provide funds to qualified homebuyers to help with down payments and closing costs. Many DAPs don't require repayment, if you meet their guidelines. Groups like Habitat for Humanity and Homeownership Alliance of Nonprofit Downpayment Providers (HAND) can also be sources of help. Your mortgage consultant can help you find out which programs are available in your area, explain their details and see if you qualify.

When You're Ready To Shop For Your First Home

Effective house hunting begins with a *Priority*Buyer® mortgage preapproval

A ***Priority*Buyer®** preapproval is based on our preliminary review of credit information only and is not a commitment to lend. We will be able to offer a loan commitment upon verification of application information, satisfying all underwriting requirements and conditions, and providing an acceptable property, appraisal and title report. A preapproval is not available on nonconforming products or for certain FHA transactions. It will let you know how much you may qualify for. So you and your sales professional can make the most of time spent looking at homes. With your application, credit check and first loan decision phase already complete, you are seen as a serious homebuyer.

Choosing your sales professional

A good sales professional should have a working knowledge of the area where you're thinking of buying and can help you:

- -Decide what you want in a home. Use our house wish list to help you communicate your needs and preferences.
- -Search the Multiple Listing Service (MLS) and other resources for homes in your price range that match your needs and show you potential homes, listed by any agency.
- -Provide valuable information on communities, comparable values of neighboring homes, tax rates and building code regulations.
- -Help you make an appropriate bid on a home you want to buy and act as an intermediary between you and the seller, during the negotiating process.

Because we are a joint venture with a real estate agency, we can provide you with in-house referrals to sales professional who we work closely with every day. When you work with an in-house Mortgage Consultant and sales professional, the steps to purchasing and financing your home can be more convenient and time-efficient. We work together to get you into your home.

Choosing your neighborhood

Location is a very important factor in determining your long-term happiness in your new home. Here are a few things to think about and discuss with your sales professional:

- -Do the schools meet my needs?
- -Is the commute time acceptable?
- -Are there good public recreation areas nearby?
- -Do nearby stores and services meet my needs?
- -Are most of the homes in the neighborhood owner-occupied?
- -What population, development and economic trends are occurring in neighboring areas?

Start looking online: There are several excellent websites that showcase homes for sale. Searching your price range is a good way to narrow down the field of neighborhoods you'll have to choose from, and those you'd like to explore further. Write down the MLS numbers of listings that get your attention so you can give them to your sales professional.

Check school reports: If you'll need to send kids to school, now or in the future, the quality of area schools is very important. Ask your sales professional to give you school reports for any neighborhoods you're interested in.

Visit local websites: Go online and research town, city, visitor's bureau, and area newspaper websites.

Choosing your mortgage lender

Our mortgage consultants are trained to pay attention to your goals, help you understand your options, and clearly explain how different loan programs work, so you can make informed decisions.

Our wide range of products serves a large variety of home financing situations. Count on us to provide help and information every step of the way.

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