Island Home Loans
"Helping You Live Your Dream."
NMLS #249457

123's of Preparing to Buy Your First Home

Bare minimum basics that lenders look for in qualifying a home buyer.

1. Employment – Lenders need to see two year job history.
Good news is if you went to school for your field of work, this may factor into your job history with supporting documentation (transcripts, diploma, etc.)
Gaps in employment over the past 24 months will need to be explained and second jobs are often not factored if they have not been held for 24 months or more.
2. Income – How are you paid? (your pay structure) will impact what lenders can use for qualifying.
Those paid an annual salary are the easiest to calculate.
Borrowers who are paid hourly with hours varying will probably find their income averaged over the last two years.
Self-employed or commissioned borrowers will also find their net income averaged over the last two years.
If a borrower receives annual bonuses, they will probably need to be received by that employer over the last two years and will be averaged.
3. Credit History – It's ideal to have three to four lines of credit in good standing for two years or more.
Your credit lines should be used once a month with less than 30% of the credit line in use for revolving debt.
New credit lowers scores and old established credit that is paid on time raises credit scores.
4. Credit Scores – Most lenders that we work with currently have a minimum credit score requirement of 620.
Lender's use the lowest "middle score" of all borrowers applying for the loan.
5. Debt-to-income Ratios – Lenders like to see your back end ratio no higher than 45% (USDA 41%)
This is calculated by dividing all of your monthly debts plus the proposed total mortgage insurance payment by your gross monthly income.
6. Assets – If you have a 401k, retirement or stock account/s that you're not planning on using for down payment, often times these accounts are great to have on your application to show that you have "reserves" after savings.
Additional assets add financial strength to your application.

7. Down Payment – Currently FHA allows 3.5% minimum down payment; VA and USDA are still zero down payment.
Conforming loans will allow for a minimum down payment of 3% with private mortgage insurance.
Some programs will allow gifts from family for your down payment and/or closing costs.
8. Bank Statements – Be prepared to provide all pages of your bank statements (even if the last page is blank) and to document any large deposits that are on your statements. Lenders want to know where your funds came from.
9. Upfront Costs – Earnest Money Deposit and Appraisal are required by the lender. Home inspection and Termite inspection are not required by lender, but recommended.
1) Earnest Money Deposit about $1,000. Earnest money is a deposit on the house you want to buy. It's used to show sellers that you are very serious about buying their home. Your realtor collects your earnest money deposit after your offer on a home is accepted and you sign the purchase agreement. Your realtor gives the title company your deposit money to open escrow. Assuming all goes well and you buy the house, the earnest money goes toward the down payment or the closing costs, or may sometimes be refunded back to you if credit is available. (Required)
2) Appraisal about $700. You will not be charged for the appraisal until the lender registers your file, and you want to move forward with the process. There is a possibility of getting the appraisal cost back from closing, if a credit is available. (Required)
3) Home Inspection about $350+. Although not required by lender, it is highly recommended. A home is one of the largest purchases an individual will make and will be living in, so you want to make sure everything is safe and working properly. Unlike the appraisal cost, you will not be able to get money back for the home inspection. Keep in mind a home inspection is different from a termite inspection. (Recommended, but not required by lender)
4) Termite Inspection about $300. The examination of a building for wood destroying insects. (Only required on VA Loans) Your real estate agent can negotiate for the seller to cover the cost.
10. Closing Costs – Typically, the average closing cost is about 3% of the purchase price of the home.
Closing costs cannot be financed. Please request real estate agent to ask for seller credit of at least 3%. (The seller pays for the buyer's agent)
Hawaii allows seller to pay up to 6% (VA loan 4%) of purchase price to contribute towards closing costs.
Most sellers agree to only 3%, which in most cases is suffice.