Guide to Home Buying

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Guide to Home Buying

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Are you ready to buy?

Buying a home can be a smart financial decision with several benefits:

- Most homes appreciate over time.
- Your monthly payments build equity towards ownership.
- There can be a number of potential tax benefits (first-time homebuyer credit, deductions, etc.).

Even if that all sounds good, buying isn't for everyone. Here are a few factors you should consider:

Affordability

While your monthly mortgage payment will probably be similar to your monthly rent payment, buying a home requires a bunch of up-front expenses: down payment, moving, redecoration/remodeling, closing costs, etc. While many of the costs will be driven by your personal decisions, at minimum you need to be prepared for the down payment and closing costs. We've provided some approximations below to help you get a rough sense of how much cash you may need to cover those two items:

Table 1A - Approximate Total Mortgage Amount & Cash On Hand

Household Income	Approximate Total Mortgage Amount	Approximate Cash On Hand Required
$50,000 - $75,000	$212,500 - $318,750	$15,625 - $20,950
$75,000 - $100,000	$356,250 - $475,000	$22,825 - $28,750
$100,000 - $150,000	$500,000 - $750,000	$30,000 - $42,500
$150,000 - $200,000	$862,500 - $1,150,000	$48,125 - $62,500

(assumes 5% down and $5,000 closing costs)

The above table represents approximate calculations and there are a number of additional factors that go into calculating how much mortgage you can qualify for—like size of down payment, credit score, existing debt levels, and so on. Additionally, there are ways Tomo can help you explore decreasing the monthly cost and work toward a specific down payment. Speaking with a qualified Loan Advisor will always be the most useful way to navigate complex questions like affordability.

Flexibility

A mortgage is typically a 15- or 30-year commitment. Sure, you can sell a home after only owning for a year or two, but the financial benefits don't kick in, typically, for at least a few years beyond that.

Responsibility

When you own, you are responsible for mowing the lawn, fixing broken things, and so on. In most rental situations, a landlord will take care of these things.

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Organizing finances & budget

Putting your financial profile under a microscope will be one of the most powerful decision-making tools you can have. Know the details and don't guess—it will give you confidence when talking to your lender.

We're going to focus on four factors to help give you a robust view of your own situation: monthly spending habits, income budget, cash on hand, and credit score.

Assess your monthly spending habits

Income and expenses. Ok, so it's not quite that simple but it's the foundation. Don't just look at one month of expenses, take an average across a few months to ensure it's representative of your actual habits.

Gross Income =

All taxable income BEFORE taxes, deductions, retirement contributions, and health insurance.

Net Income =

All income after taxes, deductions, retirement contributions, and health insurance. Effectively, how much of your salary gets deposited in your bank account each month.

Expenses

- Break your expenses into two categories: recurring/fixed (other debt, student loans, car payment, alimony, etc.) and living/variable (groceries, commuting, cable, etc.).
- Account for any future expenses that are not connected to homeownership but are known (e.g. planning to have a baby, going back to school, etc.).
- Leave out any expenses that would be eliminated by homeownership (rent, parking, etc.).

Where does that leave you?

Net monthly income — Avg. monthly expenses = Savings

Example:

$2,500 — $900 = $1,600

Mortgage budget

Now that you have a better idea of your spending habits, it's time to look at your potential monthly mortgage payment. The below payments are calculated using a common mortgage formula. How do the below payments fit into the income you have left over after expenses? If it feels like a stretch, a qualified Loan Advisor can help you make better sense of your own situation and find a manageable monthly payment that works for you.

Table 2A - Approximate Monthly Mortgage Payment

Income	Approximate Monthly Budget for Mortgage, Insurance, & Taxes
$50,000 - $100,000	$1,450 - $2,900
$100,000 - $200,000	$2,900 - $5,650

Income	Approximate Income Multiplier
$50,000 - $100,000	0.35
$100,000 - $200,000	0.34

Remember when we asked about your income vs. expenses on the previous page? How does the monthly payment from the formula above fit into the income you have left over from the above exercise?

Down payment budget... but don't forget closing costs

Just because you can qualify for a certain mortgage amount, or afford the monthly payment, doesn't mean you can actually buy a home for that amount. Homebuyers will need to have cash on hand to cover the down payment and closing costs.

Reference Table 1A for a rough idea of how much is needed. We've provided some additional detail below:

Down payment

- For the down payment, most lenders require a minimum of 3-5% down, however, a down payment below 20% will require private mortgage insurance (PMI).
- As a result, many homebuyers target a 20% down payment, which saves money in the long run. The less you borrow, the less you pay in interest.

Cash on hand

- After the down payment, you will also need cash on hand to cover closing costs. Though your exact closing costs will vary based on your location, specific home, and its transaction price, a good reference point for a conforming mortgage is approximately $5,000-$10,000.

As we mentioned in Table 1A, these numbers are approximations and intended to help you think through your own specific situation and what questions you might have. As always, speaking to a qualified Loan Advisor will be the most useful way to navigate the most complex questions like budgeting for a mortgage.

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Check your credit score

A credit score is a common measure of how likely borrowed money will be repaid. The higher your score, the better the chance you'll get more money at a lower interest rate. Your credit score is almost always changing and is influenced by these six factors:

▼ **High level of impact**

On-time payment history

Percentage of payments for bills/debts/loans made on time. Above 98% is acceptable and below is considered low.

Derogatory marks

Derogatory marks result from accounts that go into default (put to a collection agency) as a result of failing to make multiple payments over time, or as a result of public records like bankruptcies, civil judgment, or tax liens.

Credit utilization

A percentage measure of how much of your credit you are using at a given point in time. Less than 10% credit utilization is considered ideal, 10-30% is good, 31-49% is fair, and anything above 50% needs work.

▼ Medium level of impact

Age of credit history

The average age of all open credit accounts. Typically 0-4 years is considered the youngest category, 5-8 years is the healthy medium, and 9+ years is ideal.

▼ Low level of impact

Hard inquiries

A hard inquiry—also known as a "hard credit check"—is when lenders formally request your credit profile from the reporting bureaus. Each hard inquiry will negatively impact your credit score by 3-5 points. Minimize hard inquiries 9-12 months before applying for a mortgage or big loan, and absolutely avoid any hard inquiries or new debt when shifting from pre-approval to mortgage application, underwriting, and closing.

Number and types of accounts

Lenders like to see more than one account and more than one type of account—a revolving account (credit card, store card, etc.) and an installment account (auto loan, student loan, personal loan, etc.). Closed accounts count too! 0-10 open/closed accounts is considered needing improvement, 11-20 is considered fair, and 21+ is considered excellent.

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Getting pre-approved

Getting pre-approved is an essential step before touring homes because it lets agents know you can afford the homes you're being shown. Not all pre-approvals are created equally—the more info a lender has from you, the more accurate their estimates are.

There are three main types of pre-approvals you can get:

Pre-qualification

Pre-qualifications are fast to secure but because they rely on self-reported information, they aren't always the most accurate.

Speed	15-60 minutes
Type of credit pull	None (borrower reported)

Verified pre-approval

Verified pre-approvals take a bit longer, but we're talking hours, not days. The "verified" means that lenders don't just take you at your word, they'll confirm the info you provide. While it may be a bit more work, the increased accuracy is worth it.

Speed	1-3 hours
Type of credit pull	Soft (won't affect your credit score)

Underwritten pre-approval

An underwritten pre-approval is the most comprehensive and accurate pre-approval out there. Think of it like like a mortgage application that's not tied to a specific home, which is why, traditionally, it takes a bit more time and effort to complete.

However, Tomo's streamlined application takes the hassle away and can be completed in minutes. You'll walk away with an accurate view of your finances, how much mortgage you will be approved for, and a competitive letter that shows sellers you mean business.

Speed	The time will vary based on the complexity of your financial situation.
Type of credit pull	Hard (affects your credit score, but usually only 3-5 points)

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Searching for a home

Naturally you'll develop a list of "needs" and "wants" as you begin to think about the home you'd like to buy. Balance is key as you do this, and it's a good idea to scrutinize and discuss which column a feature actually falls into—it will save you stress and gray hairs down the road.

Defining your criteria

Defining your criteria can help you get clarity on wants vs. needs for your home. It'll also enable your real estate agent to zero in on relevant homes and will help you avoid getting swept up in an emotional bidding war. Here are a few basic criteria for you to consider:

- [ ] Price range
- [ ] Type and style of home
- [ ] Number of bedrooms & bathrooms
- [ ] Property type and/or lot size
- [ ] Location
- [ ] Cost of ownership (maintenance, HOA)
- [ ] Kitchen (Type, location, size, layout)
- [ ] Parking (street, driveway, garage)
- [ ] Other spaces (Entertaining, home office, shed, storage)

Assessing the market

This step is particularly helpful in setting your expectations. Spending a bit of time looking at what is for sale and what has sold recently will help you validate or reprioritize your search criteria.

Connecting with a really good agent

How and when to find a really good agent is not a perfect science, but here are a few ways to get started:

Ask your family and friends

A great place to start, but keep in mind the right agent for them might not be the right agent for you.

Seek out the specialist

Be on the lookout for an individual or brokerage who specializes in finding homes that meet the criteria you are most interested in. Take note of who is representing the listings you're browsing when you assess the market.

Check with trusted partners

You might find that your mortgage company has a list of brokers that have demonstrated their excellence over time. For example, Tomo Brokerage Partner Agents are hand selected from a variety of brokerages and represent the very best in their markets.

Interview the shortlist

Once you have a list of agents who might be a good fit, reach out to them. Ask about the things you are most concerned with in your home search. You'll be interacting a lot with your agent, so it's important to click with them and trust they can get the job done for you.

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Touring homes

First off, congratulations! This is where the fun begins and you get to start imagining yourself in a home.

Things to consider for your buying journey

Everyone's buying journey is different, but as you evaluate a home, there are things that are difficult and expensive to change that you should closely consider and things you can easily change for relatively little money. This is not intended to be an exhaustive list but rather one to get you thinking. And keep in mind, your agent is an excellent resource to help you properly evaluate a home.

Things that are easier to change

Dated décor

It can be difficult seeing the potential in a home that looks straight out of your family's photo album from the 70s, but things like paint, carpet, wallpaper, and curtains are relatively easy to remedy for a more modern look.

Outdated fixtures

Similar to décor, fixtures like doorknobs, cabinet/drawer pulls, lighting, and a lot of plumbing can usually be easily swapped out without spending much money.

Lack of curb appeal

Outdoor eyesores like overgrown landscaping, faded paint, and old light fixtures can often be easily fixed with a little money and elbow grease.

Things to consider that are difficult and expensive to change

Overall layout

The types and locations of spaces in a home are very important to pay attention to, with some specific nuance for certain rooms.

Bedrooms

How many are there and where are they located? Location can be particularly important as you may want your primary or your guest bedrooms to be farther away from common spaces.

Bathrooms

Similarly to the bedrooms, you'll want to note how many and where they are placed. Make sure you run the faucets and showers—poor water pressure can't always be easily fixed.

What's the condition of the tile, grout, drains, etc. Sometimes a good cleaning can bring them back to life, but other times they may need to be completely replaced.

Kitchen & dining spaces

If you plan on hosting friends and family for dinner, you'll want to think through where the kitchen is located and how it connects to the dining spaces. Small kitchens that are far from dining spaces can make it difficult to juggle cooking and looking after your guests.

Parking, garages & "unpacking the car"

Does the home have dedicated parking? A garage? As it relates to the garage, location can also be important as garage doors often make quite a bit of noise. Is it connected to the home to make unpacking a car in inclement weather easier? Are there different levels or stairs to go up?

Ambient noise

A home's location will be the primary driver of how much ambient noise can be heard from inside; however, there are other factors like insulation and window quality that can also contribute. Listen for the ambient noise that comes in and besure to ask about proximity to any major noise-generating spaces nearby, e.g. airports, train stations, major roads, etc.

Home condition

While a thorough inspection should reveal major issues with most of the items called out below, there are elements that may be functional [read: don't show up on an inspection] but may be expensive to replace or refurbish. We'll be speaking to the latter in the below categories.

Walls

Small cracks, watermarks, and faded paint on the walls are all quite unappealing aesthetically. One room may not be an issue, but the cost of repairing and repainting the whole house can really add up.

Floors

Floors are another area that can be quite costly to fix or change if they are in poor condition. Sometimes an unappealing floor color, however, can be changed inexpensively.

Major appliances, HVAC, & water/waste

Though these systems may all be functioning correctly, there are other considerations. Gas vs. electric for the stove. Steam vs. baseboard for heating. Central vs. independent room units for air conditioning. Septic and well vs. city sewer and water. Individually these items may not be a deal breaker, but if you have an issue with all of them it can really add up.

When looking at a home with your agent

Agents are your best resource, so don't be afraid to ask them these questions to help you make the most informed decision:

What do you like about this home?

What should we be concerned about?

How does it compare to homes that have previously sold in this area?

How long has this home been on the market?

How quickly do you think it will sell?

How long have the current owners owned this home?

How old is this home?

Are any repairs needed?

How old is the roof?

What type of heating and cooling systems are in place?

How old is the electrical and plumbing?

Can I see a copy of the current owner's utilities?

Is there a homeowners association (HOA) with fees?

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Making an offer

Making an offer can be both exciting and stressful. It's important not to let your emotions drive this portion of the journey or you could wind up overpaying for a home. Also, price is not the only negotiating point, there are other strategies for developing a winning offer. Your real estate agent is your best resource in this phase.

Once you've found a home that fits most of your criteria, it's time to make an offer in the form of a formal offer letter, which is generally made up of these key elements:

Offer price

The amount of money you are willing to pay for the house.

Contingencies

Conditions the seller must abide by if and when they accept your offer.

Down payment

The amount of money paid for the home up front in cash.

Earnest money

A small good-faith deposit made by the buyer that will go towards the down payment at closing. Typically 1-2% of the total purchase price, but your exact amount will be determined as a part of your offer.

Closing costs

Costs due at closing in addition to your down payment. We'll touch more on closing costs later on.

Timeline

Denotes a preferred closing date, as well as the closing date of your current home if you aren't a first-time buyer.

What you can expect after you submit your offer letter

There are often local laws to be aware of and specific formats for offer letters, so it's best to lean on your real estate agent to guide you through the process of generating a formal letter.

A seller will have the allotted time from the timeline to respond to the offer.

Offer accepted

Congrats!
Time to move on to Step 7 below.

Counteroffer

If the seller thinks your offer is "close" enough to what they are looking for, they might make a counteroffer.

Competitive situation

In a hot housing market, a seller may receive multiple offers, which can go one of two ways. It's best to plan for each ahead of time so you don't get swept up in an emotional bidding war and wind up overpaying:

- Sellers allow the interested parties to outbid one another in increments.
- Sellers ask for all potential buyers to submit their "best and final" offer.

Offer rejected

A rejection without the option to counter is usually a sign your offer was too far off. Don't get discouraged. If you're really set on that particular home, you can always go back with another offer.

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Applying for a loan

The volume of work to be done in the application phase will directly correlate to the type of pre-approval you have. Those with an underwritten pre-approval will have already provided most of the documents needed, however, those with a pre-qualification will need to provide a bit more.

Key information and documents needed for the application

Different lenders will have different protocols depending on their underwriting standards. That said, most applications require documents and information across ten key topics:

1

Information on the borrower—or borrowers in the case of a joint application:

- [ ] Legal name
- [ ] Social Security number
- [ ] Phone number
- [ ] Date of birth
- [ ] Residence history for two years
- [ ] Years of education completed
- [ ] Marital status
- [ ] Number of children and ages

2

Employment information to verify income and ability to repay the loan:

- [ ] Name of employer
- [ ] Address and phone number of employer (as well as whether you are self-employed)
- [ ] Years of employment at your current job/profession
  (if you have been with your current employer for less than two years,
  there may be additional employment history required).
- [ ] Position or title
- [ ] Type of business

3

Monthly income

Pay stubs, W-2s, or other proof of income.

For commissions, bonuses, self-employment, or other forms of income, you must provide two years of proof you received that income.

4

Proof of assets & liabilities

These may include checking and savings accounts, stocks and bonds, or a life insurance policy with cash value.

On the liabilities side, list any debt (student loans, credit card debt, or a car loan), along with the respective amounts owed and monthly payments. Liabilities can also include child support/alimony payments, job-related expenses, and anything else you may owe.

5

Other property

Other property you own and the debts and expenses related to it.

6

Transaction details

Mortgage type (e.g. conventional vs. FHA or fixed vs. variable APR) and term (e.g. 30- vs. 15-year). Note: some of these choices will have already been selected based on your budget, etc.

Information on the property that a buyer is looking to purchase and the purpose. Typically includes the address, type of property, the year it was built, and the reason for the loan (e.g. purchase, investment, refinance, construction, etc.).

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Declarations

This is where you disclose any judgments against you, bankruptcies, foreclosures, lawsuits, etc. It's important to note if your co-borrower has any of these as well. While disclosing any of these items might not "condemn" your chances of securing a loan, it might require a bit of additional explanation to accompany it. It's important to share this information with your agent and Loan Advisor—the sooner the better.

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Information on prior military service

9

Acknowledgments and agreements

Informs you of your legal obligations related to the mortgage application and asks that you acknowledge certain information will be obtained, used, and shared.

10

Regulatory/Government information

Demographic information:
Information the lender is required by law to ask you.

Loan originator information:
Provides information on the loan originator.

Home appraisal & inspection

A home appraisal determines the value of a home while an inspection determines the condition of it. Both of these items benefit you, the buyer, as they will uncover any issues that may affect the sale and help you feel confident in your purchase. It's important to note that both of these services are done by third-parties, so you can trust the results.

Appraisal

A home's value will be determined by a number of factors:

- Location
- Condition
- Value of similar homes recently sold in the area

The net of this process is a report providing the final determination of the home's market value. Lenders typically cannot lend more than 97% of the appraised value of the home. Anything above that will need to be paid out of pocket by the buyer, requiring more cash on hand.

Tomo Appraisal Coverage

protects home buyers from having to bring more cash to the close when appraisals come in low. Same APR, cash-to-close, and monthly payment - guaranteed.

Inspection

A home inspection is an in-depth look at the present condition of a home and determines if there are any red flags. Home inspectors examine the structure, roof, attic, basement, electrical system, plumbing, exterior, and other items like major appliances.

The inspection report will detail what was inspected and list out any items that might need repair. This findings of this report can be used for additional negotiation. For instance, if the roof needs to be repaired, you may be able to have the seller do that or have the repair price deducted from the total sale price.

Homeowner's Insurance

Just like car insurance, homeowner's insurance (sometimes called Hazard Insurance) covers you in the event something happens to your home and needs an insurance claim to fix. Home Insurance is required for all loans.

When purchasing homeowners insurance

- Ask about exclusions to coverage
- Ask about dollar limitations on claims
- Ask about cash value (how much they would pay out in cash if your home was destroyed)
- Ask about your liability

Title search

Records on a home are extremely important. Are all of the taxes paid on the property? Is there a dispute or lien against it? These are all questions that a title search helps answer. The title search is necessary because it is a confirmation the home can actually change hands.

Title insurance

Sometimes referred to as owner's or buyer's title insurance, title insurance offers protection after the sale against subsequent claims of ownership, including the legal and financial ramifications of such a claim. A lender's title insurance policy will be purchased and added to the closing cost statement.

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Getting a decision

Getting to the final approval can often feel quite stressful but know that it's not always a "yes" or "no." There are instances where more information is required and instances where a loan cannot be approved.

Loan application decisions

Approved

You provided all documentation, there are no title issues, and you are approved to receive financing for the mortgage. The next step is to set a closing date. That's where you sign on the line and get the keys to your new home.

Approved with conditions

The loan is approved, but more documentation is needed. This can happen if there is an outstanding question on something like a cash gift, more verification on your employment needed, etc.

Suspended

Similar to being approved with conditions; however, the conditions are more comprehensive.

Denied

The lender determined that one or more parts of your application is too risky. It could be your credit, your income amount or stability, debt-to-income ratio, etc. Your lender will let you know what caused the denial.

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Closing time

Ok, we're almost there. Three days before closing, your lender will send you a Closing Disclosure.

It's a document required by law and you should spend time thoroughly reviewing it.

Closing Disclosure

- [ ] Loan term, amount, and interest rate
- [ ] The estimated amount of money you'll pay on your loan each month
- [ ] Closing costs, which include origination, underwriting, and government fees
- [ ] Amount of money you'll need to bring to closing, also known as "cash to close"
- [ ] Loan disclosures

Final walk through

- [ ] Ensure the home is how you want it to be

Bring the necessary documents to the closing

- [ ] Proof of homeowners insurance
- [ ] A copy of your contract with the seller
- [ ] Your home inspection reports
- [ ] Any paperwork the bank required to approve your loan
- [ ] A government-issued photo ID

Plan to sign a ton of paperwork. An attorney or settlement agent will guide you through the process. When it's done you'll collect the keys and finally your new home will be yours!

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Congratulations!

You are now a homeowner and ready to enjoy all the fruits of your labor.

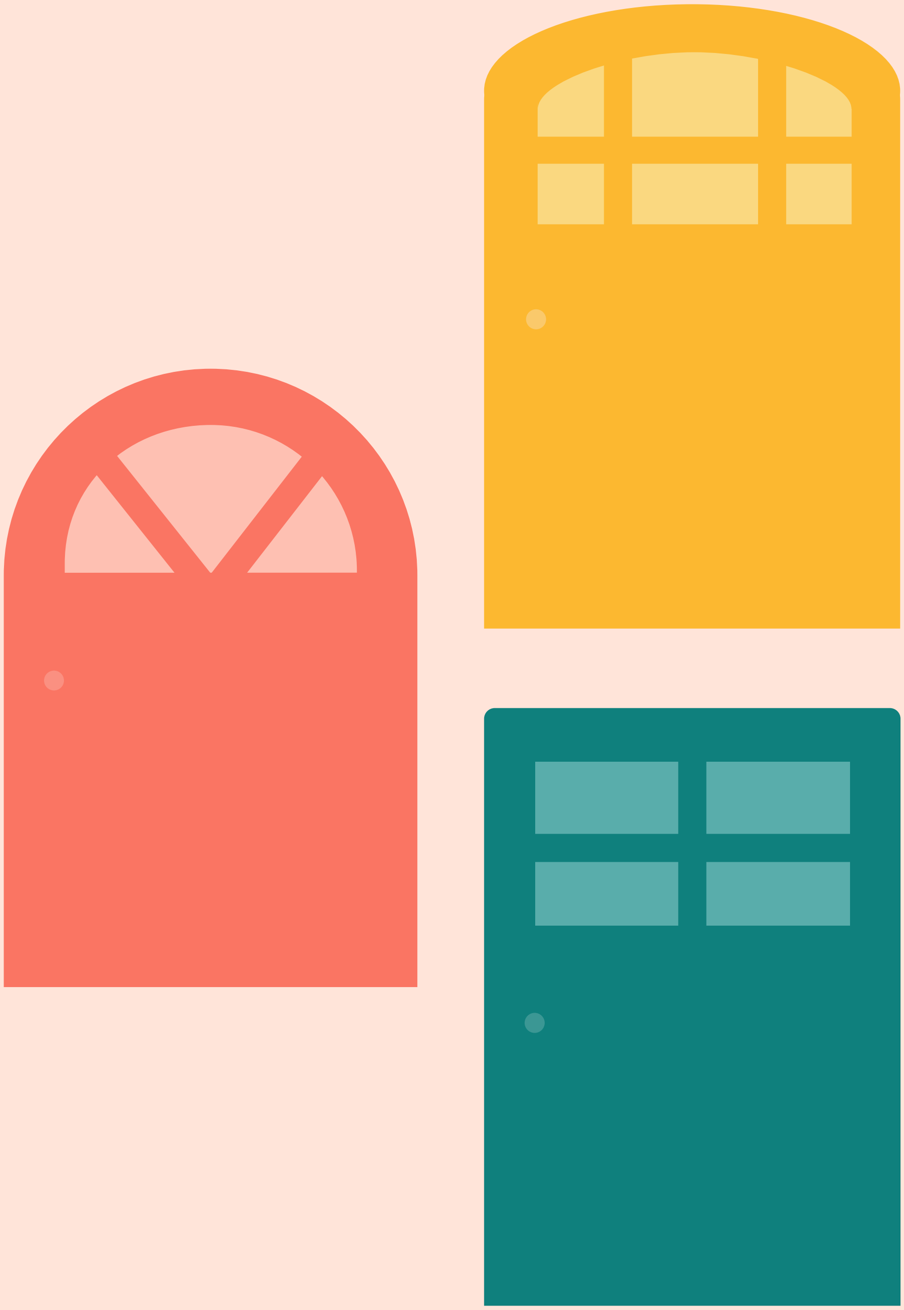
When we say "make it yours," for sure we are talking about design and decor—but more so we are talking about all the great memories you'll share with friends and family that will make this house (or townhouse or condo) a home.

In literal terms your new home is a physical shelter, but it's also a space that will spawn in you a sense of belonging and emotional shelter—where you can be your most honest self. Sorry, it's a moment that gets us a little choked up! And also very excited.

Remember, your home doesn't end where the sidewalk starts, so make sure to say "hello" to your new neighbors, try out some local shops and restaurants, and find out when your neighborhood association meets if you're so inclined. Your new home comes with a new community to connect with as well.

Helping homebuyers reach their goal—this moment—with the least amount of anxiety and frustration is exactly why Tomo exists. We believe the joy and promise of a new home should never be overshadowed by the hassle of buying one—and now that joy and promise is all yours. Welcome home.

Warm wishes,
Team Tomo



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