THE HOME BUYER'S GUIDE TO SUCCESS

Achieve Your Goals!

Answers to Frequently Asked Mortgage Questions & More!

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What does my credit score need to be to get a home loan?

A credit score reflects your history of making on-time payments and your ability to repay debts as promised. For this reason, credit scores are one of the first things a lender is likely to look at when approving you for a new loan (whether it is an auto loan, personal loan, or home loan). Higher credit scores and better credit history tells the lender that you are less likely to default on the loan, which equates to you receiving a lower interest rate on your loan (less risk for lender=lower interest rate for borrower).

Below are the minimum credit score requirements for the most common loan programs:

FHA	Conventional	VA	Jumbo
530	620	530	680

In addition to your numerical credit score, negative or derogatory items on your credit report can have an effect on your ability to qualify for the loan you want. Since loan guidelines vary from program to program and frequently change, please contact me for your free mortgage credit report. We can then review the credit report together and determine if there are any items that need to be fixed for you to qualify for the loan you want!

Do I need a down payment?

Every loan program requires some percentage of down payment, except VA (Veteran's Administration Loan); so if you did not serve in the military (Active Duty or Veteran) you will need to make a down payment. With that being said, there are a couple different forms of down payment options:

Savings, Checking, 401K, Retirement, etc. – These are your own funds… your hard earned money that you have been diligently saving!

Gift Funds – Down payments may also be a gift from family members, close friends, or employer.

Down Payment Assistance – While this is an option, actually obtaining down payment assistance via Government Grant, County Grant, or State Grant is very difficult. Believe me, I have worked with clients and helped them receive down payment assistance; each year guidelines for the various assistance programs become harder to qualify for (income limits, credit requirements, and debt-to-income ratio limitations). I am happy to help you qualify for down payment assistance, just be aware that very few people actually qualify for it (while still being able to purchase the home they want, due to loan limits and debt-to-income ratios).

As far as how much of a down payment you will need, here are the minimum down payments required for the most common loan programs:

FHA Loan	Conventional Loan	VA Loan	Jumbo Loan
3.5%	3%	0%	10%

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➔ Again, these are just a few of the most common loan programs. Please schedule a consultation with me to discuss additional down payment options and various loan programs to find out which loan option is best for you!

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Are there any 1st time home buyer specials?

First time buyer specials are somewhat of a myth; FHA loans have often been mis-interpreted as the "First Time Home Buyer Program." The truth of the matter is, there is no such thing as a "1st time home buyer special/program," and <u>FHA loans can be used if you are buying your first home or your 5th home</u> (it does not matter). Pertaining to FHA loans, you are allowed to have 1 FHA loan at a time, which may be used if the home is your permanent residence.

> **For Example:** You buy your first home using an FHA loan; 2 years later you refinance that FHA loan to a Conventional loan (to lower your payment). Then 6 months later you decide to purchase a new (bigger) home and rent out your first home. You would be eligible to buy the new (bigger) home with an FHA loan because you no longer have an FHA loan and the new home you are buying is going to be your permanent residence.

What will my monthly mortgage payment be?

Your monthly payment amount is directly tied to the interest rate and loan amount of your home purchase. First, let's talk about what makes up your total monthly mortgage payment.

Principal and Interest – Monthly amount of your mortgage payment that is applied to your loan balance and interest charges for your loan.

Property Taxes – If you have an escrow impound account (required on FHA, VA, and Conventional loan with less than a 20% down payment) a portion of your total monthly payment will be placed in an escrow impound account. This escrow impound account is used to pay your property taxes and homeowner's insurance when they are due. Property taxes are normally about 1.25% annually, based on the purchase price of your home. Property tax rates vary from community to community, but 1.25% or less is about the average in Southern California.

Homeowner's Insurance – All home loans require homeowner's insurance, this insures your home (for you and the lender) against damages, theft, lawsuits, etc. This is either paid via your escrow impound account or by you when the premium is due (depending on whether or not you have an escrow impound account). Many homeowners enjoy having an escrow impound accounts for this reason: it requires the homeowner to set aside a portion of money each month for their homeowner's insurance premium and property taxes, verses having to come up with the money in a lump sum when those items are due.

Mortgage Insurance – There are 2 different types of mortgage insurance: FHA Mortgage Insurance (MIP) and Conventional Mortgage Insurance (MI).

> **FHA Mortgage Insurance** – Is applied to all FHA mortgages, regardless of the down payment amount. The FHA mortgage insurance (MIP) factor is calculated based on the percentage of your down payment. A 3.5% down payment gives you an MIP factor of 0.85%, while a 5% or greater down payment gives you an MIP factor of 0.80%.

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With FHA loans, there is also an Upfront MIP which is added to your base loan amount when you receive the loan. This Upfront MIP is 1.75% of your base loan amount and is paid to FHA (Federal Housing Administration). The upfront MIP is used by FHA to keep the FHA loan program working and able to continue. Here is how the MIP factors works for the Upfront MIP and the monthly MIP (assuming a 3.5% down payment and 30 year fixed loan):

$400,000 - $14,000 = $386,000
Purchase price - 3.5% down pmt = Base Loan Amount

($386,000 x 1.75%) + 386,000 = $392,755
(Base Loan Amt x Upfront MIP) + Base Loan Amt = Total Loan Amount

$392,755 x 0.85% = $3,338.42 / 12 = **$278.20**
Total Loan Amt x MIP Factor = Annual MIP / Months = **Monthly MIP**

Conventional Mortgage Insurance – One of the main benefits to a Conventional loan with mortgage insurance (compared to FHA) is there is no upfront mortgage insurance with a conventional loan, just the monthly mortgage insurance. The down side is conventional loans have stricter guidelines for qualifying and the mortgage insurance is based on your credit score as well as the percentage of down payment you make (720 FICO score with a 10% down payment will have a much lower monthly mortgage insurance premium than a borrower with a 620 FICO score putting only 5% down).

Another difference with conventional mortgage insurance is that it is offered by private mortgage insurance providers, just like auto and home insurance is provided. Regardless of the provider, the calculation for determining your monthly mortgage insurance premium is the same and the MI factors are relatively the same amongst providers. Here is how conventional monthly mortgage insurance works (assuming a 5% down payment and 720 FICO score):

$400,000 - $20,000 = $380,000
Purchase price - 5% down pmt = Total Loan Amount

$380,000 x 0.62% = $2,356 / 12 = **$196.33**
Total Loan Amt x MIP Factor = Annual MIP / Months = **Monthly MIP**

As you can see, if you have a decent FICO score and 5% down payment or more, choosing a conventional loan will save you money each month with a lower mortgage insurance premium, in addition to not having an Upfront MIP (required on FHA loans). Conversely, if you have a lower FICO score (usually 660 or lower) and/or are putting less than a 5% down payment, private mortgage insurance rates increase dramatically. It is my job to help my clients review all their available options and help them decide which is best for their purchase or refinance needs.

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Your total mortgage payment: FHA vs. Conventional **(based on 720 FICO):**

	FHA	Conv 5%	Conv 10%	Conv 15%	Conv 20%
Purchase Price	$400,000	$400,000	$400,000	$400,000	$400,000
Down Payment	$14,000	$20,000	$40,000	$60,000	$80,000
Loan Amount	$392,755	$380,000	$360,000	$340,000	$320,000
Interest Rate	3.500%	4.000%	4.000%	4.000%	4.000%
Principal + Interest Pmt	$1,763.65	$1,814.18	$1,718.70	$1,623.21	$1,527.73
Property Taxes	$416.67	$416.67	$416.67	$416.67	$416.67
Homeowner's Insurance	$70.00	$70.00	$70.00	$70.00	$70.00
Mortgage Insurance	$278.20	$196.33	$132.00	$76.50	N/A
Total Monthly Pmt	**$2,528.51**	**$2,497.18**	**$2,337.36**	**$2,186.38**	**$2,014.40**

How Much Will I Qualify For?

This is the big question… possibly the biggest! Without knowing your specific FICO score, work history, annual/monthly income, and ability to make a down payment, it is impossible to say how much you will qualify for. But I have been able to help even the hardest to finance clients purchase a home within 6 to 12 months. So don't count yourself out without calling me first!

Realistically, if you've had a job for 12 months or more, have a decent credit score (580 or higher), and have some money saved for a down payment/gift money for a down payment: **I CAN HELP YOU RIGHT NOW!** If you need help getting to that point, please call me so we can make a game plan and get you ready to buy a home in the near future (3-12 months)!

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How much will my closing cost be and do I have to pay them?

Closing costs are typically about 1.5%-2% of the purchase price. Don't worry; these closing costs can be paid by lender credit (which most clients choose), by seller's credit (if the seller is willing to offer it), or out of pocket.

Seller's Credit – Because we are in a sellers' market, seller credit is becoming harder and harder to come by, but it never hurts have your realtor request a specific amount of seller's credit when writing up your offer! For example: Buyer requests $4,000 in closing cost credit.

Lender Credit – This is the most commonly used option, because lender credit is almost always an available option (99% of the time) and the benefit to the borrower (you) far exceeds the short term and long term costs. Let me explain: Let's say you are buying a home for $400K, putting 5% down, and the closing costs are $8,000. Unfortunately the seller is not giving you any seller credit. You now have 2 options, pay the closing cost along with your down payment ($28,000) or receive lender credit for all or a portion of your closing costs. Because lender credit is dependent on the interest rate you choose, the higher your interest rate=more lender credit for closing costs.

	No Lender Credit	$4K Lender Credit	$8K Lender Credit
Purchase Price	$400,000	$400,000	$400,000
Down Payment	$20,000	$20,000	$20,000
Loan Amount	$380,000	$380,000	$380,000
Interest Rate	4.000%	4.125%	4.250%
Principal + Interest Pmt	$1,814.18	$1,841.67	$1,869.37
Property Taxes	$416.67	$416.67	$416.67
Homeowner's Insurance	$70.00	$70.00	$70.00
Mortgage Insurance	$196.33	$196.33	$196.33
Total Monthly Pmt	**$2,497.18**	**$2,524.67**	**$2,552.37**

Purchase Price	**$400,000**	**$400,000**	**$400,000**
(+) Closing Cost	$8,000	$8,000	$8,000
(-) Loan Amount	-$380,000	-$380,000	-$380,000
(-) Lender Credit	$0	-$4,000	-$8,000
(-) Seller Credit	$0	$0	$0
(-) Ernest $ Deposit	-$5,000	-$5,000	-$5,000
(=) Cash to Close	**$23,000**	**$19,000**	**$15,000**

You can see from the table above that moving up in interest rate 1/8% (in this example), gives you $4K in lender credit and increases your monthly payment by $27.49 per month due to the

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higher interest rate. Another option is to move up 1/4% in rate, which gives you $8K in lender credit and increases your monthly payment by $55.19.

The choices are yours, but consider this: In the example above, it would take 145 months (over 12 years) of saving $55.19 per month to save $8,000. For this reason, most clients choose lender credit vs. paying closing cost out of pocket. It makes more financial sense to take the lender credit now vs. saving a small amount over a prolonged period of time. Whatever your choice is, you have options!

Out of Pocket – This is where you pay your closing costs in addition to your down payment. Rarely do clients choose this option, but it is an option.

What are interest rates right now?

Interest rates are a moving target and they fluctuate daily, luckily these daily fluctuations are typically very minor and virtually unnoticeable to the average consumer. For example, a daily interest rate fluctuation may look something like this:

Monday	**Tuesday**
3.625% with $1,500 in lender credit	3.625% with $1,700 in lender credit
3.75% with $3,000 in lender credit	3.75% with $3,200 in lender credit

In this example, interest rates (from Mon. to Tues.) have gotten better in the form of an additional $200 in lender credit at each available interest rate. This lender credit is used for your closing costs. Depending on the amount of lender credit you need to close your transaction, you can decide which interest rate is best suited for your transaction.

- ➔ Because interest rates are always moving, please contact me directly for a specific rate quote based on today's rates.

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What is the home buying process from start to finish?

The Pre-Approval – That seems pretty simple, of course there is a little more to it, but it all starts with finding out how much you can afford/qualify for.

House Hunting – From there you can begin searching for a home within your budget/approval amount.

Making the Offer – Once you find the first home you want to make an offer on, remember: <u>If your offer does not get accepted, continue looking for other homes and do not get discouraged!</u> Not all offers get accepted; it may take several offers on several homes before one of them gets accepted.

Earnest Money Deposit/Opening Escrow – When your offer does get accepted, you will be required to put an earnest money deposit with escrow. This deposit tells the seller's that you are serious about purchasing the home. <u>Don't worry</u>, the earnest money deposit is part of your down payment and those funds will be held at escrow for safe keeping until the purchase transaction is complete. During the closing of your purchase transaction, your earnest money deposit will be applied to your down payment. The seller's agent will open escrow with the seller's chosen escrow company.

Loan Disclosures – Now that you have made your earnest money deposit and escrow has been opened, your lender (hopefully me☺) will send you a set of loan disclosures specific to that property, the purchase price, and the loan amount on the purchase contract.

Loan Processing and Underwriting – Once you have authorized (signed) the loan disclosures, your loan will go to processing and underwriting. This is where everything is reviewed and verified by the lender before your loan funds:

- Your employment history & income = Verified
- Your down payment & the source of those funds = Verified
- Your credit scores and credit history = Verified
- The property history & value = Verified
- Your homeowner's insurance & coverage amount = Verified
- Your mortgage insurance & coverage = Verified (if applicable)

<u>This is why it is so important to work with a lender that is giving you a solid and accurate pre-approval!</u> Once your loan goes to processing and underwriting, everything is verified before your final loan documents are produce or your loan can fund.

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Inspection Period – While your loan is in processing and underwriting, you will be requested by the seller or seller's agent to order an appraisal and home inspection. These are 2 separate inspections.

> **Appraisal** – This is when a certified appraiser will inspects the property for the sole purpose of determining the value of the property. While the appraiser will note any obvious damage to the property that might affect the value (missing flooring, deteriorating roof, big cracks in the wall, etc.), the appraiser will not perform the detailed inspection that a home inspector will, such as: checking electrical outlets and boxes, crawl into the attic to examine the interior structure of the roof, etc.). The appraisal will then use comparable properties within the neighborhood that have recently sold to determine a valuation for the home.
>
> **Home Inspection** – While most loans no longer require a home inspection, this your 1 chance to have a professional inspect your "soon to be home" for needed repairs and defects that were not listed on the purchase contract. <u>I highly recommend that everyone order a home inspection.</u> If your home inspection does reveal items that need attention, you are able to list those items and request that they be fixed by the seller prior to closing the transaction *or* have the seller give you a concession (credit) for the repairs. Your realtor will assist you during this inspection period.

Final Loan Approval – By the time the home inspection and appraisal have been completed; underwriting will review the appraisal and home inspection (if listed on the purchase contract), if both are satisfactory for your loan, a final loan approval will be issued.

Removal of Loan Contingencies – At this time, you will be asked by the seller to remove all contingencies, telling the seller, "There is nothing that will stop the closing of this transaction on your end." <u>ONCE YOU REMOVE ALL CONTINGENCIES, YOUR EARNEST MONEY DEPOSIT BECOME NON-REFUNDABLE.</u>

Final Loan Documents – About 1-2 days later, depending on the desired timeframe of you, the seller, and the purchase contract, your loan documents will be issued and you will sign them with a notary.

Funding & Keys – Many times in California, it can take 1-3 days for your loan to fund once loan documents have been signed. This is because California is known as a "dry state" meaning, the ink must dry before your loan funds. More specifically, after you sign loan documents there will likely be a few funding conditions that the lender will need to clear before your loan actually funds, such as: review that the loan documents were signed correctly, confirm that you have deposited the remaining portion of your down payment in escrow, and other minor items. Once your loan has funded, your realtor will meet with you to hand you the keys to your new home. Congratulations, you just bought a house!

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