Homebuyers.

On your way to a new home

- Buying a home is a big step
- Choose a home and a financing program that's right for you
- Look into various mortgage options and what they cost
- Select a loan program that fits your budget, lifestyle and goals

Why buy instead of rent?

- Buying a home can be a wise investment
- Build equity
- Typically homes increase in value over time
- Interest paid on a home mortgage is usually tax deductible*

**Consult Your Tax Advisor Regarding Deductibility of Interest*

Where do I begin?

- Apply for mortgage ***pre-approval****

<u>Pre-qualification</u>

- An estimate of how much of a loan you might qualify for
- It is not a firm commitment

<u>Pre-approval</u>

- A credit commitment from a lender for a specific loan amount
- The approval is valid for 60 days

*Subject to underwriting.

Next steps

- Put together a personal "home team" of experts:
  - An experienced real estate agent or builder
  - A knowledgeable loan officer
- Learn more about the home buying process
- Ask yourself some key questions

How much home can I afford?

- Lenders look at:
  - Your credit history
  - Available cash for down payment and closing costs
  - Your income
  - Your existing debt and financial obligations

Maximum mortgage amount + Planned down payment = Home purchase price range

How important is my credit?

- A history of paying monthly payments on time indicates you are likely to make mortgage payments on time
- Your credit score, (e.g., a FICO score) can be a factor in the kind of mortgage program for which you may qualify
- Your credit history can also affect:
  - The amount required for a down payment
  - The amount of money you can borrow in relation to your income
  - The interest rate you are offered
- If you haven't already, obtain a copy of your credit report (www.annualcreditreport.com)

To establish or improve your credit history

- Maintain or improve payment habits
- Review your report for mistakes and report errors
- Keep low balances on credit cards
- Try to pay off outstanding loans or credit card debts to help reduce your total debt
- Avoid taking on new credit unless you can pay off the balance each month
- Consider closing some credit card accounts

**If you have no established credit history, or less-than-perfect credit, there are loan programs that can help you buy a home*

How much do I need for a down payment?

- Today's flexible mortgage programs make down payments less of a challenge
- Some homebuyers may be eligible for down payment assistance
- You may be able to buy a home with very low or no down payment
- Loans with down payments of less than 20% typically require mortgage insurance
- Most programs also require funds equal to 1-2 month's loan payments in reserve after closing

What about closing costs?

- Generally, closing costs equal between 3% and 7% of the home purchase price
- “Prepaids” must be collected at closing to cover the future month’s taxes, interest and insurance
- Some programs allow you to finance your other closing costs
- Some programs allow all or partial closing costs to be paid by home sellers or other sources

How large of a loan can I be approved for?

- Lenders use a debt-to-income ratio to determine the loan amount for which you may qualify
- Typically, the anticipated housing payment is compared to gross earnings and debt
- Many loan programs offer expanded guidelines that qualify applicants for higher loan amounts
- Once you know your maximum loan amount, it's up to you to decide if it's right for you

What does my mortgage payment include?

- Often referred to as PITI and includes
  - Principal
  - Interest
  - Taxes
  - Insurance
- Certain funds may be held in an escrow account to pay tax and insurance bills, as they come due

Government loans

- Government loans are backed by federal or state agencies. In general, they answer the needs of first-time homebuyers by offering:
  - More flexible credit guidelines
  - Allowance for smaller or no down payments
- Types of government loans include FHA, Rural Development and State of Michigan Bond Programs like MSHDA (Michigan State Housing Development Authority)
- The program might require a home owner education class

Conventional loans

- Conventional* loans, which are not backed by the government, suit the needs of both first-time and move-up homebuyers
- Types of conventional loans include:
  - Conforming (loan amounts up to $417,000)
  - Jumbo (loan amounts over $424,101)

**Conventional loan limits in Hawaii and Alaska are higher.*

New, more flexible loan programs

- For example, one new program features the following expanded guidelines:
  - Low or no down payment requirements
  - Flexible credit terms
  - Allowance for less-than-perfect credit, including bankruptcies
  - Reserves not required

Common mortgage options

- 15-Year Mortgages
- 30-Year Mortgages
- Fixed Rate Mortgages
- Variable Rate Mortgages

Which type of loan is right for me?

- Each of the home loan categories we have covered offers a range of financing options
- By working with an experienced mortgage specialist, together you can select a program that best suits your budget needs and financial goals

Make it a point to ask about points

- Always ask if the quoted interest rate reflects payment of points
- One point equals 1% of the loan amount
- Often, you can lower your interest rate by paying a fee in points
- The more points you pay, the more you can discount your interest rate

The Annual Percentage Rate is Key

- Always ask for the Annual Percentage Rate (APR) in addition to the interest rate
- The APR is the total finance charge on your loan, over the term of the loan
- The APR is usually higher than the quoted interest rate
- The APR reflects the true cost of a mortgage loan as a yearly rate

Know when to lock and when to float

- Always ask how long a lender will guarantee the quoted interest rate
- Typically, lenders guarantee a rate for rate-lock periods of 60 days
- Usually, you can float the rate and lock in anytime up to five days before closing
- Ask about available rate lock and float options, and the cost of these options
- Will these options accommodate your home buying needs? The decision is yours

What can I expect at application?

- Provide
  - W-2 forms for the past two years
  - Pay stubs for the past 30 days
  - Bank statements for the past 60 days
  - Purchase agreement
  - List of outstanding debts (credit cards, student loans, etc.) with account numbers and balances
  - Tax returns for past two years with schedules and statement of year-to-date income
  - Name and address of current mortgage holder or landlord

- Confirm down payment and closing cost amounts in bank or other asset accounts
- Clarify any incorrect items on your credit report
- Verify you have debts that are not listed on your credit report

What happens next?

- Processing
- Decisioning
  - Loan Estimate
  - Closing Disclosure
- Pre-closing
  - Settlement Statement
- Closing/Settlement

Talk to prospective lenders about key points

- Pre-approval programs
- A copy of your credit report
- Down payment and closing cost options
- Payment of points
- Interest rate vs. APR
- Rate-lock length and cost
- Mortgage program offerings

Chemical Bank can help you make the move toward home ownership