How to Purchase Your First Home

Presented by:
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What to consider when looking to buy your first home?

1. **Long term investment**: 5 years or more
2. **Cost of maintenance**: repairs & maintenance
3. **Neighborhood**: schools, etc.
4. **Potential lifestyle changes**: (*i.e.* urban to suburban, etc.)
5. **Pride of ownership**
You’ve decided you want to own a home!

What’s next?

Meet with or speak with a mortgage lender to determine your borrowing capacity.

How to select a lender:
- Referral from family, friends, colleagues, etc.
- Speak with more than one lender.
- Work with someone who will answer your questions and provide you information about financing options.
Get pre-approved NOT JUST PRE-QUALIFIED: what’s the difference? To be pre-approved....

**Pre-Approval**
- You will complete a mortgage application
- Provide income and asset documentation
- Allow the lender to access your credit report
- NOT JUST PRE-QUALIFIED

**Pre Qualified**
- Verbally provide income & asset information
- Lender does not access your credit report
- Most importantly the lender does not submit your information to an automated underwriting system.
Credit Reports

- Credit scores: what is the range and how is it influenced?
  - The range is approximately 300-900. Credit scores above 720 are considered “excellent” for mortgage financing
  - Credit scores are influenced by the amount of credit a person has and the type of credit
  - Having open available credit without high balances is a positive for a person’s credit score
  - On time repayment of debt is a major influencer
  - History of timely payments is positive and newly opened accounts can be negative
  - Too many credit checks (inquiries) can be a negative
Credit reports (cont.)

- Three credit bureaus: TransUnion, Equifax, and Experian
  - Mortgage lenders access all three credit bureaus and will use the middle credit score for each borrower
  - Other loans (auto loans, credit cards, etc.) only access one of the credit bureaus

- Is there a minimum credit score that a mortgage lender requires?
  - Generally lenders require a 620 or higher credit score for a mortgage loan although exceptions are possible
Credit – Do’s & Don'ts

**Do**
- Do stay current on all existing accounts
- Do consider monitoring your credit

**Don’t**
- Don’t apply for new credit of any kind (including pre-approved credit cards)
- Don’t pay off collection accounts or charge offs
- Don’t close credit card accounts
- Don’t max out or overcharge your credit cards
Types of Mortgage Financing

**FHA:** Beneficial for the **First Time** homebuyer
- Lower down payment, source of funds, credit flexibility, qualifying debt ratios

**VA:** Benefits for a **Veteran**
- No down payment option, lower closing costs, credit flexibility, qualifying debt ratios.

**Conventional Financing:** beneficial for the buyer with 20% or more as a **down payment**, condominium financing flexibility
Mortgage Qualifying Criteria

- **FHA Guidelines:**
  - Total debt to income can be **up to 50%**
  - **Will allow** non-occupying co-borrowers (i.e. parents, siblings, grandparents) to qualify
  - **No** post closing liquidity requirements
  - **U.S. citizenship is not required**

- **VA Guidelines:**
  - Total debt to income can be **up to 50%**. VA guidelines also look at the borrowers' **residual monthly income**
  - **No down payment required** up to $500,000 sales price in San Diego County
  - Loan amounts **up to $1 million with a down payment**
Mortgage Qualifying Criteria (cont.)

- **VA Guidelines:**
  - **No** post closing liquidity required
  - Non-occupant co-borrowers are **not allowed**

- **Conventional Financing Guidelines:**
  - Total debt to income can be **up to 45%** (exceptions can be made with compensating factors)
  - Borrowers **credit scores should be 660 or higher**
  - One to two months of mortgage payments required as post closing liquidity
  - **No mortgage insurance with a 20% or greater down payment**
Down Payment & Closing Costs:

- **Sources & options for down payment and closing costs:**
  - **FHA:**
    - Requires a minimum of 3.5% down payment
    - Borrowers own funds or a gift from immediate family
    - Seller can pay borrowers closing costs up to 6%
  - **VA:**
    - Options for no down payment or limited down payment required
    - Example: Sales Price $500,000 - $0 Down Payment; Sales Price $600,000 - $25,000 Down Payment
    - Borrowers own funds or gift from family allowed
    - Seller can pay buyers closing costs up to 4%
  - **Conventional Financing:**
    - Minimum down payment is 5% (although some options available with 3% down payment)
    - Minimum down payment must be borrowers own funds, but after minimum it can be a gift from family
    - Seller can pay borrowers closing costs: limits of 3% or 6%
Lender Fees:
- These fees are established by the lender and generally include: processing fee, underwriting fee, closing &/or funding fee, etc. These will be identified on the good faith estimate as lender fees.
- When comparing lenders you’ll want to compare these fees and the rate and service offered by the lender.

Non-lender fees:
- These are the third party fees that are not established by the lender and are paid to third parties. These fees include: appraisal, credit report, title, escrow, recording fee, notary, etc.
- These fees are established by entities other than the lender and thus when comparing lenders you should exclude these fees in your comparison.
- For example, the listing real estate agent generally selects the escrow company and the title company thus this fee will be the same regardless of the lender.
**Impounds:**
- Impounds or escrow account is the establishment of an account with the lender to pay the real estate property taxes and the property hazard insurance on a monthly basis.
- FHA & VA loans require the borrower(s) have an impound account regardless of the down payment.
- Conventional loans allow the borrower the option to have and impound account or not with at least a 10% down payment.
- If the borrower does Not have an impound account you will be responsible to pay our real estate property tax bills and hazard insurance bill when they come due.

**Per Diem Interest:**
- Mortgage payments are made in arrears. For example, when a borrower makes their mortgage payment for May they are actually paying the interest for April.
- Whereas rent payments are made forward. When a renter pays in May it is for the month of May.
- Thus when you close your loan you will pay per diem interest from the day of closing until the end of the month. As an example if a buyer/borrower closed on their home purchase on May 22\textsuperscript{nd} 2013 then there would be 10 days of per diem interest. The first mortgage payment would be due on July 1\textsuperscript{st} which would cover the interest for June.
Mortgage Insurance

What is it, why do I need it and what does it cost?

- Mortgage Insurance provides loan insurance coverage to the lender if the borrower(s) defaults on the loan. This is not insurance coverage for the borrower.
- Certain loans (explained in more detail below) require the borrower(s) to have mortgage insurance and it is a cost to the borrower.
- FHA Loans: All FHA loans regardless of the down payment require two types of mortgage insurance. One is an up front paid premium which can be added into the mortgage balance and the other mortgage insurance is a monthly premium. See Example:
  - Sales Price: $ 400,000
  - 3.5% down payment $ 14,000
  - Base Loan amount: $ 386,000
  - Upfront MIP: can be added $ 6,755
  - Monthly MI: $ 521.10
Mortgage Insurance Cont.

- **VA Loans**: Require a one time VA funding fee which can be added into the new loan amount on most transactions or can be paid in cash at closing by the Veteran/Borrower. Depending upon the borrower's down payment, previous use of VA entitlement, and the term of the loan. The VA funding fee can be from 0%-3.15% of the loan amount.

- **Conventional Loans**: Require monthly paid mortgage insurance if the borrower has less than a 20% down payment. Conventional loans will allow a borrower after a 2 year period to petition for the mortgage insurance to be dropped provided the borrower can document a 20% or greater equity position.
Example: Loan amount $ 360,350
Interest rate: 3.75% - 30 Year Fixed Rate
Principal & Interest payment = $ 1668.84
1st mortgage payment:
- Interest portion = $ 1126.09
- Principal portion = $ 542.75

- Approximately 33% of your first mortgage payment goes to principal reduction!!!!
What is the mortgage process once I’ve (we’ve) signed a real estate contract to purchase a home

- Updating income, asset, and credit documentation from the mortgage pre-approval
- The good faith estimate of closing costs
- Do you want impounds for taxes and insurance
- Loan disclosures & timing
- Ordering the appraisal
  - Is the property a condominium?
Mortgage Process (cont.)

- Final loan approval from the lender
- Scheduling the closing, transferring funds and completing the purchase

You are now a homeowner!!!
Selecting a Real Estate Agent

- Referrals from family, friends, colleagues, etc.
- Speak with more than one real estate agent
- Work with someone who specializes in the neighborhood(s) that interest you
- View properties on line and visit open houses
San Diego Real Estate Market

- The current San Diego real estate market is characterized by lack of inventory and high demand
- What does this mean to you?
  - Multiple offers on properties is the current norm
  - Homes sell quickly
  - The mortgage pre-approval is critical to have with your offer
Know what you want and what you can trade off (i.e. expand your search area, no garage, etc.)

Don’t get frustrated

**Purchasing your first home can be a great experience and the more knowledge you have the better your transaction.**
Michael Graves
Sales Manager

For future questions or consultations contact me and I will be more than willing to assist you!

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Thank you

Special thanks to our presenter, Mike Graves, and the Young Alumni Network Programming team.

**Upcoming YAN Webinars and events**

**Webinar - Money: Negotiating What's Yours**
Date: June 11, 2013
Time: 12:00 PM to 1:00 PM
*Hosted by the Young Alumni Network and the USD Alumni Association*

**USD Wine Classic** with Special Young Alumni Wine Education pre-event
Date: July 14, 2013
Time: 1:30 PM to 5:00 PM