

# Home Buyers Guide

BE IN THE KNOW BEFORE YOU GO



VIRGINIA  
CAPITAL  
REAL ESTATE



TOWNE BANK  
MORTGAGE



# THE STEPS OF BUYING A HOME

## 1 Get Pre-Qualified

Understand what you can afford before starting your home search.

## 2 Start your Home Buying Search

Communicate your wants and needs to your real estate agent, as well as what you can afford, to optimize your home search.

## 3 Write the Contract

Once you've found the perfect home, you'll work with your agent to write the contract and negotiate the deal.

## 4 Ratify the Contract

Once the deal is negotiated, the inspections can be ordered.

## 5 Document Checklist

Providing all supporting documentation to your loan officer in a timely manner will help expedite the loan process. Your lender will order the appraisal.

## 6 Choose your Settlement

Decide who you would like to close with, an attorney or title company.

**CONGRATULATIONS, YOU ARE NOW  
A HAPPY HOME OWNER!**

## STEP 1:

# PRE-QUALIFICATION PROCESS

Apply easily online, by phone or in-person. Be sure to gather all documents ahead of time to ease the pre-qualification process. Standard items needed are:

- ✓ 30 days most recent paystub for each borrower.
- ✓ Current LES for military borrowers.
- ✓ For VA Loans: DD214 or copy of Statement of Service.
- ✓ W2's for each borrower for the past 2 years (1099 if not a W2'd employee).
- ✓ Federal Tax Returns (all pages) for the past 2 years.
- ✓ Two months bank statements, including; all pages for checking, savings, retirement, stocks, bonds, etc.
- ✓ Copy of Drivers License, U.S. Residency card or Government Issued ID.

# FINDING YOUR BUDGET

## HOME AFFORDABILITY

Getting pre-qualified helps you better understand how much home you can afford, but that doesn't necessarily mean you should buy a home at the top of your budget. Additional monthly expenses, such as childcare and utilities aren't being considered when you're getting pre-qualified. Therefore, you'll need to determine what monthly payment you're comfortable making.

## WHAT IS A MORTGAGE PAYMENT?

Your mortgage payment is the amount you pay every month toward your mortgage. It includes the loan principal, interest, taxes and insurance.

**Principal:** the total amount of the loan given

**Interest:** the money a lender or bank charges on the money loaned

**Taxes:** property taxes based on the value of the home

**Insurance:** can include homeowner's insurance and mortgage insurance, such as private mortgage insurance (PMI)

Keep in mind, your mortgage payment does not include monthly utility expenses, maintenance costs, home repairs, etc. You'll want to account for these items when determining the monthly payment that you're comfortable with.



# WHAT'S YOUR BUDGET

It's time to truly understand your spending! You can't determine an exact budget until you know what interest rate you will pay, but you can estimate your budget and start to get a general idea of what you can afford.

## Here are some helpful tips to get started:

- Create a spreadsheet of your current monthly income along with any monthly fixed and discretionary expenses. Look at credit card and bank statements and pull expenses from the past 2-3 months to get an overall idea of what you're spending.
- Don't forget to account for savings, such as any retirement accounts.
- Subtract your monthly expenses from your monthly income to get an idea of what's left over for a mortgage payment.

## Additional guidelines to consider:

- Your monthly mortgage payment should not exceed 32% of your gross monthly income, or income before taxes.
- Your total debt payments (mortgage payment, auto loan, student loan, minimum credit card payment, etc.) should not exceed 45% of your gross monthly income. Meaning that, if you have a big car payment or a lot of credit card debt, it will affect how much home you can afford.

Keep in mind, these are general rules of thumb, and every borrower will be different.

It's always smart to account for any potential income or life changes down the road, like starting a family or switching careers. Allow for some wiggle room when determining your budget. You don't want to overextend yourself when buying a home.



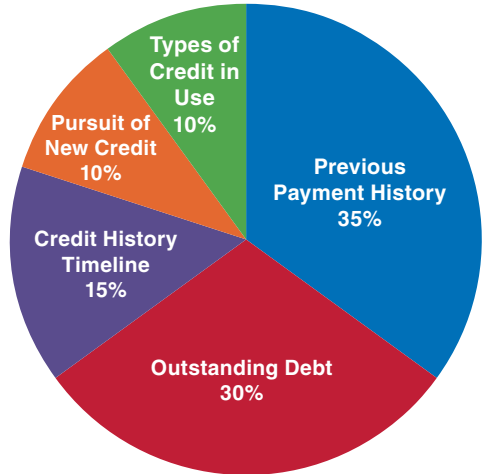
# WHAT'S IN A SCORE?

There are 5 key components that make up a credit score.

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Your FICO score is calculated from different data within your credit report. The level of importance of each component determines how it's weighed.

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## **PREVIOUS PAYMENT HISTORY : 35% IMPACT**

Paying your debt on time proves to weigh the greatest. Any late payments, judgments, or charge-offs all negatively impact your score. Recent delinquencies impact greater than mishaps in the past.

## **OUTSTANDING DEBT: 30% IMPACT**

Try to keep credit balances as close to zero as possible. Paying off revolving debt monthly sends an excellent message to creditors and increases your score.

## **CREDIT HISTORY TIMELINE : 15% IMPACT**

Though it's important to have trade lines, it's also important to have seasoned liabilities. Showing creditors your ability to repay debt over a length of time proves that you are an excellent credit candidate and shows a positive reflection on your credit score.

## **PURSUIT OF NEW CREDIT : 10% IMPACT**

Recently opened accounts and the type of account can adversely affect your credit. Remember the longer the relationship the better the score.

## **TYPES OF CREDIT IN USE : 10% IMPACT**

Recently opened accounts and their types can adversely affect your credit. Remember, the longer the relationship, the better the score.

# DO'S & DON'TS

There are certain “DO’s & DONT’s” to follow while your loan is being processed. The following list should be adhered to not only until your loan has been approved but until it’s actually funded and recorded. In many instances, your credit, income and assets must be re-verified after signing final loan documents.

## **DO NOT:**

- ⊘ Quit your job, or get a new job, unless it’s in the same line of work and for equal or greater pay. Please call your loan officer should this occur.
- ⊘ Allow anyone to make an inquiry on your credit report.
- ⊘ Purchase an automobile.
- ⊘ Purchase any other real estate.
- ⊘ Co-sign for anyone else on any type of loan.
- ⊘ Apply for credit, take on additional debt or complete any other credit application.
- ⊘ Charge additional debt on any existing credit account that you have.
- ⊘ Start any home improvements that are not a condition of this loan.

## **DO:**

- ✓ Keep all existing accounts current, such as; mortgages, car payments, and credit cards.
- ✓ Make payments on all accounts on or before the due date, even if the account is being paid off with your new loan. If you have any problems making these payments, please contact your loan officer immediately.
- ✓ Keep copies of all paycheck stubs, bank account or asset statements, along with any statements for bills being paid off through this loan.



# LOAN OPTIONS

## **FHA LOAN: Federal Housing Administration**

- Great option for first-time buyers
- Flexible credit qualifications
- Guaranteed by the Federal Housing Administration
- Renovation loans available
- As little as 3.5% down payment

## **CONVENTIONAL**

- Up to 97% financing
- Stable rate and principal payments
- Easy-to-understand loan terms
- Competitive interest rates
- Fixed loan terms and ARM loans available

## **JUMBO**

- For loan amounts that exceed the conforming loan limits in place for individual counties
- Fixed and adjustable-rate programs available
- Competitive interest rates

## **VA LOAN: Veterans Administration**

- Available to qualified active-duty, veterans, reservists and some surviving spouses
- Up to \$1.5 million with no down payment
- Starting at zero down
- No costly mortgage insurance
- Flexible credit requirements
- Lifetime benefit that can be reused
- Backed by the U.S. Department of Veteran Affairs

## **Construction/Renovation Loans**

- Build on your land or finance lot and construction together
- One-time close allows you to close the loan in just one transaction
- Two-time close allows you to change the terms and features of your loan after construction ends
- Primary and secondary options

## **FHA 203k (Rehabilitation Lending)**

- Allows repairs on qualified “fixer upper” properties
- Cash needed for repairs included in the loan
- Available for purchase or refinance
- Finance repairs, upgrades and additions
- Owner occupied only
- 1-4 unit properties
- Up to 6 months of mortgage payments can be financed if home in not habitable during construction

## **USDA: Rural Housing Program**

- Up to 100% financing available
- Flexible credit guidelines
- Some closing costs may be financed in loan
- For rural or suburban areas
- Backed by the U.S. Department of Agriculture

## **FHLB: Federal Home Loan Bank**

- Down payment and closing costs assistance
- Up to \$12,500 for First-Time Home Buyers
- Up to \$15,000 For Community Partners
- Owner occupancy only.

## **VH: Virginia Housing**

- Low and zero down payment options
- Exclusively available for first-time home buyers
- Income, sales, price and loan amount limits apply

# SOURCE OF DOWN PAYMENT

The down payment on your house will likely be one of the biggest cash investments you'll make. There are a number of ways that you can gather cash for your down payment.

## **SAVINGS**

Buyers often save regularly for years by reducing expenses, taking a second job or getting a smaller apartment if they are renting.

## **GIFT**

When accepting a cash gift, make sure it's in writing that the person making the gift has no financial interest in, or obligation towards, the property. A bank will not accept it if your "gift" is really a loan.

## **PROCEEDS FROM SALE OF EXISTING HOME**

If you sell your existing home first, you may have proceeds from that sale to apply to the down payment on your new home.

## **SPECIAL PROGRAMS**

State and local governments offer down payment assistance to low- and moderate-income home buyers. Many nonprofit organizations also offer down payment assistance. Contact your bank or your state housing authority for information on these programs. If you choose conventional financing (a loan other than FHA\*, VA, etc.) and you have less than 20% down, you will be required to pay Private Mortgage Insurance (PMI).

## **PRIVATE MORTGAGE INSURANCE (PMI):**

PMI covers the bank if you stop paying your mortgage and default on your loan. PMI generally costs less than 1% of the outstanding loan balance, and it's usually combined with your monthly mortgage payment. It can add up to many thousands of dollars over the life of the loan.

When you've paid enough principal to own more than 20% of the house, you can apply to have the PMI dropped.

## **STEP 2-4:**

# **HOW CAN A REAL ESTATE AGENT HELP YOU?**

A real estate agent will provide you with the knowledge and experience needed to sell your home or buy a new one. An experienced agent will know how to price your home since they've helped others buy and sell in your market. Working with a real estate agent will give you confidence during this complicated yet enjoyable process.

## **WHY DO YOU NEED A REAL ESTATE AGENT?**

A real estate agent provides you with the knowledge, experience and negotiation skills to broker the best deal for the lowest price.

- Look for a buyer agent who has experience in your market. Real estate agencies offer a wide variety of portals to help with your shopping needs.
- If you are internet savvy, you can go online to check out your agent's MLS feed of available homes in your area. If you prefer meeting in person, you and your agent can hop in the car and find the area that best suits your needs.
- Interview your real estate agent. Knowledge is power. Get to know their experience and credentials. They know how much you should pay for a home in your market and have the experience to protect you.
- Your real estate agent should be able to provide you with information about local schools, crime rate, traffic, and should prepare a property value study if you are interested in a certain home.



# FINDING THE PERFECT HOME

Buying a house can be a stressful yet exciting experience. Figure out what you really want in your home and what you're willing to compromise on before shopping. Think beyond the cosmetics of paint - that's an easy change! Sometimes, in order to get the right home, you may need to compromise on things that aren't deal breakers.

	Must Have	Would Like	Willing to Compromise	Not Important
Front Yard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Back Yard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Garage (___ Cars)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Patio/Deck	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pool	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formal Living Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formal Dining Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Office Space	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Eat-in Kitchen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Laundry Room	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Attic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jacuzzi Bath	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wood Flooring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Upgraded Appliances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Granite Counters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Water Views	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

When you've narrowed your search to your top three homes, write down three reasons why you love each one and compare them to the chart above.

HOUSE #1	HOUSE #2	HOUSE #3
1. _____	1. _____	1. _____
2. _____	2. _____	2. _____
3. _____	3. _____	3. _____

## STEP 5:

# DOCUMENT CHECKLIST

- ☐ Addresses for previous 2 years' rental or mortgage history
- ☐ Name, address and phone number of all landlords for past 2 years (if applicable)
- ☐ Name, address and phone number of employers for past 2 years (include dates and explain gaps)
- ☐ All pay stubs for the most recent 30-day period
- ☐ Verification of other income, such as child support, alimony, retirement or social security awards letter
- ☐ Past 2 years' signed personal tax returns
- ☐ Past 2 years' W-2's
- ☐ Self-Employed - Past 2 years' signed personal tax returns and corporate or partnership returns, including YTD P/L statements, balance sheets, K-1 and 1099's
- ☐ Most recent 2 months' statements for bank, investment and/or retirement accounts (include all pages and explain all deposits that are not normal direct deposit payroll)
- ☐ Copies of separation/divorce decree
- ☐ All foreclosure papers, including letter of explanation if applicable
- ☐ All bankruptcy papers, including discharge and letter of explanation if applicable
- ☐ Legible copy of Sales Contract
- ☐ Valid Driver's License or Military ID
- ☐ VA Loan Applicants - Statement of Service from your Command or copy of your DD-214, Member Copy 4, so we can order your Certificate of Eligibility
- ☐ Closing attorney name and number
- ☐ Homeowners insurance information
- ☐ Check or Credit Card for Credit Report and appraisal

## REFINANCE

- ☐ Copy of current mortgage statement
- ☐ Copy of current survey, if you have one
- ☐ Copy of Homeowners Policy (Declaration Page)
- ☐ Subordination
- ☐ Copy of deed
- ☐ Copy of Title Policy



## STEP 6:

# CHOOSE A SETTLEMENT AGENT.

Many borrowers want a smooth and quick settlement in order to avoid losing out to a competing buyer. Choosing the right settlement agent is one way to speed up your closing.

The settlement agent is the person who coordinates all the paper-pushing that goes into a closing. Generally, the agent has some sort of connection to a title insurance company.

Many borrowers are not aware that they have the right to choose title insurance agents. Under the federal Real Estate Settlement Procedures Act, the seller cannot require you to buy title insurance from a particular title company. The lender may request that you use a title company it finds acceptable, and it likely will recommend some companies, but in most cases, you have the choice. The lender usually always agrees with your pick.

Closing is about preparation and service. Expect good service and ask for it. Making the right choice ahead of time will be the magic key that opens the door to a speedy settlement.



# BASIC TIMELINE OF EXPECTATIONS DURING THE MORTGAGE PROCESS



**APPROVAL PROCESS**



**RATIFIED CONTRACT & LOCKING OF INTEREST RATE**



**HOME INSPECTION & TERMITE INSPECTION**



**APPRAISAL ORDERED**



**NOTIFICATION OF ANY OUTSTANDING CONDITIONS**



**SETTLEMENT SCHEDULED**



**CONGRATULATIONS!**



# ABC'S OF REAL ESTATE

Understanding these terms will help the buying process flow with ease.

## **APPRAISED VALUE**

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Appraisal is based primarily on comparable sales.

## **CLOSING**

This has different meanings in different states. In some states a real estate transaction is not consider "closed" until the documents record at the local recorders office. In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

## **CONDOMINIUM**

A type of ownership in real property where all of the owner s own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title.

## **CONTINGENCY**

A condition that must be met before a contract is legally binding.

## **EARNEST MONEY DEPOSIT**

A deposit made by the potential home buyer to show that he or she is serious about buying the house.

## **EQUITY**

A home owner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

## **FLOOD INSURANCE**

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

## **GRANTEE**

The person to whom an interest in real property is conveyed.

## **GRANTOR**

The person conveying an interest in real property.

## **HAZARD INSURANCE**

Insurance that covers physical damage to a property from fire, wind, vandalism, or other hazards.

## **HOME INSPECTION**

A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

## **HOMEOWNER'S INSURANCE**

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

## **LEGAL DESCRIPTION**

A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

## **PURCHASE AGREEMENT**

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

## **REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)**

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

## **RIGHT OF FIRST REFUSAL**

Clause in a contract that requires the owner of a property to give another party the first opportunity to buy or lease it.

# NOTES

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# WE'LL GUIDE YOU THROUGH THE HOME BUYING PROCESS EACH STEP OF THE WAY.



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