

# EASY KEYS FOR GUIDING THE FIRST-TIME HOME BUYER



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## EASY KEYS FOR GUIDING THE FIRST-TIME HOME BUYER

Purchasing your first home can be an exciting process — but it can also be scary and a bit overwhelming. Buying a home is one of the most important decisions you'll ever make. So first things first, you need to decide which financial option is best for you.



## IS BUYING OR RENTING RIGHT FOR YOU?

The decision to buy or rent depends on your current financial situation, your future plans and the lifestyle you want to live. Both options have their own set of benefits and potential drawbacks that should be carefully evaluated.

### BUYING MAY MAKE SENSE IF YOU ...

- Have reliable income, good credit and documentation to verify your savings
- Can afford at least a 3.5 percent down payment and related closing costs
- Want a chance to build equity and be eligible for homeowner tax breaks and credits
- Are financially able to take on home-maintenance/improvement projects
- Have an adequate cash reserve to withstand a loss of job, long-term illness, or other financial setbacks
- Are planning on staying in your home for at least four years
- If you are a first time homebuyer or a veteran, ask if 100 percent financing is available for you.

### RENTING MAY MAKE SENSE IF YOU ...

- Have a career or lifestyle that requires you to move frequently or suddenly
- Prefer having a set monthly budget and cannot afford unforeseen home-maintenance expenses
- Do not have the time or desire for home maintenance/improvements
- Enjoy having amenities such as a pool, gym, concierge and tennis courts
- Plan on downsizing your living space or retiring in the near future
- Are experiencing a financial setback and/or rebuilding your credit

The advantages of owning or renting are different for everyone, so be sure to consider these important personal situations and long-term goals before making your decision.

We at Bank of Little Rock Mortgage want to help make the buying process as simple and painless as possible. If you're thinking about buying a home and getting your first home mortgage, this guide can help ensure that you are knowledgeable, the process is organized, and that you secure the most affordable financing available to help make homeownership a long-term success.



## THE KEYS OF HOME BUYING

1. EDUCATE YOURSELF
2. GET YOUR FINANCES IN ORDER
3. ESTABLISH A BUDGET
4. START SAVING
5. GET YOUR DOCUMENTS READY
6. SELECT A LENDER
7. GET PRE-APPROVED
8. SELECT YOUR HOME/MAKE AN OFFER
9. COMPLETE YOUR LOAN APPLICATION
10. WHAT TO EXPECT AT CLOSING
11. MOVE IN!

## KEY 1. EDUCATE YOURSELF

Does buying a home make sense for you and your family? It just might. Home ownership not only gives you a piece of the American dream, it can also help you save on your taxes, improve your credit score and it can be a great investment for your future. If you're thinking of buying a home, the first thing you should do is load up on information. Home buyers who do their homework are more likely to be successful throughout the life of their mortgages.

Before you hire an agent or find a mortgage lender, learn about the home loan process and key factors that make a loan affordable. You'll want to know what your home loan options are - fixed-rate mortgages, adjustable-rate mortgages, FHA and VA loans - and the full range of line items that contribute to the total cost of securing the loan, including discount points, appraisals, and real estate agent commissions.

The [Home Loans for Beginners Guide](#) section on our website can help you gain a better understanding of the mortgage process. Our loan officers are also available to answer your questions.

## KEY 2. GET YOUR FINANCES IN ORDER

First, get a copy of your credit report. If you know your credit score is low (anything below 620), take the time to improve it. If you find errors on the report, take the time to correct them. This may put your home buying plans on hold (creditors typically look for a two-year history of consistent, on-time bill payment to establish good credit), but it could result in a better loan and a more affordable rate. Determine the total of all sources of income and debt. Generally, income that has not been reported on tax returns will not be considered.



## KEY 3. ESTABLISH A BUDGET

Before you start searching for your home, make sure you know how much home you can afford. For a general idea of your home buying power, work with a lender to get [prequalified](#), or use a [mortgage loan calculator](#) to enter the purchase price of your new home, the down payment, the loan interest rate and term. You'll see your monthly payment, how your equity grows, even the impact of making one-time or regular prepayments of principal. Lenders will evaluate all your debts and take into account your full financial situation when qualifying you for a mortgage. A key factor is how much income you bring in versus how much you will pay out each month. Here's a good guideline to check where you are:

- Your housing expense (the mortgage payments on the house you are buying) should generally not exceed 28 percent to 36 percent of your total monthly gross income.
- All revolving debt (including car payments, credit cards payments, and your mortgage payment) should not exceed 40 percent to 45 percent of your total monthly gross income.

It's always helpful to create a monthly budget, itemizing all your recurring expenses, including estimated maintenance costs, taxes, utility bills, and condo or homeowners' association dues. If you can pay all your debts and continue to add to your savings, you may be ready to buy a home. If not, you may have to revise your plans.



## KEY 4. START SAVING

Determine how much of your savings plus any monetary gifts you will have to help with the down payment and the closing costs. Having savings in reserve helps ensure you can afford the upfront costs of homeownership. Upfront costs include:

- **Down Payment:** 3.5 percent to 20 percent of the purchase price. Keep in mind, a lower down payment means you'll have to qualify for a higher loan amount and pay for mortgage insurance — adding to your monthly mortgage payment. However, mortgage programs for veterans and first time homebuyers exist to allow for no down payment
- **Deposit:** .5 to 2% percent of the purchase price, typically. Sometimes called earnest money, a deposit shows the seller you're serious about buying the home. If your offer is accepted, the deposit or earnest money will be applied towards the down payment. If your offer is rejected, the deposit will be returned to you.
- **Closing Costs:** 2 percent to 6 percent of the purchase price, on average. These costs include all fees required to execute the sale, including attorney fees, title insurance, appraisals, and points. These costs can be paid by the seller if negotiated in the contract to purchase a home.

If you pay less than 20 percent for your down payment, you'll be required to pay private mortgage insurance (PMI) each month as part of your mortgage payment. PMI provides protection for the mortgage lender against loan default and may be removed once the homeowner achieves the 20 percent equity.





## **KEY 5. GET YOUR DOCUMENTS READY**

Your lender will need to see certain documents to verify income. They usually need copies of W-2 statements for the past two consecutive years and a recent pay stub to verify this type of income. If a major part of your income is commission earnings, you may need to bring copies of recent tax returns to verify the amount of business-related expenses. You may also be asked to bring a copy of a recent bank statement so the lender can verify the assets needed to close your loan.

## **KEY 6. SELECT A LENDER**

Compare options from at least three lenders. The mortgage lender will provide the house loan at the closing and will manage the credit and financial information review and the loan application process through closing. While getting a competitive mortgage rate is important, the lowest mortgage rate may not always be the best choice for you.

You must also consider the entire cost of the home loan. Be sure to ask your mortgage lender for those details. In particular, you'll need to ask about the annual percentage rate (APR), which is the total cost of the loan expressed as a yearly rate. The APR reflects not only the interest rate but also the points, mortgage broker fees, and other charges that you have to pay to get the loan. For that reason, your APR is usually higher than your interest rate. Look for this information on the Loan Estimate, which your lender is required to give you within three days after application is made.

## **KEY 7. GET PRE-QUALIFIED**

In today's competitive market, home buyers should get pre-qualified for a mortgage before they begin their house hunt. To be pre-approved for a loan, your lender will gather information about your job, assets, income, and debts and then determine how much financing you're qualified to receive. If you are pre-approved, you will receive a pre-qualification letter from the lender.

When you're ready to make an offer on a home, this pre-approval letter will tell the seller you're a serious and qualified buyer. It will also give you an edge over competing buyers who are not pre-qualified. Keep in mind, pre-qualification doesn't mean you have an approved loan. You'll still need to apply for a loan if your offer is accepted. You can often apply for a home loan online by filling out a quick prequalification form.



## KEY 8. SELECT YOUR HOME/MAKE AN OFFER

With your mortgage pre-approval in place, you are ready to begin the search for your home. A real estate professional can help you find a home that meets your needs and your budget. A licensed agent has access to the Multiple Listings Service (MLS), which generally offers the most comprehensive list of homes for sale in the area you would like to purchase. Once you have found a home that you want to purchase, you and your real estate professional will discuss what your initial offer should be, given the value and condition of the property and the current market climate.

Discuss what contingencies or special requests, such as repairs, you want made prior to closing. The real estate professionals will work with you to schedule an appointment with a home inspector who can tell you about the condition of the home and determine what repairs are needed. Although it is not required, you should always include a home inspection contingency in your offer. You will typically be required to pay an earnest money deposit, or a good faith deposit – usually between .5 and 2 percent of the purchase price – to show that you are a serious buyer.



## KEY 9. COMPLETE YOUR LOAN APPROVAL/APPLICATION

You are now ready to complete your loan approval.

**If you skipped Keys 6 & 7,** you now need to complete your loan application. With most mortgage lenders, you can apply online, over the phone, or in person with a loan officer. A loan officer will serve as the intermediary between the lending institution and you, the borrower, to recommend your approval and advise you on payments. The application will ask you questions about the home and your finances and take about 20 minutes to complete. Your application will then be submitted for a lending decision.

After completing your application online, a loan officer will contact you to introduce himself or herself and to answer any questions you may have. Your loan officer is a mortgage expert and will provide help and guidance along the way. If your request wasn't approved online, he or she will ask you for any information required to make a decision about your loan.

Once your loan advisor has discussed your application and provided you with the required disclosures, you may be asked to pay for your credit report or an appraisal fee. This money will be credited towards your closing fees and will mitigate the cost of your credit report and appraisal. You will then be given a list of information required to get your loan approved. This information will consist of income information such as paystubs, w-2's and tax returns, bank statements and other information relevant to your individual loan and situation.

**If you completed Keys 6 & 7 and were pre-qualified,** you will now just need to complete your loan approval. Work with your lender to finalize your loan documents, have your home appraised, and lock in your interest rate. Your lender will order the appraisal from a licensed appraiser who is familiar with home values in your area.

Depending on your finances and the loan amount requested, different types of appraisals are used. The appraiser will need to view the home. During this time, you will also need to obtain homeowners' insurance, provide documentation to your lender, and prepare for your move.

## KEY 9. COMPLETE YOUR LOAN APPLICATION - CONTINUED

If you are purchasing a new home, the loan officer will also contact the real estate broker or the seller so that they'll know whom to contact with questions.

During this final approval process, your lender will need to obtain any documents necessary to complete your loan approval. Be prepared to provide updated income information, bank statements or other documentation verifying the money you have for down payment and closing costs. You will receive a list of items required to complete the processing of your application. Once the items are received, your loan will be prepared for final approval by a mortgage underwriter. Once your loan is fully approved, it's on to closing.

For closing, title insurance will be necessary. Your mortgage lender will work with the real estate broker or seller to ensure the title work is ordered as soon as possible. The title insurance is used to confirm the legal status of your property and to prepare the closing documents.

Prior to closing day, a Closing Disclosure document will be provided to you so you can review them at your own pace and have your questions prepared.



## KEY 10. WHAT TO EXPECT AT CLOSING

Your mortgage lender will contact you to coordinate your closing date. After your lender completes the processing of your application package and the appraisal and title work have been reviewed and underwriting standards met, your mortgage lender will inform the agent that you are ready to close. The listing agent will then schedule the closing with the selling real estate agent, the title company, the seller, the mortgage lender and you.

The closing will take place at the office of a title company or attorney in your area who will act as the agent. During the closing, you will be reviewing and signing several loan papers. The closing agent or attorney conducting the closing should be able to answer any questions you have or you can contact your lender in advance. The most important documents you will be signing at the closing include: Closing Disclosure, mortgage note and Mortgage/Deed of Trust. Your down payment and closing costs (e.g. homeowner's insurance, homeowner's association fees, etc.) will be collected as well.

You will be required to bring a Cashier's check for any money due from you at closing. It is important to insure any money used for closing is readily available at least 2 days prior to closing so that a Cashier's check can be issued.



## KEY 11. MOVE IN!

You now have the keys and are now ready to move into your new home. This day will be one of the most exciting days of your life! You can take pride in the fact that you are a homeowner and you have the **KEYS TO YOUR FUTURE.**

We wish you and your family happy homeownership!



# CONTACT US

Bank of Little Rock Mortgage has locations across the country. If you would like to get started on your new home loan or refinance, contact the lender closest to you!

To see a complete list of our branches and get in touch with our lenders, visit [www.blrmortgage.com/find-a-lender/](http://www.blrmortgage.com/find-a-lender/)



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