Guide to

BUYING YOUR FIRST HOME

THE PROCESS

QUALIFYING

TYPES OF MORTGAGES

COSTS

STEPS TO TAKE NOW

Hi, I'm Alyssa and this is my dad, Bob Neilson, broker and owner of Castle Funding. Over the years, we have helped hundreds of families navigate the homebuying process and we love what we do.

Homeownership has changed my life in so many ways, from providing a place for my family to grow while dramatically increasing our net worth and opening the door to other investment opportunities that would not have otherwise been available to us. I want to share what I have learned and help more families do the same! I am licensed to help anywhere in California.

CONGRATULATIONS on taking the first step to homeownership.

You're about to make one of the most important investment decisions of your life. Kudos to you for taking the time to get informed and build a foundation of knowledge.

My goal is to empower you with the understanding and confidence to use your home as a wealth building tool. Everyone's situation is different and there is no one-size-all-approach to purchasing a home. I will create a personalized plan to best suit your lifestyle and do everything in my power to simplify the process and minimize stress so you can focus on building a life in your new home!

The most important thing for you to know is this: this is your home buying journey. You call the shots - on the pace at which you go, the financing decisions you make, and ultimately, which house you buy.

I'm honored to be your guide in starting your home buying journey.

Let's get started!

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BENEFITS OF HOMEOWNERSHIP

1 Freedom & Community

With owning comes the freedom to customize, plant roots, & form community. No more answering to a landlord.

2 Predictable Payments

With a fixed-rate mortgage, your monthly payments stay the same over the life of the loan. If anything, your payment will get lower over the years if you refinance to a lower rate.

3 Equity Building

The value of your home increases over time. This appreciation value, or equity, is the cornerstone to wealth building.

4 Tax Deductions

You are able to deduct property taxes, mortgage interest, and other aspects of your mortgage may be tax deductible - speak with your tax advisor.

2022 Statistics - NAR Housing Data

6%
Ave. down payment for first-time homebuyers

$36,000
Paid towards your landlord's mortgage yearly if rent is $3000

36 YEARS OLD
Ave. age of first-time homebuyer

$117,000
Ave. equity built by homeowners in 2021 (this year was higher than average - typical is 5%)

26%
of all buyers were first-time buyers

5-7
Years the typical homeowners stays in their first home

> "The best time to buy real estate was yesterday. The next best time is today.

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THE HOMEBUYING PROCESS

STEP 01

RESEARCH AND BUDGET

It's important to set goals and prepare your finances ahead of time. Know how you spend your money and what monthly mortgage payment would fit into your budget. Monitor your credit score, pay your bills, keep showing up to your job, and SAVE, SAVE, SAVE.

STEP 02

GET PRE-APPROVED FOR A MORTGAGE

Connect with a mortgage advisor/loan officer, such as myself, to discuss your goals and figure out the maximum loan amount you qualify for. From there, you can determine your budget based on a monthly payment YOU are comfortable with.

We will verify your financial documents, run your credit, and provide you with a preapproval letter that shows realtors and sellers you are a qualified buyer. This is your golden ticket to start looking at homes!

STEP 03

HOUSE HUNTING & OFFER

Connect with an experienced real estate agent who will set you up on a custom home search within your preapproved budget. I work with some amazing realtor partners and would be happy to give you a recommendation to one in your area. When you find your ideal home, you and your agent will craft a winning offer based on the current market and your needs. You may need to negotiate the price with the seller, and both parties will sign a purchase agreement.

STEP 04

CONTINGENCY PERIOD

Your mortgage team will create your file and request any additional documentation to present to the underwriter. You will have a chance to perform inspections and make sure all your questions about the property are answered. An appraisal of the home will be done to confirm value. The inspection, appraisal, and loan contingencies are your safety net to get out of the contract or further negotiate the terms should these areas have hidden surprises.

STEP 05

CLOSING

The underwriter will issue the "clear to close" when all conditions have been met for the loan. Title company will conduct the title search. You will wire funds to the escrow company and sign your final paperwork!

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QUALIFYING FOR A MORTGAGE

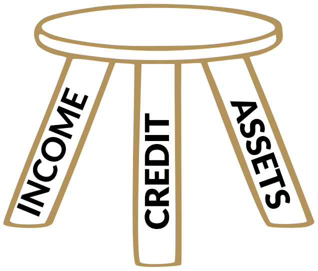
Pre-qualification is the first step, which entails speaking with a **mortgage loan originator**, a.k.a. loan officer, about your goals and financial situation. We are then able to provide an estimate of what you can afford based on the verbal information you provide.

A **pre-approval** is one step further when you submit your financial documents (W2s, bank statements, etc.) to be verified by the lender and actually preapproved by an underwriter. It is best to do this before viewing homes so you can submit your verified preapproval letter with your offers.

*Preapproval is FREE and does not commit you to working with that lender. You can always shop around!

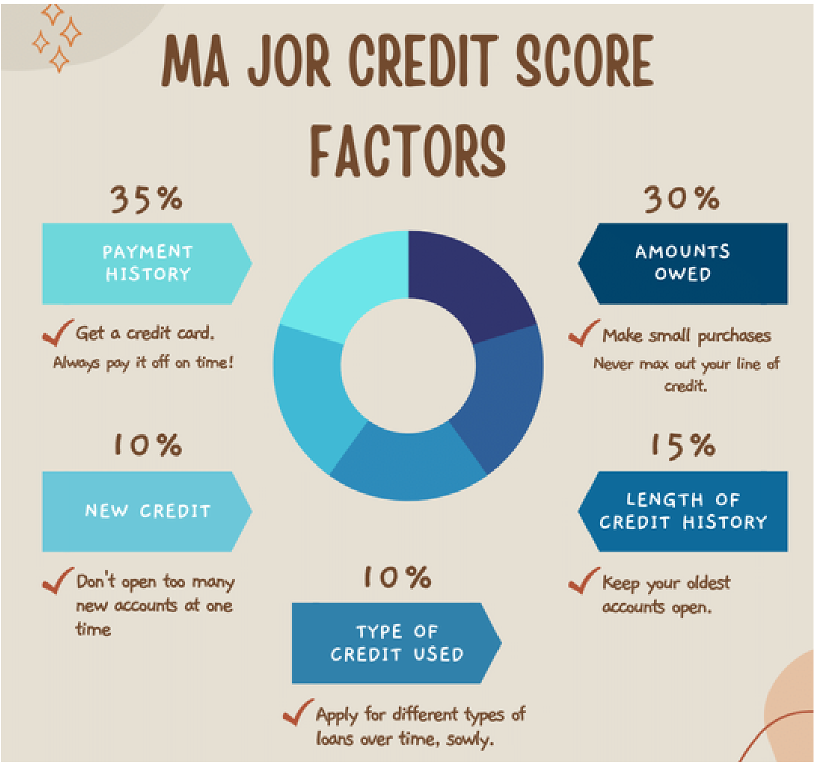
Three-Legged Stool Example

When you apply for a home mortgage lenders evaluate three main parts of your application. This review can be compared to a three-legged stool. As with a three-legged stool, the stronger each leg is the more solid and reliable it will be.



1. **Income** – measures your ability to repay debts including the proposed mortgage payment.
2. **Assets** – addresses your ability to provide a down payment and closing costs.
3. **Credit** – demonstrates your "creditworthiness" or ability to handle debt over the years.

UNDERSTANDING YOUR CREDIT REPORT



Your credit score is an important part of determining what you will be able to qualify for.

Higher credit normally means a better interest rate. Making sure your credit score is in top shape when you buy will literally save you thousands of dollars. That being said, you can get a loan with credit as low as 500.

Credit can be improved throughout the loan process - we can help advise you how to bump your score up to get better pricing!

80% of credit reports have some type of error on them. You should get your free annual credit report online by visiting **annualcreditreport.com.**

DO'S & DONT'S

Get pre-approved early to understand your options

Don't go house shopping without knowing what you can afford

Maintain your current income and contact us immediately if something does change

Don't quit or change jobs (unless its in the same industry and for a higher salary)

Check your credit frequently and dispute any errors

Don't close old credit lines - your credit history and credit availability are major scoring factors!

Pay your balances every month and on time. Set up autopay so as never to make a late payment.

Don't make large deposits other than your paycheck within 2 months of buying. All deposits need to be sourced.

Keep credit utilization as low as possible - aim for under 30%. Call your credit cards and request to increase your credit line for instant improvement

Don't add debts including car loans or big credit card bills. Your credit is pulled again before your loan closes and this can impact your score.

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PREPARE TO TALK TO YOUR LOAN OFFICER

These are some of the things we will need to know in order to help get you prequalified!

Complete this worksheet before you speak to a loan officer in order to ensure a productive conversation and to get an accurate estimate of your budget.

Have these documents handy for your preapproval:

- Photo ID
- 2 most recent pay stubs
- 2 most recent bank statements (all pages)
- 2 most recent W2s
- 2 most recent tax returns
- Self-employed borrowers may require additional docs

INCOME

Job title? W2 or self-employed?

How long have you been at this job?

Do you receive consistent bonuses, commissions, over time?

What is your gross (pre-tax) income?

CREDIT / LIABILITIES

What is your credit score?

What are the minimum monthly payments on any recurring debts, including:

- Car payments:
- Student loans:
- Credit cards:
- Child support/Alimony:
- Mortgage or other loans:

ASSETS

How much money do you have to put towards your down payment & closing costs? Consider:

- Checking/Savings Accounts
- Investments
- Retirement accounts
- Gift funds from family

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MORTGAGE TERMS TO KNOW

01

Debt-to-Income-
Your debt-to-income ratio, or DTI, is a percentage that tells lenders how much money you spend on monthly debt payments versus how much money you have coming into your household. All of your monthly debts, including your mortgage payment, will need to fall below the DTI limits in order to qualify for that loan. You can calculate your DTI by adding up your monthly minimum debt payments and dividing it by your monthly pretax income.

Example:

Debts ($1000) + Mortgage ($3000)

Income ($10,000)

DTI = 40%

02

Fixed rate mortgage -
The interest rate remains the same, allowing you to lock in the rate for the life of the loan. This type of mortgage provides a stable and predictable monthly payment.

03

Adjustable-rate mortgage -
The interest rate is flexible and subject to adjustments, usually offering a lower rate that will rise as the market rates increase. These types of mortgages may be a good choice when fixed interest rates are high. Rates adjust on pre-determined dates (i.e. annual, 3, 5 or 7 year terms.)

04

APR (Annual Percentage Rate) -
This is your interest rate stated as a yearly rate. Your Annual Percentage Rate is typically higher than your interest rate because it includes fees, such as lender fees and mortgage points. Pay attention to the APR when comparing different lenders' rates.

05

Mortgage Points -
Also known as discount points, basically you can pay the lender upfront to reduce your interest rate. One point costs 1 percent of your mortgage amount (or $1,000 for every $100,000.) Paying points is often referred to as "buying down the rate." This makes the most sense to do if you plan to stay in the loan for a long time.

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TYPES OF LOANS

CONVENTIONAL LOAN

This is the "standard" mortgage. Conventional mortgages are not guaranteed or issued by the federal government. They typically offer the best rates provided you have good credit and lower DTI.

- 3% minimum down payment
- 620+ credit score
- Mortgage insurance req'd if <20% down
- DTI <50%

FHA LOAN

This is a government backed loan, sponsored by the Federal Housing Administration. This loan is ideal for those with lower credit scores or higher DTI's.

- 3.5% minimum down payment
- 500+ credit score
- Upfront mortgage premium + monthly mortgage insurance
- DTI <57%

VETERAN'S (VA) LOAN

This type of loan is for active duty military or veterans. The U.S. Department of Veterans Affairs backs this loan instead of a traditional bank.

- 0% down payment
- 580+ credit score

JUMBO LOAN

These are portfolio loans for larger amounts above the conforming loan limits per county.

- 10-25% down payment
- 680+ credit
- DTI <43%

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UNDER CONTRACT

Once you’ve found the right home, you and your agent will work together to make a competitive written offer, matching your strengths with the sellers needs.

Once all parties have signed the terms of the offer, you're **under contract**! The seller cannot sell the home to other buyers.

Here are a few things that happen next:

Earnest Money Deposit

Your first deposit of 1-3% of the purchase price is typically due within 3 days of your agreement. This is part of the down payment, not in addition to. It is refundable if you terminate the contract due to inspections, your mortgage, or your insurance.

Rate & Lender Lock

Your loan officer will advise you when to lock in your interest rate based on market conditions. You will complete your full mortgage application and provide any outstanding documents requested by the underwriter who is approving your loan.

Home Inspection

Your agent will help you arrange a home inspection. You will be able to walk through the home with the inspector to ask questions and fully understand any concerns. You can plan to spend around $300-500 on the general inspection and may decide to perform additional inspections as needed, such as termite, roof, chimney, pool, sewer, etc.

Inspection Negotiation

After the inspection, you will either:

1. Terminate the contract, get your deposit back and find a new home
2. Negotiate for the seller's to make necessary repairs
3. Negotiate for money back at closing

Title Insurance

Title insurance is state regulated and protects your ownership of the home. You are protected from unpaid taxes, old mortgages, or judgements on the property.

Closing

You will wire your remaining down payment and closing cost funds, sign all paperwork, and transfer the home into your name. The next day, recording and funding will take place. Finally - you get the keys and its yours!

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COSTS TO CONSIDER

Purchase Price:		$600,000.00
MINUS Down Payment	-	$30,000.00
Loan Amount		$570,000.00
Annual Taxes		$7,500.00
Closing Date		2/1/2023
***ESTIMATED* Closing Costs:**		
Credit Report		$64.00
Appraisal		$700.00
Underwriting Fee		$1,000.00
Loan Discount Points (if applicable)		$0.00
Title Policy		$825.00
Mortgage Reg. Tax (0.1%)		$570.00
Closing / Escrow Fee		$1,800.00
Record Deed & Mortgage		$170.00
Transaction Processing Fee		$8.00
Tax Service Charge		$70.00
Notary Fees		$300.00
Flood Certificate		$13.00
Overnight Fees		$0.00
General Inspection		$400.00
Other: Termite Inspection		$85.00
Full Sewer Scope		$350.00
As needed: roof, AC, fireplace		$450.00
Total *ESTIMATED* Closing Costs:		$6,805.00
PRE-PAIDS		
1st Year Homeowners Ins.		$1,320.00
Escrow: 3 mo taxes		$1,875.00
2 mo homeowners Ins.		$220.00
Interest from closing to EOM		$3,075.69

Purchase Price		$600,000.00
Closing Costs	+	$6,805.00
Pre-Paids	+	$6,490.69
Total Costs	=	$613,295.69
Less:		
Loan Amt	-	$570,000.00
Earnest Money	-	$18,000.00
Seller Paids up to 3%	-	
Tax Credit	-	$5,000.00
Application Fee	-	
Appraisal Fee	-	
Other	-	
Due at Closing		$20,295.69

Estimated Monthly Payment:		
Type: Conventional	6.00%	Interest Rate
	30	Term years
P&I		$3,417.44
Homeowners Ins		$110.00
Property Taxes		$625.00
PMI		$100.00
Total Estimated Pmt.		$4,252.44

The costs shown on this sheet are approximations based on information available at the time, and are subject to change at closing. Brokerage assumes no liability for the accuracy of estimates.

Above is an example breakdown of the total cost of buying a $600,000 home with 5% down and a 6% interest rate. This is for educational purposes. Not an actual estimate.

DOWN PAYMENT

This is the portion of the purchase price that you'll be paying in cash. The rest of the payment to the seller comes from your mortgage. Down payments are generally between 3- 20% of the purchase price.

CLOSING COSTS

Closing costs include the myriad fees for the services and your prepaid share of insurance, taxes, and interest for the days you will own the home before your first mortgage payment. They typically add up to 2-5% of the loan amount.

SELLER ASSIST

A seller's assist is when you roll all or some of your closing costs into the purchase price and your mortgage. For example, if you are looking to offer a seller $600,000, if you need a 2% seller's assist to help with closing costs, you would offer $612,000. The likelihood of getting a seller assist will depend on your market.

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FAQ'S

CAN I GET PREAPPROVED WITH MY BANK OR AN ONLINE LENDER?

We recommend getting pre-qualified with a lender you trust. This is the biggest financial decision of your life and you want someone who will be available to hold your hand through it and advocate for you. To make the process go smoothly, a local mortgage professional who has experience with first-time homebuyers and is easy to communicate with is best. Most real estate transactions occur on evenings and weekends, so its important to work with someone who is not limited to banking hours. Plus as mortgage brokers, we partner with multiple lenders to shop the best rates and programs so you don't have to.

WILL GETTING PRE-APPROVED HURT MY CREDIT?

When your credit is pulled for mortgage purposes, it does not negatively impact your score. Preapprovals last 3 months because that is how long the credit report lasts, and if you don't find a house in that time, its no big deal - we just update it!

WHAT DOES IT MEAN TO REFINANCE YOUR MORTGAGE?

Refinancing your mortgage means you're essentially trading in your current mortgage for a newer one. You can adjust your loan term, get a better interest rate and change your loan type to save money in the long term. You can even cash out your home's equity and use the money as you need it. Refinancing to a rate even 1% lower will save you thousands of dollars in interest each year.

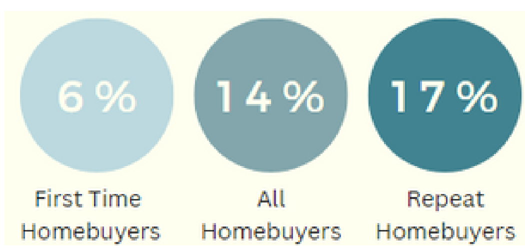
WHEN IS THE RIGHT TIME TO BUY?

The best time to buy a home is when you can afford it! That being said, the sooner you get into the real estate market, the longer you have to build equity. Homes appreciate at a national average of 4% per year (more in California) so there is certainly a cost to waiting. Ultimately, nobody can control the market, so its best to worry about things you can control, such as getting yourself in the best financial position so you are ready when it feels right for you.

HOW MUCH MONEY SHOULD I PUT DOWN?

We will help to give you clarity on the perfect down payment amount for you. Just know that it does not need to be 20%. Together we will balance the right out-of-pocket expenses and monthly payment to find your down payment sweet-spot!

Average Down Payment Sizes



SHOULD I WAIT TO PAY OFF MY DEBT FIRST?

You don't have to be debt-free. Paying off your debts is going to reduce your DTI and allow you to better afford your mortgage payments each month, but you need to be careful how much you spend because you are also saving for your down payment, We can advise you how to best manage or consolidate your debt to put yourself in the best overall position to buy your home.

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STEPS TO TAKE NOW

- **Check credit report** at Annualcreditreport.com & fix inaccuracies. Continually monitor on Credit Karma (or similar site) & work to improve it. *Give yourself a 20-30 point buffer as these sites use a different scoring model.

- **Organize all your financial documents** in one, easy to access place. Include your last 2: W2s, tax returns, pay stubs, bank statements, photo ID.

- **Examine your expenses** and decide the maximum monthly payment you're comfortable with. Use this budget tracker to get started.

- **Determine the total amount of money available** to you via savings, gift funds, or whether you may need to borrow from your 401K or research Down Payment Assistance programs.

- **Answer** these questions from your loan officer prior to speaking with one so you are prepared

- **Contact me to start the conversation!** Even if you are 6-12 months out, we can start preparing you a roadmap to homeownership. I can also set you up with a highly skilled real estate agent in your area. It is very important to work with a local expert who has plenty of experience with the needs of first time homebuyers.

Get in touch!

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TRACK YOUR BUDGET

When you apply for a mortgage, your lender will approve you for a maximum monthly mortgage payment based on your debt-to-income ratio. Conventional loans allow for borrowers to spend up to 50% of their gross income on their mortgage, while FHA loans allow for up to 57%.

However, many people are not comfortable spending that much of their income. It is also important to know that we only count the debts that show up on your credit report, but you also need to consider other expenses such as utilities, day care, etc. Determining - and sticking to - a budget helps ensure you'll be able to afford your new mortgage payment, while staying on top of your other expenses.

INCOME

Total Take Home	$
Pension/ Social	$
Disability	$
Interest/ Dividends	$
Other	$
TOTAL INCOME	$

TOTAL INCOME	$
- TOTAL EXPENSES	$
= DISPOSABLE INCOME	$

EXPENSES

Total Rent/ Mortgage	$
Child Support/ Alimony	$
Health Insurance	$
Life Insurance	$
Other Insurance	$
Vehicle Payments	$
Vehicle Insurance	$
Other Loans	$
Utilities	$
Credit Card Payments	$
Groceries	$
Clothes/ Personal	$
Medical/ Dental	$
Prescriptions	$
Household Goods	$
Child Care	$
Education	$
Eating Out	$
Entertainment	$
TOTAL EXPENSES	$

PRO TIP: Practice making your mortgage payment before you commit!

Let's say your current rent is $2800 but you are considering a mortgage payment up to $3500. Automatically deposit that $700 difference into another account each month when you pay your rent. This will equal $3500 and create a habit of paying your future mortgage. After 3 months, evaluate how this felt on your cash flow. If it feels comfortable, you know you can afford that mortgage payment. If it does not, then you still have time to adjust! As a bonus, you'll have several thousand dollars set aside in that account to use toward your new home.

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