Sea View Mortgage

Buying a Home

Make better decisions and make your mortgage approval process go more smoothly and quickly.

SEA VIEW MORTGAGE

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Buying a Home

Whether you're in a buyer's or a seller's market, you'll want to buy a home as soon as you come across the right one. But it's not always that simple. There are many financial issues that will determine whether you'll be able to purchase the house, as well as the terms of your mortgage.

Understanding this information well in advance may help you make better decisions and will make your mortgage approval process to go smoothly and quickly.

Read on to find out more about how you'll need to be positioned financially before you sign your real estate contract.

Down Payment

Make sure you have enough money saved up to put down on your new home. Your dream of homeownership can quickly get dashed if you can't provide an adequate amount of money for your down payment. We have down payments as low as zero but most people need at least 3% down.

What Is a Down Payment?

A down payment is a sum of money that a buyer pays to buy a home. The down payment represents a portion of the total purchase price, and the buyer will take out a mortgage loan to finance the remainder.

"Lenders have tightened requirements since the financial crisis of 2008," says Philip Wallace, President of Sea View Mortgage.

"As a result, borrowers seeking to purchase a home must have some 'skin in the game' to qualify for a home." According to Wallace, most loan programs, including an FHA mortgage, require a minimum down payment of 3% to 3.5% of the purchase price.

You may have known people who purchased homes in the past without a down payment or you may have even been one of those people. That's a much less likely scenario today, as banks are trying to limit the risk of borrowers defaulting.

When real estate values go down, a borrower who puts their life savings into that property is more likely to continue making payments until property values rise again. "A borrower with skin in the game is less likely to default when the going gets tough."

TAKEAWAYS:

A down payment is money paid to make up the difference between the purchase price and the loan amount.

The higher the down payment, the less the buyer will need to borrow to complete the transaction, the lower their monthly payments, and the less they'll pay in interest over the long term.

Depending on the borrower and the type of purchase, lenders may require down payments as low as 0% or as high as 50%.

Interest Rate

There's a very good chance that you'll pay hundreds of thousands of dollars in interest alone over the life of your mortgage. That's why it's so important to find a loan with a low-interest rate. This can save you thousands of dollars in the long-term.

Sea View Mortgage offers some of the lowest mortgage rates in the industry.

A Minimum Acceptable Credit Score

Your FICO score reflects your ability to repay your debts. Maxing out your credit cards and paying your bills late can be another financial stumbling block for potential homeowners who need a mortgage. If you have a bad credit score or, even worse, no credit history at all, there's no way you'll qualify for a mortgage.

FICO scores offer the bank insight into your ability to pay your monthly bills and how much overall debt that could potentially impact mortgage payments down the line. But what is considered an acceptable FICO score? It can often be difficult to assess because it varies based on which lender you ask.

Scott Coppola, a senior loan officer with Sea View Mortgage, notes that although the Federal Housing Administration (FHA) offers financing options to borrowers with a credit score as low as 500, most lenders have their own requirements. So it will be a challenge to find a lender who'll work with a borrower with a credit score below 620.

However, maxed-out credit cards aren't your only concern. "If you are consistently 30, 60, or 90 days late on your other bills, your credit scores will again be low, and banks don't want to lend money to someone they will have to ask for their money constantly," says Coppola.

Sea View Mortgage can work with you to raise your credit score before you buy to make sure you get the best rate possible.

Your Debt-to-Income Ratio

Homeowners who overextend themselves may end up eating bread every day in a house they may eventually lose. This is why it's important to be realistic about what you can afford. You can figure this out by adding up all your monthly debt payments and dividing that figure by your income each month.

You can calculate your debt-to-income ratio by dividing the total amount of your monthly debt payments by your gross monthly income.

"Lenders use a debt-to-income ratio (DTI) to determine if a borrower can afford to purchase a home," Wallace says. "For example, say a borrower earns $5,000 per month. The bank doesn't want your total debt, including new mortgage payment, plus car payments, credit card payments, and other monthly obligations, to exceed a certain percentage of that income."

The Consumer Financial Protection Bureau has rules stating that the debt-to-income ratio cannot exceed 43%.[1]

But Wallace warns that just because the bank feels you can afford a particular mortgage payment doesn't mean you actually can. "For example, the bank doesn't know that you have a large family, or childcare costs, or aging parents that you're caring for. It's important to have a candid conversation about your monthly payments with your mortgage team so that you don't get in over your head," says Wallace. Be aware of your monthly number.

Pay Closing Costs

There are a number of fees associated with a home mortgage, and you could be in for a rude financial awakening if you don't know what to expect in advance.

Although closing costs vary from lender to lender and from state to state, "borrowers pay for the appraisal, credit report, attorney/closing agent fees, recording fees, and processing/underwriting fees." This can, in some cases, be up to 3% of the loan amount.

Required Financial Documentation

"If you are starting with a pre-approval, be sure that the lender asks for all documentation for the process since a pre-approval without thorough documentation review is useless. Something can be missed that could result in your loan being declined later if the pre-approval process is not extremely well documented."

What is pre-approval? According to Wallace, it's "preliminary approval based on what the borrower stated on the application—income, debt, assets, employment, etc. The actual approval process validates the income, assets, and debt using various methods such as pay stubs, tax returns, bank statements, W2s, and employment verifications."

Wallace adds that "in competitive markets, sellers and realtors won't even consider an offer without knowing that the buyer is pre-approved."

Additional documents could be requested at a later date or throughout the process. "The underwriting process is exhaustive, and some documents may bring up questions or concerns that require additional documentation. Just take a deep breath and give the lender everything they ask for, as quickly as possible, to get your approval completed."

Sea View Mortgage offers a fully underwritten pre-approval to ensure home buying success.

TAKEAWAYS:

Make sure you have a sizeable down payment to put down on your new home.

Ensure you have an acceptable credit score and a debt-to-income ratio below 43% before you apply for a mortgage loan.[1]

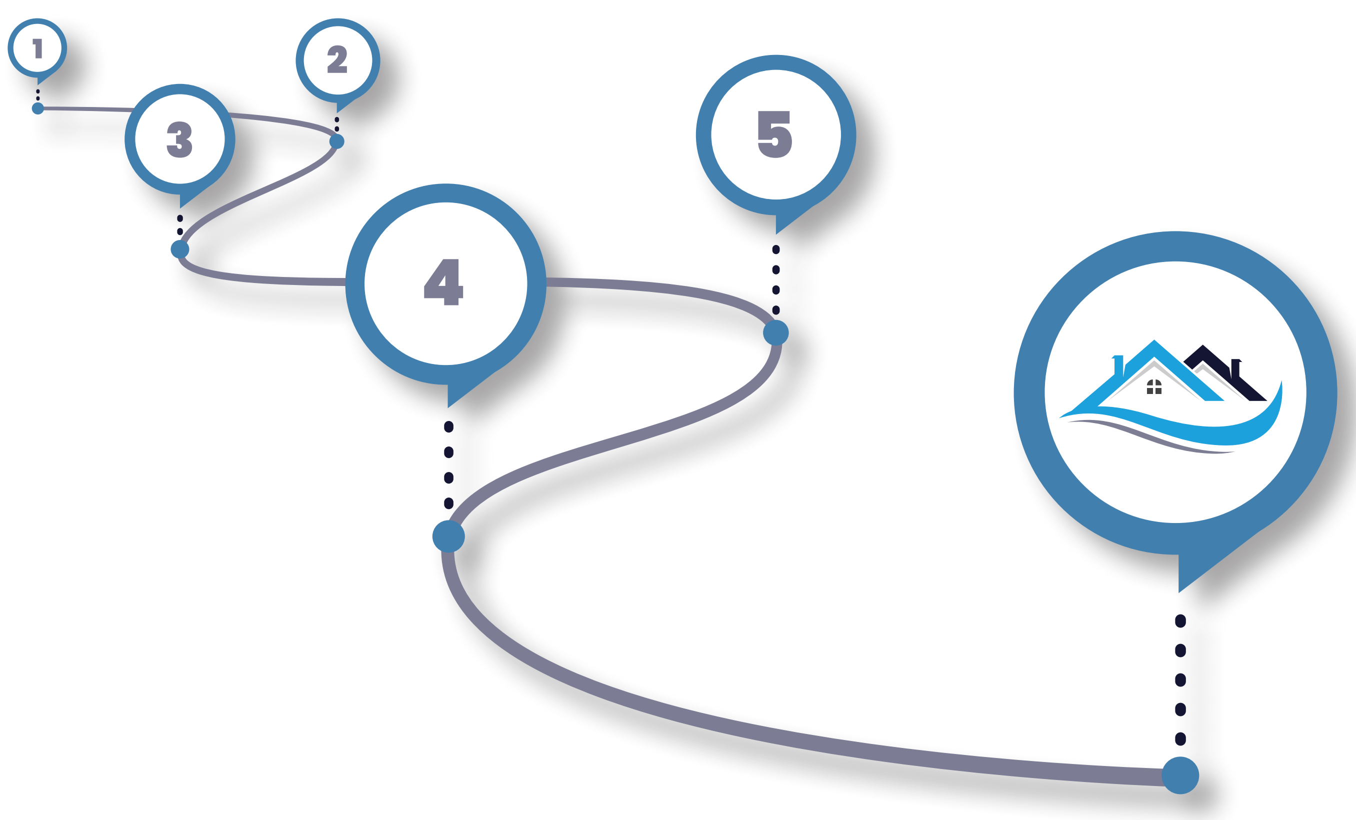
Pay your closing costs immediately.

Ask a Sea View Mortgage Loan Officer what documents you'll need to ensure there are no problems with your application.

Have Sea View Mortgage pre-approve you.

A Timeline For the Homebuying Process

To help you know what to expect at each step along the way, we've laid out a typical timeline for a homebuying journey—along with some tips and insights to help keep things moving smoothly. Here's what you can expect.



Mortgage pre-approval:
1–3 days

While most homebuyers kick off their search by browsing listings online, it's smart to get pre-approved for a loan before you start going to open houses. This will help you determine your price range and give you more leverage when you're ready to make an offer. Most sellers ask for a pre-approval letter as proof that you'll be able to receive financing if your offer is accepted. In most cases, getting a pre-approval takes 1 to 3 days.

First, we'll ask you about your income and assets and do a soft credit pull (don't worry, this won't affect your credit score). Next, our technology will instantly match you with the best mortgage options available based on your information. And that's it—you now have a free, no commitment pre-approval letter that gives you an accurate estimate of your homebuying potential.

Home search:
10 weeks

Once you have a pre-approval letter in-hand, get ready for the fun part: house hunting. It's time to start looking at listings and work with your real estate agent of choice to pick the homes that catch your attention. We can recommend a great realtor if you don't have one.

It's hard to predict how long it will take to find the right home. You could very well get lucky and find your home on day one—or it could take months. Ultimately, the timing will depend on several factors, like available inventory in your desired area and your specific preferences.

The offer:
1–3 days

Ok, so now you've found the right home. From here, it may only take a few hours to discuss the terms of your offer with your real estate agent before it's submitted. But, it's after you submit the offer that the real nail-biting begins. Sellers aren't required to respond within a specific period of time, but most will either accept, reject, or counter your offer within 24 to 48 hours. In cases of multiple offers or a foreclosure, things could take a bit longer.

Communication mostly happens over the phone between buying and selling agents, so you'll likely be waiting on your agent for the latest status updates. Once you hear back, you may have to negotiate back and forth on things like price, contingencies, and closing date until you come to an agreement with the seller.

Mortgage application:
1 hour

When the seller accepts your offer (congrats!), you'll start the process of officially getting approved for your home loan. The application usually asks questions about the property and occupancy type as well as your employment history and finances. Within 3 days of submitting your application, we must provide you with a "loan estimate"—which is a standardized document that contains your monthly payment, interest rate, and other associated costs of your mortgage.

From here, you're ready to make the purchase official! First you'll select the right home loan type and term and then lock in your interest rate. Then head through the processing and closing of your loan and onto owning your dream home.

Loan processing:
3–4 weeks

Once you've submitted your loan application, it moves into processing. In this phase, your lender will give you a list of documents that you need to provide so they can verify all of the information you provided in your application. The quicker you submit them to your loan processor, the quicker the file will move along.

Processing includes a few steps that often happen simultaneously, including your appraisal, inspection, title search, and underwriting.

Here's what to expect during each:

Appraisal

As soon as you pay for your appraisal and lock in your interest rate, your lender will order an appraisal. This is to determine the fair market value of the home you're about to purchase—in other words, how much it's really worth. Among other things, appraisers review recent comparable sales of similar homes in your area (aka "comps") to determine the home's true value. This report may take a few days to get back. An appraisal is important to ensure that neither you nor your lender are paying more than the home is worth.

Inspection

A home inspection is a review of the overall condition of a home. It's a worthwhile step because it can help you catch costly issues or needed repairs before moving forward with the sale. Depending on what's found, you may choose to request repairs, renegotiate, or cancel the purchase agreement altogether. Sea View Mortgage does not require this but it's a good idea to get one done.

If inspections are a part of your contingencies (meaning they're required for the sale to move forward), these negotiations must take place within the timeframe listed in your contract—so it's important to get these going as early as possible. The inspections themselves usually only take a few hours, but it can take several days to receive the reports back from the inspectors. Once you have them in-hand, you can determine how to move forward. Perhaps you want a broken window fixed or a handrail replaced—just make sure you know what repairs you're willing to take on after the home is fully yours

Title search and title insurance

While the inspectors and appraisers are busy with their work, your agent (or in some cases your attorney or loan processor) will order a title search and title insurance. In real estate, a title refers to the legal ownership of the home. A title search is done to ensure that the seller can transfer property ownership to you free and clear. Title issues can arise if there are any outstanding judgments or liens against the current or previous owners for things like unpaid child support or owed taxes. If potential issues are found, then the seller would be responsible for resolving those before the sale can move forward. Title insurance is designed to protect you and your lender from exactly those kinds of surprises.

Underwriting

While your title, appraisal, and inspection work is being completed, your lender will thoroughly review all the information you provided to verify that it is accurate. They'll also calculate your debt-to-income ratio to determine the risk level of approving you for the loan. While this process usually takes around 5 to 10 days, it may take longer depending on your financial circumstances. For example, if you have multiple income sources, such as rental or interest income, or you are pulling your down payment from various asset accounts, or through a gift letter, then it could take a little longer for an underwriter to verify all of this.

Once everything is accepted, you'll receive a conditional approval. This means that you'll be approved for a loan once certain conditions are met. These might include additional documentation, the sale of your current home, or results from an appraisal. When all the steps of the process are completed, you'll receive a "clear to close" notice, meaning you've been fully approved and can move forward with closing—the last step before the home is yours!

Closing disclosure

Three days before closing, Sea View Mortgage must provide you a document known as a "closing disclosure." The 3-day window gives you time to compare your final terms and costs to those estimated in the loan estimate you previously received. The closing disclosure will contain the exact figures of your monthly mortgage payment, as well as how much it will cost to close on your loan. If you have any questions, this is the time to ask your lender before you go to the closing table.

Final walkthrough

Before closing, it is recommended you and your Real Estate agent perform a final walkthrough. This is your chance to verify the home is in a satisfactory condition since your offer was first accepted. You should ensure all the correct appliances and fixtures are still in the home and that any negotiated repairs were completed. If there are any problems, your agent can help you get them fixed. If all looks great, then you'll be ready to close.

Home closing:
1 day

Congratulations! You made it to the last step of the loan process. During closing, you'll be expected to sign paperwork. Then, Sea View Mortgage will transfer the funds to the home seller and fund your loan, and you'll (finally!) get the keys to your new home. The closing process usually takes an hour or two, but in some states, funding may happen a day or so after the closing date. After closing, you'll officially be a homeowner. Time to celebrate! Pop the bubbly!

Buying your first home can be an exciting and nerve-wracking experience. You not only have to find the right place, but you also have to find the right mortgage. With low inventory in many local markets and rising home prices nationwide, finding an affordable home can be a challenge. Sea View Mortgage is here to make sure your closing happens as stress-free as possible!

Mistakes First-Time Homebuyers Should Avoid

Many first-time buyers tend to make a number of missteps in the mortgage and home-buying processes. Here are some of the most common mistakes to avoid.

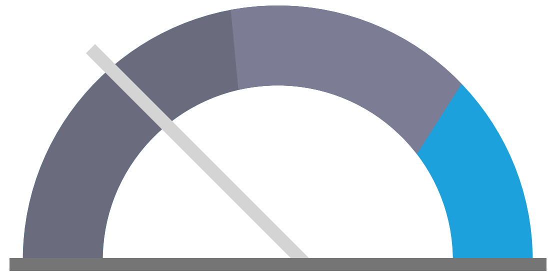
Not Keeping Tabs on Your Credit

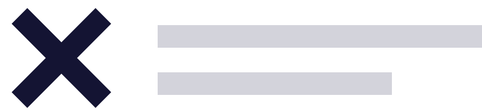
No one likes surprises, especially before buying a house. If you or your spouse have obvious credit issues—such as a history of late payments, debt collection actions, or significant debt—mortgage lenders might offer you less-than-ideal interest rates and terms (or deny your application outright). Either situation can be frustrating and can push back your ideal timeline.1

To tackle potential problems in advance, check your credit report for free each year at annualcreditreport.com from each of the three credit reporting agencies: Transunion, Equifax, and Experian.2 Look for errors and dispute any mistakes in writing with the reporting agency and creditor, including supporting documentation to help make your case. For additional proactive help, consider utilizing one of the credit monitoring services.

If you find current but accurate negative items, such as late payments or delinquent accounts, there's no way to remove those items quickly. Unfortunately, they'll stay on your credit report for seven to 10 years. But you can boost your score by paying your bills on time, making more than the minimum monthly payments on debts, and not maxing out your available credit. Above all, be patient. It can take at least one year to improve a low credit score.

Sea View Mortgage can help you improve your score. Ask about our credit help program.





Searching for Homes Before Getting Pre-Approved

When you find the perfect house, there's no time to waste. In many hot markets, you'll be up against multiple bids and stiff competition. Sellers are unlikely to consider offers from buyers who don't have a pre-approval letter from a lender. A pre-approval letter shows a seller that the lender has done its due diligence to ensure you have the means and motivation to repay your bills, based on your credit history and score, income and employment history, financial assets, and other key factors.

In a competitive market, sellers won't take you seriously without a pre-approval letter, and you could lose out on a home you really want. This document lists the loan amount for which you qualify, loan program, and your estimated down payment amount. In some cases (especially for higher-cost homes or in super competitive markets), lenders might ask you to provide proof of funds for a down payment. The pre-approval letter also includes an expiration date, usually within 90 days.

Sea View Mortgage can provide these free of charge to you

Buying a More Expensive House Than You Can Afford

When a lender tells you that you can borrow up to $300,000, it doesn't mean you should. If you max out your loan, your monthly payments might not actually be manageable. Typically, most prospective homeowners can afford a loan amount between 2 and 2.5 times their gross annual income.

In other words, if you earn $75,000 per year, you might be able to afford a home priced between $150,000 and $187,500. Sea View Mortgage's mortgage calculator, which can be found at www.seaviewmortgage.com, can help you estimate monthly payments This is a better barometer of whether you can afford a home in a certain price range.

Also, consider that homeownership comes with added expenses in addition to those monthly mortgage payments. You need to save for inevitable maintenance expenses, repairs, insurance, property taxes, homeowner's association fees (if applicable), and other costs that you do not have to pay as a renter.

Stretching your monthly budget to cover your mortgage might also mean you can't save up for an emergency or those house repairs, and it will eat up your cash flow for other financial goals, as well.

Don't fixate on the maximum loan amount for which you're approved, but on whether you can afford the monthly mortgage payment at that price point. First-time homebuyers might want to be extra cautious and buy a home below their maximum budget.

Not Hiring a Real Estate Agent

Trying to search for a home on your own is time-consuming and complicated. A professional, experienced real estate agent can help you narrow down your choices and spot issues (both with the physical property and in the negotiation process with sellers). Some states require a real estate attorney to handle the transaction, but attorneys won't help you search for a home; they can help you draft an offer, negotiate the purchase agreement, and act as a closing agent.

Also, if you go on showings without your own real estate agent, a seller's agent might offer to represent you. This can be dicey because that agent doesn't have your interests in mind; their goal is to get the highest and best offer for the seller. Having your own agent whose interests are more aligned with yours will help you make more informed choices.

Best of all, the cost of enlisting an agent won't come directly out of your pocket. As a buyer, you generally don't pay the buyer agent's commission. It's usually paid by the seller to the seller's agent, who then splits the commission with the buyer's agent.

Sea View Mortgage can assist in referring professional realtors if you need one.

Opening (or Closing) Lines of Credit

You can still be denied a mortgage even after being pre-approved for one. Mortgage lenders check your credit during pre-approval—and again just before closing—before giving you the final green light. In the interim, maintain the status quo in your credit and finances. That means not opening new lines of credit or closing existing lines of credit. Doing so can lower your credit score and increase your debt-to-income ratio—both key reasons for a lender to deny final approval.

Instead, wait until after you've closed on your home to take out new lines of credit (like a car loan or a new credit card). And while it's great to pay off a credit card account or loan before you close on your home, closing the account removes that credit history from your report. Length of credit is one of the key factors credit reporting bureaus use to generate your credit score.

Instead, leave the account open and active, but don't use it until after closing.

Some credit card companies may close your account for long-term inactivity, which can negatively affect your credit, too. Keep accounts active by making small purchases that you pay off immediately and in full every month.

Just as opening or closing lines of credit can ding your score, so can running up existing accounts. Again, keep your credit and finances stable until you close on your home. Use cash instead, or better yet, delay buying new furniture or a television until after closing.

Also, you want to get a sense of how your budget will handle your new homeownership costs. You might want to wait a few months before adding more monthly payments for big purchases to the mix.

Moving Around Money

Another big no-no in mortgage underwriting: making large deposits or withdrawals from your bank accounts or other assets. If lenders suddenly see unsourced money coming in or going out, it might look like you got a loan, which would impact your debt-to-income ratio.

Lenders aren't worried about transparent deposits, such as a bonus from your employer or your IRS tax refund. But if a friend wires you money or you receive business income in your personal account, a lender will demand proof to verify that the deposit isn't a disguised loan. Expect a lender to ask for a bill of sale (if the deposit is from something you sold), a canceled check, or a pay stub.

You can use a gift from a relative or friend toward your down payment. However, many loan products require a gift letter and documentation to source the deposit and verify that the donor isn't expecting you to pay back the money.

Changing Jobs

While changing jobs may benefit your career, it may complicate your mortgage approval. A lender wants to ensure you have stable income and employment, and that you can afford to repay your mortgage. If you were pre-approved for a mortgage based on a certain income and job, any chances in the interim before closing can be a red flag and delay your closing.

For approval, you generally must provide proof of two consecutive years of steady employment and income. When you change jobs, that continuous record of income and employment is disrupted, particularly if you take a lower-paying job.

Also, if you switch to a role that pays 25% or more of your salary in commissions, you must prove you've earned that income over two straight years. Whenever possible, lenders recommend waiting to switch jobs until after your loan closes. If that's not doable, tell your lender right away.

The Bottom Line

You don't want to inadvertently sabotage your mortgage—and your home purchase. Some of these mistakes seem innocent, but they can sidetrack your closing and create massive headaches. Before you can think about buying your dream home, you need to be sure that your finances are in order and that you've prepared wisely and thoroughly before the mortgage-approval process even begins.

Talk to us about what you should do from pre-approval to closing to ensure a smooth process. And try to keep all of your documents—bank statements, W-2s, deposit records, tax returns, pay stubs, and so on—organized and updated so you can provide documentation if we request it.

When it comes time to buy your first home, being well-read and educated about the lending and real estate process can help you avoid some of these mistakes, not to mention saving money along the way. Further ensure that the transaction goes smoothly by having trained, experienced professionals by your side to guide you. This can alleviate some of the stress and complexity along the way.

Sea View Mortgage is here to Guide You Home

Request a consultation today

www.seaviewmortgage.com