



# HOME LOAN

## First Time Home Buyers

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Welcome to the Home Loan U Guide for First Time Home Buyers from The Canto Team. Here, you'll learn the important advantages of stepping into the housing market with confidence and how to find the home that is right for you. If you're looking for the tools you need to find a great real estate agent, the right mortgage program and the knowledge you need to achieve your financial goals, you're in the right place. Here's what you can expect to learn:

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# HOME BUYING 101: A CRASH COURSE IN BUYING YOUR FIRST HOME

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Want to step into the housing market with confidence? You're in the right place. This guide to buying your first home can help you figure out which house will be right for you as well as everything that leads up to it, like finding the right real estate agent and the perfect mortgage to fit your needs. Get excited: the next stage of your life begins now.

## Prep School:

### Your First Home. Are You Ready?

Buying your first home is a big deal, and a big step. At The Canto Team, most of us have been where you are right now, and we want to help you to enter the market as an expert. We can help you have your mortgage in place (so you can grab your perfect home before someone else does) and know exactly what to expect. After all, a house is one of the largest purchases you might ever make, and this is not the time for unwelcome surprises!

While every home and every buyer is unique, there is a process to buying any home that nearly everyone needs to follow. Until recently, that process usually went like this: find a home, then scramble and wait for a mortgage approval.

Unfortunately, many buyers found out too late that they could not be approved for the amount they wanted to borrow, sometimes losing their earnest money deposit by having to withdraw their offer. Some have lost their dream homes to other buyers while waiting too long for their mortgage approval.

When you get pre-approved first, buying a home can go a lot smoother because you will:

- Know exactly what to spend
- Make an offer with confidence
- Be the buyer with the advantage if there are multiple offers.

### \*EXTRA CREDIT\*

#### **Earnest Money**

Earnest money is a deposit that accompanies your offer to the seller. You'll be showing good faith by placing a small amount of money in your agent's hands. It is usually a small percentage of the asking price that can later be applied to your down payment.

# COME TO CLASS PREPARED: BE A SMART HOME BUYER!

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**The smart way to shop: Get pre-approved for your home loan before you start your search. It's easy!** That's a smart move in this buyer's market because your pre-approval guarantees that you'll have the financing to buy a home within your price range. You'll know which homes fit your budget and what mortgage payment you'll be approved for, so you can shop more efficiently. And once you find a home you want to place an offer on, you're in a better position to negotiate with sellers because they know you'll be able to back up your bid, and move fast—sellers like a buyer who can move quickly. Let's sum it up...

## **The Advantages to Being Pre-Approved:**

- Your house-hunting process will be more efficient.
- You will know how much you can spend.
- You will gain negotiating muscle because sellers know you're a serious buyer.
- You'll get a jump over other offers because you'll already be a step ahead.
- You could close on your home in just weeks, rather than months.

Having a pre-approval is far more valuable than going into the housing market alone. We know you're excited, so we've made getting pre-approved easier than ever. If you're eager to start shopping, call The Canto Team, our team of Home Loan Experts first for your head start in the market!

## **Will Getting Pre-Approved Slow You Down?**

Exactly the opposite. You can get your pre-approval fast, and close on your new home loan even quicker.

You can find out just how easy it is to get pre-approved right now. A Canto Team Home Loan Expert who can answer your questions and get your pre-approval started.

If you'd like, we can take you through your whole online process via chat. It's especially great for clients who are overseas, in the military, hearing impaired, multi-tasking at work, or if you just want to keep your financial discussions private by not talking on the phone

\*With a pre-approval, your loan will close as long as the property gets a satisfactory title and appraisal and your financial situation remains the same.

# TODAY'S EXAM: ARE YOU CURRENTLY RENTING?

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## **Leaving Your Rental to Buy Your Own Home Is a Big Step.**

Currently your landlord has the responsibility of all repairs and upkeep. And depending on your lease, you may not even be paying for your electricity or water. But on the other hand, if your current residence is growing in value, then your landlord is building equity through your monthly payments.

**WHEN YOU DECIDE TO BUY A HOME, YOU ARE  
MAKING A DECISION TO INVEST IN YOUR FUTURE**

Home ownership can have financial benefits that renting does not. While you'll want to consult a tax advisor, you should find that the interest you pay on your mortgage is tax deductible, as are some closing and moving costs. If you pay points on your loan to reduce the interest rate on your mortgage, that amount is also tax-deductible for that year.

### **Ace Your Transition**

Many renters wait until they are nearing the end of a lease period, or paying month by month, to begin house hunting, so that they don't pay fines for breaking their lease. This is a good idea when possible, but every situation is different. You may buy a house with immediate occupancy and be able to move within a few weeks. On the flip side – you may fall in love with a house whose occupants aren't quite ready to vacate.

Are you open to a fixer upper? You might be glad to live in your rental for a short period of time while working on your new home. It's much quicker to update a house while it's empty, and not filled with boxes!

When shopping for a home, be as flexible as your finances will allow so you're not locked into any one situation, which could limit the homes you can consider. Call a Canto Team home loan expert to discuss these different possibilities.

### **\*EXTRA CREDIT\***

#### **What Is Equity?**

**Equity is the difference between the amount your home is worth and the balance you owe on your mortgage. For instance, if your home was appraised at \$150,000, and your mortgage balance was \$50,000, you would have \$100,000 in equity.**

### **\*EXTRA CREDIT\***

#### **What Are Points?**

**Points are up-front fees paid to the lender at closing. Typically, one point equals one percent of your total loan amount. Usually, when you pay more points, your interest rate goes down.**

# MATH QUIZ: HOW MUCH HOME CAN YOU AFFORD?

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Ultimately, only you can answer this important question, but our interactive calculators can help on [tedcanto.com](http://tedcanto.com). It's important to know how much you are comfortable paying every month for your mortgage. Take the time to calculate your non-mortgage expenses for transportation, utilities, insurance, groceries and other living expenses.

## **Math Class 102**

Don't forget to leave room in your monthly budget for home maintenance, taxes, association fees (if they apply) and emergencies. Again, talking with your home loan expert from The Canto Team can help you decide what price range your ideal home should be in – and what amount of money you'd like to borrow (your mortgage) to purchase your first home.

## **Report Cards Are In! Credit Reports Are the Financial Report Cards for Adults**

Your credit report determines your three-digit credit score, used by lenders to determine which type of loan you'll qualify for.

Call us and we will gladly review your credit and identify where you currently stand or we will tell you exactly what you need to improve your FICO scores that empowers you to make the best choices when buying a home.

## **\*POP QUIZ\***

### **What's a Down Payment?**

The amount of money you take from your savings, for instance, to apply towards the purchase of your home is your down payment. When you deduct your down payment from the purchase price of your home, the amount remaining is what you will need to borrow in the form of a mortgage. If you choose to pay less than a 20% down payment, you may have an additional monthly fee for PMI (Private Mortgage Insurance).

## **\*EXTRA CREDIT\***

### **Private Mortgage Insurance (PMI)**

Your PMI payment can be eliminated after the home's equity increases to 25% of the current

Find out which is best for you!

# THE IMPORTANCE OF A GOOD PROFESSOR: AN EXPERIENCED REAL ESTATE AGENT CAN HELP GUIDE YOU HOME

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Now that you have talked with a home loan expert, it's time to bring in another great professional: your real estate agent.

It can be exciting looking at homes that are for sale, knowing one of them might soon be yours. But looking at homes that don't have the features you want can lead to house-hunting "burnout."

## **A Real Estate Agent Can Help You Avoid Wasted Time**

They keep you focused on homes that meet your specifications, in neighborhoods that are desirable to you—and in your price range.

You may have an agent who's been referred to you by close family or friends, but take the time to "interview" a few agents before you make a commitment. Make sure you are comfortable with your choice because finding the right home takes time. Not only will you be spending a great deal of time together, but you never want to feel an agent is rushing you to close a deal—especially one that doesn't feel right to you.

## **Here Are Some Questions You Might Ask Agents:**

- How long have you worked in real estate?
- Is this your full-time job?
- Are you familiar with the area where I want to look?
- How many home sales did you participate in last year?
- Will you be present at the closing?

A good real estate agent will be communicating with you frequently, suggesting homes and neighborhoods for you to scout – and will definitely give you notification when a new listing that might interest you comes on the market.

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**EXAM TIME: ARE YOU READY?  
SELLERS ARE GOING TO LOVE YOU**

Now that you have your pre-approval and a great real estate agent, you are ready to shop for a home. You will be far more prepared than any other buyers shopping for homes in your market, and sellers will be thrilled to show you their homes.

Make sure you fall in love with the right house. Determine with your real estate agent what your specific needs are, and schedule appointments to only those homes that meet these needs. You'll still see a wide variety of homes, but your house hunting will be more focused.

### **House Hunting Really Begins with a Town or Neighborhood**

Consider the:

- Proximity to work
- Distance to shopping or restaurants
- Medical care availability
- Traffic flow, especially during high volume hours
- Quality of neighborhood schools
- Distance to schools, parks and libraries
- Desirability of the area (Are homes holding their value?)

### **Lifestyle Considerations**

Your lifestyle specifications can help you remain focused on finding the right home. You may need office space or room to entertain in your new home. Are you looking for a home to grow into?

### **Look Down the Road**

For instance, buying a home with a nearby school-of-choice may not be a benefit to you now if you don't have children in your home, but could be great for resale. And lastly...

### **Stay Flexible**

Prioritize what you'd love in your home and accept that you may not find every feature, but can perhaps add them later.

# HARD WORK PAYS OFF: WHEN YOU'VE FOUND THE HOUSE YOU WANT

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As you and your agent decide how much you'd like to offer on a home, you'll have to weigh some important factors. Here are some things to keep in mind that may affect the amount you want to offer:

- The home's asking price
- Recent home sales in the area
- Market conditions: Has the home sat on the market for a while?
- How badly do you want the house?
- The condition of the home

## **Applied Knowledge:**

### **Here's Where Your Pre-Approval Flexes its Muscle**

Sellers know that an offer from a pre-approved buyer is solid. That's an advantage over most shoppers who wait to get approved until *after* they find a home to purchase. Your pre-approval confirms that your financing will not fall through. Sellers also appreciate that pre-approved buyers can close quickly because you've already jumpstarted your home loan process!



Because most people wait until *after* they find a home to get their financing, sellers know that an offer with a pre-approval is solid.

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Your real estate professional will prepare the documents that will make your offer official, and will present it to the seller, or to the agent that represents the seller. Usually, the seller will have a few days to make a decision. Here are a few definitions that will help explain this process:

### **Purchase Agreement**

The purchase agreement is a binding document that indicates the amount of your offer. (Your agent will supply this.) It may also include details like which appliances will stay with the house, and when you'd like to take possession.

### **Earnest Money**

Earnest money is a deposit to show that you're committed to buying the home. Typically, the deposit is a small percentage of the asking price that is later applied to your down payment. Your agent will hold the check/deposit (made out to the seller) until the offer has been accepted.

### **Counteroffer**

The counteroffer is the seller's response to your offer—made in part to continue negotiations toward a purchase agreement. When your agent presents the seller with your offer, sellers can:

- Agree to your offer
- Decline your offer
- Make a counteroffer

Sellers can counteroffer with their desired amount—typically within 24 to 48 hours. At this point you can either agree with their terms or make another counteroffer. This process continues until you come to an agreement that satisfies everyone.

Your real estate professional will prepare the documents that will make your offer official, and will present it to the seller, or to the agent that represents the seller.



# DOES YOUR NEW HOME MAKE THE GRADE? GETTING THE BEST HOME INSPECTION

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## **All Offers Should Be Contingent Upon a Home Inspection**

For your own protection, this is the time to hire a qualified professional home inspector who will go over every inch of the home you want to buy, and tell you what you're really getting into!

## **A Thorough Inspection Should Include:**

Heating, cooling, septic systems, plumbing and electrical systems, walls, floors, ceilings, foundation, roof, gutters, downspouts, insulation and ventilation, major appliances and the garage. You may opt to pay extra for tests such as radon or carbon monoxide levels, and this is smart. Your home inspection professional is equipped to administer these tests and give you information regarding the results.

## **You Should Plan on Being Present During the Inspection**

You'll learn not only about the condition of the house, but also how everything works, and you can ask questions as you go along. (This is a good time to get an unhurried look at the house, and perhaps take measurements for window treatments, carpet or appliances you plan on replacing.) You'll want to be on hand to look over the findings with the inspector, which could take several hours.



For your own protection, this is the time to hire a qualified professional home inspector. Your inspector will go over every inch of the home you want to buy, and give you insight on the home's actual condition.

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## **There Are Very Few Perfect Homes**

Most inspections will leave you with an action list, perhaps several things that will need attention after you move in.

### **Big Problems?**

That's a different story. As the buyer, you can request that the seller make needed repairs, or renegotiate the purchase price to absorb the repair costs.

If the inspection reveals more than you might have bargained for in the way of repairs or damage, you can withdraw your offer, get your deposit back and resume your house hunting.

### **To Find an Inspector**

Ask friends, family and your agent for recommendations. You can search for inspectors in your area on the American Society of Home Inspectors website, [ashi.com](http://ashi.com).

**Be sure to find someone who:**

- Has experience and references
- Is licensed and insured

The cost will vary, but can range from \$250 to \$600, depending on the location, property and optional tests added. Most homeowners will honestly say that a thorough home inspection is worth every penny spent.

### **A Lesson in Homeowner's Insurance**

No lender will complete the mortgage process without homeowner's insurance. This means you will have to provide proof of insurance at the closing.

It's important that the lender's investment is fully insured, as well as your equity in the home and your personal possessions. A good place to start exploring your insurance options is with the company that insures your car. Often insurance companies offer discounts when you hold more than one policy. Shop around, talk to agents and do your homework. You may find a significant price difference for similar coverage between insurance providers.

# GOOD STUDENTS COME PREPARED: WHAT TO DO BEFORE AND DURING YOUR CLOSING

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The closing is the completion of both the real estate sale and mortgage transaction. This is the transfer of possession from the seller to the buyer. It's customary to take a final walk-through of the property shortly before the closing to make sure the home is in the condition in which you expect it to be.

## **At the Closing**

You will sign documents that put you in possession of the home, as well as sign your mortgage documents. Then your mortgage company representative will pay the seller for your home, on your behalf. You will be given the keys to your new house, and payment information for your mortgage.

## **It's Important to Clarify**

It's important to clarify before the closing whether the seller of the home you are purchasing will be vacated from the home. If not, you are entitled to negotiate rent payment for any time after closing that they remain.

## **Will You Be Moving Out?**

Will you be moving out of a home or apartment that you're currently renting? You may want to schedule your closing near the end of your lease to avoid paying unnecessary rent. Some buyers enjoy an overlap, giving them time to paint or install new flooring—projects that are easier to tackle before the arrival of furniture.

## **Before Your Closing**

You will receive a document that outlines the costs you'll pay at closing. You'll be asked to bring a valid driver's license, a certified check, if applicable, and any additional documents that your circumstances may require.

Your closing may include the seller, the lender, you, the seller's mortgage holder, the real estate agent, the transfer agent (if it's a co-op), the managing agent (if it's a condo) and the title company representative.

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## **Raise Your Hand: What Exactly Are Closing Costs?**

It's one of the top questions asked by home buyers. Lenders are required by law to disclose in writing your estimated closing costs and fees. This is known as a Good Faith Estimate. On the next page of this guide is a brief summary of possible closing costs you might have to pay depending on the loan program you select.

Costs vary depending on your state, the type of loan you have and your down payment. For instance, title companies may handle your closing; however, some states require an attorney to conduct the closing. In those states, borrowers are not required to pay a title company a closing fee.



Lenders are required by law to disclose in writing your estimated closing costs and fees.

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## SAMPLE CLOSING COSTS

Appraisal .....	\$225-\$500
Credit Report .....	\$15-\$30
Processing Fee.....	\$575-\$1,000
Escrow Deposit for Taxes and Insurance.....	Varies widely
Transfer of Taxes .....	Varies widely by state and municipality
Loan Discount Points .....	Generally 0-2% of loan
Title Company Closing Fee .....	\$150-\$400
Buyer's Attorney Fee .....	\$400 and up
Lender's Attorney Fee.....	\$150-\$500
Title Insurance (Lender's Policy) .....	Generally \$175-\$875
Homeowner's Insurance.....	Varies, \$300 and up
Underwriting Fee .....	\$195-\$795
Survey Fee .....	\$150-\$400
Home Inspection .....	\$225-\$600
Pest Inspection .....	\$75
Down Payment.....	Varies widely
Flood Determination/Life of Loan Coverage .....	\$19.50
Recording Fees .....	Varies, generally \$50-\$150
Courier Fee .....	\$30
Prepaid Interest .....	Varies on loan amount, interest rate, closing time
Application Fee .....	\$0-\$500 (Fee applied toward closing costs)

# CONGRATULATIONS, HOME LOAN U GRADUATE— YOU'RE A HOMEOWNER!

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Right now you are probably making plans to move and decorate, maybe even remodel your home. Here are a few things to remember:

## **Keep Your Paperwork Safe and Available**

Also, keep in mind that your home will most likely be your biggest investment. The Canto Team is here to help you manage your mortgage as a hard-working part of your portfolio, just as you manage your stocks and bonds, IRAs and 401ks. We'll help you do this through our ongoing financial education and communications, such as:

- You'll get free evaluations of your credit, mortgage, savings and more plus the tips you need to improve.
- Your mortgage banker keeps an eye on the market, and lets you know when there's a mortgage program or a rate drop that could save you money!

It's our privilege to help you realize your dream of owning your first home. That's why our Home Loan Experts are always here to talk with you about your financial goals – we're here to make buying a home easier than any other company.



It's been our privilege to help you realize your dream. The home loan experts at The Canto Team are always ready to talk with you about your financial goals.

# YOUR CRASH COURSE IN MORTGAGE SPEAK

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**Mortgage:** A loan you take out to finance the purchase of your home. It's also a legal contract stating that you promise to pay back the loan on a monthly basis. Your monthly payment typically goes toward paying back the principal (which is the basic loan amount) and interest. Your monthly payment may also include money for your taxes and insurance.

**Amortization:** The gradual reduction of debt over the term of the loan. Amortization occurs through repayment of principal.

**Annual Percentage Rate (APR):** The yearly cost of a mortgage including interest and other expenses or charges such as private mortgage insurance and points expressed as a percentage.

**Appraisal:** A written estimate of a property's current market value.

**Closing:** The conclusion of your real estate transaction when legal documents are signed and funds are disbursed.

**Closing Costs:** Expenses over and above the cost of the property, which can include items such as title insurance, appraisal, processing, underwriting and surveying fees.

**Credit Report:** A report from an independent agency detailing credit history and previous and current debt to help determine creditworthiness.

**Credit Score:** A mathematical formula that predicts an applicant's creditworthiness based on credit card history; outstanding debt; type of credit; bankruptcies, late payments; collection judgments; too little credit history and too many credit lines.

**Deed:** The legal document that transfers property from one owner to another.

**Down Payment:** The amount of your home's purchase price you pay up front.

**Earnest Money:** Deposit made by a buyer toward the down payment to show good faith when the purchase agreement is signed.

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**Equity:** The monetary difference between your mortgage balance and the actual market value of your home.

**FHA Loan:** Fixed- or adjustable-rate loan insured by the Federal Housing Administration. FHA loans are designed to make housing more affordable, particularly for first-time home buyers.

**Fixed-Rate Mortgages** have an interest rate and a payment that do not change over the term of the loan. Should the current market interest rate fall below your fixed rate, contact your mortgage expert right away to discuss the benefits of refinancing.

**Good Faith Estimate:** Written estimate of the closing costs the borrower will likely have to pay to obtain the loan.

**Interest-Only Loan:** An interest-only mortgage is one that gives you the option of paying just the interest or the interest and as much principal as you want in any given month during an initial period of time.

**Interest Rate:** The percentage rate that a lender charges to borrow money.

**Lock or Lock-In:** A lender's guarantee of an interest rate for a set period of time. The lock-in protects you against rate increases during that time.

**Points (or Discount Points):** Points are up-front fees paid to the lender at closing. Typically, one point equals one percent of your total loan amount. Points and interest rates are inherently connected. The more points you pay, the lower your interest rate.

**Principal:** The balance—not counting interest—owed on a loan.

**Private Mortgage Insurance (PMI):** Insurance to protect the lender in case the borrower defaults on the loan. With conventional loans, PMI is typically not required with a down payment of 20% or more of the home's purchase price.

**Term:** Number of years you have to pay back the loan.

**Title:** Document that shows ownership of a property.

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**Title Search:** Examination of municipal records to ensure that the seller is the legal owner of a property and that there are no liens or other claims against the property.

**Underwriting:** In mortgage lending, the process of determining the risks involved in a particular loan and establishing suitable terms and conditions for the loan.

With conventional loans, PMI is typically not required with a down payment of 20% or more of the home's purchase price.



# STUDY GUIDE: COMMON REAL ESTATE ABBREVIATIONS

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Real estate agents have a language all their own. The following is a key to help you interpret some of the common abbreviations you'll see in the real estate advertising listings.

A/C	.....	Air conditioning
Appl	.....	Appliances
BA or Bth	.....	Bathroom
BR or Bdrm	.....	Bedroom
BSMT	.....	Basement
CH/A or CHA	.....	Central heat and air
DR	.....	Dining room
DW	.....	Dishwasher
EIK	.....	Eat-in kitchen
f-bmt	.....	Finished basement
fncd yd	.....	Fenced yard
FP	.....	Fireplace
GA or Gar	.....	Garage
LR	.....	Living room
PL	.....	Swimming pool
SF or sq ft.	.....	Square feet
WBFP	.....	Wood-burning fireplace
W/D	.....	Washer and dryer
WW	.....	Wall-to-wall carpeting

## NEVER STOP LEARNING: COUNT ON THE CANTO TEAM FOR LIFE

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Your Canto Team home loan expert is not only here to help you manage your home financing today, but will also help you to achieve your long-term goals. After all, life changes, and your mortgage should change with it.

As a service to our clients, we will keep you informed of industry trends and new home financing options long after your closing. We're always tracking current mortgage rates and we'll alert you if the market ever moves to benefit you in any way.

Any time you have questions regarding home financing, we encourage you to contact your home loan expert. The Canto Team will continue to give you the service you deserve for the life of your loan.

A referral is the best compliment. If you had a great experience with The Canto Team, tell someone you know. We can proudly say that 9 out of 10 clients would refer us to their friends and family. We'd be glad if you would, too.

# CONTACTS AT A GLANCE

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The following is a list of the resources included in this guide:

## **CREDIT BUREAUS AND INFORMATION**

Equifax

[equifax.com](https://www.equifax.com) • 800-685-1111

Experian

[experian.com](https://www.experian.com) • 888-397-3742

TransUnion

[transunion.com](https://www.transunion.com) • 877-322-8228