

# The Essential Guide to Buying Your First Home

A miniature yellow house with a red door and grey roof sits in a cardboard box surrounded by white packing peanuts. The house has a chimney on the roof and several windows. The box is open, and the packing peanuts are visible around the house.

**Let's Talk Credit**  
What is Your FICO Score?

**Time to Talk Cash**  
Down Payments Cash to Close

**Appraisals and Inspections**  
What's the Point?

**No More Renting**  
How to Find the Right Mortgage for You

# The Essential Guide to Buying Your First Home

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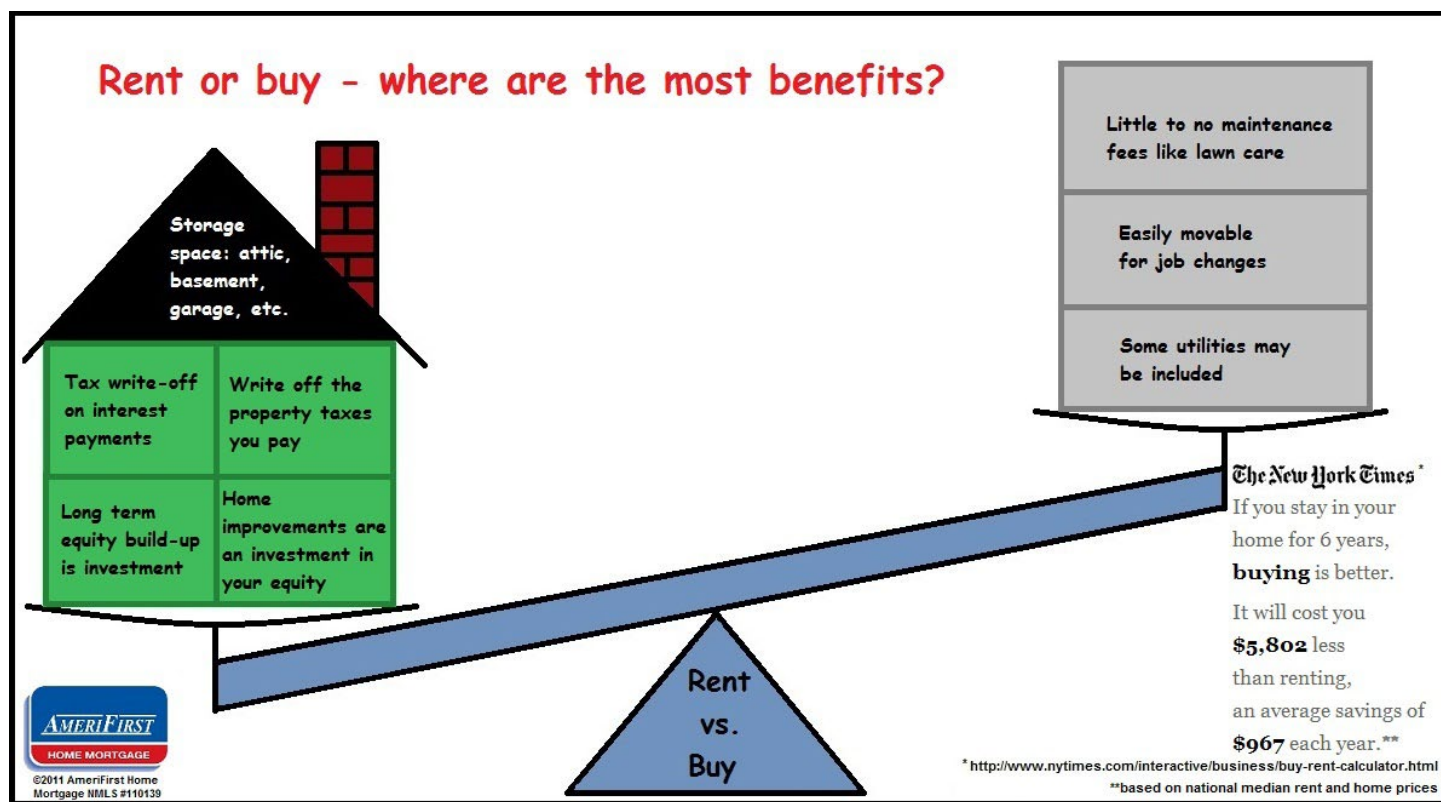
### **AmeriFirst Home Mortgage**

a division of AmeriFirst Financial Corp  
950 Trade Centre Way, Suite 400  
Kalamazoo, MI 49002  
800.466.5626  
[www.amerifirst.com](http://www.amerifirst.com)

## No More Renting!

It's time to stop renting and buy your own house. No more paying the landlord's mortgage and having nothing to show for it other than an empty checking account.

So, you've decided to end your [Renters Nightmare](#) and buy your own house, but you're not sure where to start. Maybe you've found a 100-page guide for first time home buyers. That's all well-and-good, but who has that kind of time? This guide will break down the first home mortgage process in under 15 pages. We'll do it in plain English, too...none of the industry jargon some lenders and real estate experts will throw at you so they sound smart. At AmeriFirst Home Mortgage, we want you to be a powerful, educated home buyer so you don't fall victim to the mortgage traps of recent years, or waste your time renting.



In **"The Essential Guide to Buying Your First Home"** you will find information on the different mortgage loan programs available, and learn the specific details to each one. Whether it's a zero-down mortgage or a fixer-upper, you'll walk away with a better understanding of your options before you even talk to a real estate agent. In fact, educating yourself and getting pre-approved for a mortgage will help you in your house hunting. Real estate agents love a pre-approved borrower.

So take this guide and educate yourself on the home buying process. Feel free to print it off and share it, or post it on Facebook, Google+ or Twitter if you know other first time home buyers.

## In the beginning...

The home buying process should actually start at the beginning. While that sounds obvious, it's an unusual step for many home buyers. Many start with house hunting, but that's not the beginning. Pre-approval is where you should start. A pre-approved borrower has an advantage in the real estate world. Mortgage pre-approval means you know how much house you can afford, and you'll know where to look for your house. Real estate agents we know love it when a client is already pre-approved. This erases the stress of looking through listings, driving to homes and open houses only to have the house hunter come back with a credit score too low or debt too high to get a house. When you get pre-approved, you'll be able to know exactly how much you can afford each month.

## What Do I Need for Pre-approval?



The [mortgage pre-approval](#) process starts with your credit score. Many mortgage programs require minimum FICO credit scores, often in the mid-to-upper 600 range. Your mortgage consultant will pull your credit report, and it may differ than your number if you pull it yourself. So while it's a good idea to monitor your own credit history and score (when you can), a professional will have to get the score as well.

You will also need to share your income and debt with the consultant. A full application will be more thorough, but we need to have an idea on what your buying power is so we can get you a pre-approval letter. This lets your real estate agent know that you're a serious prospect for a house.

You'll enjoy several benefits with pre-approval before you go house hunting. Your real estate agent will see you as a more powerful buyer over someone who hasn't talked to a lender yet. You'll have a better understanding of current interest rates and the market, giving yourself a leg up on whether it's time to lock a rate and make an offer, or if it's better to wait it out for a better deal. Plus, getting pre-approved gets you on the road to home ownership that much quicker. You'll be able to get your finances to where they need to be so you can make a serious offer on a house and get out of your rental.

## Let's Talk Credit

Finding the [best home loan](#) for you really begins with your credit score. Lenders want to know that you're not a risky borrower, and they will get back the money they're lending you. The most common way to measure the riskiness of a borrower is through the FICO score, which is based on factors in your credit history. The higher the score, the more reliable of a borrower you seem. Most mortgage loan programs have minimum credit scores. Many of these minimums sit around the mid-to-upper 600 range. Some programs don't have a credit score requirement. That's basically how [credit scores affect mortgages](#).

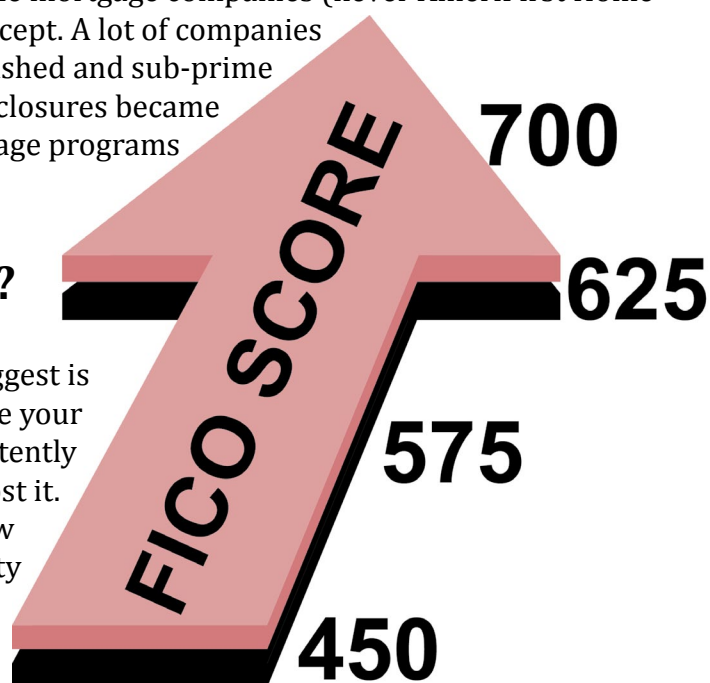
A lesson on sub-prime and how the mortgage meltdown happened: You hear in the news all the time about sub-prime mortgages and how they led to the mortgage crash of recent years. A sub-prime mortgage is a home loan given to someone with a low credit score (typically below 580), making it a risky transaction. These loans were popular with some mortgage companies (never AmeriFirst Home Mortgage) because of the high risk / high reward concept. A lot of companies made fast cash off these deals. When home values crashed and sub-prime borrowers were unable to make their payments, foreclosures became a huge part of the housing market. This is why mortgage programs today have minimum credit score requirements.

### How Do I Improve My FICO Score?

Several factors go into your FICO score. One of the biggest is payment history. This is why it's so important to make your payments on-time. A record of payments made consistently and timely will help keep your score up, and help boost it. Another factor is how much debt you have versus how much credit you have available. It's known as "capacity used." This means if your credit card has a \$10,000 limit and you have an \$8,000 balance, your credit score will suffer. It's a good rule of thumb to keep the credit used to about 35% (or less) of the maximum credit limit. Increasing your credit limit can sometimes help boost your score a bit, but the best way is to pay down the balances.

The third factor in your credit score is the length of credit history. The longer you've used credit (and used it well) the better your score will be. One piece of advice shared in our office is this: get a credit card (secured is fine, but not a pre-paid card or a debit card) and charge a tank of gas each month. In 12 months you'll have a good credit history built up.

Find out [6 credit mistakes first time home buyers should avoid](#) so you can become a powerful home shopper.



## Time to Talk Cash

Down payments are required on almost every mortgage loan out there right now. Only a couple programs do not require the buyer to have a little “skin in the game.” Let’s look at a \$70,000 house with a 5% down payment. This means you will borrow \$66,500 from the lender, add \$3,500 of your own money, and give the \$70,000 to the seller. Because a down payment does not include closing costs or cash-to-close, you will also need to have other money at the time of closing. This could mean that you need around \$9,000 total for the 5% down payment and the money for closing.



### Down Payments

A down payment can come from your own savings account, but the money could also come from your 401(k) or as a gift from an eligible family member (parents, children, siblings). Gift funds may be considered a higher risk by the underwriter of your mortgage. This means if your file is “iffy” (like a lower credit score or income issues) the gift funds could be the difference between an approval and a denial. So the best bet is to save every dollar you can for the down payment on your first home.

### Cash-to-Close

The money you need at the closing table will include a down payment, closing costs and cash-to-close (or pre-pays). Think of it like different buckets. There’s a bucket for the seller (which is where the giant mortgage check and your down payment goes) and one for the mortgage lender (which is where the rest goes). In the mortgage lender bucket you will put the closing costs (fees paid to the mortgage lender for processing and funding your loan) and pre-pays. The pre-pays cover things like your escrow account, so your mortgage lender can pay your property taxes and homeowners insurance.

**Buying a house can include some seemingly hefty fees. But understanding them and preparing for them will help take the sting away.**

## Your Mortgage Options

When it comes to what kind of mortgage you have, you may not have thought you'd have much of a choice. However, depending on several factors, you may have a lot of [mortgage loan programs](#) at your fingertips. Some of these will be low-to-no down payment options. Others will be home improvement loans. Still other options may include no-to-low mortgage insurance costs, or more liberal seller concessions. When it comes to mortgage choices, your options may surprise you.

### Low Down Payment Mortgage Options

#### FHA Loans

Your standard [FHA loan](#) is the FHA 203(b) mortgage option. This single-family program finances the purchase of a new or existing home, up to 4 units (so you could buy a duplex). The down payment requirement for this loan is 3.5% which means a \$100,000 home price means you will borrow \$97,500 to buy the house. You will need at least \$3,500 in a bank account to cover the down payment. That amount does not include cash-to-close, which you read about earlier. The low down payment option and flexible guidelines make this a great option for first time home buyers.



#### VA Home Loan

The [VA home loan](#) option is only available to military veterans, but it requires no down payment. This is one of the most successful mortgage programs out there (one of the lowest default rates), while financing 100% of the home purchase price. Again, it comes with the requirement of military service, but it otherwise mirrors the FHA requirements pretty closely.

#### USDA Rural Development Mortgage

Have you ever found the most perfect beach that no one else seems to know about? This loan option is a lot like that. The U.S. Department of Agriculture guarantees this mortgage to help get home buyers out of the city and into more rural areas. It's called the [USDA Rural Development](#) mortgage. Now, this doesn't mean you're buying a farm or living way out "in the sticks." While you certainly can move to a very rural area, RD loans actually cover a lot of areas near cities. You could look at a home in a village, small town or township and be within the [USDA guidelines](#). The bonus to this program is that it's a 100% financing mortgage. You will need no down payment to buy a house under the rural development umbrella.

## Home Improvement Loans

You have a few choices when it comes to home improvement loans. Let's run down the list.

### HomeStyle Renovation

[HomeStyle Renovation](#) allows the borrower to purchase and finance repairs into one mortgage loan. Down payment is 5%-10% depending on financials. The bonus to this option is that investors can use it, and you as a owner-occupied homeowner can avoid mortgage insurance.

### Standard FHA 203k (or Full 203k)

The [FHA 203k](#) home improvement loan allows you to borrow money based on the after-improved value of the home in order to make the necessary or desired repairs and improvements. However, with the FHA 203k you can use the option on homes that are not bank-owned. In other words, you can use the FHA 203k on most homes in the marketplace today. You can use the Standard 203k for structural repairs like moving a load-bearing wall or tearing down & rebuilding part of the home. You could also [replace a sill plate](#) with the Standard 203k. A 3.5% down payment is required because it's an FHA loan, and that's based on the total amount (including the cost of the construction work).



### Streamline 203k

You can put the Streamline 203k to work when the repairs or improvements do not include structural work, and do not exceed \$35,000. You will not need a 203k Consultant for a Streamline 203k, which HUD requires for the Standard FHA 203k. The Streamline 203k could take care of home improvements like light kitchen remodeling (including appliances), a new deck, re-painting the house and flooring. The Streamline 203k also has a 3.5% down payment requirement.

If you'd like to learn more about these offers, download "[The Only Mortgage Loan Options Guide You Need](#)" here or click on the link at the end of this guide. It's complimentary, we won't ask you for more information to download it. It's full of deeper explanations on each of these mortgage loan options.



## Appraisals and Inspections

### What is a Home Appraisal?

An appraisal is the value of a house based on factors including “comparables.” An appraiser looks at comparable homes in the area which have recently sold, and other things like amenities in the house, and determines the market value. The appraisal helps determine how much money your lender will give you to buy the house. As a seller, you hope for a high appraisal. As the buyer, you want a lower appraisal.

An appraisal is not the “worth” of the home, but the market value. Sometimes this amount differs from appraiser to appraiser, but it’s usually a close assessment of the area homes and values.



### **Inspections – Necessary or Optional?**

Inspections may not always be required, but they’re usually a good idea. A pest inspection will tell you whether the home you want has termites, carpenter ants or other pests, or if it had them in the past. This may help you decide whether it’s still the house you want, or if it just needs treatment. It could also help you save money – a home with a pest problem might be bought for less than the asking price. Pest inspections are an important step in the home buying process.

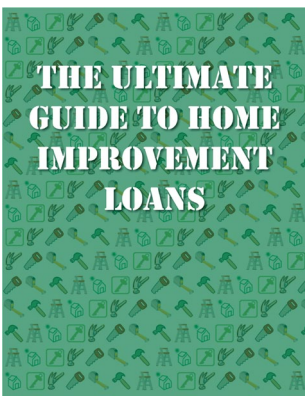
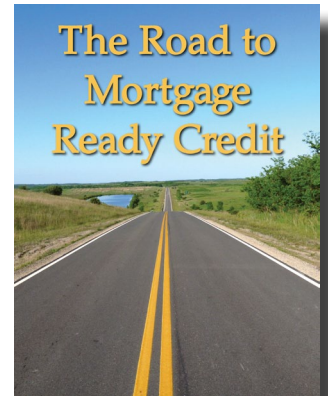
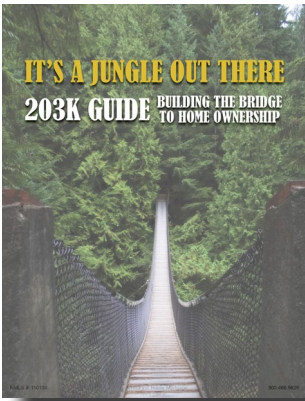
Home inspections cover the house itself, and things like structural issues. A home inspection will also generally include a look at the roof, the heating and cooling system, plumbing and electrical. Since a home inspection is not “exhaustive,” it may not uncover every possible issue. However, home inspections are generally a very important step in the home buying process.

Well and septic inspections are generally paid for by the seller, and are most often included in the standard agreement most real estate agents have. This inspection covers the septic system and wells where the home is not tied to “city water.”

While some mortgage programs may require specific inspections, they’re not generally a requirement for every mortgage option. However, buying a home without inspections could potentially leave you open for some major issues. Spending a few bucks early in the process could save you thousands down the road.

## More Home Buyer & Home Owner Resources to Download

At AmeriFirst Home Mortgage we believe in [educating home buyers](#) and homeowners. Whether it's home improvement loans like the FHA 203k or a first home buyer's guide, we offer several eBooks. You can click one of the pictures below to find the eBook that's right for you!



## Let Us Know How We Can Help

For more than 30 years, AmeriFirst Home Mortgage has helped first time home buyers realize the dream of leaving that rental behind, and owning a house. Whether it's conventional lending, an FHA program, VA loan, Rural Development or a 203k mortgage loan, the team at AmeriFirst is here to find the right mortgage for you. AmeriFirst is licensed in several states, look for an office near you with the [AmeriFirst office locator here](#).

### We're easy to find.

The website: [AmeriFirst.com](http://AmeriFirst.com)

We're on other social media sites as well.



Read the blog and keep up with the industry so you can be an informed borrower.

### Home Buyer Resource Blog



Photo notes:

Stress: [Alan Cleaver](#)

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