

BUYING A HOME

from

START

to

FINISH



**IF YOU HAVEN'T
FOUND IT YET,
KEEP LOOKING.
DON'T SETTLE. AS
WITH ALL MATTERS
OF THE HEART,
YOU'LL KNOW IT
WHEN YOU FIND IT.**

- Steve Jobs

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INTRODUCTION

Homeownership is seen by many as an important part of the American dream. A 2015 Merrill Lynch study found that an overwhelming 84% of Americans of all age groups¹ (including 81% of Millennials) still believe this.

Buying a home is a responsibility and commitment that provides powerful advantages:



Your home is uniquely yours

You can customize and transform it into the home of your dreams.



Stability, comfort, and privacy

Whether you're single or married with a family, owning a home provides security and privacy.



Homes usually increase in value

Owning your home can be an outstanding investment that builds a nest egg for your future.



Tax deductions

You may be able to deduct interest on your mortgage and property taxes, which can offset some homeownership costs.

Whether you're a first-time homebuyer or seasoned veteran, you're in the right place. This eGuide gives you a road map of the home buying process from start to finish. We've also included tips to help you enjoy and improve your home (after moving in) while lowering your living costs.

Ready to start? Let's begin.....

BECOME FINANCIALLY READY

If you're thinking about buying a home, you have many reasons to be excited. But before we get into the fun stuff (like searching for your home and customizing it), you need to be financially and mentally prepared for a long-term commitment.



Around 85% of people who buy homes² choose 30-year mortgages (while a small but growing number of homeowners are taking out 15-year mortgages). This means that it takes most homeowners 30 years to pay back their loan.

Because of the long-term financial commitment, mortgage lenders need confidence in your ability to pay back a loan before lending you money. To get you ready for this, here are four ways to help prepare your finances for homeownership:

Create a budget and follow it to save money

In an era when seven out of 10 Americans³ have less than \$1,000 in savings, everyone can benefit from creating and following a budget. A budget determines how you spend money, helps prevent you from running out of money, and helps you save money for goals and emergencies.

Following a budget is also *one of the best ways to save money for your home's down payment*. A range of mortgages can be obtained with down payments of 3.5%, 5%, and 10% of the home's value – keep this in mind when creating a budget and saving money.

Make sure you have good credit

To secure a low interest rate on your mortgage, you'll need good credit. This means you should always pay your bills on time, without exception. You can obtain a free credit report on www.annualcreditreport.com to analyze your monthly expenditures and resolve any delinquent accounts. We also recommend checking your credit score from a free resource online, as a 620 credit score is generally considered the minimum to obtain a mortgage.

We also strongly recommend that you don't open any new credit accounts or make large purchases with credit cards within several months of applying for a mortgage. This can lower your credit score and cause you to receive a higher mortgage interest rate.



Establish what you can afford

If your credit score is high enough to obtain a mortgage, you should determine the monthly mortgage payment you can afford. Most banks and lenders determine the maximum payment you can qualify for from your **debt-to-income ratio (DTI)**: the percentage achieved by dividing your monthly liabilities (such as student / auto loans and credit cards) by your gross monthly income.

As an example, if your pay stubs or tax returns show you making \$72,000 per year, this means you make \$6,000 per month. If you have \$2,300 per month of liabilities, your DTI without a house payment ($\$2,300 / \$6,000$) is 38%.

Most banks and lenders allow borrowers to have a maximum DTI of 43%, so the maximum mortgage payment for a borrower who makes \$6,000 per month and has a current DTI of 38% could afford (including taxes and insurance) is around \$2,580 per month. You'll need to determine what amount fits within your budget.

Gather your employment history and rental / mortgage history

After establishing your credit rating and maximum monthly mortgage payment, make sure you have a verifiable employment history of at least two straight years, rental history (or mortgage payment history), and assets.

If you're a first-time homebuyer, banks and mortgage lenders require you to verify your last 24 months of employment with minimal unemployment gaps. School and college can count as employment.

You'll also be required to document your last 12 months of housing history. Your landlord can provide this documentation. If you're currently renting, always make sure to pay with checks. If rent is paid with cash, landlords may not document your payment, whereas rent paid with checks can easily be documented.

Take other measures if you're self-employed and want to buy a home

If you're part of America's rapidly growing number of freelancers and self-employed workers, getting a mortgage is harder, but still possible.

You should be able to verify up to two years of stable self-employment income using your federal tax returns. To help review and predict your employment stability, your mortgage lender will also consider:



- **Your location and type of business**
- **Demand for your product or service**
- **The current financial strength of your business**
- **A signed statement from your accountant**
- **Your businesses's future outlook**

To buy a home as a self-employed worker, you will also need good credit and limited debt. Try to pay off any credit card debt before applying for a mortgage if you're self-employed.

PRE-QUALIFICATION

After preparing your finances, your next step in buying a home can be pre-qualification.

Pre-qualification helps you determine the type and size of loan ideal for your situation. During this stage, you're encouraged to "shop around" and speak to different lenders who will request information about your employment history, income, and assets. Most lenders will also obtain a copy of your credit report to help them determine your creditworthiness and suggest potential loan programs.



You can begin pre-qualification when you think about buying a home, and there are no strings attached in committing to any lender. To become pre-qualified, be prepared to give your lender your name, address, Social Security Number and state your income.



If the lender determines that **you are pre-qualified**, your loan officer will help you select the best mortgage program for you and explain the next steps. Your loan officer can also provide you with a pre-qualification verification letter that can help your home buying process.

If **you aren't pre-qualified**, your lender can provide some guidance and suggest resources to help you move in the right direction.



SEARCH FOR HOMES AND MAKE AN OFFER

Now here's the exciting part! Once you're pre-qualified for a mortgage, you can search for a house you want and make an offer.

There are a range of websites you can use to check out homes in your desired areas, such as Zillow.com and Realtor.com. However, your number one source of answers and support during the homebuying process is your Realtor. Realtors have intimate knowledge of neighborhoods in their city, current market conditions, and can make your entire homebuying process quicker and easier (including communicating with the seller).

Try to meet with (or visit with) several different Realtors before committing to working with one. Once you find a Realtor you like, here are six important questions to ask them during your homebuying process:



1.

How much have similar neighborhood homes recently sold for?

If you're interested in a particular area or neighborhood, learning the recent selling price of other neighborhood homes helps inform you about the home you're viewing, and its financial risk.

2.

When was the last time the home had major repairs?

Most types of property damage are easily repairable. But some, like flood water damage, can have long-lasting consequences if not repaired correctly. Find out if there were any major past repairs so you can assess their present condition.

3.

Has anything been replaced recently?

Learn what has been replaced in the home, and what may need to be replaced in the future. For example, if the home has a recently installed roof or a newly installed furnace, you'll be less likely to have these expenses in the near future.

4.

Is the property insulated?

When determining your monthly budget, energy bills can have a major impact. Find out if the house has adequate insulation, especially if you live in an area with cold winters.

5.

Does the current owner expect me to waive contingencies?

If your offer was accepted and you're ready to buy the home, the process usually moves forward as planned. But in some cases, a buyer will back out. If you made an "earnest money" deposit, which is a small payment to prove your interest to the seller, usually you'll get it back. But if you waived contingencies, your money is given to the seller.

6.

Are there multiple offers?

The home buying process can be competitive, especially in hot property markets. Homes with multiple offers may require a higher offer from you, and it can take longer to close when sellers know they have a competitive property. Homes with fewer offers may not have these issues, but also may not be desirable (which could affect its future property value). Your Realtor can give you an idea of the interest the property is attracting.

After you find a house and agree to terms with the seller, you'll sign a purchase agreement which binds the offer and lets you move forward with obtaining your loan.

There are no stupid questions when it comes to real estate, so don't hesitate to ask your Realtor!

THE MORTGAGE APPLICATION AND LOAN PROCESSING

During the mortgage application and loan processing, you'll provide your lender with your home purchase agreement, finalize your mortgage application, and provide any additional requested documentation.

Your loan originator will work closely with you to explain the required steps and request any additional information.

During this process, you'll need to provide your loan originator:

- Your name
- Your current address
- Your Social Security Number
- Proof of income from two years' worth of your W2 forms
- Profit and loss statements or 1099 forms if you own a business
- Recent paycheck stubs
- Your last federal tax return
- A complete list of your debts, such as credit cards, student loans, car loans, child support payments, and any minimum monthly payments and balances
- A full list of your assets, including your bank statements, mutual fund statements, real estate and automobile titles, brokerage statements, and records of other investments or assets
- Canceled checks from your rent or mortgage payments



Try to **gather and organize these documents several months before** submitting your mortgage application. Doing this can help speed up your application process while reducing your stress levels.

The mortgage application process

To receive a mortgage, you'll have to complete a range of steps with your loan originator. These include:

- 1. Choosing your mortgage programs and rates**
- 2. Completing the application**
- 3. Reviewing your loan estimate, which provides important information on your estimated interest rate, monthly payment, closing costs, taxes, insurance, payments that could change in the future, and penalties**
- 4. Notifying your loan originator if you intend to proceed with the loan at the terms specified in the loan estimate**
- 5. Processing of your loan, which includes reviewing and verifying you submitted information**
- 6. Professional appraisal of your desired property to determine its value**

Be ready for underwriting

The underwriter is the ultimate decision-maker of your mortgage application. They evaluate your application and supporting documentation against lending guidelines, and evaluate your ability to repay the loan.

Sometimes the underwriter will issue a “conditional approval” and request additional information needed to satisfy those conditions. Your loan originator will help explain the conditions to you and work with you to obtain required documentation.

Closing

Once the underwriter “clears” your loan to close, you'll review and sign a package of documents that seal the deal between you, the lender, and the seller.

These documents are reviewed with you by a closing agent or attorney who makes preparations for the funding of the loan. Congratulations on becoming a homeowner!



Education & Pre-qualification

1

- Contact loan originator for financing information
- Gather information required for application
- Start looking for a new home



Application

2

- Discuss qualifying, monthly payments, and cash needed for closing
- Consider various loan programs available, quotes and interest rates
- Receive assistance in completing the loan application



Processing

3

- Complete items necessary for loan closing
- Pre-underwriting and loan preparation
- Ordering of appraisal by loan processor

Underwriting

4

- Receive final decision on your loan
- Potential request for additional documentation
- Underwriter works with loan originator and loan processor to approve your loan



Closing Preparation

5

- Assembling of package for your closing day
- Send package to closing attorney's office



Closing

6

- Closing attorney prepares Settlement Statement which is emailed to the loan processor for review
- Order survey detailing property boundaries if needed
- Closing takes place at office of escrow agent or attorney
- **CONGRATULATIONS** on your new home!



MOVE IN AND ENJOY YOUR HOME

Congratulations on being a new homeowner! You have much to look forward to.

Along with the many benefits gained from owning a home, you also have important financial responsibilities. These include:



- **Paying your monthly mortgage payment**
- **Annual / monthly property taxes**
- **Homeowner's association fees (if applicable)**
- **Homeowner's insurance**
- **Maintaining your home, including repairs and keeping your home exterior within any community guidelines**
- **Utility payments**

Make sure to **budget** and set reminders to complete these payments.

You can customize your home to your needs and wants

An exciting part of being a homeowner is customizing and upgrading your home. There are some simple and affordable upgrades that improve your home's livability and can sometimes boost its property value:

- **Renovating your bathroom**
- **Upgrading your kitchen**
- **Painting your walls**
- **Inspecting and repairing important home infrastructure such as roofs, plumbing, and electrical systems**



Of course, there are also exciting (and more costly) upgrades such as adding a swimming pool, knocking down walls to create larger rooms, landscaping enhancements, and more. Some upgrades may not increase your property value, but can dramatically improve your enjoyment of your home.



Improving your energy efficiency is a powerful way to enhance your home

Now that you're a homeowner, you can expect to pay a substantial amount for your utilities, particularly if you live in a hot or cold climate. Fortunately, you can lower your utility bills fees while increasing your comfort by improving your home's energy efficiency.

Ways to improve your energy efficiency include:

- Adding caulk to seal leaky air
- Use an advanced power strip for electronic equipment
- Increasing insulation
- Installing a smart thermostat system
- Planting shade trees
- Installing energy-efficient windows



You can also ***schedule a professional home energy audit*** to take your home's energy efficiency to a new level. For around \$300 to \$400, a trained energy auditor will provide personalized recommendations for your home based on measurements from thermographic scanning tools.

If you introduce the recommendations from your energy audit, you could lower your monthly energy bill by up to 30% while increasing your comfort!



Protect your home during harsh winter weather

In much of the country, you face periods of harsh winter weather. It will be important to protect your home during extreme cold. You can do this by:



○ Protecting your pipes

When temperatures drop significantly below freezing (32°F / 0°C), pipes in your home can freeze and burst. This is caused by increasing pressure inside the pipe (rather than ice expanding, as is commonly believed).

The pipes with the greatest risk of bursting are in unheated portions of your home, such as attics, crawl spaces, and garages. You can help prevent pipes from bursting by letting water trickle out of faucets and opening cabinet doors under sinks (this is especially important if you'll be away from home for an extended timeframe during winter). You can also insulate vulnerable pipes with fiberglass or foam sleeves.

○ Preventing ice dams from forming

While getting on your roof during a cold blast isn't fun or easy, it's important to make sure your gutters are clear and free of debris. When a gutter becomes clogged from debris, water that flows in during the day can freeze at night—this is known as an ice dam. Ice dams can force water under your roofline and cause damaging leaks that could cost thousands of dollars to repair.

You can also prevent ice dams by keeping your roof cold. This helps snow on roofs disperse without forming melting water that freezes in gutters. The best way to keep your roof cold is preventing warm air from passing into the attic from your house (through insulation and sealing gaps that let warm air into the attic). Your attic should also be ventilated, so that any warm air introduced into it quickly escapes.

○ Making sure your storm drains are unclogged

Keep an eye on drains outside your home to make sure they aren't clogged with debris (and clear them if they are). Clogged storm drains can cause melted snow to travel underneath your home's foundation and basement, causing flooding and damage.

○ Keeping your stairs and home entry path as clear as possible

So you can easily come and go, spray an ice repellent solution on your steps and entry path before freezing weather arrives (if possible). You can also use rock salt, sand, or clay-based kitty litter on icy entry paths, sidewalks, and driveway to make walking safer.

Use technology to transform your home into a smart home

We're living in an era where you can incorporate fantastic technology into your home at budget prices to create a "smart home." Whether you want to adjust your lighting with your voice or control your home thermostat using your phone (while not at home), there are options galore.



Here are some affordable suggestions:

- **Get a smart hub**

Smart hubs are the "brains" of a smart home system. They provide a range of features and functionality to control your home thermostat, lighting, music, and more using your voice and phone. Amazon and Google both offer smart hubs for under \$200 which are incredibly powerful and provide regular updates.

- **Upgrade your lighting**

Changing your lighting can instantly enhance any home, whether it's for reading a book, cooking, or promoting ambience during a party. You can purchase lighting systems (controlled by your smartphone), energy-efficient lights, and LED lights (great when entertaining) for budget prices at a home improvement store.

- **Automate your home climate control**

Smart thermostats let you automate and control your home's climate control system. This helps you lower your power bill and improve your comfort (such as automatically turning your heat on 15 minutes before you wake up). Smart thermostats can integrate into your smart hub and many cost under \$250.

- **Protect your home with a smart security system**

Your home is your biggest investment, and you can help protect it by installing a smart security system. These systems connect to your Wi-Fi and let you monitor and control your security devices with your smartphone.

You can also add motion and window sensors to build a full-home security system that includes door locks, lights, and sirens — all controlled through an app. Many smart security systems cost under \$350.

CLOSING

As a homeowner, you have many exciting possibilities

We hope this eGuide gives you all the information you need about the homebuying process, your responsibilities as a homeowner, and ways to upgrade and protect your home.

Open Mortgage understands that buying a home is one of the most important financial decisions you can make. We're committed to making your mortgage experience as easy as possible--giving you the freedom and flexibility to make your dreams a reality.

Whether you're buying a new home, remodeling, or ready to refinance, we do it all. No matter where you are on your journey, we can bring you closer to home.



Our loan originators are ready to **work closely with you** during each step of the homebuying process.

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GLOSSARY

Important Mortgage Terms

Whether you're considering buying your first home or a long-time homeowner, the mortgage process can feel intimidating and confusing.

To help you become better prepared for your mortgage process, here are some important mortgage-related terms and their definitions.

Amortization Schedule

A payment schedule showing the amount of your monthly mortgage payment for paying off the principal (the amount you borrowed and have to pay back), and the amount that pays interest.

Annual Percentage Rate (APR)

A broad measure of costs you're responsible for in your home loan. The APR includes your interest rate, points, mortgage broker fees and other charges you have to pay. Because it includes more fees and charges, your APR is usually higher than your interest rate.

Adjustable Rate Mortgage

Mortgage payments that can increase or decrease as interest rates change. In most cases, there's an initial fixed-rate period where the borrower's rate doesn't change, followed by a longer period where the rate changes at preset intervals.

Buydown

A borrower paying an up-front fee to reduce a mortgage rate and monthly payment. While not recommended often, a buydown can help a borrower qualify for a loan.

Combined Loan-to-value

The total mortgage obligations on a property compared to its market value.

Debt-to-income-ratio (DTI)

A borrower's monthly liability payments divided by their gross monthly incomes. Your DTI plays an important part in the mortgage you can obtain.

Default

Failure to pay a mortgage on time, or a mortgage payment less than the amount due.

Disclosure

Documents that a lender, buyer and seller sign during a mortgage transaction or real estate purchase. These documents notify all parties of their rights and obligations.

Fixed Rate Mortgage

An industry standard mortgage loan in which the interest rate stays the same through the loan's entire term.

Gross Income

Your total taxable income. Lenders usually verify your gross income using tax returns and W2s.

HUD-1 Statement

A comprehensive list of closing costs in a mortgage purchase or refinance. You receive a HUD-1 statement when you close your mortgage and should keep it as a record.

Joint Liability

More than one person obtaining a mortgage.

Loan-to-value (LTV)

The amount of a first mortgage lien as a percentage of the appraised value of a property. For example, if a person wants to borrow \$130,000 to purchase a house valued at \$150,000, the loan to value ratio is 87% ($\$130,000 / \$150,000$). Loan-to-value is a key risk-factor that's assessed when you apply for a mortgage.

Liquid Assets

Money in a bank account that can be obtained quickly.

Mortgage Insurance

An insurance policy that compensates lenders for losses due to a mortgage loan default. Mortgage insurance can be public or private depending on the insurer.



Empowering the American dream of homeownership.

OPEN MORTGAGE EMPOWERS OUR PARTNERS TO DELIVER THE AMERICAN DREAM OF HOMEOWNERSHIP TO BORROWERS ACROSS THE COUNTRY. OUR PARTNERS INCLUDE OUR RETAIL BRANCHES, MORTGAGE BROKERS, COMMUNITY BANKS AND CREDIT UNIONS. OUR PARTNERS PROVIDE THE RETAIL STOREFRONT TO AMERICAN BORROWERS. OPEN MORTGAGE PROVIDES THE OPERATIONAL ENGINE THAT EMPOWERS OUR PARTNERS TO SUCCEED, DELIVERING THE AMERICAN DREAM OF HOMEOWNERSHIP TO AN EVER-GROWING AUDIENCE.



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