Dear Home Buyer:

Thank you for giving us the opportunity to help guide you through your home lending process. It is typically the largest financial transaction you will make and can be very confusing, sometimes complicated. We understand that it is very important to you, your family, and your future; therefore, it is very important to us. Please be assured you will receive our very best service, incorporating all our experience and training to make a committed effort to have this process understandable, hassle free and hopefully, a pleasure for all involved.

The information in this guide will educate you in the following:

- Should You Rent or Buy?
- Steps To Homeownership
- Loan Process
- Consumer Protection
- Your Qualification
- Budget

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Before you get too far in the home buying process, you should make sure that you really want to own a home. We will begin by reviewing the general advantages and disadvantages of home ownership. Then you will have a chance to think about your own personal pros and cons.

**Advantages**

- **Investment**
  Purchasing a home is usually a sound investment. When you carefully choose a home you can afford, the payoff can be great. Each month as you pay your house payment, you are building equity in a place of your own. Equity is the portion of the property you actually own through your payments. Unlike most things you purchase, a home can actually increase in value as time passes. (Remember, there is no guarantee that your home’s value will grow; sometimes home values do go down.

- **Tax Advantages**
  The mortgage interest and real estate taxes are tax deductible, which allows you to subtract part of your house-related expenses from your taxable income, which could reduce your tax liability.

- **Typically Leads to Better Home**
  As you build equity in your current home, it is usually easier to afford another home in the future.

- **Security**
  As a homeowner, you can decorate and improve your home the way that best suits you. Owning a home may also give you a new sense of pride in your surroundings. You and your family may feel stronger ties to your community. Most homeowners feel a sense of security in owning their own home.
It is easy to get caught up in the excitement of buying a home and forget that homeownership may have drawbacks. You should also consider the disadvantages before making the decision to purchase a home.

**Disadvantages**

- **Costs**
  Home ownership can cost more. If you are currently renting, you can typically expect to pay more for your mortgage than your current rent.

- **Cash Flow**
  Buying a house can tie up your cash. The house might increase in value as time goes by, but you will not see a quick “rate of return” on the money invested in your home.

- **Moving**
  Owning a home usually makes moving more difficult and complicated. After you have purchased a home, you may not have the flexibility in choosing a new location or job.

- **Maintenance**
  You will spend money on maintenance and repairs for as long as you own your home.

- **No Guarantees**
  There are no guarantees that your home will increase in value, particularly in the first few years.
When you are buying a home, it can be difficult to know where to start and where you will end up! Below is an overview of the home buying process from beginning to end. The steps may vary depending on your personal situation.

- **Determine Rent or Own**
  As previously discussed, you need to consider your personal situation and determine whether you want to rent or own a home.

- **Budget**
  It is important to create a budget to determine what you can truly afford.

- **Pre-Approval**
  Getting a Pre-Approval from a lender will assist you in shopping for the right home. It also gives your offer more credibility. A pre-approval is not the same thing as a “pre-qualification”.

- **Find a Realtor**
  Working with a Realtor that is committed to you as a buyer is a very important step. The Realtor is there to represent your best interest in the negotiation process.

- **Shop / Shop / Shop**
  Shopping for a home should be FUN! If you take the proper steps to avoid the stress that can sometimes come with the home buying process. Knowing what the process is, can help to eliminate some of the stress.

- **Make Offer**
  Once you find your home…..the Realtor will help you make an offer.
Purchasing a home is a very personal decision but you may be surprised at the number of people who could be involved in your transaction. Following is a list of real estate professionals that may be party to your transaction.

- **Real Estate Agent/Broker**
  When you start looking for a home it is important that you find a Realtor that knows your market area. The Realtor plays a vital role in the negotiation process and will help you to make a viable offer on the home you choose.

- **Lender**
  Mortgage Bankers, Mortgage Brokers, Banks, Savings & Loans, and Credit Unions all lend money to home buyers. Because this is typically the largest financial transaction you will engage in, it is important to find the right lending institution for your personal situation.

- **Appraiser**
  The appraiser determines the market value of the home based on homes in the neighborhood that compare to the home you are looking to purchase. The Appraiser also considers the condition of the property, but is not to be confused with the Home Inspector.

- **Inspector**
  A qualified inspector will examine the home from basement to attic. While it is not typically require, it is always a good idea to get an inspection before buying a home. It could save you thousands of dollars in future expenses.

- **Escrow/Title Company**
  The Title Company and Escrow Agent is responsible for ensuring that all documents have been completed properly, including those related to the title search and title insurance. The closing agent acts as a liaison between all parties.
Lenders make a credit decision based on several risk factors. The five most common factors are listed below and each will be addressed individually to ensure you have a good understanding of each.

- **Credit**
  Your credit report is a snapshot in time and demonstrates the borrower’s “willingness” to repay debt. It plays a vital role in the risk analysis. Contrary to popular belief, the credit score is not the only thing on the credit report that a lender considers. There are additional items reflected on the credit report that are scrutinized by the Lender.

- **Capacity**
  Your income determines your “ability” to repay the debt. In today’s environment, the lender will analyze your income and determine how much you can afford based on your gross monthly income. In order to be considered “useable income” the Lender requires the income to have a two year history and “likely to continue” for a minimum of three years. **Rule of thumb.....if you don’t claim it.....they will not use it!**

  The Lender uses your gross income to determine your Housing Expense Ratio. A sound financial goal is to keep your Housing Expense Ratio between 25% – 33% of your gross income. Most Lenders will “stretch” this ratio with compensating factors that will offset the higher ratio.

  In addition to the Housing Expense Ratio, a Lender will consider the “Total Debt Ratio”. This ratio is calculated by dividing your Total Debt (including the new proposed housing payment) by your gross income. A sound financial goal is to keep your Total Debt Ratio between 36% - 42% depending on the loan program, this ratio can be “stretched” as well.
The Five “C’s” - Continued

- **Capital**
  In addition to determining your “willingness” and “ability” to repay the debt, the Lender must ensure that you have sufficient funds for the down payment and closing costs. They will require documentation of sufficient funds to close. This is often one of the most frustrating parts of the transaction. It is important that you are able to explain and document any deposits that are not “payroll”.

- **Collateral**
  The Lender needs to ensure that the home is worth what you are paying. In addition to the “market price”, the Lender will also review the appraisal for any “unique” aspects. They will not lend on “unique” properties because they want to be sure that the property will be marketable, should you default on the loan.

  The value and condition of the property is a Lender’s best assurance that they can recover the money they lend, even if you stop making house payments.

- **Character**
  The Lender not only looks at the four “Cs” above individually, but they also look at the whole package. They are looking for what they consider “layered risk”. If you have a strong credit history and your ratios are above the recommended guidelines, they will look more favorably than if you had both high ratios and bad credit. This is where the “compensating factors” play a role. It is important that your Loan Officer list any compensating factor to strengthen the transaction.

  **Examples Compensating Factors:**
  - Minimal Payment Shock
  - Cash Reserves
  - Residual Income
Under the Federal Law, you have a right to know the full cost of your mortgage loan. Your Lender is required to provide certain disclosures within designated time frames commonly known as Upfront Disclosures.

- **Good Faith Estimate of Settlement Charges**
  The Lender is required to provide this Disclosure within 3 days of taking an application. HUD recently made significant changes to this form in an attempt to make the loan transaction “more transparent”. The GFE discloses ALL cost of the transaction, regardless of who is responsible for them. It does not take into consideration any credits. This Disclosure is required to be provided by the Real Estate Settlement Procedures Act of 1974 (RESPA).

- **Truth-In-Lending Statement**
  This form discloses your APR, Finance Charge, Amount Financed, and Total Payment over the term of the loan.

  The borrower is sometimes confused by the disclosure of the APR. Keep in mind that the APR is not the NOTE Rate. It is intended to show the true cost of your loan. It always costs money to borrow money. The higher the difference between the Note Rate and the APR, the more fees you are being charged. This Disclosure is required by the Truth-In-Lending Act.

- **A Guide for Home Buyers Settlement Cost Booklet**
  This is a booklet that is published by HUD and is required to be given with the Upfront Disclosure.
There are two basic things you need to know to calculate the best affordable mortgage payment for you:

1. Gross Monthly Income
2. Monthly Debts (excluding “living expenses”)

When you calculate your affordable house payment, you will work on two separate estimates. The first estimate is based on your Housing Expense and the second estimate is based on your Total Monthly Debts. You will use the lower of the two estimates.

EXAMPLE

Estimate 1

A. Gross Monthly Income $3,500.00
B. Multiplied By 33% $1,155.00

Estimate 2

A. Gross Monthly Income $3,500.00
B. Multiplied By 42% $1,470.00
C. Total Monthly Debts $470.00
D. Subtract C from B $1,000.00

The estimate you should use is the lower number. In this example, you should not pay more than $1,000.00 each month for your mortgage.
## YOUR QUALIFICATION

**Your Monthly Gross Income** $__________________

**Your Monthly Obligations (Debts)** $__________________

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A  **Your Monthly Gross Income x 33%** $__________________

B  **Your Monthly Gross Income x 42%** $__________________

C  **Subtract Monthly Debts** $__________________

D  **Total** $__________________

Your Monthly House Payment should be the lower of A or D!!

**Your House Payment will include Principal, Interest, Taxes, Insurance, Mortgage Insurance and HOA fees. PITI Payment**

**USEABLE INCOME = 2 Year History, Likely To Continue For 3 Years**
It is important to have a written, detailed budget. Most people enjoy buying things, but don’t like to keep tabs on their spending. You may ask yourself, “is it worth the trouble to develop a formal budget”? The answer is YES! for the following reasons:

- **Large Expenses**
  A budget helps you to prepare for large expenses. For example, most people pay for car insurance every six months. If you prepare for that expense by saving a portion each month, you will not need to panic when the bill comes in.

- **Recognize Costly Items**
  A budget helps you to see items that are costing you too much. When you pay attention to all of your expenses, you may be surprised to find how much you are paying for items that are not important to you.

- **Control Finances**
  Budgeting helps you to control your spending for a better financial future. Having a solid budget allows you to control your finances rather than letting your finances control you. Budgeting forces you to look at your financial situation the way it really is. This allows you to make the best decisions for your future.

Budgeting is a very important part of preparing yourself for the purchase of a home:

- **Save For Upfront Costs**
  If you stick to a budget, you will be able to save the money needed for down payment, closing costs and emergency reserves much sooner. Also, be sure to save enough to cover the expenses facing the new homeowner, including moving, utility hook-ups, tools, maintenance supplies, window coverings, etc.

- **Strengthens Application**
  By establishing a regular savings pattern in a savings account, you make your loan application stronger and increase the chances of having your loan approved.