



# *Home Buyer's Guide*



## Home Buyer's Guide

Buying a home is one of the largest financial decisions you'll ever make. It can be an excellent investment since most houses increase in value over time, and may also provide tax benefits. (Please consult your accountant or tax advisor for more information.) The type of home you buy, the neighborhood you choose, and the monthly payment you budget for will ultimately shape your future.

Inspire Federal Credit Union is pleased to provide this resource for you. We have outlined the typical home buying process, and listed the information you'll need to provide throughout the mortgage process — to help take away some of the often scary and unknown parts of buying a home.

Happy house hunting!

### TABLE OF CONTENTS

Welcome to the Home Buying Experience.....	3
Getting Pre-Qualified.....	4
Down Payment.....	5
Benefits of Pre-Qualification.....	5
Your New Home's Features .....	6
Working with a Realtor .....	7
Estimate Your Carrying Costs .....	7
Making an Offer.....	8
Inspection & Appraisal.....	9
Title Insurance .....	9
Homeowner's Warranty .....	10
Getting the Best Mortgage.....	10
Types of Mortgages.....	11
Mortgage Checklist .....	12
Loan Application Checklist .....	12
The Final Steps to Closing .....	13
Mortgage Terms to Know .....	13
Home Evaluation Forms .....	14

## Welcome to the Home Buying Experience

The roadmap to your new home:

Choose a **LENDER**.

**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.

When you find a home you want and can afford, start **NEGOTIATIONS**.

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

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

Find a **REAL ESTATE LAWYER** if needed.

**PREPARE** for closing.

**CLOSE** on the property.

## Congratulations!

YOU ARE A NEW HOME OWNER.

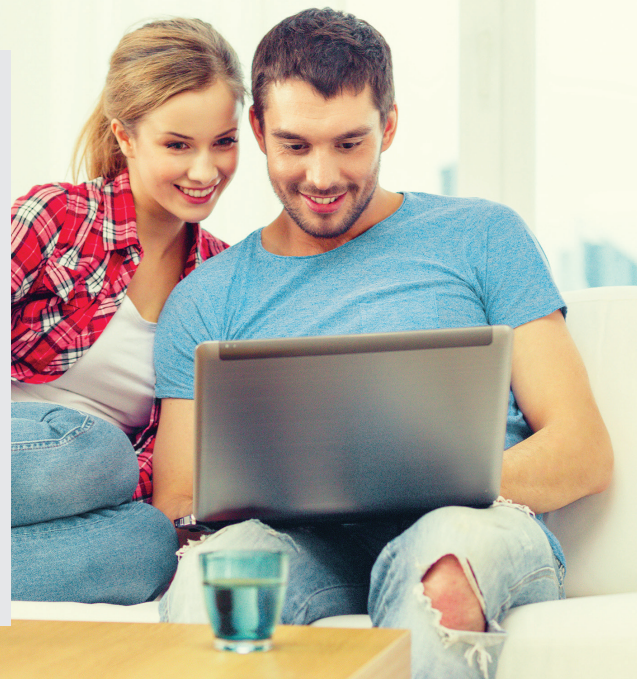
## Getting Pre-Qualified

Before you start house hunting, it's a good idea to find out what homes are in your price range. This can be done through a simple process of pre-qualification. To pre-qualify, your loan officer will use financial information you provide to give you an estimate of the maximum mortgage you should be able to obtain. Even better, it will help your negotiating power because the seller will know you are a serious buyer.

Most lenders use certain formulas to determine how much house you can afford. Typically, your monthly house payment should be around 28 to 30 percent of your total monthly gross income (your income before taxes). Your total monthly debt (which includes your house payment, car payment, credit cards, loans, etc.) should typically not be more than 36 to 40 percent of your gross income. These figures may vary between lenders and loan products.

### MAXIMUM MONTHLY PAYMENT

<u>Gross Annual Income</u>	<u>House Only* (28%)</u>	<u>Total Debt (36%)</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



Your house payment is your basic monthly mortgage payment which consists of principal, interest, real estate taxes, and homeowner's insurance. Your house payment may also include mortgage insurance (also known as PMI) and/or an association fee.

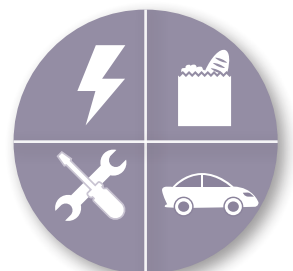


#### How much house can I afford?

To figure out what you can afford, use our online mortgage calculator at <http://practicalmoneyskills.com/calculators/>

#### Don't forget to estimate additional expenses above your mortgage.

When calculating how much house you can afford, also consider how much additional expenses such as utilities and maintenance will be, as well as savings, and other monthly expenses such as food, transportation, child care, etc. The figures are estimates only; your lender looks at each mortgage application separately and takes into account your special circumstances. How much house you can afford also depends on the interest rates at the time of purchase and the down payment you provide.





## Getting Pre-Qualified

### DOWN PAYMENT

The down payment is the difference between the purchase price and the loan amount, and is due at the time of closing. It typically ranges from 3% (depending on program requirements) of the purchase price to however much you put down.

Remember, the larger the down payment, the less interest you will pay over the life of the mortgage. Loans with minimum down payments usually require a monthly fee for mortgage insurance (PMI), in addition to your monthly payment.

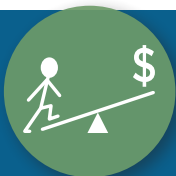
Money for the down payment may come from your savings, the sale or financing of another house, or gift or loan from family. Your Loan Officer can advise you about the regulations regarding down payments.



### BENEFITS OF PRE-QUALIFICATION

Pre-qualification is an application for financing. To get pre-qualified, you provide the same information you will be asked for when making a formal loan request, including your credit history, employment, and down payment funds, all of which will be verified at a later time once you review your loan estimate and indicate you want to proceed with us as your home mortgage lender.

Pre-qualification assures your application for a loan, but it is not a mortgage contract. You can't get the mortgage until the lender can appraise the property and conduct a title search. This happens after your offer to buy a house is accepted. When you formally apply for a mortgage, certain information may have to be re-checked, depending on how much time has passed since you were pre-qualified and when you have a contract for a home.



#### WHY IT'S IMPORTANT TO GET PRE-QUALIFIED

**It could give you leverage with the seller.** You may be better able to bargain with a seller. When sellers receive an offer from a pre-qualified buyer, they know that person can secure the loan.

To get pre-qualified, you will be asked for the following information. Complete the information below before you meet with your Inspire FCU Mortgage Specialist.

Funds available for down payment \$\_\_\_\_\_

Credit history \_\_\_\_\_

Employment record \_\_\_\_\_

Assets (savings, investments, retirement funds, etc.) \_\_\_\_\_

Debts (credit cards, loans, other mortgages, etc.) \_\_\_\_\_

\_\_\_\_\_



## Choose Your New Home's Features

### YOUR NEW HOME'S FEATURES

Before contacting a Realtor, think about the features you want in your home. Writing them down and providing them to your Realtor will help everyone involved save time and make the house hunting process go more smoothly.

Style \_\_\_\_\_ Location \_\_\_\_\_

School District \_\_\_\_\_

Square Feet \_\_\_\_\_ # Bedrooms \_\_\_\_\_ # Bathrooms \_\_\_\_\_

☐ Family Room

☐ Eat-In Kitchen

☐ Fireplace

☐ Office

☐ Garage Size

☐ Landscaping

☐ Formal Dining Room

☐ Central Heating/Air

☐ Basement

Other (pool, patio, etc.) \_\_\_\_\_

Features you DO NOT want \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Choose Your Realtor

### WORKING WITH A REALTOR

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

- Pre-selecting homes that are within your price range and matching your requirements for size, location, etc.
- Scheduling appointments for you to see homes
- Giving you current prices for houses similar to the ones you are considering
- Getting up-to-date information about taxes, school districts and conditions in the area.
- Handling negotiations regarding the price and terms of your offer
- Arranging for a home inspection

### WHAT TO LOOK FOR IN A REALTOR

- Knowledge about the area where you want to live
- Experience
- Patience
- Participation in the area's multiple listing service (MLS) to give you full access to all the homes for sale in your area
- Honesty and integrity
- Good communication to keep you informed
- Lender participation/experience with your preferred lender



### ESTIMATE YOUR CARRYING COSTS

For every home you are interested in, your Loan Officer can help determine your basic monthly payment. This is known as PITI — principal, interest, taxes and insurance. This will let you see if the amount matches the expense for which you are pre-qualified.

In addition, you should consider other costs associated with home ownership. Use the space below to estimate the costs for each home you are considering to come up with a realistic idea of your monthly total.

PITI \_\_\_\_\_

Estimated gas/electric/water \_\_\_\_\_

Estimated maintenance \_\_\_\_\_

Homeowners Association dues or co-op fees \_\_\_\_\_

Special district taxes \_\_\_\_\_

Other \_\_\_\_\_

\_\_\_\_\_

Total Carrying Costs \_\_\_\_\_

## 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 will 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 first 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.



## Inspection & Appraisal

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
- Pest control
- Interior structure, insulation, foundation, windows and doors
- Exterior structure, water damage, garage doors, roof and chimney
- 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.



## Mortgage Payment Chart

### 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), prepayment 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 payment with different interest rates and terms. 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

Interest Rate (%)	15 Years	20 Years	30 Years
4.0	7.40	6.06	4.77
4.5	7.65	6.33	5.07
5.0	7.91	6.60	5.37
5.5	8.17	6.88	5.68
6.0	8.44	7.16	6.00
6.5	8.71	7.46	6.32
7.0	8.99	7.75	6.65
7.5	9.27	8.06	6.99
8.0	9.56	8.36	7.34
8.5	9.85	8.68	7.69
9.0	10.14	9.00	8.05
9.5	10.44	9.32	8.41
10.0	10.75	9.65	8.78





## Types of Mortgages & What's Needed

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 \$417,000 with special terms for properties of very high value that fall outside typical lending standards.

**Adjustable Rate Mortgage (ARM):** The interest on an ARM may vary (up or down) at a fixed interval. 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.

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?

**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.

## Types of Mortgages & What's Needed

### 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

\_\_\_\_\_ The difference in real interest I pay for different loans is important to me.

\_\_\_\_\_ I want to own my home “free and clear” by retirement.

\_\_\_\_\_ I plan to keep the house for many years.

\_\_\_\_\_ I plan to own the home for a short period of time.

\_\_\_\_\_ I have a fixed income.

\_\_\_\_\_ I worry about inflation and rising interest rates.

\_\_\_\_\_ I prefer a constant payment amount to one that varies.

\_\_\_\_\_ I am sure that my earnings will keep pace with inflation.

\_\_\_\_\_ I think changes in the adjustable rate will average out to be equal to or better than the current fixed rate.

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

### LOAN APPLICATION CHECKLIST

Inspire Federal Credit Union 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.

- ☐ Picture ID (non-expired)
- ☐ Proof of Social Security numbers or Tax ID numbers (Social Security card or Passport)
- ☐ Residence address for the past two years
- ☐ Names and addresses of each employer for the past two years
- ☐ Last two years' W-2s and last two most recent pay stubs
- ☐ 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)
- ☐ For each current loan: name of lender, address, account number, balance and monthly payment
- ☐ If you are self-employed: last two years' tax returns, year-to-date profit and loss statement prepared by an accountant
- ☐ Loan information and addresses of any real estate owned, including homeowner's insurance and tax bill
- ☐ Estimated value of other assets
- ☐ Certificate of eligibility or DD214s (VA Loan Only)
- ☐ Separation Agreement and Divorce decree, if applicable
- ☐ Deposit for credit report

Your loan officer may ask for other documents depending on your unique situation. All information you provide is kept highly confidential and is used only for the purpose of underwriting your loan.



## Important Terms to Know



### 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 money, 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 repairs agreed upon 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.

## Begin House Hunting

### 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):		
# 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:		

## Begin House Hunting

### 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: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



I am always available to members  
who need a resource for  
mortgage loan knowledge.

**Contact me with any questions!**

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