First Time Homebuyer Guide

Created By:
Generational Wealth Educators

Congratulations!!!

Dear Friend,

Welcome to Generational Wealth Educators. I hope this guide serves you well. Congratulations for taking the first steps to homeownership. Real estate truly is a great door to passive income, building generational wealth, and a great way to have a place you call home. I am the Founder and CEO of GWE and plan to make a huge impact on our community. Starting with you and your family. I hope you enjoy the guide and if you have any questions feel free to reach out at any time. Thank you

Best Regards,

Your Realtor, Jasmine Hall

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The Home Buying Process

I aspire to assist you in achieving your real estate goals and to exceed your expectations. Below is a guide to help you prepare for the purchase of your largest investment yet, your home!

Step 1: Find a Lender and Realtor you can trust

Step 2: Analyze your needs in a consultation

Step 3: Select/View Properties via the Multiple Listing Service

Step 4: Submitting an offer

(During this phase, it is important that you have saved for your Earnest Money and Due Diligence Fee. These are due at time of offer acceptance. Industry standard is about 1.5% of purchase price for both. Example: Offer Price- $200,000 (1.5% of 200,000 = $3,000) EM = $2,000 DDF = $1000)

Step 5: Negotiations, Counteroffers, and Acceptance

Step 6: Due Diligence Period

(During this phase, we will schedule/complete an inspection, schedule closing with attorney, order/complete appraisal via your lender, order title to check if it is clear of any liens, request survey and any other investigating you would like)

Step 7: Insurance/Utilities

(At this point, you are about 2 weeks away from closing on your home. It is your responsibility to schedule electric and gas, cable/internet and finalizing homeowners insurance)

Step 8: Clear to Close!

(Once you are clear to close via your lender, we can either request to close early and keep our original closing date)

Step 9: Settlement & Closing

(This is where we finalize all documents by signing at the attorney's office. You will also wire all funds that are due at closing. (Estimated closing cost=2.5% of purchase price + % owed for down payment.) Once the deed is recorded you will receive your keys and you can move into your new home!)

(Other Expenses: Appraisal - $450-550 Home Inspection: $400-600+)

Loan Options

Not all home loans are the same. Knowing what kind of loan is most appropriate for your situation prepares you for talking to lenders and getting the best deal.

A loan "option" is always made up of three different things:

- Loan term
- Interest rate type
- Loan type

Loan term

30 YEARS, 15 YEARS, OR OTHER

The term of your loan is how long you must repay the loan.

This choice affects:

- Your monthly principal and interest payment
- Your interest rate
- How much interest you will pay over the life of the loan

Compare your loan term options

SHORTER TERM	LONGER TERM
Higher monthly payments	Lower monthly payments
Typically lower interest rates	Typically higher interest rates
Lower total cost	Higher total cost

In general, the longer your loan term, the more interest you will pay. Loans with shorter terms usually have lower interest costs but higher monthly payments than loans with longer terms.

But a lot depends on the specifics – exactly how much lower the interest costs and how much higher the monthly payments could be depending on which loan terms you're looking at as well as the interest rate.

What to know

Shorter terms will generally save you money overall but have higher monthly payments.

There are two reasons shorter terms can save you money:

1. You are borrowing money and paying interest for a shorter amount of time.
2. The interest rate is usually lower—by as much as a full percentage point.

Rates vary among lenders, especially for shorter terms. Explore rates for different loan terms so you can tell if you are getting a good deal. Always compare official loan offers, called loan estimates before making your decision.

Some lenders may offer balloon loans.

Balloon loan monthly payments are low, but you will have to pay a large lump sum when the loan is due.

Interest rate type

FIXED RATE OR ADJUSTABLE RATE

Interest rates come in two basic types: fixed and adjustable.

This choice affects:

- Whether your interest rate can change
- Whether your monthly principal and interest payment can change and its amount
- How much interest you will pay over the life of the loan

Compare your interest rate options

FIXED RATE	ADJUSTABLE RATE

FIXED RATE	ADJUSTABLE RATE
Lower risk, no surprises	Higher risk, uncertainty
Higher interest rate	Lower interest rate to start
Rate does not change	After initial fixed period, rate can increase or decrease based on the market.
Monthly principal and interest payments stay the same	Monthly principal and interest payments can increase or decrease over time
2008–2014: Chosen by 85-90% of buyers Historically: Chosen by 70-75% of buyers	2008–2014: Chosen by 10-15% of buyers Historically: Chosen by 25-30% of buyers

What to know

Your monthly payments are more likely to be stable with a fixed-rate loan, so you might prefer this option if you value certainty about your loan costs over the long term. With a fixed-rate loan, your interest rate and monthly principal and interest payment will stay the same. Your total monthly payments can still change—for example, if your property taxes, homeowner's insurance, or mortgage insurance might go up or down.

Adjustable-rate mortgages (ARMs) offer less predictability but may be cheaper in the short term. You may want to consider this option if, for example, you plan to move again within the initial fixed period of an ARM. In this case, future rate adjustments may not affect you. However, if you end up staying in your house longer than expected, you may end up paying a lot more. In the later years of an ARM, your interest rate changes based on the market, and your monthly principal and interest payment could go up a lot, even double.

Explore rates for different interest rate types and see for yourself how the initial interest rate on an ARM compares to the rate on a fixed-rate mortgage.

Understanding adjustable-rate mortgages (ARMs)

Most ARMs have two periods. During the first period, your interest rate is fixed and will not change. During the second period, your rate goes up and down regularly based on market changes. Most ARMs have a 30-year loan term.

5 / 1 Adjustable rate mortgage (ARM)

FIXED PERIOD	ADJUSTABLE PERIOD
This “5” is the number of years your initial interest rate will stay fixed.	This “1” is the how often your rate will adjust after the fixed period ends.
Common fixed periods are 3, 5, 7, and 10 years.	The most common adjustment period is “1,” meaning you will get a new rate and new payment amount every year once the fixed period ends. Other, less common adjustment periods include "3" (once every 3 years) and "5" (once every 5 years). You will be notified in advance of the change.

ARMs can have other structures.

Some ARMs may adjust more frequently, and there is not a standard way that these types of loans are described. If you’re considering a nonstandard structure, make sure to carefully read the rules and ask questions about when and how your rate and payment can adjust.

Understand the fine print.

ARMs include specific rules that dictate how your mortgage works. These rules control how your rate is calculated and how much your rate and payment can adjust. All lenders follow the same rules, so ask questions to make sure you understand how these rules work.

ARMs marketed to people with lower credit scores tend to be riskier for the borrower.

If you have a credit score in the mid-600s or below, you might be offered ARMs that contain risky features like higher rates, rates that adjust more frequently, pre-payment penalties, and loan balances that can increase. Consult with multiple lenders and get a quote for an FHA loan as well. Then, you can compare all your options.

Loan type

CONVENTIONAL, FHA, OR SPECIAL PROGRAMS

Mortgage loans are organized into categories based on the size of the loan and whether they are part of a government program.

This choice affects:

- How much you will need for a down payment
- The total cost of your loan, including interest and mortgage insurance
- How much you can borrow, and the house price range you can consider

Choosing the right loan type

Each loan type is designed for different situations. Sometimes, only one loan type will fit your situation. If multiple options fit your situation, try out scenarios and ask lenders to provide several quotes so you can see which type offers the best deal overall.

Conventional Loan

Conventional loans are not guaranteed by any government agency and sometimes requires a big down payment.

Current minimum requirements for a conventional loan

- **Down payment.** The minimum down payment is 3% for conventional loans and can come from your own money or a gift from a family member.

- **Mortgage insurance.** Conventional loans with less than 20% down require private mortgage insurance (PMI) to protect the lender if you default. You will pay anywhere from 0.15% to 1.95% of your loan amount each year, although the premium can head north of 2.5% if you have a low credit score and a small down payment. The premium is normally paid as part of your monthly payment; however, it can be paid in a lump sum upfront at closing.

- **Credit score.** The minimum score for a conventional mortgage is 620. Higher credit scores mean you'll likely get more favorable interest rate offers.

- **Employment.** Lenders require proof of steady income and will scrutinize your employment history and income from the past two years. Self-employed borrowers and those with variable incomes will have to provide additional paperwork to verify income.

- **Income.** Most conventional loans do not have income limits. However, Fannie Mae's HomeReady and Freddie Mac's Home Possible loans (which we'll cover below) require that borrowers' incomes must fall within the income limits for their area.

- **Debt-to-income ratio.** Your debt-to-income ratio (DTI) is a measure of your total debt divided by your gross income. Conventional lenders prefer a DTI of 45% or less but may stretch it to 50% with higher credit scores and additional cash reserves. Borrowers with DTI ratios above 45% may be required by private mortgage insurers to have a minimum credit score of 740.

- **Occupancy**. Conventional financing can be used to buy a primary residence, a second home (also known as a vacation home) or an investment property that you rent out.

FHA Loan

FHA loans are a mortgage backed by the Federal Housing Administration (FHA) is one of the easiest home loans to get. The FHA insures the mortgage, FHA-approved lenders can offer more favorable rates and terms — especially to first-time homebuyers.

Current minimum requirements for an FHA loan

- **Down payment.** FHA requires a 3.5% minimum down payment from your own funds or a gift. The down payment requirement jumps to 10% with a credit score between 500 and 579.

- **Mortgage insurance.** FHA loans require two types of mortgage insurance. The upfront mortgage insurance premium (UFMIP) is 1.75% of the loan balance due and can be rolled into your loan. You'll also pay an annual mortgage insurance premium (MIP) as part of your monthly payment, and those costs range from 0.45% to 1.05% of the loan amount. FHA mortgage insurance premiums are the same regardless of credit score.

- **Credit score.** You can have a credit score as low as 500 with a 10% down payment. Homebuyers making a 3.5% down payment will need a minimum score of 580.

- **Employment.** FHA loan income requirements look at the consistency of earnings and employment for the last two years. Job-hoppers will need to explain changes or gaps in employment.

- **Income. There are no income limits for FHA loans.** However, the maximum FHA loan limit is capped at $331,760 compared to $510,400 for conventional loans in most parts of the country.

- **DTI ratio.** The front-end DTI ratio for FHA loans is 31% and the back-end ratio is 43%. The front-end ratio considers only housing-related costs, such as your monthly mortgage payment, property taxes and insurance. The back-end ratio looks at total debt, including mortgage payments, car loans, credit card payments and other recurring debt payments. Higher DTI ratios may be approved with strong credit scores or proof of extra cash reserves.

- **Occupancy.** The home must be your primary residence for at least the first year after purchasing it, regardless if it's a single-family home or multi-unit property.

VA Loans

VA loans are The U.S. Department of Veterans Affairs makes qualifying for a mortgage loan easier for active-duty military personnel, reservists, veterans, and eligible spouses.

Current minimum requirements for a VA loan

- **Certificate of eligibility.** To qualify for a VA loan, you'll need a VA loan certificate of eligibility (COE) that verifies you meet the military service requirements needed for a VA loan.

- **Down payment.** No down payment is required for a VA loan. However, lenders may require a down payment if the loan exceeds standard loan limits. Down payments can come from your own funds or a gift from a relative, a close friend, employer, charity, or government agency.

- **Mortgage insurance.** The VA guarantees loans made to eligible borrowers, so no PMI is required.

- **Funding fee.** A funding fee is charged on many VA loans to defray the cost of the program to taxpayers. The amount varies based on type of service, how often the VA loan benefit has been used, and the down payment amount. Military borrowers with service-related disabilities may be eligible for a waiver. In 2020, VA funding fees have increased by 0.15% for borrowers who put down 10% or less of the purchase price. That adds up to an extra $1,500 in funding fee costs for every $100,000 borrowed.

- **Credit score.** There is no VA home loan credit score requirement, but VA-approved lenders typically require a 620 score.

- **Employment.** Generally, two years of employment needs to be verified, with some exceptions for recently discharged veterans.

- **Income.** There are no income limits or minimum income requirements to meet, but lenders require proof of steady income and the ability to repay the loan.

- **DTI ratio.** The recommended debt-to-income ratio is 41%. VA-approved lenders may approve higher DTIs if the borrower has enough residual income, or extra money left-over after-tax deductions, expenses and monthly maintenance costs are subtracted. The minimum amount needed varies based on your location and family size.

- **Occupancy**. VA loans are made only on primary residences.

USDA Loans

USDA loans are The U.S. Department of Agriculture offers a mortgage program designed to give low- to moderate-income families the ability to buy homes in rural areas. USDA mortgage loan requirements include restrictions on the location of the home as well as income limits.

Current minimum requirements for a USDA loan

- **Location of home.** The home must be located within one of the USDA’s designated rural areas to be eligible for a USDA loan.

- **Down payment.** No down payment is required for eligible USDA properties and buyers.

- **Mortgage insurance.** USDA loans do not require mortgage insurance.

- **Guarantee fee.** An upfront fee of 1% is charged for a USDA loan, along with an annual fee of 0.35% of the loan amount. These fees are similar to mortgage insurance charged on an FHA loan, with the upfront fee typically financed, and the annual fee rolled into the monthly mortgage payment.

- **Credit score.** USDA mortgage loans require a minimum credit score of 640 for automatic approval — provided employment and income requirements are also met. However, homebuyers with lower credit scores may still be approved if a temporary hardship (such as an illness or job loss) impacted their scores, or the new housing payment is less than what the borrower is currently paying.

- **Income.** Two years of job and income history is the norm for USDA loans. All household member's income must be considered, regardless of whether they apply for the loan. USDA loans have income limits, which vary by city, county, and family size. Find out the income limit for your area using USDA's map tool.

- **DTI ratio.** The maximum front-end ratio for USDA loans is 29%, while 41% is the maximum back-end ratio. Borrowers who have higher DTI ratios may still qualify with a credit score of 680 or higher, and large cash reserves and a stable income history.

- **Occupancy.** USDA loans can be used for primary residences only.

Generally, your lender must document and verify your income, employment, assets, debts, and credit history to determine whether you can afford to repay the loan.

Ask lenders if the loan they are offering you meets the government's Qualified Mortgage Standard

Qualified Mortgages are those that are safest for you, the borrower.

Mortgage insurance: what you need to know

Mortgage insurance helps you get a loan you would not otherwise be able to.

If you cannot afford a 20 percent down payment, you will likely have to pay for mortgage insurance. You may choose to get a conventional loan with private mortgage insurance (PMI), or an FHA, VA, or USDA loan.

Mortgage insurance usually adds to your costs.

Depending on the loan type, you will pay monthly mortgage insurance premiums, an upfront mortgage insurance fee, or both.

Mortgage insurance protects the lender if you fall behind on your payments. It does not protect you. Your credit score will suffer, and you may face foreclosure if you don't pay your mortgage on time.

Down Payment & Closing Cost Assistance

- Down payment assistance (DPA) helps homebuyers with grants or low-interest loans that reduce the amount they need to save for a down payment.
- Each state has their own step of programs. Please be dig deep and find out the stipulations for each program.
- Some programs serve as a second mortgage and require you to stay in the home for a certain amount of yours.
- A lot of times the standard is 15 years of residency so please make sure that you are aware of the program stipulations.

How to Place an Offer

Now that you have found the home with the help of your realtor, they will assist placing an offer.

There are 4 Essential items of the offer:

1. Price
2. Due Diligence Fee & Earnest Money
3. Contingencies
4. Timing

Documents that are required to submit offer

1. Residential Property Disclosure
2. Mineral Oil and Gas Rights
3. Lead and Based Paint if home was built prior to 1978

Steps:

1. Have your realtor conduct a CMA (Comparable Market Analysis) and determine the most that you would pay for that particular home.
2. Have your realtor place anything in the home that you want to keep in the offer to purchase contract. i.e., if its appliances make sure they add the serial number.
3. Make sure to include a contingency period into the contract for inspections and financing.
4. Earnest Money deposit it normally is 1%-3% of purchase price.
5. Due Diligence is nonrefundable and is the fee to inspect the home
6. Prepare for a counteroffer. The seller may counter what you offer in efforts to negotiate.
7. Want to rescind your offer? It is permitted if the seller has not accepted the offer

Under Contract Process

Process while under contract:

Now that you are under contingent you can do the necessary inspections which could be:

- Home Appraisal
- Loan Contingency
- Home Inspection
- Lead-Based Paint
- Pest Inspection
- Roof Inspections
- Sewer inspection
- Radon, Mold, or Asbestos Inspection
- Private Well Inspection

The attorney or the title company will complete the Preliminary title report. The will be able to find liens, easements, and CC&R which is Covenants, Conditions, and Restrictions. i.e. HOA and their rules

Any money that was paid such as earnest money will be held in escrow until closing day.

More things to look out for are:

2. Proof of Insurance- This will be prorated from the day that you purchase and will be due on the day of closing.

3. Lender Documents- Please provide any additional documentation that the lender needs in a timely manner to make sure that you can close on time.

4. Get closing statement from attorney and have your realtor verify the statement

5. Show up to closing yayy!!

References

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