

The First Time Homebuyers Guide

A Pre-Purchase Handbook



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What records should you keep?

The following items, should allow the lender to issue you a pre-approval.

Employment History

24 months of employment history documented with the last two years of W-2's and/or other acceptable documentation.

Source of Funds

Provide records of checking, savings, CD's, Money Market, and 401k accounts to verify that your closing and earnest money funds are your own. You will be asked for at least two recent bank statements to document the source of any large deposit.

Income

Gather all sources of income for the past month including, but not limited to employment and child support. These sources must be verifiable and reoccurring.

Gift Funds

Gift funds are allowed on all loans. Please ask your loan officer for additional information if you intend on using gift funds.

Debts

Debts are money owed in monthly installments to individuals or entities who do not report to credit agencies. Can include educational loans, credit cards and more.

Other

Your lender may ask for other items as part of their review process, so be prepared to provide any additional documentation they may ask for.

Pre-Qualified vs Pre-Approval.

Pre-Qualified

(This is for your benefit/budgeting)

Pre-Qualified is the FIRST step. It basically gives you a starting point to know what price of home you can afford by supplying a general overall financial picture including debt, income, and assets. It does NOT include underwriting, but it DOES include an in-depth look of your documentation.

Pre-Approved

(This assures the seller you are prepared)

Pre-Approval is the NEXT step. Pre-Approval is based on official documentation: Mortgage application, financial documents verified, and current credit rating underwriting review.

This one is more important.

un·der·write

1. to sign and accept liability under (an insurance policy), thus guaranteeing payment in case loss or damage occurs.

Tip Refrain from purchasing items that involve having your credit checked during this process, like a car.

Important Definitions

Acronym	Meaning
PITI & MI	House Payment
PI	Principal & Interest
T	Real Estate Taxes
I	Homeowners Insurance
MI	Mortgage Insurance
HOA	Home Owner Association dues

Pre-Approval Needs.

A pre-qualification gives you a price range for your home search but a preapproval enhances your offer by showing the seller that you are qualified to purchase the home. It is an important step prior to looking for a home.

Credit (FICO®) Score

The Fair Isaac Credit Organization (FICO®) is a public company that provides credit scoring for the purpose of a home loan approval. It often drives the loan approval process and has become the standard underwriting practice.

Debt-to-Income Ratio

Debt-to-Income (DTI) Ratio is the relationship of the applicant's income to their house payment, as well as the relationship of the applicant's income to their house payment and other monthly debts.

There are generally acceptable standards associated with ratios, depending on the type of loan, the amount of down payment and FICO® Scores. By using the ratios with other calculations, lenders can calculate the loan amount for which the buyer qualifies.

Income Verification

Determines loan amount and loan program you qualify for. Pre-approval upon the verification of paycheck stubs, W-2's, credit reports, bank statements, gift letters, phone calls and other paperwork provided by the applicant.

Tip Generally, just three pieces of information are needed to pre-approve the buyer: income, assets, and debt.

Mortgage Programs

Trying to understand the details of the mortgage process can be confusing. Before beginning the search for a new home, buyers should address the following questions:

- What types of mortgage options exist?
- For which mortgage options do I qualify?
- Does the mortgage I've chosen meet my needs?
- Will I need a down payment?
- What kind of monthly payment can I afford?
- Do I have any credit issues?

Program

FHA

Details & Benefits

Federally insured loans, very common, 3.5% down, no income restrictions

VA

VA guaranteed loans for veterans only, 0% down, no income restrictions

Conventional

Privately insured loans, very common, no income restrictions

First-time Home Buyers Program

3% down on conventional loan program in certain geographic areas with income limits and has lower monthly mortgage insurance costs.*

Other Programs

nbkc bank offers upwards of 40 different types of loan programs and loan products. Our loan officers are ready to help you find the loan that fits your needs.

*Reduced mortgage insurance is offered through the HomeReady and HomePossible programs.

What could be affecting your credit scores?

Payment History

- Public record and collection items
- Delinquencies notes in trade lines section
 - severity, recency, and frequency

Outstanding Debt

- Number of balances recently reported
- Average balance across all trade lines
- Relationship between total balances and percentage of total credit limits used on revolving trade lines

Credit History

- Age and performance of each trade line*

Inquiries and New Credit

- Number of inquiries and new account openings in the last year, noting most recent account

*A trade line is an account listed on a credit report. Each separate account is a different trade line.

Types of Credit Used

- Revolving: credit cards
- Installment: student loan, car loan
- Mortgage
- Collections, etc.



What is Mortgage Insurance and when is it needed?

Mortgage Insurance is an insurance policy that protects the lender in case of default.

Mortgage insurance is also referred to as:

- Funding Fee on VA loans
- MIP on FHA loans
- MI or PMI on conventional loans

VA Funding Fee

A VA funding fee that is paid to the Veteran's Administration on all VA loans, with the exception of disabled veterans, when the VA sends a waiver.

Reservists, or those who serve in the National Guard, may also be eligible for a VA guaranteed home loan. The first-time user funding fee is 2.4% on 100% LTV's and 3.30% if previously used. The fee may still be financed in the loan or note.

Mortgage Insurance Premium (MIP) FHA

MIP is paid to HUD on all FHA loans regardless of the loan-to-value ratio (LTV).

In addition to an UPFRONT mortgage insurance premium (UF-MIP), there is a MONTHLY payment, along with real estate taxes, hazard insurance and PI.

The UF-MIP will be added to the BASE mortgage amount and financed. The annual premium is calculated on the unpaid base principal balance without the UF-MIP added to the base loan.

VA Funding Fees Charged on Purchase.



1st Time (Active Duty)

Up to 100%, LTV fee will be 2.15%
Up to 95%, LTV fee will be 1.50%
Up to 90%, LTV fee will be 1.25%

1st Time (Reservist)

Up to 100%, LTV fee will be 2.40%
Up to 95%, LTV fee will be 1.75%
Up to 90%, LTV fee will be 1.50%

Understanding the Loan Estimate.

Now that you're pre-approved, it will be beneficial to understand the terms used when selecting a loan program.

The Loan Estimate

A Loan Estimate will show you what your monthly payments will be. Additionally, the Loan Estimate gives you a detailed account of your closing costs and pre-paid items. Use this estimate to determine which loan fits your financial situation.

Annual Percentage Rate (APR)

APR reflects the cost of your mortgage loan as a yearly rate and may be higher than the rate stated in your mortgage or deed of trust note because of interest, loan discount, points, fees, and other credit costs. This is a true reflection of whether or not you are being taken advantage of with junk fees or points. The broader the difference between the APR and the note rate, the more you should question any excessive costs.

Source of Funds

Funds will be needed for the down payment, closing costs (which can include appraisal, credit report, title work, closing fees, underwriting), and prepaid items: first year of fire insurance, escrows for real estate taxes, and homeowner's insurance (and flood insurance, if required).

Points

Points, often called discount points, are prepaid interest at closing that permanently buy down the interest rate of your loan. Most loans are priced at "par," where borrowers do not pay points.

Searching for a home (AKA - the fun part!).

The Buyer's Agent

When choosing whether to work with a realtor, it is important to understand the legal obligations within the relationship.

When working on the buyer's behalf, the realtor is called a buyer's agent and is legally required to disclose certain information to both the buyer and the seller.

Buyer's agent's legal obligations to the buyer

- Obtain acceptable price
- Suggest negotiating strategy
- Disclose all pertinent information
- Keep buyer's information confidential
- Disclose if seller cannot uphold the contract (same obligation for the buyer as well)

Home Search: Multiple Listing Service (MLS)

The MLS is an inventory of houses for sale. Additionally, it can be used to access information about comparable sales (comps) in a particular area, which can help the buyer and realtor determine the value of a property. The buyer has MLS access through their realtor.

What to look for in a home

- Desirable floor plan
- Updated roof
- Updated electrical
- Good school district
- Nice neighborhood
- Outdoor areas

Important An exclusive buyer's agency agreement is a legally binding contract.

Making an Offer on a Home

The purchase offer is commonly known as a sales contract and typically includes:

Names – buyer’s and seller’s legal names

Address – postal address of property and legal description to government

Sales price – the amount offered to seller for purchase of the property

Earnest money – \$500 - \$1,000 is common as representation of your intent to purchase

Title company name – as the holder of the earnest money

Closing and possession dates – Uses the terminology “on or before”

Negotiating

Counter offers are common when negotiating, and buyers should rely on their realtor’s professional negotiating skills for this purpose. It is important to try to remain objective and rational during the process. Once all parties sign the contract, all terms and conditions are legally binding.

Tip A sales contract is a legally binding contract. Be sure all parties are in agreement prior to signing.

The Final Steps

Loan Underwriting

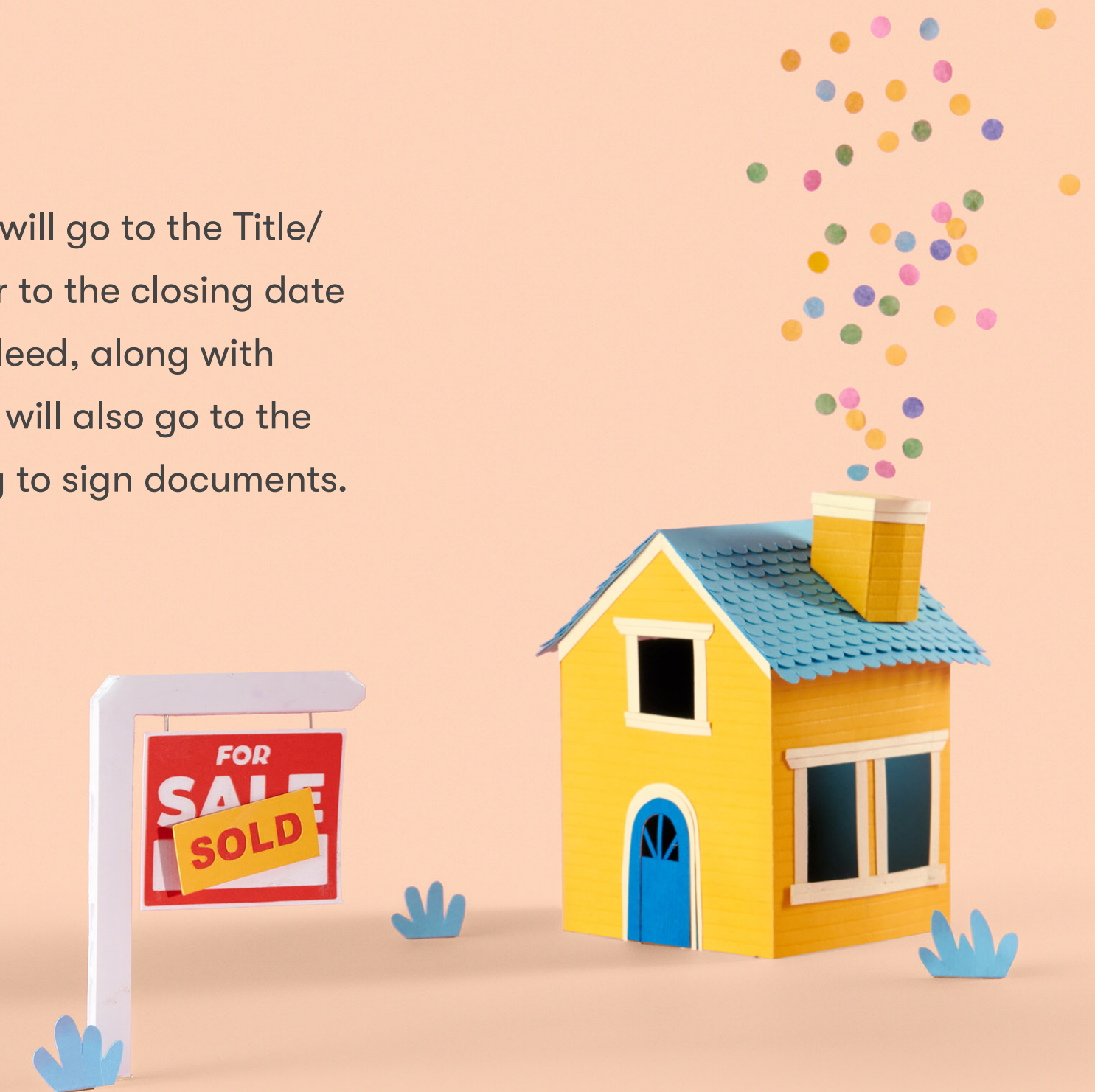
A loan underwriter will audit the complete loan package, any investor requirements, and automated conditions to guarantee that the loan is in compliance and can be purchased in the secondary market.

The Final Walk-through

The final walk-through of the home, arranged through the buyer's agent, is completed to confirm that the property's condition has not changed, any other agreements that have been made, and the terms of the contract will be met.

Loan Closing

The seller(s) normally will go to the Title/Escrow company prior to the closing date to sign the warranty deed, along with other documents. You will also go to the Title/Escrow company to sign documents.



Tips

- nbkc bank has an advantage in time, convenience, and accessibility in-house underwriting.
- From the initial search to getting the keys to your new home, the process can take on average 1-4 months. If for any reason nbkc bank can not close in a month, we will pay you and the seller \$2,500 for closing costs. Our \$5k guarantee!

Your first home is out there!



nbkc bank is ready when you are.

Go online

www.nbkcmortgage.com

or call

1-800-375-8096 to talk to one of our friendly
loan professionals today.