Buying a Home
The prospect of buying a home stirs lots of excitement ... and lots of questions. For example, you may be wondering:

- Is buying a house a smart move for me?
- When should I talk to a lender?
- Should I use a real estate agent? If so, how do I choose one?
- How much will I need for a down payment?
- What can I afford for a monthly payment?
- How much will closing costs be?
- What’s the difference between an appraisal and a home inspection?
- What about insurance?
- Are there any other costs I should know about?
- What must I do to be a smart house-shopper?
- What happens once I choose the home I want?
- What are my mortgage options?
- What happens in the mortgage application and approval process?
- What happens at closing?

Is buying a house a smart move for me?

Don’t let the mortgage misery of recent years scare you away. Buying a house is still a good investment, if you buy and borrow smart. That means not getting in over your head. Your credit union lender can help you determine what you can handle financially.

Financial readiness is only part of the equation. Are you personally ready to be a homeowner? Only you can answer that. “It boils down to whether you’re willing to make the commitment,” says Gary Jaeger, real estate senior loan consultant at DuTrac Community Credit Union, Dubuque, Iowa.

No way around it: Home ownership devours a chunk of your free time. Can you live with that? If not, you may be happier renting, not owning.

When should I talk to a lender?

Too often first-time buyers start the home-buying process by shopping for a house. “That’s the same as going out to look at Cadillacs when you should be shopping for a Chevrolet,” Jaeger says. “You need to get prequalified to find out what you can afford in a house.”

That step saves you time and frustration later, says Deana Smith, mortgage manager at Georgia Federal Credit Union, Duluth, Ga. “People get upset when they’ve put in an offer on a property and then find out they can’t qualify for the loan,” she says.

Visit with your credit union lender early in the process. You can get prequalified and preapproved. Besides telling you how large a mortgage you can afford, your lender will help you devise a plan to prepare for buying a home. For instance:

- Do you need to improve your credit score to qualify for a mortgage?
- If so, what steps should you take now?
- How much savings should you accumulate before you buy?
- How can you adjust your budget so home ownership can become a reality for you?

Should I use a real estate agent? If so, how do I choose one?

Whether you decide to work with a buyer’s or seller’s agent, here are a few pointers to help you choose the right person. You may want to meet with and interview a few agents before you choose one.

- Is this a good match? Does the agent listen to you and understand what you’re looking for in a home? Does he or she seem to have the energy, dedication, and patience to help you find what you want? Will you enjoy being around this person quite a lot in the coming weeks or months?
**Prequalification vs. Preapproval**

You may hear both of these terms as you prepare to buy a house. These processes are not the same, although many people confuse them.

*Prequalification* simply involves a rough calculation of the mortgage payment you can afford. Your credit union lender can help you with this. *Preapproval* means you’re essentially good to go. You formally apply for the mortgage and pay an application fee. The lender determines that you are eligible for a mortgage of a certain amount. So why is it called *preapproval*, rather than approval? That’s because, before making a final commitment to you, the lender must verify your information regarding employment and salary. Also, the lender needs to see a professional appraisal of the house you select to be sure its value is at least equal to the selling price.

Thanks to automation in today’s mortgage lending, your lender usually can give you a preapproval in a short time, perhaps even immediately after you apply. Ask your lender for details. Bear in mind that the lender can calculate how much you qualify for, but that is not necessarily what you can afford. It might be more or perhaps less. Are you counting on continuing overtime income, or two full-time paychecks, to make your house payments? Are you expecting to be “house poor” for at least a few years while your income and other obligations grow into a house payment? Are you planning to buy less than you might be able to afford so you can achieve other priorities, such as going back to school? Only you can answer those kinds of questions.

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**Ask around.** Check with friends, relatives, and coworkers for recommendations for an agent. They know you. They may have worked with an agent they think you’d like and respect.

**Ask for references.** If you can’t get recommendations from people you know and must choose an agent who’s unknown to you, ask for references from other buyers who have worked with this agent.

**Is the agent familiar with your targeted area?** It will be a big plus if the agent knows the community or neighborhood where you’re hoping to buy. How many property transactions has he or she handled in this particular area?

**Does the agent belong to MLS?** The multiple listing service (MLS) is a database listing houses for sale in your area, often including pictures and lots of details about each house. Be sure your agent is an MLS member.

**Professionalism.** Ask about professional credentials the agent has earned.

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**How much will I need for a down payment?**

The requirement varies depending on loan type and your credit rating. Conventional mortgages may require anywhere from 5% to 20% down. On a $150,000 house, that’s $7,500 to $30,000.

As of early 2014, Federal Housing Administration (FHA) loans required as little as 3.5% down, or $5,250 on a $150,000 home. Various local entities also have special low-down-payment programs for first-time buyers. Your credit union lender can tell you more.

**What can I afford for a monthly payment?**

The old standard is the 28/36 rule, but guidelines may differ by lender and type of loan program. The 28/36 rule indicates that:

* Your total monthly housing obligation for your mortgage (principal plus interest), property taxes, and insurance should be no more than 28% of your gross monthly income (income before taxes and other deductions).

Example: If your gross monthly income is $4,000, your onthly house payment should be at most $1,120.

* Your total debt obligations (house payments plus student loans, car loans, credit cards, and the like) should be no more than 36% of your gross monthly income.

Example: If your gross monthly income is $4,000, all monthly debt payments should be at most $1,440.

Remember, these are guidelines. You have to decide how much of your monthly cash
Buying a Home is Still a Good Investment,
If You Buy and Borrow Smart.

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The consumer financial protection bureau issued new rules, effective Jan. 18, 2014, that make it easier for a borrower to review a valuation—an estimate of the home’s value—before getting a loan. Specifically, if you apply for a first mortgage on a home, your lender has to tell you within three days of receiving your mortgage loan application that you will promptly get a copy of any appraisal, as well as give you a free copy of any valuation. The valuation may include many commonly used reports, for example, an appraisal report, an automated valuation model report, or a broker price opinion. The rules fall under the Equal Credit Opportunity Act and Regulation B.

What to Expect From an Appraisal

The appraiser examines the property to make sure that it is worth at least as much as the mortgage. Remember, a mortgage is a loan “secured” by the value of the property, so the lender needs to know if the “security” is adequate to do that. The appraiser also will compare the property you’re looking at with similar properties that sold recently in the neighborhood. A combination of factors determines the market value of a house.

What's the difference between an appraisal and a home inspection?

Confusion surrounds these two procedures. They serve entirely different purposes.

- An appraisal determines a property’s market value. An objective appraisal assures the lender that the property’s value is at least equal to the mortgage amount. Note that a real estate agent’s market valuation is not equivalent to a formal appraisal.

- A home inspection examines the condition of the house and its mechanicals. The purpose is to protect you, the buyer, from nasty surprises. Hire a professional inspector and ask for references.

What about insurance?

If you own a home, you have the potential to suffer property damage or liability loss. Here are some types of insurance involved in home ownership:

- **Homeowners insurance**—This is insurance on your property, to protect against loss, damage, and liability. You must have a policy in place by closing day. Your lender might require you to pay the entire first year’s premium at closing.

- **Private mortgage insurance (PMI)**—You'll need to buy this coverage if you pay less than 20% down on your house. It’s insurance to protect the lender in case you default on the loan. The premium is included in your monthly house payment. You’ll be able to drop PMI when your equity (the original mortgage amount minus what you’ve paid off) reaches 20%.

- **Title insurance**—This is a one-time premium you’ll pay at closing. It protects both you and the lender against defects in the title, or deed, to the property.

- **Mortgage life insurance**—This is protection you might choose to buy; it’s

flow you want to devote to house payments. What size payment can you manage and still have enough money for other things you want, such as vacations, entertainment, childcare, and so on?

How much will closing costs be?

Closing costs cover various lender fees and other expenses, including an appraisal fee, credit report fee, deed recording fee, and more. Some lenders charge a flat fee for closing costs; others figure it as a percentage of the home’s purchase price, usually ranging from 1% to 5% ($1,500 to $7,500 on a $150,000 house). Your lender must provide an estimate of closing costs when you apply for the loan.

Closing costs can vary considerably by lender and geographic area. Also, in some areas it’s common practice for sellers to pay closing costs, so the seller factors those into the sales price. In other areas, buyers pay closing costs.

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not required. It protects you, the buyer, by paying off your mortgage in full if you die before the end of the mortgage term. Disability coverage also may be an option. Many credit unions offer either or both of these types of coverage. Talk to your lender.

**Flood insurance**—Homeowners insurance does not cover flood damage. If your house is in a federally designated flood-prone zone, you’ll need to buy flood insurance.

### Are there any other costs I should know about?

Yes. We’ve talked about the mortgage payments, insurance premiums, property taxes, closing costs, and home inspection fee. Will you need to buy appliances? Furniture? Window treatments? A lawnmower?

You may need to buy items you never had to think about as a renter. “Don’t deplete all your savings on a down payment and closing costs,” Smith advises.

Keep in mind, too, that a house requires ongoing expenditures for repairs and maintenance. The furnace has a finite lifespan, as does the water heater, carpeting, roof, and so on.

The home’s energy efficiency also affects your costs of ownership. Obtain recent data on the heating and cooling costs for the house from the local energy utility.

### What must I do to be a smart house shopper?

If you’ve never bought a house before, you may not know what to look for. It’s easy to get caught up in the “glamour shots,” says Barbara Lach, a real estate agent, in Columbus, Ohio.

“You’d be surprised how many people, especially if they have never owned a home, will look at a house and think it’s charming,” she explains. “But they didn’t notice there was no dining room. Or maybe they like to eat in the family room. Well, how far is it from the kitchen?”

Try to envision how you’ll live in the house, Lach advises. Also, will the appliances and furnishings you own, if any, be usable in this house? “It’s hard to tell when the house is vacant,” she says. “For instance, will your dining room table fit in the space? You’ll need to get measurements.”

Your assessments need to go beyond the house itself. Does the yard meet your needs? What’s the traffic like? Visit at different times of day to find out. Is the neighborhood right for you? The block? “If you have young children,” Lach says, “you may not want to live on a block with only retirees.”

### What happens once I choose the home I want?

You submit a written offer to the seller. Your real estate agent has data—such as comparable sales in the area, how long the house has been on the market, how long it’s taken to sell the house in the past—to help you come up with an appropriate dollar figure. Your offer also spells out contingencies that must be met before any contract becomes final. These include such items as the results of a home inspection, your success in obtaining financing, and the findings of an appraisal.

Earnest money, or a good-faith deposit, accompanies your offer. Your deposit goes not to the seller, but into an escrow account, usually held by the real estate agent. If the seller accepts, this money goes toward your down payment. If you back out or miss deadlines, such as for obtaining financing, you could lose the earnest money. Your money will be returned to you if the seller rejects your offer.

### What are my mortgage options?

Two key mortgage categories include:

- **Fixed-rate**—The interest rate stays the same throughout the life of the loan, typically 15, 20, or 30 years. Your monthly payment will remain the same during that time.

- **Adjustable-rate**—The interest starts at a lower level and then may go up or down at specified intervals.

“Most borrowers go with the fixed [rate],” Jaeger says. “But if you’re sure you’ll be relocating within three or four years, at most, we might recommend a lower adjustable-rate mortgage, locked in for five years. You’d be ahead going that route.”

Again, this is a choice to talk over with your credit union lender, who can suggest the best option for you. Online calculators also can help.

### What happens in the mortgage application and approval process?

The lender will obtain a credit report, so you may want to check the accuracy of your report in advance. The lender will ask you to provide
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documentation of income, down payment
sources, and so on. You'll get a list from your
lender of what you'll need to bring when you
apply. The lender also gets an appraisal to
make sure the property is worth at least as
much as the mortgage amount. Once all is in
order, you get final approval for the loan.

The Consumer Financial Protection Bureau's
(CFPB's) new TILA/RESPA rule (effective
Aug. 1, 2015) will require lenders to provide
you a new disclosure or form titled “The
Loan Estimate” within three business days
after you submit a loan application. The
disclosure will replace the early Truth in
Lending disclosure and the Good Faith
Estimate (GFE), and provides a summary
of the key loan terms and estimated loan
and settlement costs. You may use this new
form to compare the costs and features of
different loans.

What happens at
closing?

Before closing, the lender must provide you
an explanation of closing costs, a good-faith
estimate of what those costs will be, and a
list of documents you'll need to bring to the
closing, or settlement.

Beginning Aug. 1, 2015, lenders must provide
you with a new disclosure or form titled
“The Closing Disclosure,” as required by the
CFPB’s TILA/RESPA final rule. After that date,
this disclosure must be provided to you at
least three business days before closing.
This will replace the final Truth in Lending
(TIL) statement and the HUD-1 uniform
settlement statement that is now provided
at closing. In addition to summarizing the
final loan terms and costs, the Closing
Disclosure provides you a detailed
accounting of the loan transaction. The idea
is that, by receiving these disclosures three
days before closing, you will have time to
review the final loan terms and costs in an
unpressured environment rather than at the
closing table.

Among the many papers you'll sign at
the closing, some key ones, besides the
settlement statement described above, are:

- **Note**—This represents your promise
to pay the lender according to the agreed
terms.

- **Mortgage or deed of trust**—This is the
legal document securing the note and giving
the lender a claim against your house if you
default. It spells out your responsibilities as
the borrower.

- **TIL statement (to be replaced by the
Closing Disclosure effective August 2015)**—
Required by federal law, the TIL aims to
assure that the borrower understands the
loan and knows exactly what he or she is
agreeing to. One number you'll see on the TIL
statement that sometimes confuses buyers is
the annual percentage rate (APR). This is higher
than the mortgage rate because it amortizes
in your closing costs. Federal law requires that
the lender provide you a TIL statement within
three days after you applied for the loan. It
will be in the lender's packet along with an
estimate of your closing costs. You’ll see it
again at the closing.

- **Deed**—This paper transfers ownership of
the house to you. If you're buying the house
with a spouse, partner, or friend, be sure all
the names you wish to appear on the deed
are listed.

At the end of the closing, the closing agent
will give you a packet containing copies
of the above and all the other documents
you’ve signed. You also might receive some
later, after closing day. Keep all these papers
in a safe place.

With this ritual, you officially become a
homeowner. “The closing involves a lot of
paperwork,” Smith says. “What I suggest
is requesting a copy of the closing packet
ahead of time so you can review the
documents. That way the closing won’t last
for hours. There’s a lot of information to go
over. And then at the end of the closing, you
get the keys to your new house.”

The monthly P & I payments for a
$200,000 mortgage—figured at 5%—
are considerably higher for a 15-year
mortgage ($1,582) than for a 30-year
mortgage ($1,074). But over the life
of the loan, the total amount paid is
considerably lower, as illustrated here.

**Mortgage Length Affects Total Cost**

<table>
<thead>
<tr>
<th>Term of loan in years</th>
<th>Interest Dollars in thousands</th>
<th>Principal Dollars in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>385,512</td>
<td>254,557</td>
</tr>
<tr>
<td>20</td>
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<td>264,686</td>
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<tr>
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<td>294,300</td>
</tr>
<tr>
<td>10</td>
<td>254,557</td>
<td>314,700</td>
</tr>
</tbody>
</table>

Source: CUNA’s economics and statistics department

Don’t Deplete all your Savings on a Down Payment and Closing Costs.
Prepare for Closing Day

Preparation

Before closing day, you must attend to several matters:

- **Know the closing costs.** No later than three days before closing, your lender will provide a statement showing you the final figure and a breakdown of all the costs (you got an estimate shortly after your loan was approved). Look over the statement to be sure all is in order. Usually, you’ll need to provide a cashier’s or certified check for the closing amount (plus the down payment) at the closing. Your loan officer might bring this for you, if he or she attends the closing.

- **Secure homeowners insurance.** You’ll need to bring a policy and/or receipt showing payment, usually for the entire first year’s premium.

- **Do a final walk-through.** Shortly before closing, take another thorough tour of the house, including attic, basement, and garage. Has the seller taken care of needed repairs as spelled out in the contract? Is there any new damage you didn’t notice before? Are any items missing that the seller agreed to leave behind (appliances, carpets)? Anything left behind that was supposed to be removed?

Closing costs

The settlement statement will show all the closing costs due, and which are the responsibility of the buyer or the seller. Local practices vary. Among the typical closing costs listed on the settlement statement are:

- **Points**—These are one-time fees due to the lender. Each point is equal to 1% of the mortgage amount. Often you’ll pay points if you are trying to “buy down” (reduce) the interest rate below the current market rate.

- **Loan origination fee**—Covers the lender’s administrative costs in processing the loan.

- **Appraisal fee**—A professional appraisal assures the lender that the house value is equal to or greater than the selling price.

- **Credit report fee**—The lender gets a credit report to assess your creditworthiness. The borrower pays for this, typically $25 or so, and usually at the time of application.

- **Interest**—You’ll pay interest to the lender to cover the period from the closing date until your first mortgage payment, which may be several weeks off.

- **Private mortgage insurance premium**—Usually required if your down payment is less than 20% of the selling price. You might have to pay the first year’s premium at closing, or it may be incorporated into your monthly mortgage payment.

- **Hazard insurance premium**—This is your homeowners policy. Usually, you’ll pay the first year’s premium before closing.

- **Reserves or escrow accounts**—This is an account your lender sets up to cover the property taxes and insurance premiums your lender pays for you.

- **Settlement or closing fee**—The fee the title company or escrow company charges for performing closing duties.

- **Title search fee**—A fee for verifying that the seller owns the property and that there are no legal claims against it.

- **Title insurance premium**—This is a one-time premium for insurance that protects the lender and buyer against defects in the title (deed) to the property.

- **Recording fee**—Local government entities require a fee for recording the deed.

- **Transfer taxes**—State and/or local governments may place a tax on the sale of property.
Useful resources

American Society of Appraisers
American Society of Home Inspectors
Consumer Financial Protection Bureau
Home Buying Institute
U.S. Department of Housing and Urban Development: “Buying a Home”
Nolo: “Buying a House”
Real Estate ABC