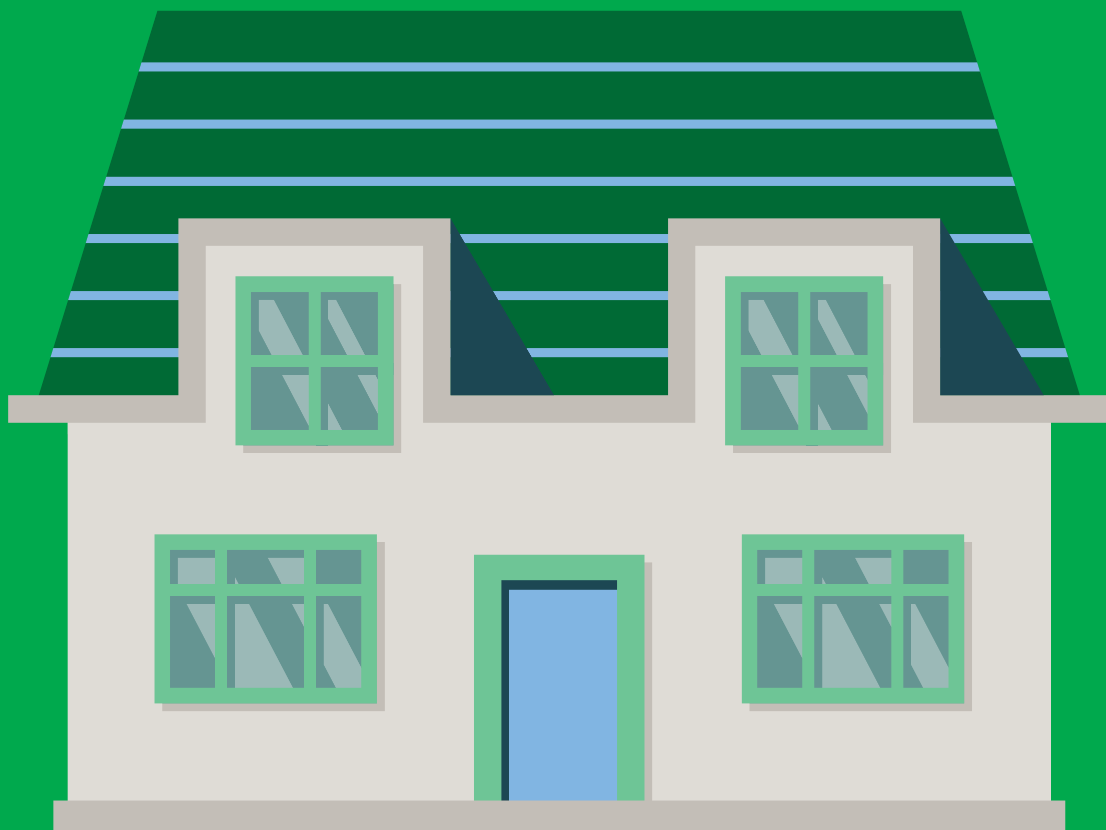
Martinsville First Savings Bank

Ultimate Homebuying Guide

Whether you're a first-time homebuyer or want to brush up on the basics before your next purchase, this in-depth guide has you covered. From offers to appraisals to closing and beyond, you'll be able to go into the homebuying process feeling informed and confident!



An Overview of the Homebuying Process

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Step 1: Are you ready to buy a house?

This step happens before you even begin the process of looking for a home.

Down Payment: This is an up-front partial payment, which is common for large purchases like a home. Your down payment will be a percentage of the house purchase-price and is due at closing. Below, we'll discuss how to decide which percentage is right for you.

Example: For a $200,000 home, your down payment could be between $6,000 - $40,000 or more.

Earnest Money: Think of this like a security deposit. When a seller accepts your offer and takes the house off the market, the **earnest money protects them in the event that you cannot go through with the sale.** The earnest money, sometimes called a "good faith deposit," is typically 1% - 3% of the purchase price. Most often, it is $1,000. As long as the sale goes through, this money will be applied to your down payment or closing costs. If the sale falls through due to contingencies like a failed home inspection, you will receive your money back. The only time you can lose your earnest money is if you walk away from the sale without a reason covered by contingencies.

Example: For a $200,000 home, your earnest money payment will typically be $1,000, but could be between $2,000–$5,000. This money is part of the down payment, as long as the sale goes through as planned.

Closing Costs and Settlement Fees: This is the money you will owe to your lender at the time of closing. It includes:

- A processing fee paid to your mortgage lender for loan services, which is typically about 2% of the purchase price.

Contingencies are part of the offer you make on a house and state that the sale is not finalized until certain criteria are met. These can protect both the buyer and the seller. The two most common contingencies are Home Inspection Contingencies and Appraisal Contingencies.

- Escrow fees, which are paid to the title company or escrow company to set up escrow for your earnest money. These costs cover the final closing paperwork and handle the exchange of funds and recording of deeds. They vary by company and purchase price.
- Real estate commissions to the agents. These are a percentage of the purchase price which has been agreed upon in advance in the seller's and buyer's contracts.
- Taxes and other fees to the county.
- Charges to other third party providers, such as an appraisal fee (as applicable).

In some cases, buyers are able to negotiate for the seller to pay some or all of these costs.

Example: For a $200,000 home, the sum due at closing will typically be $6,000 - $12,000.

Inspection Fees: This is what you will pay a professional home inspector to perform an inspection prior to closing. The cost will depend on your location, the square footage of the home, and the service provider you choose.

Example: For a 2,000 square foot home, the inspection will cost around $300.

After all, buying a house goes beyond saving up for a down payment. Let's take a look at how to evaluate your current finances and determine if you have the funds available for all parts of the process, including earnest money, closing costs, and inspection fees.

How Much Should You Pay For a Down Payment?

The percentage you choose for your down payment will fall into one of three categories:

- **20% or more**
- **5% - 19%**
- **Less than 5%**

If you pay less than 20%, your monthly mortgage payment will include an extra PMI fee, or Private Mortgage Insurance. It is intended to protect your mortgage lender in the event that you can't make your payments.

PMI is usually 0.5% - 1% of your loan amount each year. You can request to cancel your PMI once you've made enough mortgage payments to reach 20% equity in your home.

So the larger your down payment, the less PMI you'll have to pay in the long run. You could also make additional mortgage payments to help you reach 20% equity faster.

Many lenders will only approve a mortgage loan if the down payment is 5% or greater. Some specialty lenders will go as low as 3%.

Credit, Debt, and Income

Mortgage lenders want a well-rounded financial picture of you before approving a mortgage loan. That's why it's important to fully understand your finances before you apply.

First, check your credit reports. This is what lenders will look at to determine the mortgage rate you qualify for—better credit often means a lower interest rate.

Make sure there are no discrepancies on your credit reports. If you do find any, you'll want to take care of them before you apply for a mortgage.

A lower interest rate can save you a lot of money over the course of a 15-30 year mortgage. It also means a lower monthly payment. If you aren't in a rush to purchase a home, it may be worth taking action to improve your credit score before you start house-shopping. **You can get your credit report for free at annualcreditreport.com.**

Once you begin the home buying process, try to avoid making any large purchases, particularly if they involve a credit pull (like getting a new credit card or a car loan). Lenders will also be looking at your recent checking account statements as part of the approval process. It pays not to show a history of large spontaneous purchases.

Do you make debt payments each month, such as student loans, car loans, hospital bills or credit card payments? Lenders will also look at your debt-to-income ratio, first to determine your ability to pay your mortgage each month and second to decide what home purchase price to approve you for.

Finally, lenders want to see that you have steady, consistent income. For that reason, you don't want to change jobs right before applying for a mortgage loan or during the purchase process if you can help it. Lenders will want to evaluate the length of time you've been at your job with special considerations for variable income or self employment.

Still not sure if you're ready to buy a house? Our team is here to help you make the best decision for you!

CONTACT US TODAY

Step 2: Get pre-approved and set your budget.

You've reviewed your financials and decided you're ready to move forward towards buying a home. Congratulations! So what can you expect now?

As we touched on above, lenders are going to look at your income, assets, debt, and credit score as part of the pre-approval process. From this information, they will determine the mortgage loans you are eligible for, the amount they can loan you, and the rate you qualify for.

If all goes well, they will provide a Loan Estimate and a letter stating that you are preapproved to borrow up to a certain purchase price at a certain rate (this rate may be either "locked" or "floating" - your loan officer will let you know which options are available to you).

Note: you are not committed to the lender or even to buying a house at this point in the process. You can also get Loan Estimates from multiple lenders to compare them.

Next, you can take your pre-approval letter with you when you go house-shopping and also include it when you submit an offer to show sellers that you are a responsible, serious potential buyer.

Understanding Your Rate

The rate on your pre-approval letter will either be "locked" or "floating." The former means that even if mortgage interest rates fluctuate, your rate will be guaranteed for a period of time, usually 30-60 days. The latter means your rate can fluctuate and won't be set until a later time.

There are pros and cons to a locked rate vs. a floating rate. If rates are generally going down, then a floating rate may make the most sense for you because you won't be locked in with a higher rate. On the other hand, if rates are rising, you may want to lock your rate so that you don't miss out on getting the lowest rate available to you.

Understanding Types of Loans

Most mortgages loans will be set for 15 years, 20 years, or 30 years. This is the length of time you have to pay the lender back.

When choosing the right option for you, **you have to decide if you want lower monthly payments or if you want to pay less interest over time.** Shorter loans mean you'll pay less interest over the life of the loan, but you'll have to pay more each month in order to pay back the lender in a shorter amount of time.

You'll also want to **decide if you're looking for a fixed-rate mortgage or adjustable-rate mortgage.** A fixed-rate mortgage means that your interest rate will stay the same throughout the life of your loan whereas an adjustable-rate mortgage will rise over time.

The biggest advantage of a fixed-rate mortgage is that you will be protected should interest rates spike in the future. Once you apply and lock your rate, your interest rate will be locked in for the duration of your mortgage (assuming you close as planned). The downside is that if you're home-shopping during a time when interest rates are high, it will be harder to qualify for a mortgage and your monthly payments will end up being higher.

Adjustable-rate mortgages are considerably less expensive at the beginning of your loan term, but typically increase over time and don't offer the peace of mind of a consistent rate. The initial interest rate for an adjustable-rate mortgage will start out lower than the market rate, then adjust to the market rate at predetermined intervals. The terms of your loan will include an adjustment frequency, which dictates the length of time your interest rate must stay the same before it can be adjusted again. Shorter adjustment frequencies usually mean you can qualify for lower rates, but you'll have to contend with a monthly mortgage payment that changes more often.

You've reviewed your financials and decided you're ready to move forward towards buying a home.

Congratulations! So what can you expect now?

However, for buyers who only intend to own the home for less than, or the same amount of time as, the ARM period, these kinds of loans might make sense. Your mortgage loan officer can help you think through the specifics of your situation and make an informed decision.

Want to learn more about **down payment assistance, FHA loans, or VA loans?** Always discuss these topics with your lender to find out what programs you could potentially qualify for.

What Are You Comfortable Spending on Housing Each Month?

Your pre-approval letter will state that you are qualified to purchase a home up to a certain dollar amount. However, that doesn't always mean you should spend that much on a house. It's important to look at your overall financial situation and decide how much you feel comfortable spending on housing costs each month.

Experts recommend keeping housing expenses at or below 28% of your pre-tax income and keeping your total monthly debt obligations to less than 36% of your income. Remember that on top of the mortgage itself, you will also have to pay utilities (gas, water, electric, etc.), insurance, and property taxes.

Keep in mind that how much house you can afford may vary by location. Factors such as HOA dues, property taxes, and home insurance requirements (if your home is in a flood zone, for example) will all be included in your monthly mortgage payment.

Step 3: Find a buyer's agent.

Once you get your pre-approval letter, it's time to find a real estate agent!

A real estate agent is an individual that represents buyers and sellers during real estate transitions. When a real estate agent represents the buyer, they are often called a "buyer's agent."

A buyer's agent is committed to representing you. The real estate agent listing the house, on the other hand, represents the sellers. **That's why you want to find your own buyer's agent—someone that has your best interests in mind—rather than working with the listing agent who is trying to get the best deal for the sellers.**

Working with a real estate agent has plenty of other advantages, too! They can find houses that fit your criteria on the MLS, which regular people don't have access to, and via their network. They'll go with you to see houses, provide advice, write and submit your offer, handle any negotiations with the seller, and typically provide recommendations for inspectors, insurance providers, and anyone else you'll need throughout the process. They're truly your partner on your journey to home ownership!

Where should you look for a good buyer's agent? Start with your network and ask for referrals! You can also find agents online, but make sure you take the time to meet with multiple candidates and find one you truly connect with.

Best of all, when you work with a buyer's agent, there's no money coming out of your pocket! Agents are typically paid by the seller as a percentage of the purchase of the home, which means that most home prices already factor in the cost of agents' fees. You may as well get your money's worth!

Step 4: Go house shopping.

Now, the fun part: it's time to go house shopping!

If you find listings you're interested in online, you can bring those to your real estate agent, or you can ask them to find good options for you based on what you're looking for. Your agent can also help set up appointments to walk through houses together.

Do you often find yourself browsing homes for sale on Zillow, Redfin, or other real estate websites? Looking through all the options available can be addicting!

Just remember that you should **always take the listings with a grain of salt.** The search and filter options are a great resource for finding houses in your price range that match your criteria, but your real estate agent is the one who brings their local knowledge and expertise to the table. Especially if there are changes happening in the neighborhood, city, or school district that could impact the future value of the home, your agent will be the one to keep you in-the-know.

That's why it's also important to bring your agent with you to tour potential houses. They can help you pinpoint the right neighborhoods as well as identify any possible issues in the house. Whether a crack in the ceiling could mean underlying foundation issues or that nice storage attic isn't actually up to code, an agent will spot many of these red flags right away and be able to give you advice on how to proceed.

So, what if a home is listed as FSBO? This term is short for "for sale by owner" and means the sellers are forgoing a seller's agent. Even in this case, you still want to involve your buyer's agent in the process just like you would with any other home. Your real estate agent should work with the sellers on a fee agreement, which covers how your agent will be paid should you choose to purchase a FSBO. As long as the seller doesn't object, you can proceed as usual.

Never let a FSBO seller try to talk you into forgoing your agent. Remember, a buyer's agent is there to represent your best interests and help you get the best deal for YOU.

Step 5: Put in an offer and pay the earnest money.

Once you've found a house you like, it's time to put in an offer!

Your buyer's agent will continue to be a valuable resource through this process by helping you decide what terms to write in. They will also be the one to write the actual offer letter for you.

The terms of your offer are going to depend on how competitive the current market is. In a buyer's market, you'll have more room to add contingencies and submit an offer at or below the listing price. In a seller's market where there may be multiple competing offers, on the other hand, you may have to forgo a few contingencies and submit an offer at or above the listing price. Your agent will help you craft an offer that is competitive for the market while still ensuring that you're protected.

You should only ever put in one offer at a time. In fact, in some jurisdictions, it's illegal to put in more than one assuming you wouldn't be able to fulfill the contracts if more than one offer were accepted.

Once you submit, the seller will respond to your offer in one of several ways:

Rejected: Unfortunately, the seller did not agree to your terms. You can either make another offer or decide to move on.

Countered: The seller is neither accepting nor rejecting your offer, but is asking you to make changes if you want to move forward. This could be specific term requests, such as waiving contingencies, or it could be a "highest and best" request.

The latter happens when the seller receives multiple offers and is now asking all prospective buyers to submit their most competitive bid in terms of price and terms. You should always work with your buyer's agent to see if you can sweeten the deal or if it's better to walk away.

Accepted: Congratulations! The seller has agreed to your price and terms, and you are now under contract for a house. While the deal isn't done yet—there are still contingencies to fulfill, loans to acquire, and documents to sign—it is certainly a BIG step in the right direction.

$$ Alert: Earnest Money

Once your offer is accepted, it's time to pay the earnest money. This is typically 1% - 3% of the purchase price of the home. As long as the sale closes, this money will be applied towards your down payment. If the sale falls through, whether or not the earnest money is returned to you or forfeited will depend on the terms of your offer and how or why the sale fell through.

Example: Let's say your offer includes an inspection contingency. Unfortunately, the house fails inspection, causing you to back out of the sale. In this case, the earnest money would be returned to you because you were protected by the inspection contingency in your offer.

Step 6: Apply for the mortgage loan.

It's time to make things official with your mortgage lender of choice!

Once you provide the "intent to proceed" to your loan officer, they will start processing your loan application.

Next, you will receive a loan estimate that includes your interest rate, closing costs, and monthly payments. The payment will include your principal, interest, taxes, and insurance — in other words, exactly what you will pay to the lender each month.

The loan officer will also need to gather documentation. They will walk you through the process, letting you know exactly what you'll need to supply in order for your application to be processed.

A loan estimate is neither an approval nor a denial of your mortgage application. Just like the name suggests, it is an estimate.

Step 7: Stop! Avoid these things until after closing.

Throughout the closing process, your lender will be checking various financial details.

They will also pull your credit again right before closing.

With this in mind, once you're under contract for a house, there are a few things you want to avoid until closing day (typically 30 - 45 days) to prevent any issues:

- **Don't** let someone run a hard credit check on you (other than your lender)
- **Don't** make any major or unusual purchases, particularly on credit
- **Don't** take out any loans
- **Don't** open OR close any line of credit, including credit cards
- If possible, **don't** change your employment or income status
- **Don't** move money around between accounts unnecessarily. If you absolutely need to, thoroughly document the transfers
- **Don't** make large deposits to your accounts (except your usual paychecks)
- **Don't** change bank accounts
- **Don't** fall behind or submit late payments on any bills

As long as you follow these guidelines, you'll be in a good spot.

Step 8: Get inspections and pay inspection fees.

Your next step is to hire a home inspector to conduct a general inspection.

$$ Alert: Inspection Fees

Home inspectors' fees vary, but typically range from $300-500 for a general inspection in Virginia. They may include surcharges for difficult-to-reach places, such as crawl spaces and/or attics.

An inspector will go through all accessible parts of the property and evaluate:

- The entire structure
- The roofing system
- The HVAC system
- Insulation
- Plumbing and electrical
- Interior and exterior structures

The inspector will then deliver you a detailed report, typically including photos of any issues, and recommend any necessary repairs to bring the house up to the required standards.

Once you have your inspection report, you can:

- **Request that the seller either make the repairs** or adjust the purchase price so you can make the repairs yourself after purchasing the house.

  If you waived the inspection contingency in your offer, you will be solely responsible for all repairs.

- **Back out of the purchase**. If the issues are bigger than you anticipated, such as major structural issues or an entire electrical system that needs to be rewired, you may decide that you no longer want to move forward with this home.

  The terms of your contract will determine whether or not you receive your earnest money back in this scenario.

- **Decide to move forward** with the purchase as-is.

If you waived the inspection contingency in your offer, you will be solely responsible for all repairs.

Step 9: Agree on a title company.

Once you decide to move forward post-inspection, the seller will likely have a title company chosen for you.

If not, your mortgage lender will provide you with a recommendation or a list of the preferred title companies that they work with. **A title company will research the title of the home to ensure the seller has the right to transfer ownership for you.**

You will also purchase title insurance, which protects you in the event that the title company missed something and another party comes forward in the future with a claim to the property. It can also safeguard against other unpleasant situations like unpaid taxes by a previous owner or contractors who claim they were never paid for work they did on the house before you purchased it.

Title insurance will be a part of your closing costs and cover you for as long as you're in the home. It includes Lender's Title Insurance, which protects your mortgage lender for the amount you borrowed, and Owner's Title Insurance, which protects the money you've put towards your home.

Step 10: Wait for appraisal results.

Your lender will order an appraisal of the house to ensure they aren't lending you significantly more than the house is worth.

Basically, they want to make sure your house is a good investment.

An appraisal is conducted by an independent professional whose job it is to give the lender an estimate of the home's current market value. This allows them (and you) to see how the price you agreed to pay compares to recent similar sales in your area.

After the appraisal, you will be informed whether the house appraised at or above the purchase price (good) or below the purchase price (not so good).

If the house appraises for below the purchase price, it will affect your loan-to-value ratio. Your lender will then ask you to:

1. Go back to the seller and request that they lower their asking price to match the appraisal.

2. Come up with the funds to cover the difference. The lender will only give you as much as the house appraises for, so you will be responsible for paying the remaining balance at closing.

Example: Your offer is accepted to purchase a home for $300,000, but the house is later appraised for only $260,000. You would be required to pay the $40,000 difference at closing.

3. Back out of the purchase.

This is another reason you want to work with a buyer's agent you trust! A good agent will be able to warn you ahead of time if they think a house is going to appraise for less than your offer.

Step 11: Line up homeowner's insurance.

Homeowner's insurance is required by your lender to protect their investment (your house).

In most cases, particularly if you are purchasing a single- or multi-family home, **you will pay your homeowner's insurance through your lender via an escrow account.** This means you will need to purchase a home insurance policy prior to closing. That way, the cost of your insurance policy can be worked into your monthly mortgage payment, and your lender will pay your insurance provider from the escrow account as needed.

This is a convenient option for most homeowners. It means you'll have a **consistent monthly cost** as opposed to paying a large sum for your yearly homeowner's insurance all at once. Instead, everything will be rolled into one easy monthly payment.

You can choose to purchase home insurance through your bank, your auto insurance policy provider, or another insurance company of your choosing. It pays to shop around and pick a provider with a good reputation that will offer a reasonable rate! Home insurance costs can vary widely based on the level of protection you purchase. For reference, **the average monthly cost in Virginia is around $100-200.**

Additional Considerations

Depending on the geography of your home and the local area, your lender may require you to purchase a flood insurance policy as part of your overall policy. If your lender does not require it, you can still choose to add flood insurance for your own peace of mind.

You may also want to consider a sewer backup rider as part of your policy. This will cover the cost of repairs and cleanup in the event of a burst pipe or blocked sewer, which is typically not included in a standard policy.

For condominium or townhouse owners with shared walls, the owners association will carry a master policy on the main structure as well as shared spaces. Your portion of the master policy will be covered in your HOA dues. However, you will still need to take out a separate policy on your own personal unit.

Step 12: Go through the underwriting process.

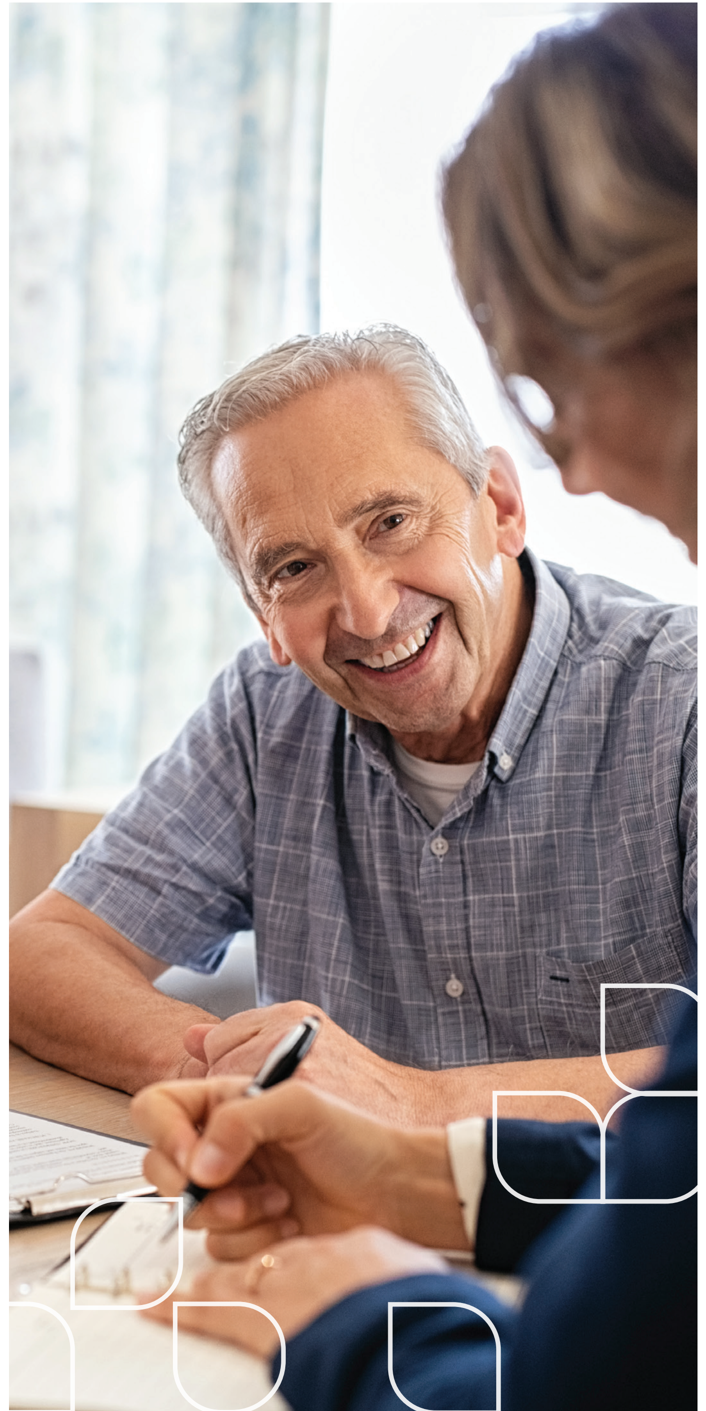
Once the loan officer has processed your application and received all necessary documentation, they will submit everything to the underwriter.

This is the individual that will evaluate all of your documents, verify the accuracy of all information provided, and look for any potential instances of fraud.

The underwriter will make the final decision about whether to approve or deny your loan. Keep in mind that they may also ask for additional documentation. Some common requests include:

- **Letter of Explanation:** If the underwriter sees something that could be an issue—such as a gap in employment or a deposit over $500 into your bank account that isn't your normal paycheck—they may ask for a letter of explanation. This is not a bad thing! This is just the underwriter covering all their bases.
- **Verification of Employment:** In most cases, the lender will send this directly to your employer.
- **Proof of Earnest Money:** A canceled check or proof of a wire transfer will suffice.

Out of all the homebuying steps, the underwriting process usually takes the longest. You can expect this step to take between 10-14 days.



Step 13: Receive closing disclosure and set up a closing appointment.

Once all the loan requirements are met and the underwriter approves your mortgage, your lender and the title company will set a closing date with the seller's agent.

At least 3 days before that date, you will receive your Closing Disclosure.

A title agent will work with you to set the appointment for closing. You will choose the location to meet.

A Closing Disclosure is a 5-page document that sums up the terms of your loan and shows you exactly what you will pay at closing.

$$ Alert: Cash to Close

The full amount you'll owe at closing will be specified on the Closing Disclosure. It includes the down payment, earnest money for your escrow account, and other closing costs.

You'll have two options to pay this amount:

1. **Bring the full amount to the closing appointment in the form of a cashier's check or certified check**

Note: This option is only available if the amount is under $10,000, and some title companies do not allow this option

2. **In advance, set up a wire transfer** for the full amount directly from your bank account for the day of closing.

Step 14: Final walkthrough.

Shortly before closing, you'll be allowed to do a final walkthrough of the house.

This ensures everything in the house appears to be in order, as agreed upon in the terms between you and the seller. You can verify that the house is still in the same condition (or better, if you asked the seller to complete specific repairs after the inspection) and that the seller didn't remove anything that was supposed to stay, such as appliances or fixtures.

Your agent will go with you for the walkthrough and can give you some pointers on what to look out for. You won't be able to bring any problems to the seller after you close, so this is the final chance to point out any issues the seller needs to address.

Step 15: Closing day and post-closing considerations.

The big day has finally arrived!

Here's what to expect on closing day:

- You will meet with the title agent at the time and place you agreed on when you received your closing disclosure.
- You'll show a Government ID.
- You'll sign a big stack of papers, all of which will be notarized by the title agent.

That's it! After that, you officially own your house! If the sale is recorded with the county by 4 p.m., you will get the keys that day. If it is recorded after 4 p.m., or if your closing takes place on a non-business day, you will get the keys on the following business day.

Post-Closing Considerations

After closing, you need to determine how you'll pay your mortgage each month, whether that's online, via check, or by another method.

No matter which payment method you choose, if you have an escrow account, you will make one monthly payment each month to your lender. From that payment, taxes and homeowner's insurance will go to the escrow account so your lender can pay those bills on your behalf. The amount you escrow may change over the life of the loan due to changes in homeowner's insurance costs, as well as changes to taxes.

Be aware that you're going to receive a lot of mail shortly after you move in. Many companies see a new mortgage as a sign that you may be interested in their products, like life insurance or credit offers.

However, in the midst of all that junk will be some important pieces of mail. One to keep an eye out for is a notice that your mortgage lender has sold your mortgage. This is very common and enables lenders to free up funds to finance new mortgages.

Why Your Mortgage Payment May Change

There are a lot of reasons your monthly payment may go up or down over time. If you have an adjustable-rate mortgage, your payment will likely change with each predetermined frequency period. But even if you have a fixed rate mortgage, your payment could change due to PMI falling off after you reach 20% equity in the home, increases or decreases in property taxes, or a change in your homeowner's policy.

Ready to start your journey towards home ownership?

At Martinsville First Savings Bank, we're here to help! Our team is available to answer all your questions, help you prepare for every step, and make the application process as smooth as possible.

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Homebuyer Notes

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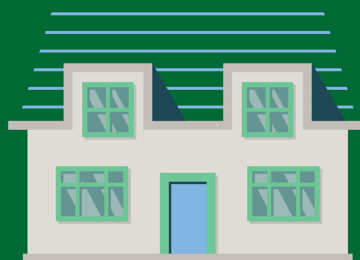

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