

# Home Buyers Guide

BE IN THE KNOW BEFORE YOU GO



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**TOWNE MORTGAGE**

A Subsidiary of TowneBank



# THE STEPS OF BUYING A HOME

## 1 Get Pre-Qualified

It's imperative to know what you can afford before you start your home search.

## 2 Start your Home Buying Search

Work with your real estate agent and decide on the best approach to achieving your home search goals.

## 3 Write the Contract

Find the perfect home, and work with your agent to write the contract and negotiate the deal.

## 4 Ratify the Contract

Once the deal is negotiated order the inspections.

## Document Checklist

5

Make sure you work closely with your loan officer, providing all the supporting documentation to help expedite the loan process Lender orders the appraisal.

## Choose your Settlement

6

Decide on who you would like to close with an attorney or title company.

**CONGRATULATIONS, YOU ARE NOW  
A HAPPY HOME OWNER!**

# STEP 1:

# PRE-QUALIFICATION

Apply online, by phone or face-to-face. While applying for your mortgage be sure to have your supporting documentation together to help ease the process of approval along. Standard items needed for approval process:

- ✓ 30 days most recent paystub for each borrower.
- ✓ Current LES for military borrowers.
- ✓ For VA Loans: DD214 or copy of Statement of Service.
- ✓ W2's for each borrower for the past 2 years (1099 if not a W2'd employee).
- ✓ Federal Tax Returns (all pages) for the past 2 years.
- ✓ Two months bank statements, including; all pages for checking, savings, retirement, stocks, bonds, etc.
- ✓ Copy of Drivers License, U.S. Residency card or Government Issued ID.

# BEING ON BUDGET

## THE GUIDELINES OF HOME AFFORDABILITY

Mortgage lenders use something called qualification ratios to determine how much they will lend to a borrower. Although each lender uses slightly different ratios, most are within the same range. Some lenders will lend a bit more, some a bit less. We have taken average qualification ratios to come up with our three rules of home affordability.

## YOUR MAXIMUM MORTGAGE PAYMENT (RULE OF 28)

The golden rule in determining how much home you can afford is that your monthly mortgage payment should not exceed 28 percent of your gross monthly income (your income before taxes are taken out).

For example, if you and your spouse have a combined annual income of \$80,000, your mortgage payment should not exceed \$1,866.

## YOUR MAXIMUM TOTAL HOUSING PAYMENT (RULE OF 32)

The next rule stipulates that your total housing payments (including the mortgage, home owner's insurance and private mortgage insurance (PMI), association fees and property taxes) should not exceed 32 percent of your gross monthly income. That means for the same couple, their total monthly housing payment cannot be more than \$2,133 per month.

## YOUR MAXIMUM MONTHLY DEBT PAYMENTS (RULE OF 45)

Finally, your total debt payments including your housing payment but also auto loan or student loan payments and minimum credit card payments should not exceed 45 percent of your gross monthly income. In the above example, if the couple with \$80k income wanted the highest mortgage payment they could get, they could have up to \$533 in other debt (car payments or credit cards).

This rule means that if you have a big car payment or a lot of credit card debt, you won't be able to afford as much of a mortgage payments. In many cases, banks won't approve a mortgage until you reduce or eliminate some or all other debt.

## HOW TO CALCULATE AN AFFORDABLE MORTGAGE

Now that you have an idea of how much of a monthly mortgage payment you can afford, you'll probably want to know how much house you can actually buy. Although you cannot determine an exact budget until you know what interest rate you will pay, you can estimate your budget. Assuming an average six percent interest rate on a 30-year fixed-rate mortgage, your mortgage payments will be about \$65 for every \$10,000 borrowed.

- $\$1,866 / \$65 = 28.71$
- $28.71 \times \$10,000 = \$287,708$   
(Your maximum mortgage amount)

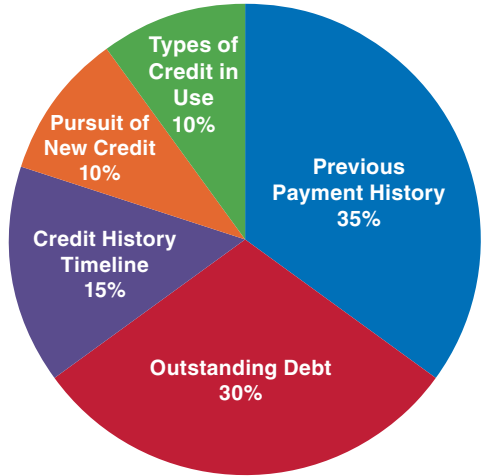
# WHAT'S IN A SCORE?

There are 5 key components that make up a credit score.

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FICO scores are calculated from different data in your credit report. The importance of the categories determine how it is weighed and your credit score is calculated.

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## PREVIOUS PAYMENT HISTORY : 35% IMPACT

Paying your debt on time proves to weigh the greatest. Any late payments, judgments, or charge-offs all negatively impact your score. Recent delinquencies impact greater than mishaps in the past.

## OUTSTANDING DEBT: 30% IMPACT

Try to keep credit balances as close to zero as possible. Paying off revolving debt (credit cards) monthly sends an excellent message to creditors and in turn increases your score.

## CREDIT HISTORY TIMELINE : 15% IMPACT

Though it's important to have trade lines, it's also important to have seasoned liabilities. Showing creditors your ability to repay debt over a length of time proves that you are an excellent credit candidate and shows a positive reflection on your credit score.

## PURSUIT OF NEW CREDIT : 10% IMPACT

Recently opened accounts and the type of account can adversely affect your credit. Remember the longer the relationship the better the score.

## TYPES OF CREDIT IN USE : 10% IMPACT

Mortgage debt has the most positive impact, installment loans second and revolving debt third. Pay off revolving debt monthly and pay as requested for other loans.

# DO'S & DON'TS

While your loan is being processed there are certain “DO'S & DON'TS” which can have an effect on the outcome of your loan request. The following list will remain in effect not only until your loan has been approved, but until the loan is actually funded and recorded. In many instances your credit, income, and assets must be re-verified after you have signed your final loan documents.

We strongly suggest that you comply with the following lists:

## DO NOT:

- ⊘ Quit your job or get another job unless it is the same line of work and for equal or more money. Please call your loan officer if this should occur.
- ⊘ Allow anyone to make an inquiry on your credit report.
- ⊘ Purchase an automobile.
- ⊘ Purchase any other real estate.
- ⊘ Co-sign for anyone else on any type of loan.
- ⊘ Apply for credit, take on additional debt or complete any other credit application.
- ⊘ Charge additional debt on any existing credit account that you have.
- ⊘ Start any home improvements that are not a condition of this loan.

## DO:

- 🔊 Keep all existing accounts current, such as; mortgages, car payments, and credit cards.
- 🔊 Make payments on all accounts on or before the due date, even if the account is being paid off with your new loan. If you have any problems making these payments, please contact your loan officer immediately.
- 🔊 Keep copies of all paycheck stubs, bank account or asset statements, along with any statements for bills being paid off through this loan.

# LOAN OPTIONS

## **FHA LOAN: Federal Housing Administration**

- Great option for first-time buyers
- Flexible credit qualifications
- Guaranteed by the Federal Housing Administration
- Seller can pay borrower closing costs
- Renovation loans available
- As little as 3.5% down payment

## **CONVENTIONAL**

- Up to 97% financing
- Stable rate and principal payments
- Easy-to-understand loan terms
- Competitive interest rates
- Locks interest rate for the life

## **JUMBO**

- For loan amounts exceeding the conventional limit (\$647,200)
- Fixed and adjustable-rate programs available
- Competitive interest rates
- Options as little as 0% down

## **VA LOAN: Veterans Administration**

- Available to qualified active-duty, veterans, reservists and some surviving spouses
- Starting at zero down
- No costly mortgage insurance
- Flexible credit requirements
- Minimal closing costs
- No prepayment penalties
- Lifetime benefit that can be reused
- Backed by the U.S. Department of Veteran Affairs

## **Construction/Renovation Loans**

- Build on your land or finance lot and construction together
- One-time close allows you to close the loan in just one transaction
- Two-time close allows you to change the terms and features of your loan after construction ends
- Primary and secondary options

## **FHA 203k (Rehabilitation Lending)**

- Allows repairs on qualified “fixer upper” properties
- Cash needed for repairs included in the loan
- Available for purchase or refinance
- Finance repairs, upgrades and additions
- Owner occupied only
- 1-4 unit properties
- Up to 6 months of mortgage payments can be financed if home in not habitable during construction

## **USDA: Rural Housing Program**

- Up to 100% financing available
- Flexible credit guidelines
- Seller can pay borrower closing costs
- For rural or suburban areas
- Backed by the U.S. Department of Agriculture

## **FHLB: Federal Home Loan Bank**

- Down payment and closing costs assistance
- Up to \$7,500 for first-time home buyers
- Up to \$10,000 for current or retired police officers, firefighters, teachers, health care workers, first responders, military members, and COVID-related essential workers.
- Owner occupancy only

## **VH: Virginia Housing**

- Low and zero down payment options
- Exclusively available for first-time home buyers
- Income, sales, price and loan amount limits apply

## **MCC: Mortgage Credit Certificate**

- Up to \$2,000 tax credit
- Income and sales price limits apply



# SOURCE OF DOWN PAYMENT

If you're like most people, the down payment on your house will likely be one of the biggest cash investments that you'll make. There are a number of ways that you can get that amount of cash together.

## SAVINGS

Buyers often save regularly for years by reducing expenses, taking a second job or getting a smaller apartment if they are renting.

## GIFT

If you accept a cash gift, you'll need to get it clearly in writing that the person making the gift has no financial interest in or obligation toward the property. A bank will not accept it if your "gift" is really a loan.

## PROCEEDS FROM SALE OF EXISTING HOME

If you sell your home before you buy your next home, you may have proceeds from that sale that can be applied to the down payment on your new home.

## SPECIAL PROGRAMS

State and local governments offer down payment assistance to low- and moderate-income home buyers. Many nonprofit organizations also offer down payment assistance. Contact your bank or your state housing authority for information on these programs. If you choose conventional financing (a loan other than FHA\*, VA, etc.) and you have less than 20% down, you will be required to pay Private Mortgage Insurance (PMI).

## PRIVATE MORTGAGE INSURANCE (PMI):

PMI covers the bank if you stop paying your mortgage and default on your loan. PMI generally costs less than 1% of the outstanding loan balance, and it's usually combined with your monthly mortgage payment. It can add up to many thousands of dollars over the life of the loan.

When you've paid enough principal to own more than 20% of the house, you can apply to have the PMI dropped.

Loan Program	Loan Amount	Down Payment	APR	Mortgage Insurance	Estimated Principal & Interest
<b>VA 100%</b>	\$100,000	Zero	4.313%	Zero	\$487.68
<b>FHA 96.5%</b>	\$100,000	3.5%	5.751%	\$107.69	\$576.45
<b>Conventional 80%</b>	\$100,000	20%	4.268%	Zero	\$381.93
<b>USDA 100%</b>	\$100,000	Zero	4.836%	\$33.74	\$520.89

Mortgage payments based on 4% interest rate. Taxes, insurance, and monthly mortgage insurance are not included in payment or APR. Down payments required on FHA, Conventional, VHDA and USDA. Rates and program are subject to change due to unforeseen market conditions, borrowers credit profile & eligibility requirements. All payments, PITI, are based on 360 monthly payments. APR stands for Annual Percentage Rate. Total monthly obligation could be higher.

## **STEP 2-4:**

# **HOW CAN A REAL ESTATE AGENT HELP YOU?**

When it's time to sell your house, or to buy a new one, a real estate agent will be able to provide you with knowledge and experience that you can count on. An experienced real estate agent has been helping people buy and sell homes in your market, and will know what price is right. Working with a real estate agent will provide you with the confidence, experience, and knowledge that you deserve during this complicated...yet enjoyable process.

## **WHY DO YOU NEED A REAL ESTATE AGENT?**

Quite simply a Real Estate Agent provides you with the "know how" and can broker the best deal for the lowest price.

- Look for a buyer agent who has experience in your market. Real estate agencies offer a wide variety of portals to help with your shopping needs. Internet savvy, check out our online MLS feed, or if you prefer in person, let's get in the car and find the area that best suits your needs.
- Interview your real estate agent. Knowledge is power, get to know their experience and credentials. They will know how much you should pay for any type of home in your market and have the experience to protect you.
- Your real estate agent should be able to provide you with information about local schools, crime rate and traffic, and should prepare a property value study if you are interested in a certain home.

# FINDING THE PERFECT HOME

From Kitchen to Bedrooms, buying a house can be a stressful yet exciting experience. Before you start shopping, dig deep to figure out what you really want to have in your home and what you are willing to compromise. Remember to think beyond the cosmetics of paint, that's an easy change! If you are heart is set on a formal dining room don't settle for less but understand that sometimes in order to get the right home you may have to compromise on things that aren't a deal breaker.

	Must Have	Would Like	Willing to Compromise	Not Important
Front Yard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Back Yard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Garage (___ Cars)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Patio/Deck	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pool	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formal Living Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formal Dining Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Eat-in Kitchen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Laundry Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Attic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jacuzzi Bath	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wood Flooring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Upgraded Appliances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Granite Counters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Water Views	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Once you have narrowed down your search to your top 3. List your top 3 reasons that you "Love" that home. Compare the list to the chart above.

## HOUSE #1

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

## HOUSE #2

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

## HOUSE #3

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

## STEP 5:

# DOCUMENT CHECKLIST

- Addresses for previous 2 years' rental or mortgage history
- Name, address and phone number of all landlords for past 2 years (if applicable)
- Name, address and phone number of employers for past 2 years (include dates and explain gaps)
- All pay stubs for the most recent 30-day period
- Verification of other income -child support, alimony, retirement, or social security awards letter
- Past 2 years' signed personal tax returns
- Past 2 years' W-2's
- Self-Employed-Past two years' signed personal tax returns, corporate or partnership returns including YTD P/L statements, balance sheets, K-1 and 1099's
- Most recent 2 months' statements for all bank, investment and/or retirement accounts (all pages) \*explain all deposits that are not normal direct deposit payroll)
- Copies of separation/divorce decree
- All foreclosure papers including letter of explanation if applicable
- All bankruptcy papers including discharge and letter of explanation if applicable
- Sales Contract- legible copy
- Valid Driver's License or Military ID
- VA Loan Applicants- Statement of Service from your Command or copy of your DD-214, Member Copy 4, so we can order your Certificate of Eligibility
- Closing attorney name and number
- Homeowners insurance information
- Check or Credit Card for Credit Report and appraisal

### REFINANCE

- Copy of current mortgage statement
- Copy of current survey if you have one
- Copy of Homeowners Policy(Declaration Page)
- Subordination
- Copy of deed
- Copy of Title Policy



## STEP 6:

# CHOOSE A SETTLEMENT AGENT.

Savvy Buyers are looking for well-priced properties which may now be available to them. Not wanting to lose out to a competitive Buyer, many borrowers want to know how to make settlement go as smoothly, and quickly, as possible. The right choice of a settlement agent is one way in which you can speed up your closing.

The settlement agent is the person who coordinates all the paper-pushing that goes into a closing. Generally, the agent has some sort of connection to a title insurance company.

Many borrowers also are not aware that they have the right to choose title insurance agents. Under the federal Real Estate Settlement Procedures Act, the seller cannot require you to buy title insurance from a particular title company. The lender may request that you use a title company it finds acceptable, and it likely will recommend some companies, but in most cases, you have the choice. The lender usually always agrees with your pick.

Closing is about preparation and service. Expect good service and ask for it. Making the right choice ahead of time will be the magic key that opens the door to a speedy settlement.



# BASIC TIMELINE OF EXPECTATIONS DURING THE MORTGAGE PROCESS



**APPROVAL PROCESS**



**RATIFIED CONTRACT & LOCKING OF INTEREST RATE**



**HOME INSPECTION & TERMITE INSPECTION**



**APPRAISAL ORDERED**



**NOTIFICATION OF ANY OUTSTANDING CONDITIONS**



**SETTLEMENT SCHEDULED**



**CONGRATULATIONS!**

# ABC'S OF REAL ESTATE

Understanding the terms will help the buying process flow with ease.

## **APPRAISED VALUE**

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Appraisal is based primarily on comparable sales.

## **CLOSING**

This has different meanings in different states. In some states a real estate transaction is not considered "closed" until the documents record at the local recorder's office. In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

## **CONDOMINIUM**

A type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title.

## **CONTINGENCY**

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

## **EARNEST MONEY DEPOSIT**

A deposit made by the potential home buyer to show that he or she is serious about buying the house.

## **EQUITY**

A home owner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

## **FLOOD INSURANCE**

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

## **GRANTEE**

The person to whom an interest in real property is conveyed.

## **GRANTOR**

The person conveying an interest in real property.

## **HAZARD INSURANCE**

Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

## **HOME INSPECTION**

A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

## **HOME OWNER'S INSURANCE**

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

## **LEGAL DESCRIPTION**

A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

## **PURCHASE AGREEMENT**

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

## **REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)**

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

## **RIGHT OF FIRST REFUSAL**

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

# WE'LL GUIDE YOU THROUGH THE HOME BUYING PROCESS EACH STEP OF THE WAY.



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**Get Pre-Qualified Today!**

Scan the code or call Gwyneth at **757-288-6642** today!



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This is not a commitment to lend.

