



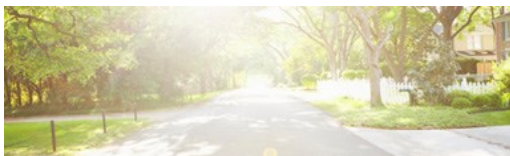
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# Homebuyer's Handbook

What you need to know about buying a home





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# Homebuyer's Handbook



## Introduction

Purchasing a home, whether it's your first or last, is one of the biggest decisions you will ever make. Naturally, many questions will arise, so please rest assured that my team and I are here to assist you in understanding the loan process. Our goal is to make your experience a smooth and pleasant one.

This handout covers the basics about buying a home. It is designed to answer commonly asked questions and to provide definitions of terms with which you may be unfamiliar, even if you've been through the homebuying process before.

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**Underwriting**

The engine and process that analyzes such loan factors as credit, employment and assets, and ultimately issuing a loan approval or declination.

**U.S. Department of Agriculture (USDA) Home Loans**

Also called "Rural Housing Loans" or "Section 502" loans, USDA financing allows for up to 100 percent financing on homes in qualified USDA areas, for borrowers who meet USDA income eligibility requirements—among other lending criteria. USDA-eligible areas can be found in unexpected parts of the country (for example, New Jersey and California) and are determined by census tract density.

**Veterans Affairs (VA) Loans**

Mortgage loans available to eligible U.S. veterans. VA loans are made by private lenders, such as banks or mortgage companies, for the purchase of a home for a buyer's own personal occupancy. These loans offer competitive rates and require little or no down payment.

*We hope this book has been helpful for you. Please call us today for more information and to discuss how we can help make your homebuying experience go as smoothly possible.*

Your loan consultant may also offer an adjustable rate mortgage (ARM) with an introductory interest rate that will change after a certain period of time, for example after 5 years. In this situation it is of the utmost importance to consider your circumstances. Will you be relocating from the area? Will you sell the home? Can you or will you want to refinance the loan at a future date? These important factors and many others must be considered when choosing a mortgage with an adjustable rate.

My team and I will ask questions about your short- and long-term goals, and assist you in choosing a loan program that is truly suited to those goals.

## The Nuances of Your Contract

Items involved in your purchase contract can have a significant impact on the success of your purchase transaction. We have listed some important items you should be aware of as a buyer entering into a purchase contract. A seasoned real estate agent will also be able to provide some more insight on contract terms.

**Loan or Financing Contingency**

A loan contingency is common on purchase contracts, and it is the period of time given to a buyer to obtain a full loan approval. Financing contingencies also specify cancellation rights if a buyer is ultimately unable to obtain financing.

While contingency periods are typically between 15 to 30 days, these dates may be negotiable depending on more unique buyer and seller situations. Keep in mind that any earnest money deposit submitted at the time of offer could be in jeopardy and/or forfeited if the contingency deadline is reached and the buyer fails to achieve loan approval, ultimately preventing the transaction from taking place. In many cases, buyers who seek a lender's pre-approval prior to making purchase offers can help to avoid such issues. Please note: pre-approval is not the same as pre-qualification.

**Pre-Approval**

Obtaining lender pre-approval prior to making an offer on a property can be a sound strategy when buying a home. You'll have a better understanding of your preliminary financing options, as well as your price thresholds when it comes to home shopping. In competitive markets, sellers are also more likely to consider serious offers from buyers who have secured loan pre-approvals, since there is a higher likelihood that the transaction will close. Sellers may be more willing to accept a buyer's offer when they know that a lender has already reviewed certain credit and perhaps qualifying loan documents essential to the transaction. Lenders will usually provide a pre-approval notification in writing, which can be presented when submitting a purchase offer.

**Contract Period**

The contract period is when all due diligence must be completed, such as: the property appraisal, home inspection reports, termite inspection and of course, a buyer securing full loan approval. Typical purchase contracts are drafted for a period of 30 to 60 days, however can be longer or shorter provided any unique seller, buyer, lender and third-party circumstances.

**Home Inspection Contingency**

When this type of contingency is negotiated within a contract, time will be given to allow for a home inspection and any necessary follow-up procedures. A third-party inspector may be hired to assess the property and provide a report to inform of any material or hidden defects that could subsequently impact the property's value. If there are material defects, you and your real estate agent could negotiate 1) to have the seller complete the repairs prior to the close of the transaction (providing proof of completed work with receipts and/or a re-inspection), or 2) a reduction in the purchase price to offset the cost of any necessary repairs. Once the contract's home inspection contingency has expired, the buyer will no longer have the leverage to go back and renegotiate with the seller to resolve any issues revealed by the home inspection. Even without a home inspection, lenders will usually disallow any of the seller's funds to go back to the buyer after closing for any home repairs.

**Impound/Escrow Account**

The portion of a borrower's monthly payments held by the lender or servicer to pay primarily for property taxes, homeowners (hazard) insurance and mortgage insurance when they become due.

**Index**

A published interest rate from which lenders offer adjustable rate mortgage rates. Popular indexes are tied to the U.S. Treasury, the Cost of Funds Index (COFI), and London Interbank Offered Rate (LIBOR).

**Loan Level Price Adjustments (LLPAs)**

Loan Level Price Adjustments are fees based on credit scores, occupancy, property type, down payment and various other risk factors.

**Margin**

The amount a lender adds to the index on an adjustable rate mortgage to establish the final interest rate.

**Mortgage Broker**

A loan consultant who matches a client with lender funding. Brokers usually charge a fee or receive compensation for their services.

**Mortgage Insurance (MI)**

Money paid to insure the mortgage when a borrower's down payment is less than 20 percent. Mortgage insurance is usually reflected as an add-on to a monthly mortgage payment, however also comes in other forms: upfront, paid at closing, and monthly. A lender may require some combination of both upfront and monthly mortgage insurance. The amount required is determined based on program type, property type, credit score and loan-to-value.

**PITI**

Also known as total monthly housing expense, this is an acronym for the principal, interest, taxes and insurance.

**Title Insurance**

Title insurance protects a real estate owner or lender against any loss or damage they might experience because of liens, encumbrances, or defects in the title to the property, or mistakes in a related title search. It protects against claims from various defects such as another person claiming an ownership interest, improperly recorded documents, fraud, forgery, liens, encroachments, easements and other items that are specified in the actual policy.

**Buydown**

This is when the lender and/or homebuilder subsidizes the mortgage by lowering the interest rate during the first few years of the loan. While the payments are initially low, they increase when the subsidy expires.

**Construction Loan**

This is a short-term interim loan for financing the cost of construction. The lender advances funds to the builder at periodic intervals as the work progresses.

**Down Payment Assistance Program (DPA)**

Down Payment Assistance Programs are funds given to buyers to assist with the purchase of a home. Buyers do not have to repay these funds. To learn what types of DPA Programs are available, ask your lender about local programs available in your area.

**Earnest Money or Escrow Deposit**

Money given by a buyer to a seller as part of the purchase price to confirm the contract.

**Federal Housing Administration (FHA) Loan**

A loan backed by the government and open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately-priced homes almost anywhere in the country. FHA loans require low down payments and offer flexibility over many other types of financing.

**FHA Mortgage Insurance**

All types of Mortgage Insurance protect the lender in the event of default. There are two types of FHA Mortgage Insurance that must be paid on all FHA loans: an Up Front Mortgage Insurance Premium (UFMIP), which is generally financed into the loan, and an additional monthly mortgage insurance premium, paid as a part of your normal monthly mortgage payment. Mortgage insurance premiums are tiered based on the loan amount financed, and your loan officer will be able to provide you with the exact figures.

**Termite Inspection**

A lender may or may not require a termite inspection. Some lenders will require inspections if a property appraisal shows evidence of termite damage or an active infestation, and if mandated by the state or local jurisdiction, or if customary to the area. If termites are present it is up to both selling and buying parties to determine who will be responsible for fixing the problem. A termite inspection can also be a condition included in a purchase offer.

**Seller Rent Back**

When a purchase transaction closes, the property's ownership is transferred from seller to buyer. If the buyer does not occupy the property immediately and gives the seller time to stay in the property, a "rent back" period ensues in which the seller rents the property back from the buyer for a short period of time. The length of this period is entirely negotiable between buyer and seller, however it is important to note that lenders will scrutinize rent back lease agreement periods to ensure the property does not fall under "non-owner occupied" status, which will cause the terms of the loan to change drastically.

**Seller Contributions**

A seller of a property may offer to pay some or all of a buyer's closing costs associated with the mortgage and purchase transaction. Sellers apply this very common strategy to woo buyers who may be on the fence between their property and others. In some cases lenders will even allow sellers to cover the buyer's required prepaid items such as property taxes and homeowners insurance. It is highly beneficial to the buyer to have any closing costs paid by the seller, as it cuts down on additional funds required to close the transaction aside from standard down payment funds.

Note that there are limitations on how much a seller is allowed to contribute in closing costs. This figure is usually dependent on the loan amount financed and the lender.

## Origination and Discount Points

Origination and discount points are often misunderstood. Some lenders interchange the labeling of these fees. One point is equivalent to 1 percent of the loan amount. In formal terms, origination points are comprised of lender costs, while discount points are monies paid at the time of closing to obtain a lower interest rate on a loan.

For example, one discount point on \$300,000 would equal \$3,000. How much lower this will bring down your interest rate depends on the loan program. When interest rates are lower, it may make sense to pay a point or percentage of a point, especially if you think you will live in the property for an extended period of time sufficient to recoup the costs of the lower interest rate. Speak with your loan consultant to determine monthly payment differences over time.

## Credit Scoring

Your credit score is a major factor when a lender reviews your loan application. They want to know what your credit history is, and whether you have the ability to pay back the loan you are requesting. In short, good credit translates into lower rates and/or fees for the homebuyer, and less risk to the lender. Credit scores can range between a low score of 300 and a high of 850. The higher the borrower's score, the less likely he is to default on his loan.



Once you complete a loan application and enter into the loan process, there are precautions to take concerning credit. Lenders may wish to review credit again prior to closing, so any major credit activity from loan application to closing can impact your approval. Avoid any major purchases on your credit cards. Avoid applying for new credit such as credit cards or other major loans, as this could negatively impact credit scores. Borrowers with lower credit scores may still be able to obtain financing, however they may be subject to higher interest rates and/or higher down payment requirements.

## Distressed Property

Distressed properties can provide opportunities to save money on home purchases. While you can search for these properties on your own, a seasoned real estate professional dealing in these types of properties can be extremely helpful in the homebuying, purchase offer and negotiation process.



### **REO**

A "Real Estate Owned" property has been through the foreclosure process and any negotiations will be exclusively with an Asset Manager of the lending institution charged with its sale. The Asset Manager is charged with minimizing the loss the institution will incur. Realistic expectations towards pricing and the home's "as is" condition may mean that financing may be limited in scope, particularly if the property is in significant disrepair.

### **Short Sale**

Short sale properties are offered by owners who owe more on their mortgage balances than the property value. The owner is seeking assistance from the lender to sell the property for less than the balance of the existing mortgage(s). As a buyer, you will be negotiating with the seller but will also have to obtain the approval from a bank to accept your offer.

While various Federal programs have been implemented to assist in the sale of short sale properties, there is no guarantee for a "steal." The owner must be approved for the sale based on the submission of a hardship package and additional parties may be involved if there is Private Mortgage Insurance or a second mortgage on the property. However, the sale may include appliances and other items that could be helpful when seeking financing.

## Glossary of Terms

### **Adjustable Rate Mortgage (ARM)**

A mortgage in which the interest rate is adjusted periodically based on a pre-selected index and margin.



### **Amortization**

The gradual reduction of a balance with equal periodic payments calculated to pay off the debt over a given term, including accrued interest on the outstanding balance.

### **Annual Percentage Rate (APR)**

The rate that reflects the total annual cost of a mortgage. This rate is likely to be higher than the stated interest rate because it takes into account points and other credit costs. The APR allows homebuyers to compare different types of mortgages based on the annual cost for each loan, however not all lenders calculate APR the same way.