THE THRILL OF BUYING A NEW HOME

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The Thrill of Buying a Home

If you've ever bought or sold a house, you know what a nerve-wracking and stressful yet completely exciting experience it can be. After all, it's the mark of a new beginning. Nicer kitchen! Better location! More room for the family! And if you move frequently, you know that each new home will have something you love about it that you never had before. And that's what makes moving worthwhile and exciting.

Let's be honest: it can be a rather long and winding road to buying a new home. Bumps along the way. Perhaps a few detours. That's why we want to give you all the information you'll need on the path to new homeownership. Whether this is your first or fifth home buying experience, we've got lots of helpful information and tips to assist you through the mortgage process as quickly and as smoothly as possible so you can start creating new memories.

This eBook covers the key things you need to know and do to help ensure you have a successful home buying experience, including:

- Examining your finances (credit score, savings, debt, income, etc.)
- Finding the right mortgage for your budget
- Working with a realtor and the importance of good communication
- Locating the perfect home for you and your family
- Getting through the home inspection and knowing what to look for
- Your closing day and what to expect.

We've also included a Mortgage Road Map and glossary of mortgage terms so you'll understand all the lingo you'll hear throughout the home buying process. Keep this guide handy so you can refer to it when needed

First: Your Finances

"How much can I spend on a new home?"

The most important thing you can do when you're looking for a new home is to sit down and figure out exactly what you can comfortably afford.

Pre-Qualification

First, get your credit report at annualcreditreport.com. It's free once every 12 months and will show all the loan accounts (credit cards, mortgage, car loan, personal loan) you have and your current balances and payment history. You can also see any time a lender has accessed your report, and any bankruptcies, liens or foreclosures you may have.

Read it over carefully to ensure there are no errors and if there are, get them fixed. It can take 30-45 days to dispute and clear any errors. (If you need help deciphering your report, bring it in to the credit union and we will gladly help you out.) It's important that you have a clean report so your credit score will accurately reflect how you handle money you've borrowed. If your credit score is low, you may want to wait a few months to try to improve it to see if you will qualify for a lower interest rate when you apply for a mortgage.

Second, draw up a household budget so you can see exactly how much money is coming in and more importantly, how much is going out each month. When you're trying to figure out how much you can afford to spend on a new home, be sure to include the cost of insurance, taxes, home owner's association fees, and maintenance costs. Ideally, this total amount should be no more than 36% of your income.

Third, make sure you have enough money for a down payment - at least 3.5% of the purchase price. Even better, put down 20% if you can so you won't have to purchase Private Mortgage Insurance (PMI). If necessary, you can borrow money from your IRA or 401(k) for the down payment. (Before doing so, please consult with your tax advisor.)

Fourth, look at your overall financial situation to make sure that you have:

- A reliable, steady source of income.
- An emergency savings fund of 3-6 months of expenses.
- A minimal amount of outstanding credit card debt.
- A desire to stay in the same home for at least 3-5 years.
- The ability and desire to take care of your home, inside and out.

Finding the Right Mortgage: Do Your Research

"Which mortgage is right for me?"

There are so many choices when it comes to getting a mortgage, don't just settle for the first one you look at. Talk to two or three different lenders to make sure you're getting the best deal. Your credit union is a great place to start! Be sure to ask each lender the following questions:

- What fees are associated with my mortgage?
- Is there a prepayment penalty?
- What kind of repayment terms do you offer?

Keep these important things in mind while you're looking at different mortgage options:

- **A Fixed Rate Mortgage** is often easier to work into your budget. The interest rate is probably going to be a little higher than the initial rate for an adjustable-rate mortgage (ARM), but the interest rate, principal and interest payments will remain the same for the life of the loan.
- Depending on the market, an **Adjustable Rate Mortgage** usually has a lower initial interest rate for a fixed period of time, but it can go up or down at set times, changing your monthly payment. If you don't plan to stay in your home for more than a few years, this may be your best option.
- **100% Financing** means you don't have to come up with a down payment, a great option for those who don't have a lump sum saved.
- Go with the **shortest term** you can afford. The monthly payments will be higher, but you'll save a lot in interest payments. The most common terms are 15 yr, 20 yr, and 30 yr. Make sure there is no prepayment penalty if you decide to pay off your loan early.
- Again, keep all the payments related to your home - mortgage, insurance, taxes, maintenance costs - under **36% of your gross income**.
- Take some time to understand the entire mortgage process so you're not hit with any surprises. Check out our handy Road Map for all the information you'll need!

There are also many different types of mortgages, including Federal Housing Administration (FHA), Conventional (e.g. Fannie Mae, Freddie Mac), and special loans for first-time homebuyers, so it's important to find out which will work best for you.

Once you've gathered all the information and have a written cost of estimates / Good Faith Estimates (GFE), be sure you're comparing apples to apples - interest rates, terms, closing costs, fees - so you'll get a clear picture of which mortgage will work best for you. (Feel free to set up an appointment to talk with one of our loan specialists. We offer members a free mortgage analysis where we discuss your goals, liabilities, assets, budget, etc.)

For the best bargaining power and peace of mind, apply for your mortgage before you start house-hunting. Getting pre-approved shows sellers that you're a serious buyer and means you can look without having to worry about whether or not you can afford it.

Completing the Mortgage Application: You Can Do This

"What kind of information do they need?"

Pre-Approval

Getting a pre-approval is very often the smartest way to begin your home search. (If you're not in a hurry, there is no need to apply for a pre-approval. They are typically only valid for 90 days and require a full application and credit report inquiry.) Getting pre-approved means that you can begin your home search knowing that you don't have to worry about how large a mortgage you'll qualify for once you've found your dream home.

In addition to how much you'd like to borrow and the repayment term, you'll have to provide quite a bit of personal information, including:

- Your employment information
- Your monthly income and expenses
- Current assets (savings account, retirement accounts, cars, etc.) and liabilities (credit card debt, auto loans, strudent loans, etc.)
- Paycheck stubs for the past 30 days
- W-2 forms for the past two years
- Information about long-term debts, like car loans, student loans, etc.
- Statements from all of your bank accounts from the past 60 days
- Tax returns for the past two years if you're self-employed
- Proof of any supplemental income.

Once you've submitted your application and received a pre-approval, you'll get a document called a Good Faith Estimate (GFE). This document includes:

- **A summary of your loan**, including the amount, term, interest rate and initial monthly payment.
- **Escrow information**, including the amount you'll be asked to prepay for items like insurance premiums and property taxes that will be due after closing.
- **Settlement charges**, including fees charged for preparing your loan application, points you'll have to pay (up to 1% of the mortgage amount generally), appraisal fees, credit report fees, and government recording fees.

You'll also receive a Truth in Lending (TIL) document that offers a more accurate picture of your loan because it factors in all the associated fees and costs. It also shows the total amount of interest you'll pay over the life of the loan. (If you're applying for a mortgage at several places, use these documents - the GFE and TIL - to compare total costs.) Signing this document shows you agree to the terms of the mortgage.

The Truth About Your Mortgage Payment

It's important to know that your mortgage payment doesn't simply repay the amount you borrowed. Your payments typically include the following:

- Principal
- Interest, determined by the rate for which you qualified (in the first several years, a greater percentage goes toward interest than principal)
- Property taxes
- Homeowners insurance
- Private Mortgage Insurance (if your down payment was less than 20%)
- Homeowner Association Dues*

Your property taxes and insurance are put aside in an escrow account to ensure you're able to pay those bills. It's a convenient feature that eliminates the stress of having to come up with a large sum of money when those bills are due.

Your New Best Friend: Your Realtor

"How do I pick an Agent who truly understands what I want?"

One of the most important decisions you'll make during your home search is which realtor to work with. This can seem like an overwhelming process — after all, there are literally hundreds to choose from. Your realtor can be the key to a successful or unsuccessful buying experience, so picking the right one is essential.

Here are a few tips:

- **Get recommendations from friends, family or neighbors**. This is a great place to start. Your mortgage lender may also be able to recommend someone.
- **Interview several.** After all, you're giving them a very important job so you need to make sure they're a good fit. You want someone who is professional yet approachable.
- **Check their knowledge** of your preferred neighborhood. Make sure they're familiar with the schools, local amenities, taxes, etc.
- **Discuss fees** and how they work. You don't want any surprises down the road.
- **Choose someone you trust**. You'll need to rely on their expertise and experience, so trust is essential.
- **Communicate clearly.** Your agent can't find exactly what you're looking for unless you tell them! Be specific, open and honest so you don't spend a lot of time looking at homes you have no interest in.
- **Make a list!** Determine your top 3-5 must haves.

The more you talk with your agent, the more efficiently she can work. **Don't be afraid to share** what totally turns you off, what you absolutely must have, and what things you're willing to compromise on. Alternatives to a Realtor would be 'For Sale by Owner' properties or select Realtor sites.

The Fun Begins: Searching for Your New Home

"I've seen so many homes I can't remember which one I liked best!"

With your pre-qualification in hand, you can stop thinking about the financial side of things and focus on finding a great home that suits your needs and fulfills your dreams.

Most people take about eight weeks to find a home. Feel free to take your time. Do your research. Check out different neighborhoods and school districts. Drive around to get a feel for different areas and pay close attention to the following:

- How well maintained are the houses and lawns?
- How close are you to public transportation? Shopping? The interstate?
- Are there children outside playing?
- What's the traffic like in front of the house? Be sure to check at different times of the day.
- What amenities/rules does the neighborhood association offer?
- Location is key. Be on the lookout for train tracks, airport traffic, power lines, etc.

Once you've selected a few key neighborhoods for your home search, be sure to **take notes on each house you see** (use the handy Notes app on your smartphone!) because after you've seen a few, they'll all start to look the same. Take note of things you liked, things you didn't and what, if any, work you'd want to do to the house. Feel free to take pictures, too, which are a great way to refresh your memory about what you saw.

In addition to how everything looks, be sure to check out how things function:

- Test the plumbing/water pressure by running the shower. Check to see how long it takes to get hot water and what the water heater's capacity is to make sure it's sufficient for your family.
- Turn on all the light switches to make sure they work.
- Open and close all the windows and test the locks and screens.
- Look for cracks and damp spots on the walls.
- Make sure the heating and air conditioning work properly.
- Check the age and condition of the roof.
- Consider the size of the rooms - will your furniture fit or will you have to buy a lot of new items?

Making an Offer: Rely on Your Agent's Expertise

"I'm on pins and needles waiting for a response!"

Once you've narrowed your search to one special home, work with your real estate agent on the offer you'd like to present to the seller. When your offer is accepted, now is the time for your application.

There are two key dates on the contract that need your immediate attention. One is the closing date. The other is the due-diligence period. One is the due-diligence period. During the due-diligence period in a real estate contract, you, the buyer, are obligated to thoroughly investigate a property (through inspection and appraisal) within a specified time to determine whether you are satisfied with the property before finalizing the purchase.

In addition, the following will occur:

1. Your agent will write up an offer that includes a purchase price, your desired closing date and how long the offer is good for. It may also include some concessions (money towards your closing costs) or contingencies (you must first sell your house or you want a home inspection).
2. You'll need to give the seller earnest money (a good faith deposit) — usually 1-3% of the purchase price. This money goes into an escrow account, not directly to the seller.
3. The seller will accept, counter or reject your offer. A seller may counter on the price, closing date or any concessions or contingencies you've included with your offer. Negotiations will go back and forth until you're both satisfied or one of you decides to withdraw from the process. You can bow out at any time but if the seller accepts your offer and you choose to walk away, you'll lose your earnest money.
4. You may also request seller-paid closing costs/contributions which can be up to 3% of the sale's price.
5. **The Lender will require an appraisal to determine the value of the property. This should be done before the expiration of the Due Diligence period.**

This part of the process can be a little nerve-wracking, depending on the seller and how long the negotiations take. Be patient and calm, knowing your realtor is advocating for you and trying to get you the best possible deal.

The Home Inspection: The Devil is in the Details

"What's the purpose of a home inspection?"

Once the seller accepts your offer, you should schedule a home inspection as soon as possible so you can find out if there are any problems with the home. Your realtor can recommend an independent, qualified professional to do the inspection. You are responsible for the cost of the inspection, paid for at the time of service.

Any issues he/she finds (for example, a bad roof, outdated wiring, leaky plumbing) need to be worked out with the seller before your due diligence period expires. Sometimes the seller may agree to fix the problems or offer a cash settlement so that you can make the repairs yourself. Make sure the arrangements are spelled out in writing to avoid potential problems at closing. Also make sure any concessions made are okay with the lending terms of your loan. Depending on the amount of work to be done, the lender can require items to be completed before closing on the loan.

Closing Day: Hooray!

"How long will this take?"

Once you've reached a deal with the seller, your realtor can schedule your closing - the day the title of the house is transferred into your name. (The average process for purchasing takes approximately 30 days, however it can be up to 45 days if the property or loan application has some extenuating circumstances.) It may be a crowded room. In addition to you and the seller, there may be attorneys that you or the seller have hired, both real estate agents (yours and the seller's), and a closing agent.

There will be lots of paperwork to sign so it's best to plan on 2-3 hours for your closing. You'll need to sign the following:

- **Mortgage note** - your promise to pay the lender according to the specified terms.
- Mortgage or **deed of trust** - gives the lender the right to foreclose on your home if you don't pay the mortgage.
- **HUD-1 Settlement and Truth in Lending Statements** - show the details and terms of your loan. Look over both carefully to make sure they are identical to what you originally discussed with your lender. This document should be received 24 hours before the closing.
- **Funds to Close** - cannot be a personal check. Payment may be wire, cashiers check or made payable to the attorney.
- **Walk-Through** - some realtors suggest a walk-through of the home the morning of your closing to ensure it's ready for you to occupy.

Once all the documents are signed and you've paid all your closing costs and fees, you'll get the keys to your new home. When you're settled in your new home, be sure to sit down and write up a revised budget that includes your new mortgage payments so you can keep your finances in order and enjoy being a proud homeowner.

Congratulations! We hope you've found this guide to be full of helpful information designed to prepare you for your search and purchase of a new home.

Please call on us to help you throughout your home-buying journey. We've got lots of great information, including free seminars, an online financial center, and prompt local service. We're here to help you in any way that we can to ensure the process goes smoothly and that you'll love your new home.

Good luck and for personal assistance, please call **Kecha** 919.660.0049 or **Donna** 919.660.9762.

Common Terms: The Lingo You'll Need to Know

"What's a Good Faith Estimate?"

Here are some common terms you're likely to hear during the home buying process:

ARM - an abbreviation for an adjustable rate mortgage or variable rate loan. These loans usually have a lower beginning rate that looks very attractive, but payments can go up or down at set times. With most ARMs, there's usually a cap (high point) and a floor (low point) for the interest rate, which is based on the market index rate.

Application and Origination fees - what a mortgage lender charges for processing and underwriting a mortgage loan. Pricing depends on the lender you select. Application fees vary but can range up to $500. Origination Fees can be up to 1% of the loan amount.

Closing Costs - these are in addition to the cost of your home and are paid at closing. They will be itemized for you before your closing date so you can come to your closing prepared. The total is usually 2-5 percent of the purchase price of your home. Costs typically include the following:
- Appraisal, survey, and title search fees
- Title insurance
- Escrow deposit (see below)
- Recording and underwriting fees
- Flood Certification.

Commitment Letter - a letter from your lender that states the amount of your loan, the number of years to repay, the interest rate, origination fee and monthly payments.

Discount Points – You can buy down your rate by paying an upfront cost to lower your interest rate for the loan.

Due Diligence - period in a real estate contract defined as a buyer's obligation to thoroughly investigate a property (through inspection and appraisal) within a specified time to determine whether the buyer remains satisfied with the property before finalizing the purchase.

Earnest Money - the funds you give to the seller, which are held in escrow, to show you're committed to buying the home. This money - usually 2-3 percent of your offer price at closing is credited towards your closing costs.

Escrow - an account set up to hold money the buyer owes for property taxes, insurance premiums, and similar expenses when they come due.

Equity - the value of your home above the total mortgage amount. If you have a $150,000 mortgage but your house is worth $175,000, you have $25,000 in equity in your home.

Fixed rate mortgage - the interest rate on your loan (your monthly principal payment and interest) stays the same for the entire term of the loan.

Good Faith Estimate - it gives you a summary of your loan amount, the terms, interest rate, monthly payment amount and any fees you'll be charged.

HUD-1 Uniform Settlement Statement - a form that spells out the fees and services associated with closing your mortgage loan. It's a great way to make sure you're getting the loan you agreed to. Be sure to read this document carefully at your closing.

Mortgage Servicer - the financial institution that collects your mortgage payments.

Mortgage Underwriter - this person determines if you're eligible for the loan you're applying for. They'll look at your credit and employment histories, your current debts, the lending guidelines, etc.

Principal - the amount of money you borrow to purchase your house OR the amount of the mortgage that has not yet been repaid to the lender. The principal amount doesn't include the interest you will pay to borrow the money.

Private Mortgage Insurance (PMI) - insurance that protects lenders against loss if you default on your mortgage. If you make a down payment of less than 20%, your lender will require you to purchase this insurance (which makes your monthly payments higher). Once you reach a 20% down payment, you no longer have to have PMI.

Real Estate Appraiser - this person decides if the property you want to buy is worth what you've agreed to pay for it. If it isn't, you may not be able to get the mortgage amount you've asked for.

Truth in Lending Act (TILA) - an act to safeguard the consumer in connection with the utilization of credit by requiring full disclosure of the terms and conditions of finance charges in credit transactions or in offers to extend credit.

A Road Map: The Mortgage Process

"Where are you within this process?"

The Mortgage Loan Process can be quite complicated for the typical borrower. In an effort to simplify the process, please review the road map listed below.

1. **Start with pre-qualification:** How much can I afford? Lenders look at income and recent credit reports to determine this information.

2. **Compare lenders**

3. Once you have the pre-qualification letter, you can **speak to any realtor** about purchasing a home. They will assist with the sales contract.

4. **Apply now!** Signed sales contract/purchase agreement. You will complete the loan application and provide the lender with all requested supporting documents. **It is imperative to get the requested information back to your lender A.S.A.P.**

5. **Underwriting/multiple processes in the works:** title, appraisal, IRS verification, and all documents along with the application are thoroughly reviewed. Underwriter may come back with "Approved with Conditions"

6. **Underwriting part II: "Approved with Conditions"** means: All current documents have been verified, however there are additional items that are needed in order to solidify the request for the loan, e.g. gift letters, copies of earnest check, letter of explanations, verification of deposits/rent, etc. **It is imperative to get the requested information back to your lender A.S.A.P.**

7. **Congratulations! Loan approved,** but wait...there are a few more steps your approved loan file must go through.

8. **The law**. A Real Estate Attorney conducts a thorough review of the HUD settlement (fees/costs/services provided for the loan) along with the Closing Lender to ensure all documents, charges and services are accountable and accurate. Borrower must receive the "final closing costs" 24 hours before closing.

9. **Mortgage loan documents signed and home is sold.** Welcome to your new home!

More questions? Let us know! One of our Mortgage Lending Experts will be happy to assist you! For more information, go to our Real Estate Center at dukefcu.org/Loans/RealEstateCenter

Resources

http://realestate.msn.com/article.aspx?cp-documentid=20740546

http://www.housingpredictor.com/preapproved-mortgage/

http://finance.ninemsn.com.au/pfproperty/buying/8123570/buying-a-house-what-to-look-for-inside-the-house

http://moneyfor20s.about.com/od/financialrules/ht/buyahome.htm

http://www.nbcnews.com/id/16949932/ns/business-answer_desk/t/what-are-steps-involved-buying-house/#.Uw5bQmRDvg4

http://money.usnews.com/money/blogs/my-money/2011/11/01/4-steps-to-take-when-preparing-to-buy-a-home

http://www.zillow.com/mortgage-rates/buying-a-home/closing-costs/