



Priority **1** Lending  
Experience the Difference



# YOUR STEP BY STEP GUIDE TO BEING A **NEW HOME OWNER**

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*This guide will lead you to your dream of owning the house you have always wanted!*



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# EXPERIENCE THE DIFFERENCE

## THE MORTGAGE PROCESS – WHAT TO EXPECT

Purchasing a home is one of the most important events that you and your family will experience. It can be very exciting but, sometimes a bit stressful. Priority 1 Lending is here to help; our goal is to provide you with the most exceptional service while reducing stress. We are a family of trusted Mortgage Professionals who, through high integrity, take pride in creating lifelong relationships and helping homeowners achieve the American Dream of homeownership.

Priority 1 Lending is committed to your 100% satisfaction. We've spent the past 5 years developing the most advanced mortgage software that will ease your stress levels and ensure that you have a seamless mortgage process.

We will keep you informed throughout the entire process. Our Team of Mortgage Professionals are experienced in all aspects of the home buying process from Real Estate to Mortgage Financing and Underwriting to Closing. Finding the right lender is just as important as finding the right home for you and your family. We are excited and privileged to be working with you; this wonderful journey will lead you to your dream of owning a brand new home.

This manual will provide a comprehensive overview of what to expect throughout the mortgage process. We will guide you through the full life of a mortgage, from pre-approval to final clear-to-close. Please make sure to utilize this manual throughout your mortgage process and never hesitate to contact your loan officer directly with any questions.

## GETTING PRE-APPROVED

- ✓ Getting pre-approved is an important step in the Mortgage Process
- ✓ Without a proper pre-approval, you won't know what you qualify for; this could lead to unnecessary frustration down the line
- ✓ Many people assume that pre-approval is not necessary. A 720 fico, good income, and money in the bank does not guarantee a mortgage. That is a major misconception! Without a pre-approval you don't know if you qualify and you will not be able to make an offer on your dream home
- ✓ A pre-approval will help you determine which Mortgage fits your circumstances
- ✓ Your Loan Officer will guide you through payments options, required down payment, and type of financing that best fits your current financial situation



## WORKING WITH A REAL ESTATE AGENT (REALTOR)

Finding a reputable realtor in the area when purchasing a home is key to getting an accepted offer in this market. A good realtor will understand the market and your needs. These days, homes tend to sell fast; most sellers are picky and have several offers to choose from. Choosing Priority 1 Lending will guide you through the process by:

- ✓ Having a Priority 1 Lending pre-approval will make you more competitive amongst other potential borrowers
- ✓ In addition to having a pre-approval, it is vital that you work with a reputable Loan Officer and Lender; this will increase your chances of the seller accepting your offer
- ✓ Priority 1 Lending Mortgage Professionals have over 15 years Mortgage experience; you are in good hands.
- ✓ We have a reputable list of qualified and professional Realtors; if you are looking for a reputable Realtor, don't stress we will refer you to an agent that knows your market.

## FINDING YOUR DREAM HOME

It's always important to move quickly when you find your Dream Home

- ✓ Don't wait for the open house! Remember, homes sell quickly, so it's important that you schedule an appointment to see the home as soon as possible
- ✓ Work with your Realtor to determine an acceptable offer price
- ✓ Realtors are experts in the field and know Real Estate inside and out. It is extremely important to consider your agent's advice on what offer to place on your potential new home.
- ✓ Always take the Realtors advice; it will help ensure that your offer is accepted and will reduce stress





## YOUR OFFER HAS BEEN ACCEPTED THE MORTGAGE PROCESS BEGINS.

### FOLLOWING THESE SIMPLE STEPS WILL KEEP YOU INFORMED AND MOVING IN THE RIGHT DIRECTION (ORDERING A HOME INSPECTION):

- ✓ Your realtor will help you schedule an inspection on the property with a certified inspector
- ✓ We recommend that all our clients obtain a Home Inspection
- ✓ The Home Inspection will identify if your new home has any major issues or repairs that may have been overlooked; such as, roof, furnace, structural, plumbing, and any other elements of your home

CASH OF ONE TIME FEES	USUAL RANGE	YOUR ESTIMATED
<ul style="list-style-type: none"> <li>■ Your Down Payment</li> </ul>	5% - 20% of cost of Purchase Price	\$
<ul style="list-style-type: none"> <li>■ Home inspection A report on the conditions of your home, details including any problems or renovation that could affect the property's value.</li> </ul>	\$200 - \$1000	\$
<ul style="list-style-type: none"> <li>■ Home Appraisal An analysis of the value of the property</li> </ul>	\$300 - \$500	\$
<ul style="list-style-type: none"> <li>■ Mortgage fees This amount is influenced by the rate chosen by the borrower</li> </ul>	3% of the loan amount	\$
<ul style="list-style-type: none"> <li>■ Tax Escrow and prorations to Seller An escrow amount is the specific amount that lenders set up to pay property taxes.</li> </ul>	Amount of property amount for 1 year	\$
<ul style="list-style-type: none"> <li>■ Title Insurance is a form of indemnity insurance that covers the loss of ownership interest in a property due to legal defects.</li> </ul>	This depends on Loan Amount usually average from \$600 - \$2000	\$

## APPLICATION – KNOWING YOUR OPTIONS AND GATHERING DOCUMENTS

### AVERAGE TURN TIME IS 3-7 DAYS, DEPENDING ON HOW QUICKLY YOU RESPOND

- ✓ After your offer has been accepted you will work closely with your Loan Officer on the Mortgage Financing
- ✓ Based on your credit profile, income, and assets your Loan Officer will discuss potential Interest rate, program, and terms that best fit your individual financial needs
- ✓ Your Loan Officer will review your personal documents and may request updated information for anything that has expired



### BELOW IS A LIST OF DOCUMENTS THAT MUST BE SUBMITTED TO YOUR LOAN OFFICER AS SOON AS YOUR OFFER IS ACCEPTED:

2 Years Personal Tax Returns	<ul style="list-style-type: none"> <li>■ Must be signed on Page 2 of the returns</li> <li>■ Must include ALL pages and Schedules</li> </ul>
2 years W2's and full 2-year employment/work history	<ul style="list-style-type: none"> <li>■ Must include all W2's from all employers</li> </ul>
2 months of bank statements	<ul style="list-style-type: none"> <li>■ Must include ALL pages even if last page is blank</li> <li>■ Total available balance on your liquid assets (checking or Savings) must be at least the amount your Loan Officer has informed you that you will need for closing. This includes the amount required for your down payment, closing costs, pre-pays, taxes and insurance</li> <li>■ Cash Deposits are NEVER permitted and can never be used for closing and/or down payment</li> </ul>
All large deposits must be documented and sourced outside of your regular deposited payroll checks.	<ul style="list-style-type: none"> <li>■ If you are applying for an FHA Insured Mortgage, a large deposit would be any single non payroll deposit that is 1% or greater than the appraised value</li> <li>■ If you are applying for a Conventional Mortgage, a large deposit would be any single non payroll, that exceeds 50% of the total qualifying monthly income</li> </ul>

<p>All Transfers between accounts must be documented</p>	<ul style="list-style-type: none"> <li>▪ Transfer money from a savings account to your checking, we will then require 2 months statements for both the savings account and the checking account.</li> <li>▪ Additional large deposits in those accounts must be properly sourced, documented and explained</li> </ul>
<p>If an Online transmittal is provided, the document must include all of the following information:</p>	<ul style="list-style-type: none"> <li>▪ URL must be legible and listed on all pages</li> <li>▪ MUST include all pages, even if last page is blank</li> <li>▪ Must clearly state your name &amp; account number or link your online transmittal to actual bank statement if statement was provided</li> </ul>
<p>1 month worth of paystub Paystubs must include the following information:</p>	<ul style="list-style-type: none"> <li>▪ Your name (if the name does not match the name on your application, such as nick name, abbreviation or name change, you must provide a signed and dated letter or explanation explaining name variations)</li> </ul>
<p>We look for stability in your income so that we can determine the likelihood of your future salary</p>	<ul style="list-style-type: none"> <li>▪ Address (if the address does not match your current residence you must provide a signed and dated letter of explanation explaining the address. Also, include whether you have ownership interest in said property)</li> <li>▪ Employers name &amp; address</li> <li>▪ Pay rate or salary</li> <li>▪ Year to Date Earnings</li> <li>▪ Include taxes being withheld</li> </ul>
<p>Driver's License must include the following information:</p>	<ul style="list-style-type: none"> <li>▪ Cannot be expired</li> <li>▪ Address must match your current residence and address on your documents (if the address does not match your current residence you must provide assigned and dated letter of explanation explaining the address. Also include whether you have ownership interest in said property)</li> </ul>
<p>Investment Statements, Retirement, and 401k</p>	<ul style="list-style-type: none"> <li>▪ Must document for a 2 month period. If only received quarterly, then provide last quarter printout</li> <li>▪ Must include all pages, even if last page is blank</li> <li>▪ If an Online transmittal is provided, the document must include all of the following information: <ul style="list-style-type: none"> <li>▪ URL must be legible and listed on all pages</li> <li>▪ MUST include all pages, even if last page is blank</li> </ul> </li> </ul>

## HOW IS A MORTGAGE ORIGINATION CHARGE CALCULATED?

Mortgage origination charge is the fee the mortgage company charges you for a specific rate you choose. Interest rates change 4 times a day, so there is no way of really being able to tell a borrower what his rate and costs would be unless it is checked at that moment. Every client has the choice to pick any rate they want, but depending on the rate, there sometimes comes a charge or a credit. For a loan amount of \$150,000 below is an example of what you can expect to see when given your rate options. Options in red are a charge and green would be credits towards the additional items you have to pay for.

RATE	CREDIT/CHARGE	MONTHLY PAYMENT WITHOUT TAXES AND INSURANCE
3.875	\$5,338.50	\$705.36
3.990	\$4,432.50	\$715.26
4.000	\$4,156.50	\$716.12
4.125	\$2,991.00	\$726.97
4.250	\$1,996.50	\$737.91
4.375	\$855.00	\$748.93
4.500	-\$234.00	\$760.03
4.625	-\$1,206.00	\$771.21
4.750	-\$2,049.00	\$782.47
4.875	-\$2,250.00	\$793.81

If you look at the chart, the difference between 4.375% and 4.5% in the payment is \$11.10 per month. The difference in the charge is \$855 charge for 4.375% and a credit of \$234 for 4.5% which is a total variance of \$1089. If you divide \$1089 by the months difference of \$11.10 a month it would take 98.10 months to recover that cost from a cash flow perspective. Meaning you would have to be in the home 8.175 years to recover that cost. From an interest rate perspective the variance is .00125% difference. You would save \$187.50 a year in interest by choosing the cheaper rate on a \$150,000.

So to recover the true costs of the variance of \$1089 you would divide that by the savings of \$1089/\$187.50= 5.808 years.

You would have to live in the home for more than 5.8 years in this case to begin benefiting having the lower interest rate. That's why it's very important to discuss your future plans with your loan officer to determine the right rate and loan that will save you the most money for the short or long term.



## WHY DO I HAVE TO PAY FOR TITLE INSURANCE AND CLOSING FEES?



Title insurance is one of the most important items you must pay for in a new home purchase. When you purchase a home and sign the final closing paperwork, you will receive a title to the property and warranty deed. This is the proof of your home ownership.

Title insurance is a form of indemnity insurance, predominantly found in the United States, which insures against financial loss from defects in title to real property and from the invalidity or unenforceability of mortgage loans.

Meaning, if the previous owner of the property you are purchasing took out a loan on the home and it didn't register on the title in time and no one was aware of this new loan, you are not responsible for that lien and the title insurance company would be responsible. It is the title company's responsibility to ensure you receive a clean title with no liens on the property but the ones you agreed upon when signing your mortgage. This fee is set by the state and is standard with every title company you choose and varies depending on the loan amount. You can check what your title insurance rate would be at <http://facc.firstam.com/>



### CLOSING/SETTLEMENT FEE

The closing or settlement fee is a charge by the title company to facilitate the closing to prepare the closing paperwork and disburse all the funds to the proper parties. They ensure that no one receives funds until the transaction is complete and done properly protecting everyone's interest in the transaction.



### WHAT IS AN APPRAISAL AND WHY DO I HAVE TO PAY FOR IT??

A home appraisal is an unbiased estimate of the true (or fair market) value of what a home is worth. All lenders order an appraisal during the mortgage loan process so that there is an objective way to assess the home's market value and ensure that the amount of money requested by the borrower is appropriate.

## WHAT IS AN ESCROW ACCOUNT AND SELLER TAX PRO-RATIONS AND HOW ARE THEY CALCULATED?



Escrow accounts are not often discussed, but if you buy a home using a mortgage you'll likely have one – either by choice or as a requirement of your loan.

In real estate, an escrow account is a separate bank account used by your lender to pay your property taxes and insurance.

Here's how it works: You make monthly payments into the account at the same time you make your mortgage payment. Your lender manages the money and disburses the tax and insurance payments when they're due.

Lenders often require escrow accounts as a way to protect their loan. If you were to fall behind on your property taxes, your home may be subject to a government lien and the lender's stake in your property would be at risk. Similarly, if you failed to pay your homeowners insurance and disaster struck, the value of your property would evaporate, along with the lender's investment. An escrow account ensures (for the lender) that your property is properly protected.

It can also benefit you as a consumer. For many people, an escrow account is the right choice; it's easy to use, it simplifies your saving process and it's relatively worry-free.

For example in Michigan, property tax bills come

out December 15 (winter taxes or sometimes called county taxes) and in July 15 (summer taxes or sometimes called City taxes). Each tax is separate and calculated over a 12 month period. Meaning if you pay your summer taxes in July 2016, you are paid in full until the next July tax bill comes out in July 2017.

If you are purchasing your home and closing for example is to take place in September 2016. You will be required to pay the seller back for taxes he already paid in advance. If the seller just paid the taxes in July 2016, you will owe the seller back taxes from the day you close until in September to July of the following year for the summer taxes. For the winter taxes you would only be required to pay back from September 2016 to December 2016 because the last winter tax bill was paid from the previous year.

Your lender will require you to put an upfront amount in your escrow account to cover future taxes that are due. In this scenario, if you close in September 2016, your lender will require you to put an amount that will cover your December tax bill that will be due in December after you close to ensure there is enough money to pay it.

Easy shortcut to get a close estimate is to take your monthly tax obligation and multiply by 15%.

## WHAT IS THE DIFFERENCE BETWEEN HOME OWNERS INSURANCE AND MORTGAGE INSURANCE?



Homeowners insurance is a type of property insurance that covers a private residence designed to protect an individual's home against damages to the house, or to possessions in the home.

Homeowners insurance also provides liability coverage against accidents in the home or on the property.

You have the right to pick any insurance company or agent of your choice.

### WHAT IS MORTGAGE INSURANCE (MI)?

For most homebuyers, the biggest hurdle to owning a home is the down payment. Private mortgage insurance, or private MI, can allow you to purchase a home with less money down than what may be required.

Lenders and investors typically require mortgage insurance for loans with down payments of less than 20%. MGIC MI provides lenders a financial guaranty should a loan go into foreclosure. It is this guaranty that allows many lenders not to require a 20% down payment when making home loans.

Here's how it generally works:

- ✓ A borrower buying a \$150,000 home makes a 10%, or \$15,000, down payment.
- ✓ The lender then obtains private MI on the borrower's \$135,000 mortgage, reducing its exposure to loss from \$135,000 to \$101,250.
- ✓ The private MI covers the top portion of the mortgage – usually the top 25% to 30%. In this case, the MI will absorb 25%, or \$33,750, of any ultimate loss to the lender

### WHAT ARE THE BENEFITS?

While MI provides an obvious benefit to lenders, many times homebuyers will overlook the benefits MI affords them. These can be significant and may include:

- ✓ Buying a home sooner – a higher loan-to-value ratio means less time is needed to save for a down payment.
- ✓ Increased buying power – if you have a certain amount set aside for a down payment, using MI may help you afford more home than if you put 20% down.
- ✓ Expanded cash-flow options – you may put less down and keep cash for other uses (making investments, paying off debt, or paying for home improvements or emergencies).
- ✓ Receiving a refund – some MI options allow for a prorated refund of premiums upon cancellation.
- ✓ Faster approvals – loans with MI typically are approved sooner than non-MI or government-backed structures.
- ✓ Cancelling coverage – many MI options may be cancelled when no longer needed.



## WHAT ARE SELLER'S CONCESSIONS AND WHY DO THEY MATTER WHEN BUYING A HOME?

If you're in the housing market for the first time, the mounting cost of everything can get pretty overwhelming, even if you've been saving carefully. After all, everybody knows to save five to 10 percent of our dream home's cost for a down payment, but fewer people know that we need to be saving another similarly-sized fortune to cover our closing costs.

All these financial pains are almost enough to make any home buyer throw up their hands in frustration. After all, the economy's still recovering and you've student loans, car payments and children to support — where are you going to find so much extra money? Luckily, there's a way around plopping down even more of your hard-earned cash than necessary on the closing table — you simply have to ask your future home's seller to pay these fees for you.

I know it sounds overly simplified, but it really is that easy. As to why a seller would be willing to do this for you, there are a number of common reasons. One of the biggest is that someone else did it for them. Others sellers might believe they won't find another buyer and will do what they must to move their home.

Seller's concessions aren't simply a generous gift. They're another piece in the complicated real estate puzzle you're just now finding yourself.

### WHAT ARE SELLER'S CONCESSIONS?

A seller's concession is an amount of money paid toward closing on your behalf. Generally, this money is used to pay for closing costs, but sellers occasionally concede money if they realize they need minor repairs or upgrades.

In most cases, the seller's concessions may look like a gift, but they're really just a way to allow you to roll the closing costs of your transaction into your loan. It is the same negotiation for the property value with the caveat that what you negotiate a way from the seller does not reduce the purchase price, in fact it will come back to help you roll in your closing cost.

The amount a seller can contribute varies widely between loan products. In general, a conventional loan allows anywhere from two to nine percent of your new home's sales price in seller concessions, a VA up to four and FHA and USDA loans allow six

percent in seller concessions. For buyers who are cash poor, this is great news because it means they'll still be able to buy. Buying a home is very expensive and their seller concessions are great tool to minimize our pocket expenses.

### WHICH FEES CAN SELLER'S PAY?

In practice, sellers can basically pay any of your settlement costs. The only thing most loan programs prohibit is the seller contributing to your down payment (and most banks will want you to pay for your own application or credit check fee). There's a catch, though. If you want the seller to pay these items for you, you've have to get it in writing up front.

Once you've have a pre-approval, you'll have a good idea what your closing costs will be and what loan program you'll be using. These are the two big pieces of information you'll need to nail this low cash closing tactic. Some Realtors will go the easy route and ask the seller to pay up to three, four or six percent (depending on your loan program) in closing costs, prepaids and other fees on your behalf, but if you live in a low tax area and are purchasing a modest home, you may be leaving money sitting on the table.

If your closing costs are closer to four percent and you ask the seller for six percent, you've just been given two percent of your purchase price to the sellers. That's a generous tip for the benefit of signing one document — so it's best practice to try to get close to the actual price of closing costs and expect to bring a few hundred extra dollars to the table instead.

Here is an example of how it works. In 2014, the average home sale in the midwestern United States (a notoriously low-tax area) was \$196,700. Let's say that's the house you bought — and you asked for six percent in closing costs but only needed four percent. Six percent, the amount you asked the seller to pay, is a whopping \$11,802. Four percent, on the other hand, is only \$7,868. So, if your closing costs were actually around \$7,900 and you asked for six percent, or \$11,802, you just gave the sellers an extra \$3,902 — that's a hefty chunk.

	CONVENTIONAL WITHOUT CONCESSIONS	CONVENTIONAL W/CONCESSIONS	CONVENTIONAL W/CONCESSIONS
Sales Price	\$200,000	\$206,000	\$212,000
Seller Concession Percentage	0%	3%	6%
Seller Concession Amount	\$0	\$6,000	\$12,000
Down Payment	\$10,000	\$10,300	\$10,600
Loan Amount	\$190,000	\$195,700	\$201,400
Interest Rate	4.00%	4.00%	4.00%
Loan Type	30 Year Fixed	30 Year Fixed	30 Year Fixed
P&I Payment	\$954.83	\$983.48	\$1,012.12
Cost of Concessions	\$0	\$28.65	\$57.29

### WHAT ARE MY CLOSING COSTS WITH A LOAN TRANSACTION?

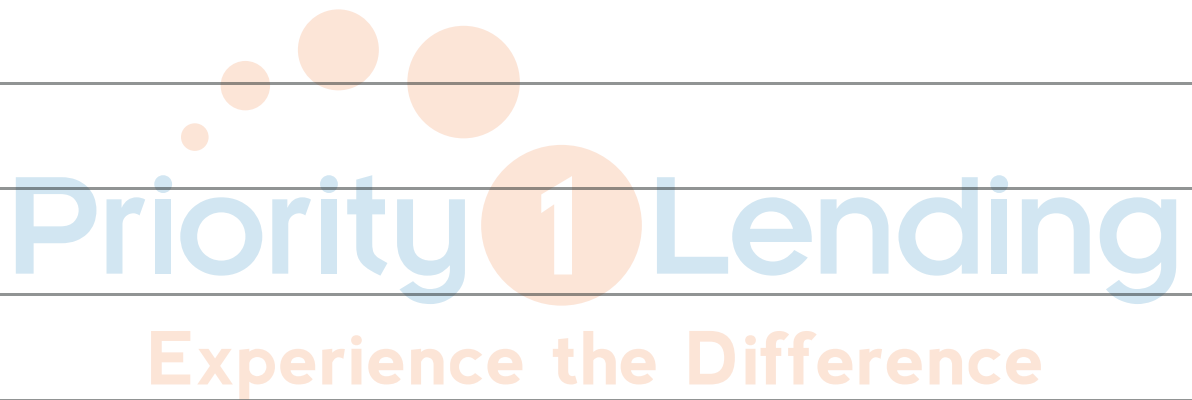
Every mortgage transaction will have closing costs, upfront taxes and insurance that must be paid in order to close your loan in addition to your typical down payment. Below is what you can expect to pay if you are purchasing a home around \$250,000 with 10% down. Below is a breakdown of costs considered closing costs and additional items you have to pay for.

### CLOSING COSTS

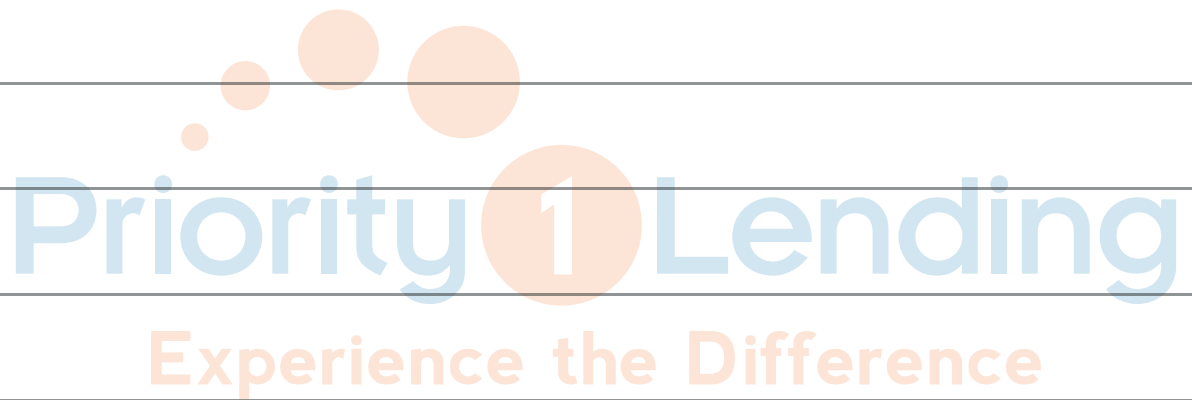
- Mortgage origination ( this charge depends solely on the rate you choose)
- Credit report fee ( typically around \$28)
- Title Closing Fee ( This charge ranges from \$400- \$600) depending on title company
- Title Insurance (this charge is set with the state and is approximately \$769 for a \$225,000 Loan)
- Appraisal Fee ( \$450 - \$600 )
- Recording Fee ( \$85 - \$125 )



## NOTES:



## NOTES:





# PRIORITY 1 LENDING

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