

HOMEBUYER'S GUIDEBOOK

YOUR STEP-BY-STEP MORTGAGE GUIDE



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READY TO BUY A HOME?

Buying a home is one of life's most exciting adventures. Being a homeowner gives you the opportunity to put down roots, become part of a community, and build equity in your home for the future. However, the trek to becoming a homeowner is no short day-hike.

The good news is, you've come to the right place. This Homebuyer's Guidebook has everything you need to get familiar with the homebuying process, from getting a mortgage to receiving the keys to your new home. As you move through the process, we'll be here to answer any questions and guide you each step of the way.



1. KNOW WHAT YOU CAN AFFORD

First things first, you'll need to get pre-qualified.

Before you start looking at houses, work with your loan officer to get pre-qualified, which will let you know how much home you can afford. This can help you narrow your home search to houses within your budget, give you an idea of how much you'll need for a down payment, and help you identify budgeting goals to work toward.

- Your lender will look at your income, debt, savings and assets to determine what loan amount you can qualify for.
- As a general rule, your monthly housing expense should not exceed 28% of your gross monthly income.
- While getting pre-qualified can be a big advantage during your home search, it's not a guarantee for a loan. Getting approved for a mortgage happens later in the process.

Be aware of the 4 Cs of Credit

Lenders look at a variety of factors when determining if you qualify for a loan.

1. **Character** represents your credit history. Your credit score, how much credit you've used in the past, and whether you make your payments on time are examples of this.
2. **Capacity** represents your ability to repay a loan. The amount of your income and assets are compared against your monthly debts to ensure you can afford a loan.
3. **Collateral** is the asset securing the loan, or the value of the home itself. If you default on payments, the home can be repossessed by the lender.
4. **Capital** is how much money you're able to invest in the collateral, represented by your down payment. This shows you're invested and reduces risk to the lender.

CALCULATE YOUR MORTGAGE PAYMENT!

See what fits your budget. Figure your monthly cost and your payoff timeline by using our [mortgage calculator](#).

1. KNOW WHAT YOU CAN AFFORD

UNDERSTANDING LTV & DTI

Understanding Loan-to-Value (LTV)

LTV expresses how much you're borrowing compared to the value of the home. A lower LTV is more favorable because it represents less risk to the lender. This ratio is calculated as:

$$\frac{\text{Amount Borrowed}}{\text{Appraised Value of Property}} = \text{LTV}$$

For example, let's say you need to borrow \$90,000 to purchase a \$100,000 home. Your LTV ratio would be 90%.

$$\frac{\$90,000}{\$100,000} = 90\% \text{ LTV}$$

The higher your down payment, the lower your LTV. This is important because a LTV higher than 80% (in other words, a down payment less than 20%) typically means you'll have to pay mortgage insurance.

Understanding Debt-to-Income (DTI)

DTI shows how much debt you have compared to your monthly income. The lower your DTI, the better your chances for qualifying for a loan. The ratio is calculated as:

$$\frac{\text{Total Recurring Monthly Debt}}{\text{Gross Monthly Income}} = \text{DTI}$$

For example, let's say your total monthly debts add up to \$2,000, and your gross monthly income is \$6,000. Your DTI ratio would be 33%.

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

Remember, your monthly housing expense (not including other debts) should not exceed 28% of your gross monthly income.



2. UNDERSTANDING FEES & COSTS

Mortgage Payments

Your monthly mortgage payment is made up of the following elements:

- Principal: The actual amount you're borrowing.
- Interest: Cost to borrow money for your home.
- Taxes: Real estate (or property) taxes.
- Insurance: Homeowner's insurance (*and mortgage insurance, if applicable*)

Closing Costs: Fees you should know about

In addition to your down payment and mortgage payment, there are several other costs that come with buying a home known as closing costs. These often represent one of the most unexpected expenses for homebuyers, accounting for 2-5% of the home's purchase price. Costs vary, but here are some examples of what may be included.

- Appraisal Fee- fee for appraiser to estimate fair market value of your home.
- Attorney Fees- depending on state laws, attorneys may be present at closing.
- Credit Report Fee- covers cost of pulling your credit report.
- Discount Points- optional & upfront fee to lower your lifetime interest rate of the loan.
- Home Inspection Fee- covers assessment of home's condition or needed repairs.
- Origination Fee- covers originating or creating the loan.
- Prepaid Expenses- upfront portion of taxes, insurance and interest paid at closing.
- Recording Fees- covers government listing as public record.
- Title Service Fees- covers title search, examination & insurance.
- Transfer Taxes- tax for title transfer to the buyer.

NEGOTIATION TIP!

You can negotiate with the seller to pay some or all of the closing costs. If the seller won't pay and you can't afford your closing costs, talk to your lender about adding the closing costs in your loan.



3. SHOPPING FOR YOUR HOME

Finding a Real Estate Agent

Your real estate agent is a valuable partner. Here are some things to consider:

- Licensing- verify your agent's license is in good standing by searching online.
- Experience- Evaluate how long they have been in the profession.
- Reputation- Read up on what customers say about them to get authentic input.

Finding the Right Home

House hunting can be an exhilarating yet draining process. What should you look for and how do you keep track of the features you loved, as well as the things you didn't? Here are some things to consider each time you view a new property:

RESEARCH

Neighborhoods | Cell Phone Coverage | Local Neighborhood Home Values | Additional Fees

INTERIOR FEATURES

- Flooring, Windows, & Ceiling
- Walls
- Bathrooms & Kitchens
- Rooms
- Stairs
- Doors
- Systems

EXTERIOR FEATURES

- Roof
- Foundation, Driveway, & Pool
- Siding
- Landscaping/Curb Appeal
- Garage
- Patio/Deck
- Pests



4. MAKING AN OFFER

Making an Offer

Once you've found a home you love, it's time to make an offer. The offer, or purchase agreement, is a legal document that outlines the terms and conditions of the sale. This may include, but is not limited to:

- Address & legal property description
- Purchase price
- Down payment amount
- Earnest money to be paid
- Expiration date for the offer
- A commitment by the seller to provide a clear title to the property
- Target closing date
- Target move-in date
- Any contingencies the agreement is subject to, such as the buyer's need to obtain a mortgage or get a home inspection.

DON'T LET THE 20% MYTH SCARE YOU!

Many first-time homebuyers put down less than 20%. Lincoln Savings Bank has loan programs available that may allow you to purchase a home with as little as zero to 3.5% down.



5. CHOOSING YOUR FINANCING

What type of loan is right for you?

When it comes to home financing, there's no one-size-fits-all approach. There are a variety of loan programs available to meet your specific financial situation- talk to your lender about which is right for you. Here are a few examples our lenders are more than happy to discuss with you:

- **Fixed Rate:** Provides a fixed rate throughout the life of the loan. This may be a better choice if you want stable payments and plan to live in your home long-term.
- **ARM:** With adjustable rate mortgages (ARMs), the interest rate can fluctuate, which will affect your monthly payment, but can be a good option for short-term stays.
- **FHA:** Federal Housing Administration (FHA) loans allow you to purchase with as little as 3.5% down, which requires borrowers to pay a mortgage insurance premium.
- **VA:** Backed by the U.S. Department of Veteran Affairs, VA loans require no down payment and no mortgage insurance. Available to eligible veterans, active duty members, reservists, National Guard members, and surviving spouses.
- **USDA:** Backed by the U.S. Department of Agriculture, USDA loans are available for homes in eligible rural areas. USDA loans do not require a down payment, but do require mortgage insurance.
- **IFA:** The Iowa Finance Authority (IFA) offers down payment assistance, first-time homebuyer advantages, and friendly mortgage rates to those who qualify.
- **Construction:** Turn your vision into reality with loans that cover land, materials, and labor costs.

PAPERWORK NEEDED!

Your lender will require a lot of different documents, such as tax returns, W2s and/or 1099s, recent bank statements, recent paystubs, residence history, list of all debts, list of all assets, as well as possible additional documents.



6. LOAN APPLICATION TIME

The Loan Application Process

Once you've submitted your loan application, it triggers a series of events that must take place before you get your loan approval.

- **The Loan Estimate-** Within days of submitting your application, we'll provide you with a loan estimate, which is a detailed summary of what your loan will look like if you decide to move forward.
- **Processing-** The processor will review the loan file and work on collecting all documentation needed. An appraisal will also be ordered during this time to ensure it is worth the amount of the loan.
- **Appraisal-** At this point, a licensed third party will evaluate the value of the property.
- **Underwriting-** Once the loan file is compiled, the underwriter reviews the application to make the final decision to approve or deny the loan and ensure your mortgage meets current loan product guidelines.
- **Loan Commitment/Approval-** Once your application is approved, you'll receive a loan commitment letter, which outlines the details of your loan.

WHAT NOT TO DO DURING THE LOAN PROCESS:

Here are some steps to avoid unless you've closed on your home- These could impact your final closing- even if you've already been approved!

1. *Don't apply for credit*
2. *Don't make major purchases*
3. *Don't liquidate funds*
4. *Don't make large deposits*
5. *Don't switch jobs*



7. CLOSING TIME

What is Closing?

Closing is when your contract is finalized and you sign a lot of documents that make you an official homeowner. Don't forget to get a homeowner's insurance policy, review the closing disclosures, ensure you have the proper amount for a down payment and do a final walk-through 24 hours in advance of the closing. When the big day finally arrives, don't be afraid to ask questions. Your mortgage lender will be there every step of the way.

What to Bring

To ensure a smooth closing, bring:

1. Photo ID
2. Cashier's check or proof of wire transfer to cover down payment and closing costs.
3. Checkbook (in case of last minute changes)

What to Expect

Be prepared for a lot of paperwork. Take a deep breath and take your time. If something doesn't make sense - just ask!



8. MOVING IN!

Before you put out the welcome mat...

1. File your closing packet in a safe place.
2. Change your address with the postal service, your bank and credit card companies, the DMV, your insurance company, internet provider and phone company.
3. Switch utilities to your new address!

We're Here to Help

We hope this guide has helped demystify the homebuying process. Ready to start on your journey towards homeownership? Our mortgage lenders are here to walk you through the process step-by-step and answer any questions you may have.

FILL OUT A MORTGAGE APPLICATION TODAY
OR CONTACT ONE OF OUR MORTGAGE LENDERS!



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