MORTGAGE 101

A Guide for First Time Home Buyers

When you're ready to buy your first home and take on your first mortgage, it's important to understand the mortgage process. Knowing the cost, consequences, and how the mortgage process works makes the process much less stressful.

To help you understand home loans better, we've created this guide to help you through each step, so you are an informed homebuyer and avoid the most common mistakes borrowers make.

A First-Time Homebuyer's Checklist to Buying their First Home

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Understand your Credit

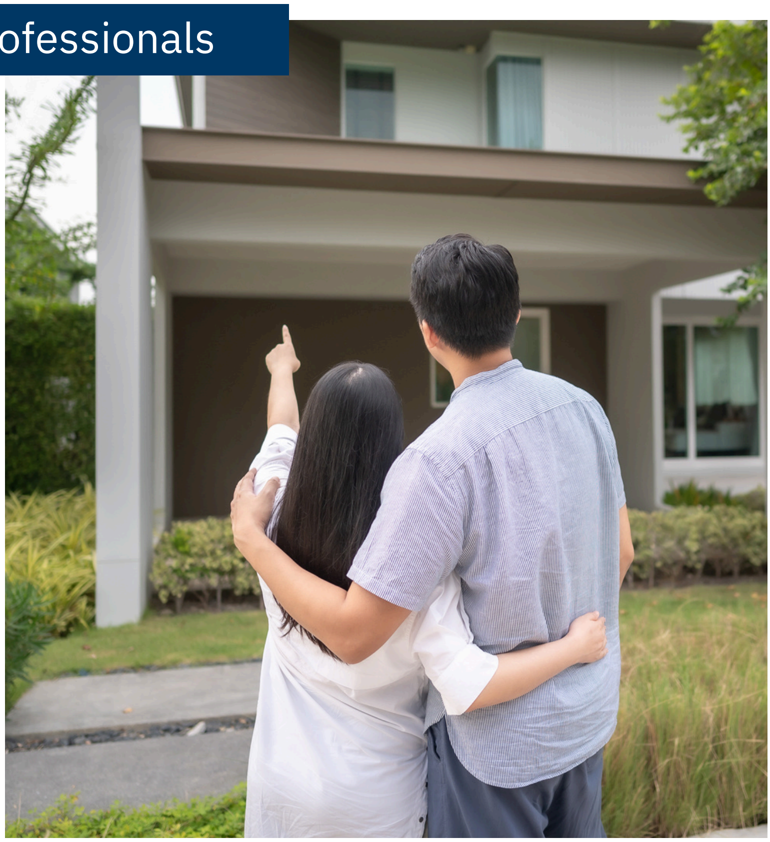
Understanding your credit is the key to securing a mortgage. You don't need perfect or even great credit to get approved, but knowing what you're capable of and what a good credit score can get you is important.

It all starts with knowing how to check your credit and how to fix any issues you find on your credit report.

- Step 1: Pull your free credit report at www.annualcreditreport.com. Everyone gets free weekly access to all three credit reports. Pull your reports often, check for errors, fraudulent activity, or fix errors.
- Step 2: Dispute any errors or fraudulent activity with the credit bureaus. Write a letter to TransUnion, Equifax, or Experian with details about the errors you found and proof of why you think they're incorrect. They have 30 days to look into the issue and determine the outcome.
- Step 3: Fix any issues you caused such as late payments or overextended credit. Pay all bills on time and keep your credit card balances at less than 30% of the credit line.
- Step 4: Don't open or close any accounts while you're in the loan process. Act as if your credit is 'frozen' and don't make any changes until after you close on your mortgage.

Conventional loans require the highest credit scores, usually 620 or higher. If you have less-than-perfect credit, an FHA loan may be a better bet with a minimum credit score requirement of just 580. A mortgage loan officer can work with you to help you determine which loan program your credit score will allow.

Assemble your Team of Homebuying Professionals



Buying a home takes a village – a village of homebuying professionals. Along with a reputable lender that offers the best loan programs, you'll need a land surveyor, a good real estate agent, home inspector, and an insurance agent to help you complete the process. Each professional will work with you to complete the process and help you secure the best home for your needs.

Working with professionals that have a working relationship ensures the process will be smooth and stress-free.

You can talk to your lender about the professionals they suggest or start with your real estate agent and branch out from there. Don't try to navigate the real estate process by yourself.

Get Pre-Qualified

Shopping for a house before knowing how much you can afford is like shopping at stores you can't afford. Don't waste your time. Instead, get pre-qualified so you know not only how much you can afford, but what mortgage terms you qualify for.

This saves you a lot of time and heartache. Who wants to fall in love with a house only to find out they can't afford it? Today most sellers won't show their house or accept bids from buyers without a pre-qualification letter. With the letter in hand, you can make a solid and competitive offer that may give you the leg up on the competition if there is a bidding war on the home.

Evaluate your Debt-to-Income Ratio (How Much Can You Afford?)

Next to your credit score, your debt-to-income ratio is the next most important factor. Your DTI is a comparison of your monthly debts (mortgage payment, car payment, student loans, credit card payments, personal loan payments, etc.) to your gross monthly income (income before taxes).

Ideally, your DTI shouldn't be greater than 43%. This means no more than 43% of your income should be committed to your obligations. The lower your DTI is the easier it is to get approved.

Create a Savings Plan

When you're in the home buying process, this is a time to save your money, not spend it. You can pay for your normal obligations and spend money wisely, but you should avoid all large purchases including those that would require large withdrawals from your bank account or rack up credit card debt.

Before you apply for a mortgage, adopt a frugal lifestyle. Not only will this help you get through the mortgage process without issue, but you'll be ready to be a homeowner without putting yourself in a situation where you can't afford your mortgage.

Determine the Amount of your Down Payment

You'll need a down payment on your home but depending on the loan program and your qualifying factors, it could be as low as 3%. Evaluate your savings and determine how much you want to invest in your home, keeping in mind any money you should leave behind for reserves to cover any unexpected expenses.

Any money you put down must be your funds or approved gift funds. If you will receive money from family members, talk to your loan officer about the proper way to receive them so they are documented and the lender can be accepted.

Also, don't forget in addition to the down payment, you'll pay closing costs which can be 2% - 5% of the loan amount depending on the loan program.

Stabilize your Employment and Income

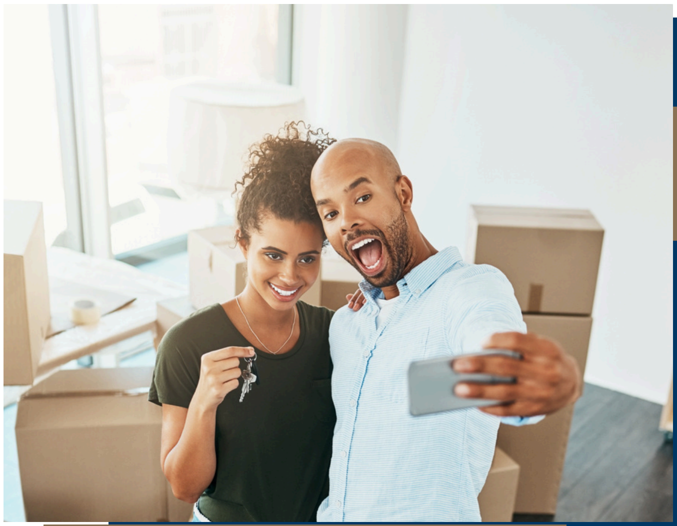
Wait to apply for a mortgage until you are secure in your employment and your income is stable. Changing jobs while you're in the middle of a loan application can lead to a delay in the mortgage process or possibly a declined application.

It's best to have a 2-year stable employment and income history. If it's less and you can prove stability, you may still get approved. If you must change jobs during the mortgage process, discuss it with your loan officer to see what options you have to maintain your approval. In many cases, you may have to wait at least a few months to prove your new employment and receipt of income.

Manage Funds Coming in and out of your Accounts

When you get pre-qualified for a mortgage, lenders evaluate your bank accounts and take note of how much money you have available for the down payment. If you make any large deposits or withdrawals after this time, you must document where the funds came from or went.

The lender may also question any large deposits on your statement that don't coincide with your income to ensure you didn't take out a loan or borrow money from a friend or relative for the down payment. It's best to freeze your account from the time you get pre-qualified to limit the amount of paperwork and documentation you must provide.



Keep Good Personal and Financial Records

When you go through the mortgage process, lenders ask a lot of questions and for a lot of documentation. The more prepared you are when you apply for pre-qualification, the faster the process will go. Before you apply, gather the following documents:

- Paystubs from the last 30 days
- W-2s from the last 2 years
- Tax returns from the last 2 years if you're self-employed
- YTD Profit & Loss Statement if you're self-employed
- Employment verification
- Proof of your current debts (credit card statements, loan statements, etc.)
- Last 2 months of bank statements
- Copy of your driver's license or state ID

Ask Questions

Ask as many questions as you want about the mortgage process. Your mortgage advisor is there to help you understand the process, what the mortgage entails and to help you feel confident in your decisions. The loan process can feel overwhelming for first-time homebuyers, but with the right team of professionals by your side, you can navigate the process with ease.

Final Thoughts

Buying your first home is exciting but we understand how overwhelming it can be too. It's important to work with a reputable mortgage loan advisor who will walk you through each step, show you the loan options that you qualify for and help you make a solid financial decision.

When you work together by providing the necessary documentation, keeping the lines of communication open, and asking as many questions as you have, you will come out of the mortgage process confident in your decisions and as the owner of your dream home.

If you're ready to explore your options to buy your first home, contact us today! We're ready and waiting to help you buy your new home.

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