FIRST FEDERAL MORTGAGE

# First-Time Homebuyer Guide

FIRST FEDERAL MORTGAGE

FDIC

EQUAL HOUSING LENDER

NMLS #410785

# Can I Qualify?

**There are a few main factors that impact your ability to be approved for a home loan.**

### CREDIT
Lenders look at your credit history to determine if you are a good candidate for a home loan. It indicates your payment history.

### DEBT
In the lending world, especially the mortgage industry, Debt-to-income (DTI) refers to the percentage of your monthly gross income that goes toward paying your debt. It compares your debt to your overall income. The less obligation you have, the lower your debt-to-income ratio, and the easier it may be to get a mortgage. Affordability is critical when buying a house and calculating your debt-to-income ratio is one way to assess how much you can realistically spend on a property. Typically, your mortgage payment should not exceed about a third of your gross monthly income.

### EMPLOYMENT HISTORY
Frequent job hopping—especially from one field to another—can be a sign of instability (when it results in inconsistent earnings). It is preferred to be in the same line of work, or with the same employer for 24 consecutive months. However, this is not required in all circumstances.

### DOWN PAYMENT
While many believe a 20% down payment is required or simply the most prudent, it's far from the only option. A variety of low down payment options are available that may help make your dream of homeownership a reality.

# Rent or Buy?

## Which fits your lifestyle?

- I want to maintain flexibility & mobility
- I am working on repairing my credit history
- I plan on living in the area for less than 2 years

- I want the feeling of stability
- I want the freedom of changing my living space
- I plan on living in the area for more than 2 years

# Credit Score Information

-Using credit is good. It is how you establish a credit score. Just keep payments within a reasonable amount.

-Pay your bills on time.

-Avoid late payments.

-Don't "max out" your credit cards.

-Minimize inquiries- don't shop for credit for too long or apply for too many accounts at once.

-Leave old accounts open as history is a large part of credit score.

**Be aware of your credit score!**

# How Much Can You Afford?

Calculating your debt-to-income ratio (DTI) may help you determine how comfortable you are with your current debt, and also decide whether applying for a mortgage is the right choice for you.

When you apply for credit, lenders evaluate your DTI to help determine the risk associated with you taking on another payment. It can also help you decide how much you'd be comfortable with spending on a home.

As a general rule of thumb, your overall debt-to-income ratio, including your future mortgage payment, shouldn't exceed 36% to 43% of your gross monthly income. Use the chart below to calculate your own debt-to-income ratio.

## DEBTS

| | |
|---|---|
| Monthly Minimum Credit Card Payments | $ |
| Monthly Car Payments | $ |
| Monthly Personal Loan Payments | $ |
| Monthly Student Loan Payments | $ |
| Monthly Child Support/Alimony | $ |
| A **GROSS MONTHLY DEBT** | $ |

## GROSS INCOME

| | |
|---|---|
| Monthly Gross Salary | $ |
| Monthly Bonus & Overtime | $ |
| Other Monthly Income | $ |
| Monthly Child Support/Alimony Received | $ |
| B **GROSS MONTHLY INCOME** | $ |

**DTI + GROSS MONTHLY DEBT (A) ÷ GROSS MONTHLY INCOME (B)** ____ %

# What to Know About Student Loan Debt

You do not have to be 100% debt free before applying for a mortgage. Student loan debt should not affect your ability to get a mortgage any differently than other types of debt. DTI, as mentioned earlier, plays a large role in your approval for a loan.

Some tips for applying for a mortgage with student loan debt:

-Pay on your loans on time.
-Make additional payments when you can to lower your DTI.
-Look at your interest rates and pay down higher interest debts first to save money.

# Get Pre-Qualified BEFORE You Start House Shopping

# WHY?

It gives you an idea of a budget and price point.

It can expedite the home-buying process once you've found a home.

It gives you a competitive edge when there are multiple offers.

Some Realtors won't show you a home without pre-qualification.

# Documents Needed for All Loan Applications

## ALL BORROWERS:

1. Copies of W-2's for the last two years;
2. Copies of paycheck stubs for the last 30 days (most current);
3. Copies of checking and saving account statements for last two months (all pages);
4. Copies of quarterly or semi-annual statements for checking, saving, IRA's, CD's, money market fund, stock, 401K, profit sharing, etc.;
5. Copy of sales contract when ratified;
6. Employment history for the last two years (address any gaps of employment);
7. Residency history over the last two years, with name, phone number, address and account number of Land or Mortgage Company. Rental property copies of leases plus mortgage information;
8. Canceled earnest money check when it clears or corresponding bank statement, if applicable;
9. Commissioned or bonused income - if 25% or more of base, must have tax returns;
10. Refinance Copy of Note, Deed of Trust, Settlement Statement, Survey, and Insurance information;
11. Any assets used for down payment, closing cost, and cash reserves must be documented by a paper trail;
12. If paid off mortgage in the last 2 years, need copies of settlement statement;
13. Copy of driver's license for application and co-applicant;
14. Copies of most recent 2 years tax returns (with all schedules including k-1's if applicable);

## SELF-EMPLOYED BORROWERS

1. Copies of most recent 2 years tax returns (with all schedules including k-1's if applicable);
2. Copy of current profit & loss statement and balance sheet;
3. Copy of corporate/partnership tax returns for most recent 2 year period if owning 25% or more of company -copies of W-2's and/or 1099 forms;

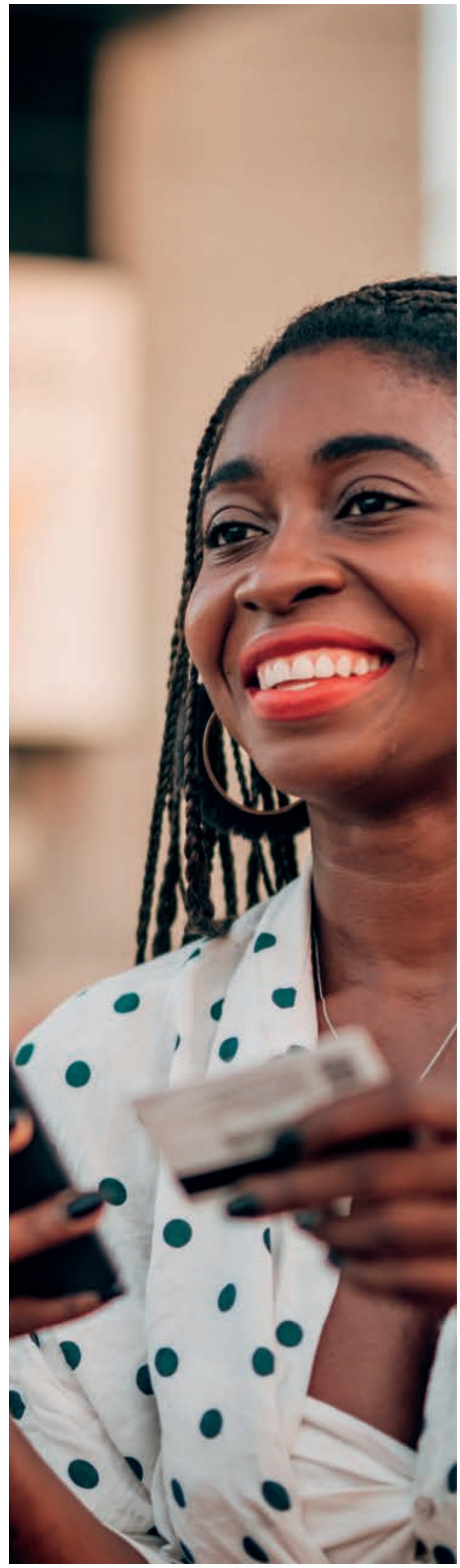
## DOCUMENTS WHICH MAY BE REQUIRED

1. Previous bankruptcy, need copies of petition for bankruptcy and discharge, including supporting schedules;
2. Divorce Decree if applicable;
3. Documentation supporting moneys received from social security/retirement trust income, i.e. copies of direct deposit bank statements, award letters, evidence income will continue;

## DOCUMENTS NEEDED FOR FHA/VA LOANS

1. FHA: Copy of social security card and driver's license for each applicant and co-applicants;
2. VA: Original Certificate of Eligibility and copy of DD214 Discharge Paper;
3. VA: Name and address of nearest living relative;

# Low Down Payment Options



1

## Low to No Down Payment Mortgages

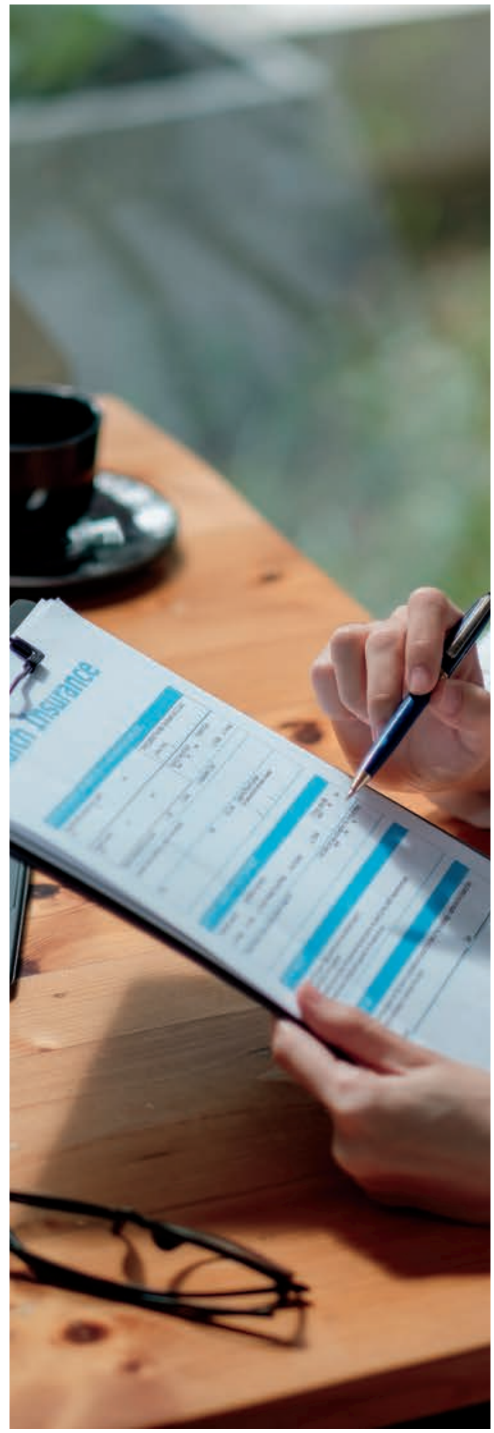
Many programs allow purchases with as little as 3% to 5% down.
You can get an FHA home loan with as little as 3.5%, and you can qualify for conventional home loans with only 3% to 5% down. Also, if you're active duty, a veteran or the eligible spouse of a qualifying veteran, you can purchase a home using a zero-money-down VA home loan. Are you thinking about buying a property in a rural area?
If so, a zero-down USDA home loan might be an option. And the good thing about USDA loans is that you don't have to live in the middle of nowhere! Many small suburbs and towns on the outskirts of metropolitan cities qualify as rural and may be eligible for these loans.

2

## State Homebuyer Assistance Programs

In addition to a low down payment mortgage, you may be eligible for a homebuyer's down payment assistance program offered by your state. These programs are designed to make homeownership more affordable and accessible to borrowers. If eligible, you can receive help with your down payment and/or closing costs.The type of help varies by location. Some eligible homebuyers receive a second mortgage to cover their down payment or a no-interest loan, whereas others might receive a homebuying grant. To learn about state homebuying assistance programs in your area, visit the online website for the U.S. Department of Housing and Urban Development (HUD).

# Understanding Private Mortgage Insurance




### What is PMI?

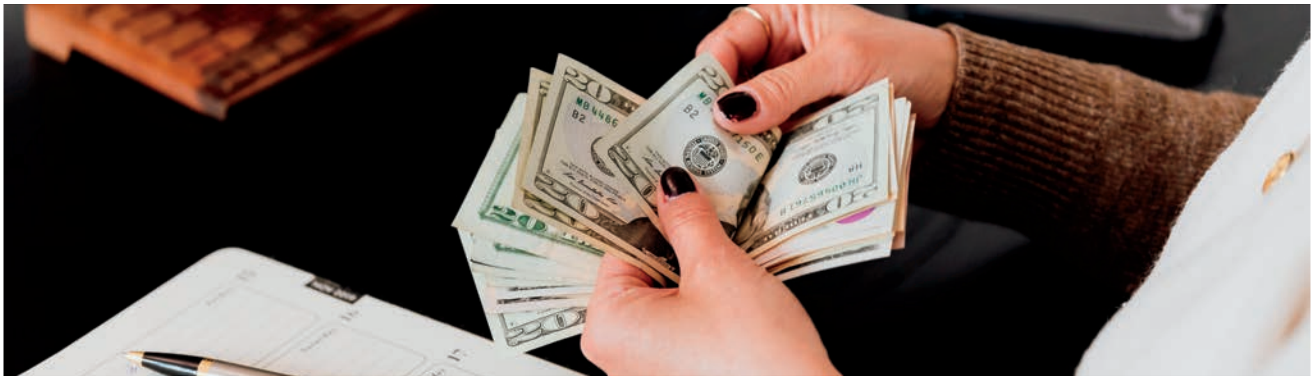
Private Mortgage Insurance (PMI) is often required when buying a home with less than a 20% down payment. The homeowner pays for PMI with a monthly premium with the home loan payment. The purpose is to protect the mortgage lender in case of default.

### How to Eliminate Conventional Loan PMI

1. Wait for PMI to automatically fall off based off the initial amortization schedule at 78% LTV
2. Ask for cancellation when equity reaches 20% based off the original value
3. Refinance if equity has increased substantially
4. Get a new appraisal

# Are You Getting Gift Money?

## What you need to know and prepare:



**1**

The donor or provider of the gift must be a family member, fiancé or domestic partner. They must provide evidence that they have the ability to provide you with the gift. This proof of ability can be a copy of their bank statement, a copy of the canceled gift check or a signed letter from their bank attesting to the availability of funds in their account. FHA loans, however, require the bank statement.

**2**

We will provide a form for the donor to complete and sign. It will include items such as the donor's name, address and relationship to you; the donor's account information; the property being purchased; the dollar amount of the gift; and the date or approximate date of transfer along with a statement that the funds are a gift with no expectation of repayment.

**3**

Documenting the transfer is vitally important. The donor should give the gift in the form of a check or wire. If by check, make a copy then deposit it in the account that is already being used for verification of funds to close. DO NOT combine this deposit with any other incidental deposits. You should provide a copy of the deposit slip or confirmation and either an online update or the next account statement to evidence that the deposit cleared into the account.

While the documentation requirements may seem excessive at times, please remember that the underwriters are simply following the rules to assure that your down payment is not borrowed and that any allowable gift funds are coming from acceptable sources.

# Benefits of Working with a Real Estate Agent

They have professional insight on homes and neighborhood information.

They have experience in negotiation and navigating through the home buying process.

They can protect you when buying & selling with their experience with contracts.

They are licensed professionals bound by law to act in the best interest of their clients.

In most cases, they are compensated by the seller.

# House Hunting Checklist

## MUST HAVES

(Circle number)

| | | | | | |
|---|---|---|---|---|---|
| **Minimum bedrooms** | 1 | 2 | 3 | 4 | 5+ |
| **Minimum bathrooms** | 1 | 2 | 3 | 4 | 5+ |

## EXTRAS

(Circle most important features, cross out not-so important features)

### STRUCTURAL

Garage (Minimum doors: __________ )
Carport
Single Story
Multiple Stories
Basement
Attic

### EXTERIOR

Deck / Porch
Fenced-In Yard
Mature Trees, Shrubs
Aluminum Siding
Vinyl Siding
Wood
Brick

### HEATING/AIR CONDITIONING

Energy Efficient
Central Air-Conditioning
Gas Fireplace
Wood Fireplace
Forced Air Heat

### INTERIOR

Hardwood Floors
Laundry Room
Mud Room
Finished Basement
Handicap Accessible
Countertop Space
Cabinet Space
Eat-In Area
Pantry
Closet Space
Family Room
Formal Dining Room

### LOCATION

Quiet Street
Cul-De-Sac
Strong Schools
Walking Neighborhood
Privacy
Public Transportation
Parks / Playground
City Services
Street Lights
Parking
Proximity to Work
Pool

### OTHER/NOTES

____________________
____________________
____________________
____________________
____________________
____________________
____________________
____________________

# All About Loan Types

There are many different mortgage loan options with First Federal Mortgage. It is important to know and understand how these loans work and what could be the best fit for your financial situation. Our experienced Loan Originators are eager to help in finding a mortgage product that is as unique as you!

## FHA LOANS

What are they?

An FHA Loan is a mortgage that's insured by the Federal Housing Administration. They allow borrowers to finance homes with down payments as low as 3.5% and are especially popular with first-time homebuyers.

- Lower down payment than most other types
- Mortgage insurance required
- Lower minimum credit score allowed
- Debt-to income ratio less than 50%

## USDA LOANS

What are they?

USDA Loans are backed through the U.S. Dept. of Agriculture. They are available to buyers with low to moderate incomes.

- Zero down payment required
- Limited to rural areas
- Available to buyers who earn up to 115% median income
- Minimum cash to close

## VA LOANS

What are they?

VA Loans are home loan options available to our current and former military members and some eligible military spouses, by the U.S. Department of Veteran Affairs.

- Zero down payment required
- No mortgage insurance premiums
- Less than perfect credit accepted
- Lower interest rates

# All About Loan Types

## CONVENTIONAL LOANS

What are they?

A Conventional mortgage is not guaranteed or insured by the federal government

- Down payment as low as 3%
- Mortgage insurance can drop off
- No income maximum
- Streamlined closing process

## ARM LOANS

What are they?

An adjustable rate mortgage is a type of loan where the interest rate varies through the life of the loan. The interest rate is fixed for a certain number of years, then resets periodically. This can mean a lower initial interest rate.

- At least 5% down payment
- Mortgage insurance required
- Higher credit score optimal
- Debt-to income ratio less than 50%

## JUMBO LOANS

What are they?

Jumbo loans finance properties in higher price ranges where loan amounts exceed conforming limits set by the FHFA.

- 660 Minimum credit score
- More eligible properties
- Not available for career investors
- Loan amounts up to 1,500,000

# Keeping Your Loan on Track

1. Don't apply for or take out new credit
2. Avoid quitting or changing jobs
3. Be careful not to take too much time off work
4. Don't make large deposits to your bank accounts
5. Be organized!

# Understanding Your Mortgage Statement

| | |
|---|---|
| **Principal** | The part of your monthly payment that reduces the balance of your loan amount |
| **Interest** | The part of your monthly payment that is applied toward your interest |
| **Taxes** | Usually one-twelfth of your annual property tax bill, the Servicer holds the payments in escrow until the taxes are due |
| **Insurance** | Property insurance is required on every home. Like taxes, they are made with each payment and held in escrow until the bill is due. |

# Mortgage Glossary

**Adjustable Rate Mortgage (ARM)**: A mortgage in which the interest rate is locked in for a specific time period (usually five years), but can then fluctuate annually depending on the federal prime rate after the locked rate period expires. The fluctuating interest rate can increase or decrease the amount of your monthly mortgage payment.

**Appraisal:** A comprehensive report that determines the value of your property based on a number of valuation factors.

**Annual Percentage Rate (APR)**: The rate that shows the true cost of borrowing. It factors in the interest rate of your loan, plus all the costs associated with obtaining the loan.

**Closing**: The final step in the loan process when loan documents are signed at an escrow or title company.

**Closing Costs:** The amount of money that must be paid to close your loan, including lender fees and third-party charges, along with taxes and transfer fees.

**Credit Report:** A tool used by the bank or lender to review your credit profile and your ability to carry and repay debt.

**Debt-to-Income Ratio:** The ratio of monthly liabilities and housing expenses divided by the monthly gross income of the borrower.

**Down Payment:** An upfront payment made by the homebuyer toward the property purchase price, usually ranging from zero to 20 percent. The remainder of the sales price makes up the mortgage loan amount.

**Earnest Money**: A deposit paid to the seller by the buyer as a pledge to complete a real estate transaction. If the seller accepts the offer, the deposit is held in escrow and applied to closing costs when the deal is closed.

**Escrow**: A third party intermediary who holds and allocates

**Fixed Rate Mortgage**: A mortgage in which the interest rate on the home loan doesn't change over the entire life of the loan.

**Gross Income:** The sum of all wages, salaries, profits, interest payments, rents, and other forms of earnings, before any deductions or taxes

**Home Equity:** The value of a property less any and all existing liens. If a borrower owns a property worth $500,000 and has liens of $400,000, equity is $100,000.

**Loan Officer**: A representative of a bank or broker who originates mortgages on their behalf.

**Loan Processor**: The individual who handles all the paperwork associated with closing your loan.

**Lock**: The act of securing an investment rate on a loan. After a lock, future rate fluctuations in the market won't affect the interest rate on your loan.

**Mortgage Due Date:** The date your mortgage payment is due each month during the loan's duration.

**Mortgage Payment**: The cost of your loan, paid monthly.

**Mortgage Rate**: The interest rate associated with your mortgage.

**Mortgage Rate Lock:** The act of locking-in a desired interest rate on your mortgage so it cannot change.

**Mortgage Term**: The length of your mortgage. Most are 30 years, though 15 years is also very common.

**Points**: Percentage points of the loan amount. Often in order to get a lower interest rate, lenders will allow borrowers to lower the rate by paying points upfront.

**Pre-Approval:** Process where lender collects all required documents to verify your income, assets & credit and gives you a definite idea of what you can afford.

**Pre-Qualification**: Process to determine what you can afford to ensure you can obtain mortgage financing when purchasing a property.

**Principal:** The balance of the liens on a property, not including interest. What you owe on your mortgage.

**Underwriting:** The process of verifying that the borrower's documentation adheres to a specific loan program's guidelines. formal commitment to lend.

FIRST FEDERAL MORTGAGE

FDIC EQUAL HOUSING LENDER

NMLS #410785