



# First Time Home Buyer Guide

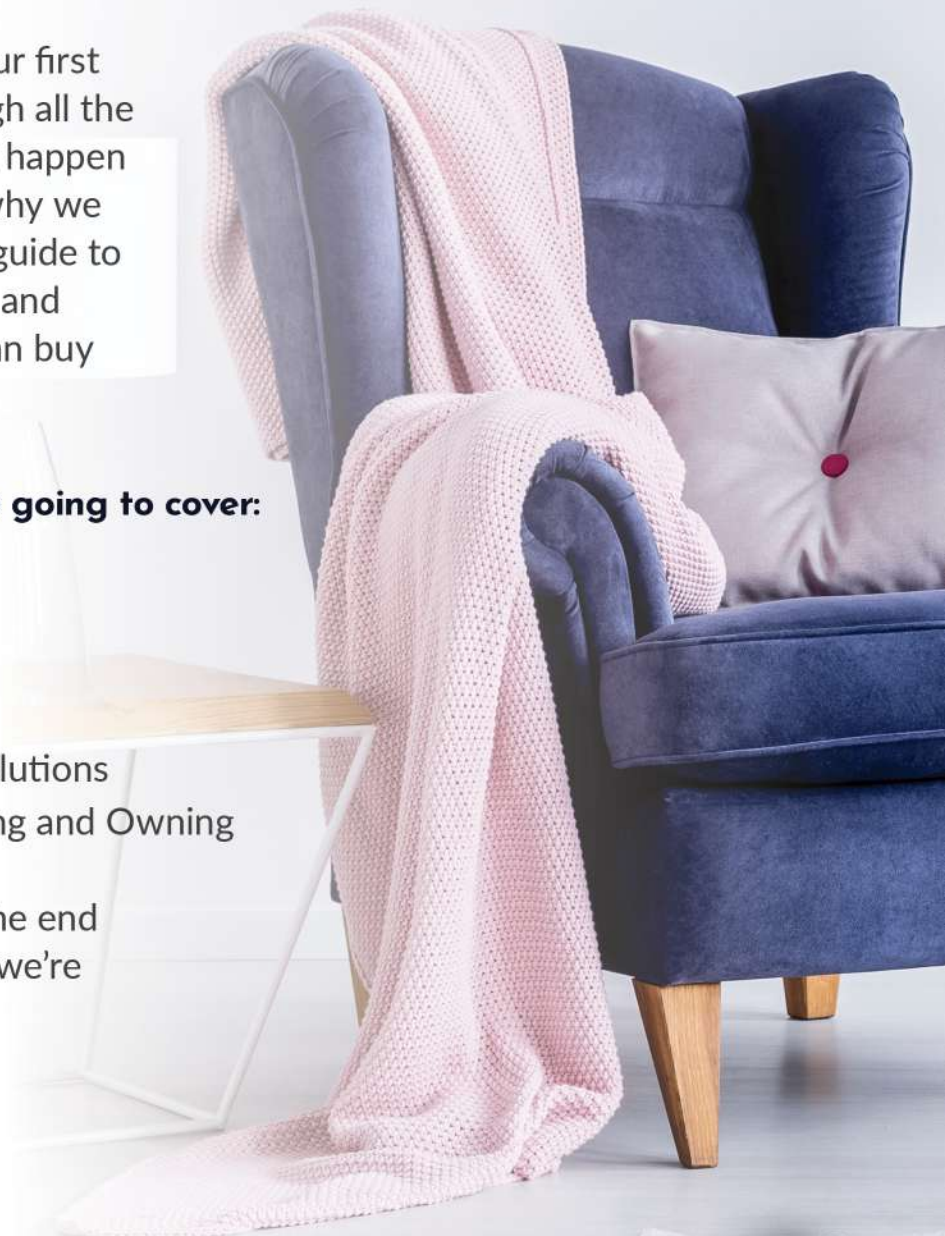
# Your Journey Home

While thinking about buying your first home is exciting, running through all the questions about how to make it happen can feel overwhelming. That's why we created this quick homebuying guide to answer many of your questions and give you insight into how you can buy with confidence.

## Over the next few pages, we're going to cover:

- Down Payments
- Mortgage Rates
- Credit Scores
- The Home Loan Process
- Affordable Home Loan Solutions
- Dynamics between Renting and Owning

If you have more questions at the end or need additional information, we're here to help.



# What Numbers Matter?

A lot of variables go into buying your first home. From interest rates to your credit score to your debt, all are important to the approval process and play a role in determining how much home you can afford.

## Credit Score

When it comes to your credit, the higher the better. Ultimately, your credit score will help determine whether or not you qualify for a home loan and what your interest rate will be. If you need to build up your credit, start now. Always remember that you can check your score once a month for free on sites like [credit.com](http://credit.com) or [creditkarma.com](http://creditkarma.com), or talk to your personal financial institution.

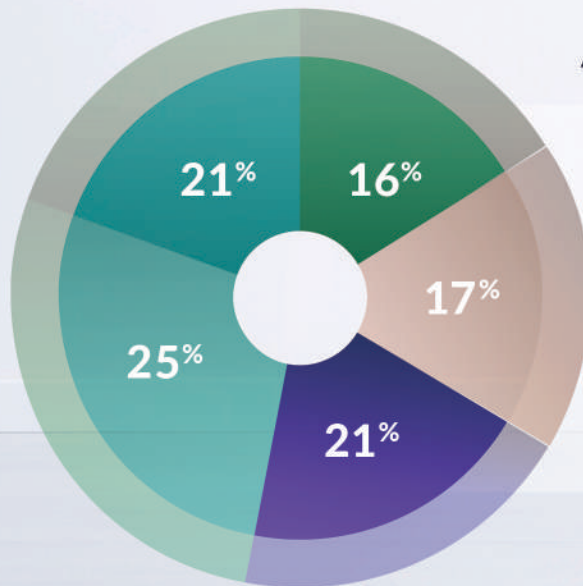
## Mortgage Interest Rate

Mortgage rates are an important piece of the home buying equation. While you may see rates advertised at various places online, the truth is, your rate is determined by your financial situation, which accounts for income and credit history. Plus, mortgage interest rates fluctuate based on market conditions, so timing matters as well.

## Debt-to-Income Ratio (DTI)

DTI is a major factor in qualifying for a home loan. It's calculated by adding up all your monthly debt payments and dividing them by your gross monthly income. Typically, a percentage below 43% is considered acceptable when qualifying for a mortgage.

$$\frac{\$2,000 \text{ Monthly Rent}}{\$6,000 \text{ Monthly Income}} = 33\% \text{ DTI}$$



Average Credit Scores 2018<sup>1</sup>

- EXCEPTIONAL (800-850)
- VERY GOOD (740-799)
- GOOD (670-739)
- FAIR (580-669)
- POOR (300-579)

# What's the Deal with My Down Payment?

You may have heard about the 20% rule, but it's just not true. Sure, you can put 20% down on your home, but by no means is that your only option to homeownership. At PrimeLending, our first time home buyer programs range from zero down to however much you want to put down. Here are a few examples of options available to you with details on each:



Program	Benefit	Down Payment Required
<b>FHA</b>	Low minimum credit score requirement. Low minimum down payment requirement. Insured by the Federal Housing Administration.	As low as 3.5%
<b>VA</b>	Guaranteed by the U.S. Department of Veterans Affairs. Borrowers can finance 100% of their home.	No down payment or mortgage premiums required
<b>USDA</b>	Home buyers' assistance for those in rural and suburban areas who may have lower incomes.	No down payment and closing costs are rolled into the loan for qualified buyers
<b>HomeReady® by Fannie Mae</b>	Borrowers can use additional income sources from family members who live in the home, but aren't listed on the loan, in order to qualify. Can also use funds from gifts.	As low as 3%
<b>Freddie Mac Home Possible®</b>	Down payments can be funded via gifts or grants.	As low as 3%
<b>NeighborhoodEdge® Closing Cost Assistance<sup>2</sup></b>	PrimeLending offers up to \$1,500 in closing cost assistance for qualified home buyers in select states, plus Washington D.C.	Varies

# How Does the Mortgage Process Work?

Buying a home is a big decision, and there are a lot of moving parts for both home buyers and lenders. What we've done at PrimeLending is simplify that process to deliver a transparent and simple experience that gets you home in 4 easy steps.

1

## Application Process

Our online application process, named a Best-in-Class Lender Award for Application Process by MortgageSAT 2018, captures all the info we need to get you pre-qualified<sup>3</sup>, make a loan recommendation and give you an estimate.

2

## Confirm Property Information

The property will need to be appraised and there will need to be a legal search on the property title. We will coordinate this for you and let you know when each step is complete.

3

## Processing and Underwriting

Our team will review your application and any other documents while working through any last-minute questions before making a decision about your loan.

4

## Sign and Close

We'll double-check that everything is in place for a smooth, on-time closing.<sup>4</sup> Once you get the thumbs up, it's time to sign papers, pay closing costs and own your first home.

- Set a price range
- Compare loan options
- Decide on down payment amount
- Get pre-qualified
- Get your Loan Estimate
- Intent to proceed
  
- Property appraisal
- Property inspection
- Title search
  
- Loan approval
- Lock a rate
- Order title insurance
- Schedule closing
  
- Receive Closing Disclosure
- Closing costs and cash needed to close (if necessary)
- Closing instruction
- Sign final documents

# What are My Home Loan Options?

Every home buyer is different. That's why we offer numerous home loan programs that fit various budgets and situations.

Loan	Numbers	Overview
<b>Conventional</b>	Pay as little as 3% to 5% for a down payment.	Straightforward option with fewer docs. Requires great credit.
<b>FHA</b>	Pay as little as 3.5% down with a 580 credit score or higher, or 10% down if credit score is lower than 580.	Can purchase with less upfront cash. Must pay mortgage premium on loan amount.
<b>Fixed Rate</b>	Your rate will never change. Down payment options as low as 3%.	With your rate locked, you can save money over loan term. If rates fall, you could refinance.
<b>Adjustable Rate</b>	ARM options from 3, 5, 7 and 10 years. Adjusts annually after term.	Save on front end of loan. Rates could fluctuate and change your payment during adjustable period.
<b>Interest Only</b>	Your rate is locked for a fixed period, which you will only pay interest.	Lower monthly payments at start of loan. Payments increase when starting to pay principal balance.

There are other options, such as VA and a purchase renovation loan, that could fit your situation better. VA loans require no down payment and no lender fees<sup>5</sup> for all eligible military. A renovation loan allows you to purchase a fixer-upper and create the home you really want.



# Should I Rent or Own?

This is an age-old argument, but whether you choose to rent or buy is completely up to you. Each has their benefits and ultimately whatever your long-term goals are will determine what's right for you. Let's cover the basics.

Sample Payment Scenarios <sup>6</sup>			
Monthly Rent	5 Years	10 Years	30 Years
\$1,200	\$72,000	\$144,000	\$432,000

Home Sales Price	30 Year Conventional, Fixed-Rate Mortgage at 4% Interest Rate/ Annual Percentage Rate 4.08%, and 3% Down Payment	
	Monthly Payment	Payment Over 30 years
\$200,000	\$926	\$376,550

The average first time home buyer age 29-35 spends less than \$200,000 on their first home.<sup>7</sup>



## Renting

Renting means you don't take any risk in owning or maintaining a property. If something breaks or stops working, that's typically not your responsibility to fix. Renting also gives you easier moving flexibility if you need to break a lease.

When it comes to your rent, that money will go to your complex or landlord every month. You also may have other unpredictable financial obligations you have to pay, such as application fees, deposit or pet fees. They may also choose to raise your rent.

The Millennial Generation earns and spends more on rent than any other previous generation.<sup>8</sup>

## Owning

Owning a home gives you a level of freedom, space and privacy you may not find elsewhere. While you're paying a mortgage payment every month, you're paying for something you own while your property is building equity and value over time. Another major perk is the stability of your payments.

Unlike renting, when you own a home, you are responsible for all maintenance and upkeep. Homeownership is also a long-term commitment, has more upfront fees like a down payment and closing costs, and gives you less flexibility if you need to move quickly for one reason or another.

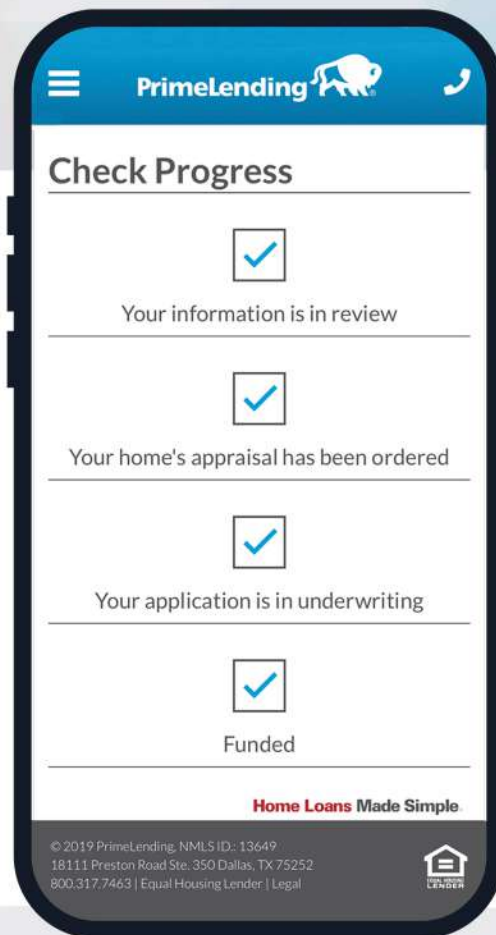
## Conclusion:

This comparison is really just an overview of renting and buying. Before you make the decision that is right for you, it's important to review all advantages and disadvantages of renting and owning. Working with a home loan expert can be helpful as you set your short- and long-term financial goals.



# How Do Lenders Play a Role?

Your loan officer will be an essential part of your homebuying process, which is why it's so important to find the right one. From application to underwriting to closing, your loan officer will be there to guide you every step of the way. While technology significantly streamlines the application process and can help you track the progress of your loan, your loan officer will be able to provide you with all of the resources you need, give personalized consultation, send loan comparisons and pre-approval letters, answer questions, prepare all important documents for review and approval, and so much more.



## Common Mortgage Terms

**Amortization** — The gradual reduction of the mortgage debt through regularly scheduled payments over the term of the loan.

**Annual percentage rate (APR)** — The measure of the cost of credit stated as a yearly rate; includes such items as the stated interest rate, plus certain charges.

**Appraisal** — A written estimate or opinion of a property's value prepared by a qualified appraiser.

**Debt-to-income (DTI) ratio** — The connection between a borrower's total monthly debt payments and his or her gross monthly income.

**Discount point (or point)** — A fee paid by the borrower at closing to reduce the interest rate. A point equals 1% of the loan amount.

**Escrow** — An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition.

**Mortgage insurance** — Insurance that protects lenders against losses caused by a borrower's default on a mortgage loan.

**Prequalification** — A preliminary assessment by a lender of the amount it will lend to a potential homebuyer.

**Principal** — The amount of money owed on a loan, excluding interest. Also, the part of the monthly payment that reduces the remaining balance of a mortgage.

## FAQs

### What is a prequalification letter and why should I have one?

A prequalification letter comes from the lender and states that the lender agrees to provide a mortgage to you, the homebuyer, under certain conditions. Prequalification letters help you set realistic financial goals while you're house hunting. Additionally, they can provide you with the same negotiating ability as a cash buyer and enable you to move quickly once you find the perfect home.

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### What will my monthly payment be?

That depends on several factors, but every mortgage payment is part principal, interest, and taxes and insurance (or PITI).

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### What are closing costs?

Closing costs are expenses that fall above the price of the property that are incurred by buyers and sellers in the process of transferring ownership of a property. These costs usually include an origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, credit report charge and other costs assessed at settlement. Closing costs will vary according to the area of the country; your loan officer is able to provide estimates of closing costs for you.

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### How much will my down payment be?

Depending on your situation and eligibility, we have several down payment options. Your PrimeLending loan officer will be able to help you find a loan program that best fits your financial goals and needs.

## Home Loans Made Simple®

PrimeLending is a proven powerhouse in the mortgage industry, providing professional service, personal guidance, clear communication and timely results at every step through our simple and stress-free home loan process. We've been relentlessly perfecting the mortgage experience for our customers for more than three decades, delivering ideal home loan solutions for just about every situation. Unlike other lenders, we're solely focused on closing loans on-time so you can get to celebrating your new home faster.

# Want to Learn More?

If you're ready to gain a deeper understanding of the mortgage process, you can count on PrimeLending to help you get there. If you have any additional questions or want more information, please reach out at any time.

**Get in touch with us today!**



- (1) Source: <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/>
- (2) Qualified homebuyers may receive up to \$1,500 in closing costs assistance if property is located in a low to moderate census tract and/or homebuyer's income is equal to or less than 80% of the area median income for the property location. If homebuyer meets both of above criteria, homebuyer may be entitled to up to \$2,000. Additional restrictions may apply. Savings only applies to direct originations of first lien government mortgages for purchase or refinancing transactions, and is not available on loans obtained through mortgage brokers. Only one offer per loan transaction is available, and savings cannot be combined with any other offer. Savings will reflect on Closing Disclosure at closing.
- (3) A prequalification is not an approval of credit, and does not signify that underwriting requirements have been met.
- (4) On time closing and fast processing is dependent on many factors including receiving timely documentation from the borrower.
- (5) All lender closing costs such as origination, processing, underwriting, and closing will be waived, borrower is still responsible for third party fees such as VA funding fee, title, and appraisal etc. Down payment waiver is based on VA eligibility. This offer is valid until 6/30/2020. Savings only applies to direct originations made by PrimeLending for first mortgage purchase or refinance transactions, and is not available on loans obtained through mortgage brokers. Only one offer per loan transaction is available, and savings cannot be combined with any other offer. Savings will reflect on Closing Disclosure at closing. Borrower must lock their loan before 12/31/2020.
- (6) Payment Scenario based off [rent](#) and [purchase](#) in Blain, Minnesota where residents are among the most likely people in America to own the home they live in with a median home value of \$202,000. Payment scenario does not include annual property tax or annual home insurance. Annual Percentage Rate 4.070%. Loan amount \$194,000. Scenario as of 11/1/2019.
- (7) According to an article written by [HousingWire](#) containing stats from 2019 Harvard Joint Center for Housing Studies.
- (8) According to a new report containing statistics from real estate website [RentCafe](#).



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