

# A First-Time Home Buyer's Guide



# BUILD YOUR NEST

## WELCOME TO YOUR NEXT ADVENTURE

Buying your first house is exciting and your first time can be scary. It is so important to have the right partner. The type of house you buy, the neighborhood, and your budget will help find that house that will become your HOME.

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# BUILD YOUR NEST

## WELCOME TO THE HOME BUYING EXPERIENCE

The roadmap to your new home:

Starting with **MINNEQUA WORKS.**

**LEARN THE TERMS** used in buying a home.

Get **PRE-QUALIFIED** for a loan.

Decide on the **FEATURES** you want in your home.

Choose a **REALTOR.**

Start **HOUSE-HUNTING.** Use the evaluation forms in this booklet to make notes about homes you see.

Your Realtor will assist you with making an **ACCEPTABLE OFFER** in writing.

**MAKE AN OFFER** in writing (the contract).

When your offer is accepted, find an **INSPECTOR.**

Be sure to provide **ANY INFORMATION REQUESTED** promptly to your Real Estate Agent, as well as your Mortgage Lender. **YOU WILL BE RECEIVING INFORMATION AND REQUESTS FOR INFORMATION** from both of them, as well as the title company throughout the process, which can take anywhere from 45 to 60 days on average.

**PREPARE** for closing.

**CLOSE** on the property.

## Congratulations!

**YOU ARE A NEW HOME OWNER.**

# BUILD YOUR NEST

## WHAT IS YOUR PRICE RANGE?

There is such a vast difference in average price for different neighborhoods, let's start with what you can afford. Typically, your monthly mortgage payment should be around 28 to 30 percent of your total monthly income before taxes, commonly referred to as gross income. Your total monthly debt including house payment, car payments, credit cards or personal loans should not be more than 36 to 40 percent of your gross income. Your house payment is your basic monthly mortgage payment including the principal, interest, real estate taxes and homeowners insurance.



### MAXIMUM MONTHLY PAYMENT

<u>Gross Annual Income</u>	<u>House Only* (28%)</u>	<u>Total Debt (43%)</u>
\$35,000	\$816	\$1,050
\$45,000	\$1,050	\$1,350
\$55,000	\$1,283	\$1,650
\$60,000	\$1,400	\$1,800
\$75,000	\$1,750	\$2,250
\$100,000	\$2,333	\$3,000
\$120,000	\$2,800	\$3,600
\$150,000	\$3,500	\$4,500
\$200,000	\$4,666	\$6,000



#### How much house can I afford?

To figure out what you can afford, use an online mortgage calculator at [practicalmoneyskills.com/calculators](http://practicalmoneyskills.com/calculators).

**When figuring out how much house you can afford, remember to include all your monthly expenses.**

Your maintenance and utilities may increase while expenses like parking may be dramatically reduced. Our lending specialists can help you walk through a budget.



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We will help you get pre-qualified using basic financial information.

## BENEFITS OF PRE-QUALIFICATION

So what is Pre-qualification? It is simply an application to find how much you can be approved for.

### Checklist for what to bring with you:

- ✓ Most current YTD pay stub
- ✓ Employment History
- ✓ Current Debts
- ✓ Amount of funds saved for down-payment and closing costs
- ✓ Any assets you have like a fully paid car or investments
- ✓ Drivers License or other photo ID

### WHY BOTHER?



It can give you more leverage when negotiating the price for your house. Plus, it makes you the more serious buyer if there are multiple people looking at the same house.

## WHAT IF I'M NOT PRE-QUALIFIED FOR AS MUCH AS I WANT?

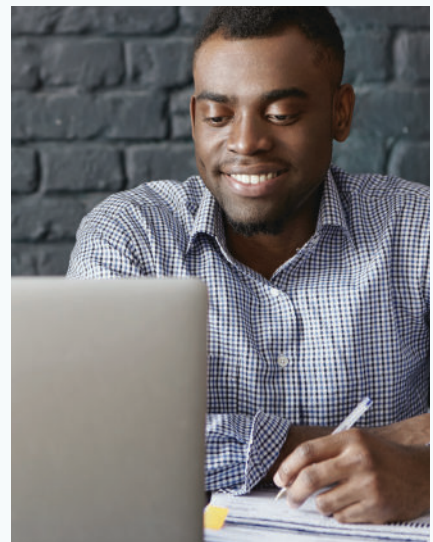
We can help work out a plan to make changes to your monthly budget to get the number where you want it.

### DOWN PAYMENT

The down payment is how much you can pay at the time of closing. It is typically around 3% of the total cost of the house, but there are programs that go all the way down to No down payment. The larger the down payment, the less interest you pay over the life of the mortgage so it is great to plan for.

Premium Mortgage Insurance is required until you meet a certain payment percentage made on your mortgage which is typically around 20%.

Money for the down payment can come from your savings, your 401k, a loan or gift from family, as well as some other options. Your loan officer can advise you about the regulations regarding down payment.



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## WORKING WITH A REALTOR

A Realtor can save you time and help you in finding a new home by:

- Finding homes that are within your price range and match your requirements for size, location, etc.
- More up to date knowledge than websites like Zillow that can have outdated listings
- Scheduling appointments for you to see houses
- Getting up to date information about taxes, school districts and conditions in the area
- Handling negotiations for the price and terms of your offer
- Arranging a home inspection
- Many realtors have a website to help you see listings for you to narrow down what you are looking for

## MONTHLY COSTS

Each house will have a different set of expenses that will affect your monthly budget. Feel free to use this form when comparing houses:

MONTHLY EXPENSES	COST
Principal (Price of the House)	
Interest on Loan	
Homeowner's Insurance	
Taxes for the house/land	
Gas/Electric	
Water	
Home Owner Association dues	
Garbage Service	
Other	
<b>TOTAL</b>	

# BUILD YOUR NEST

## MAKING AN OFFER

Once you find the house you want, your next step is to negotiate what to include in the offer you make. Your Realtor will help you with the offer and take it to the seller and/or seller's agent. If possible, ask your Realtor to give you a blank copy of a purchase agreement when you begin looking at homes. You'll have a better understanding of what you want your own agreement to cover when the time comes.

### BEFORE MAKING AN OFFER...

1. Get recent selling prices of similar homes in the area from your Realtor.
2. If your first offer is rejected by the seller, a second round of negotiations often takes place. Even if you can't agree, don't get discouraged. There are likely several other similar homes in the area.
3. Ask a lot of questions: How long has the house been on the market? Why is it being sold? What are its good and bad points?
4. Don't be afraid to check out the neighborhood and even talk to neighbors.
5. Consider the home's resale value.
6. Negotiate the offer price and other items to be covered in the offer before you sign any formal papers.

When your offer is formally accepted, you sign a purchase agreement, which is a legal contract. It covers many items, such as the price, total down payment, due diligence period and closing date. The closing date is when you sign the closing or settlement agreement that officially makes the home yours. This date may change if all the necessary paperwork is not finished. The offer also states which party (buyer/seller) will pay for which settlement costs, the type of loan you are applying for and the interest rate.

Here are some things that are usually part of an offer:

Offering price \_\_\_\_\_ Due diligence deadline \_\_\_\_\_

Earnest money \_\_\_\_\_ Due diligence money \_\_\_\_\_

*This is part of your down payment that you provide up front to secure an initial agreement with the seller. It shows the seller that you are "in earnest" (serious) about buying. It protects your offer for a certain period of time while you obtain financing.*

Contingencies \_\_\_\_\_

*These are special circumstances such as the date by which the sale must be completed or repairs the seller must make.*

Items included in the sale \_\_\_\_\_

*These can be things like appliances, window treatments, rugs, furnishings, outbuildings, etc.*

To protect yourself, be sure that the purchase agreement is conditional. This means you can cancel it if you do not secure a loan or if the house has major problems that can't be corrected before closing.



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## APPRAISAL & INSPECTION

After the offer is accepted, your loan application will be reviewed. At the same time, these steps must be taken.

### Lender Orders



**THE APPRAISAL:** An evaluation of the property's value. The appraiser visits the house and reviews recent selling prices of similar homes in the area. You will be notified by the appraisal management company once your order has been placed.

### Buyer Orders



**THE INSPECTION:** An evaluation of the property to find out if there are any problems that could change its value. The inspection also helps you determine if there are any items that you want the seller to repair before the final contract is signed.

The buyer usually hires the inspector. Because the inspector is an important member of your home buying team, you want someone who is trustworthy and experienced. Your Realtor or Lender can refer you to an inspector. It's also a good idea to go to the inspection if possible. Walking through the house together gives you the opportunity to see first hand with the inspector what is wrong or right with the house. Inspectors check the entire house for the following:

- General condition
- Electrical system
- Heating and cooling system
- Exterior structure, water damage, garage doors, roof and chimney
- Interior structure, insulation, foundation, windows and doors
- Pest control
- Risk of earthquakes, flooding, and landslides

Most areas also require a termite inspection. If termites are found, you must have proof that the house has been treated and that any termite damage has been repaired. This is usually the seller's responsibility.

## TITLE INSURANCE: A ONE-TIME FEE

Once your offer has been approved, a title search is conducted. The search is performed by your choice of a real estate attorney who will also handle the loan closing. Your lender will order this from the attorney on your behalf. This step is needed to uncover any possible problems with the title, which is legal ownership of the property. Problems could arise if there is a dispute by outside parties about the ownership of the property, its size, or the way it can be used (for example, there may be an unknown heir, a secret spouse, or a faulty land survey).

Title searches are generally set up by the buyer's Realtor or Lawyer. Title insurance guarantees that the property you buy is as it is stated in recorded deeds, surveys and other documents. You may pay a one-time title insurance premium when you buy the house; then you do not have to pay another premium unless you refinance your mortgage.





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## HOMEOWNER'S WARRANTY: PROTECT YOUR INVESTMENT

In addition to a home inspector's report and title insurance, you can also protect yourself with a homeowner's warranty. This warranty covers any repair to the structure, mechanical systems and major appliances for a certain time. A homeowner's warranty is useful when buying an older home or one that has been vacant for a long time. The seller may offer the warranty with the sale. Ask your Realtor or Loan Officer to advise you.

## GETTING THE BEST MORTGAGE

Many lenders offer a variety of home financing options. They will work with you to find your best choice. Ask about the difference between 1% origination and 0% origination loans.

Most loan rates don't differ widely from one company to another. However, differences in how a loan is structured can result in large savings or costs when you buy a home. Loans differ in term (the length of the loan), pre-payment options and processing fees.

Most mortgages are offered for terms of 15 or 30 years. Other terms are usually also available. Your monthly payment changes depending on the term you choose: the shorter the term, the less you will pay for your house overall. However, your monthly payments will be higher. Your Loan Officer can help you decide which loan term is best for you.

You can use the chart below to estimate a monthly principal and interest payment. Your monthly payment will also include property taxes and home owners insurance which varies based on the home you purchase. The chart shows the monthly principal and interest for a \$100,000 loan. Multiply the monthly payment times the number of thousands of dollars you are borrowing to calculate monthly charges. For example: using an interest rate of 6.5%, multiply 6.32 (for 30 years) x 100 (for a \$100,000 loan) = \$632 monthly principal and interest.



**MONTHLY PAYMENT**  
(Principal & Interest) for \$100,000 Loan

<u>Interest Rate</u> <u>(%)</u>	<u>15 Years</u>	<u>20 Years</u>	<u>30 Years</u>
4.0	\$740	\$606	\$477
4.5	\$765	\$633	\$507
5.0	\$791	\$660	\$537
5.5	\$817	\$688	\$568
6.0	\$844	\$716	\$600
6.5	\$871	\$746	\$632
7.0	\$899	\$775	\$665
7.5	\$927	\$806	\$699
8.0	\$956	\$836	\$734
8.5	\$985	\$868	\$769
9.0	\$1,014	\$900	\$805
9.5	\$1,044	\$932	\$841
10.0	\$1,075	\$965	\$878

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## TYPES OF MORTGAGES

There is a wide range of choices for home loans and financing options. Some choices are yours to make. Others are based on your special circumstances.

**Conventional:** This mortgage is a contract between the lender and the borrower, at the lender's risk. The borrower's property is security (which means the lender can take your home for nonpayment of the mortgage). However, it may be insured with private mortgage insurance.

**FHA (Federal Housing Administration):** The FHA will insure the loan for the lender against loss in case the buyer cannot make payments. It requires the buyer to carry mortgage insurance through FHA. FHA loans offer up to 96.5% financing.

**VA (Veterans Administration):** The federal agency will guarantee the mortgages offered by private lenders to qualified members of the armed forces, active military personnel, veterans or their widows. In some cases, one can buy a home on a VA loan with no down payment (100% financing).

**Jumbo:** A loan amount exceeding \$647,200 with special terms for properties of very high value that fall outside typical lending standards.

### If you are considering an ARM, be sure you know:

- What is the adjustment period (the time between interest rate changes)?
- What index is used to determine interest rate?
- Does the introductory rate differ from the normal rate?
- What is the margin (the percentage added to the index rate each time your loan is adjusted)?
- What is the period adjustment cap?
- What is the lifetime adjustment cap?

**Adjustable Rate Mortgage (ARM):** The interest on an ARM may vary up or down at fixed intervals. The ARM often offers a low beginning interest rate. However, this rate will go up after a certain time. If interest rates are low, an ARM may be a good option, especially if its cap (the highest interest you may be charged) is not more than a few points higher than the current fixed rate.

**Fixed Rate Mortgage:** The interest rate on this agreement stays the same for as long as you hold your mortgage, no matter how interest rates change in the financial markets. You know exactly how much you will pay in principal and interest on your home each month. (Remember, taxes and insurance may change from year to year).

It's important to keep in touch with your Loan Officer so that if interest rates fall in the future, you can refinance your mortgage and save money.



# BUILD YOUR NEST

## MORTGAGE CHECKLIST

Answer the following questions "true" or "false" to help you and your Loan Officer find the mortgage that is right for you.

### TRUE OR FALSE

- |                                                                                                        |                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> The difference in real interest I pay for different loans is important to me. | <input type="checkbox"/> I worry about inflation and rising interest rates.                                                            |
| <input type="checkbox"/> I want to own my home "free and clear" by retirement.                         | <input type="checkbox"/> I prefer a constant payment amount to one that varies.                                                        |
| <input type="checkbox"/> I plan to keep the house for many years.                                      | <input type="checkbox"/> I am sure that my earnings will keep pace with inflation.                                                     |
| <input type="checkbox"/> I plan to own the home for a short period of time.                            | <input type="checkbox"/> I think changes in the adjustable rate will average out to be equal to or better than the current fixed rate. |
| <input type="checkbox"/> I have a fixed income.                                                        |                                                                                                                                        |

The amount of money I have for a down payment and closing costs is \$\_\_\_\_\_.

## LOAN APPLICATION CHECKLIST

Minnequa Works CU is here to make sure your mortgage loan is processed as quickly as possible. Be sure to provide accurate information; otherwise your loan may be delayed or even denied. A lot of information is needed for a home loan, so it's a good idea to begin gathering the documents you need ahead of time.

Here are some of the items you will be asked to provide after you decide to proceed with buying a home.

- |                                                                                                                                                                                                     |                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Picture ID (non-expired)                                                                                                                                                   | <input type="checkbox"/> For each current loan: name of lender, address, account number, balance and monthly payment                             |
| <input type="checkbox"/> Proof of Social Security numbers or Tax ID numbers (Social Security card or Passport)                                                                                      | <input type="checkbox"/> If you are self-employed: last two years' tax returns, year-to-date profit and loss statement prepared by an accountant |
| <input type="checkbox"/> Residence address for the past two years                                                                                                                                   | <input type="checkbox"/> Loan information and addresses of any real estate owned, including homeowner's insurance and tax bill                   |
| <input type="checkbox"/> Names and addresses of each employer for the past two years                                                                                                                | <input type="checkbox"/> Estimated value of other assets                                                                                         |
| <input type="checkbox"/> Last 2 years' taxes including W-2's and 2 most recent YTD pay stubs                                                                                                        | <input type="checkbox"/> Certificate of eligibility or DD214s (VA Loan Only)                                                                     |
| <input type="checkbox"/> For each checking and savings account: name of financial institution, address, account number, balance and last two months' statements (all pages, even if they are blank) | <input type="checkbox"/> Separation Agreement and Divorce Decree, if applicable                                                                  |
| <input type="checkbox"/> Deposit for credit report                                                                                                                                                  |                                                                                                                                                  |

Your Loan Officer may ask for other documents as needed, depending on your unique situation. All information you provide is kept highly confidential and will be used only for the purposes of underwriting your loan.

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## THE FINAL STEPS TO CLOSING

When you complete a formal loan application, your Loan Officer will give you:

**A Loan Estimate.** This estimate provides the approximate amount of money you will need. Once you have reviewed your Loan Estimate, please inform your Loan Officer of your intent to proceed.

**A Closing Disclosure.** You will receive your Closing Disclosure approximately 7 days prior to closing. This document informs you of the actual costs to expect at closing as well as down payment monies, your interest rate, term in years, finance charges, etc.

The actual closing is when papers change hands and the home becomes officially yours. You must pay for the rest of your closing costs and down payment at closing with a certified or cashier's check rather than a personal check.

Before closing, review all documents and your purchase agreement. Do a final walk-through inspection of the property to make sure any agreed upon repairs have been made and no items from your agreement have been changed or removed from the house.



## MORTGAGE TERMS TO KNOW

**Closing Costs:** Costs that the buyer of a home has to pay at the time of purchase. Closing costs usually include an origination fee, credit report fee, flood certification fee, recording fees, title insurance, appraisal fee, title search, and lawyer's fees. They may also include points and other fees such as homeowner's insurance for one year and private mortgage insurance, if required. Closing costs are in addition to your down payment.

**Escrow:** An account in which a third party holds the funds and documents that change hands during the home selling and buying process. An escrow officer sees that items in the purchase contract are carried out and appropriate parties are paid.

**Homeowner's Insurance:** Also known as hazard insurance, lenders require buyers to purchase insurance to protect against fire and other potential hazards.

**Points:** Finance charges paid to the lender as part of the closing costs. Each point equals 1% of your total

mortgage loan. Points can be negotiable and are sometimes tied to your interest rate.

**Prepayment:** Making early or extra payments toward the principal. Prepayment can shorten the length of your mortgage and thus lower your total interest. Be sure to ask about any prepayment conditions on your mortgage early on in the process.

**Private Mortgage Insurance:** Insurance the borrower carries to guarantee that the lender is paid off if the borrower defaults (fails to pay). This is different than homeowner's insurance and is generally required on all mortgages with less than a 20% down payment. For some people, private mortgage insurance may be deductible on federal taxes.

# BUILD YOUR NEST

## HOME EVALUATION FORMS

Realtor:		Price:
Address:		
Size:	Style:	Color:
Construction (frame, brick, stucco):		
# of Bedrooms:	# of Bathrooms:	Family Rooms:
Eat-In Kitchen:	Living Room:	Garage/Carport:
Fireplace:	Landscaping Features:	
Heating/Air:	Appliances:	
Special Features:		
Work/Repairs Needed:		
Notes:		

Realtor:		Price:
Address:		
Size:	Style:	Color:
Construction (frame, brick, stucco):		
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Eat-In Kitchen:	Living Room:	Garage/Carport:
Fireplace:	Landscaping Features:	
Heating/Air:	Appliances:	
Special Features:		
Work/Repairs Needed:		
Notes:		

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## HOME EVALUATION FORMS

Loan Officer:		
Processor:		
Phone:	Fax:	Email:
Notes:		

Loan Officer:		
Processor:		
Phone:	Fax:	Email:
Notes:		

Loan Officer:		
Processor:		
Phone:	Fax:	Email:
Notes:		

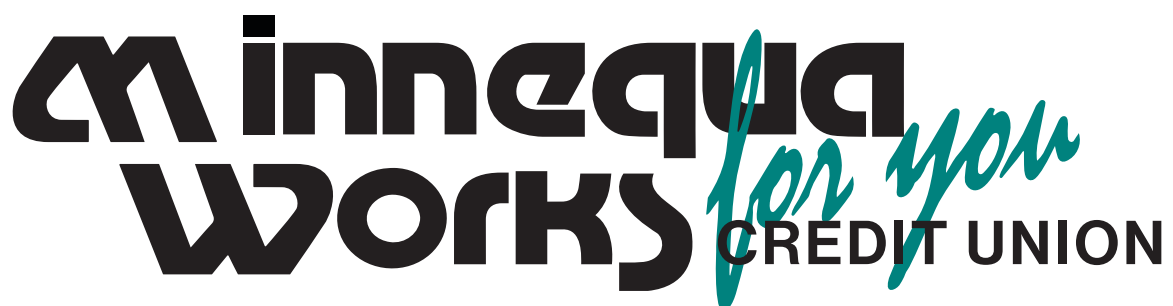
Loan Officer:		
Processor:		
Phone:	Fax:	Email:
Notes:		

Additional Information: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



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