Finding Your Place:

A Guide to Buying Your First Home

Your Home is Your Place to Belong—Just Like Your Credit Union

Buying a home is an important, and possibly life-changing, experience. In fact, home ownership is considered to be part of the "American Dream."

If you're looking to buy your first home, you undoubtedly have a lot of questions. This guide will help you understand the steps of the homebuying process, from start to finish, including:

- Judging if you are ready to buy
- Choosing a real estate agent
- Determining how much home you can afford
- Looking for homes
- Making an offer
- Deciding on a mortgage plan
- Estimating closing costs
- Conducting a walkthrough
- Getting through settlement

You can read through the entire guide or flip directly to the section that you have questions about. Since everyone's homebuying experience is different, yours may not mirror the steps outlined here. However, you'll gain some insight into the process as a whole. Then you'll be one step closer to finding your place.

Signing the Papers

Settlement, or "closing," is a meeting between you, the seller, your respective real estate agents and a "closing agent" that you select beforehand. This closing agent will be either an attorney or a title company representative. He or she will explain to you all details of the transaction.

Your Responsibilities

- Sign all applicable closing and mortgage documents.
- Present your check(s) for the down payment and closing costs.

The Seller's Responsibilities

- Sign all applicable closing documents.
- Present a check for his or her portion of the closing costs.
- Give you all keys to the property, warranties on appliances and last-minute instructions.

The Closing Agent's Responsibilities

- Establish the escrow account for your prepaid closing costs.
- Handle all funds until the settlement is completed.
- File and record all documents.

The Documents

The first document you review will most likely be the HUD-1 statement. It outlines all of the financial details of the transaction. Other documents may include:

Closing Documents

- **Name affidavit.** Certifies the identities of you and the seller.
- **Acknowledgement of survey and termite reports.** You confirm that you have examined these reports.
- **Buyer's/Seller's affidavit.** You both state that no property alterations have been made that could invalidate the title.
- **Compliance agreement.** You both agree to work together to correct any errors in the closing documents.
- **Insurance documents.** Can include title insurance, homeowners insurance, flood insurance, etc.
- **Tax pro-ration agreement.** You agree pay a pro-rated amount of property taxes.
- **Warranty deed.** The actual title to the property.

Mortgage Documents

- **Truth-in-Lending statement.** Contains all of your loan specifics, including the amount borrowed, rate and total amortized cost.
- **Itemization of amount financed.** Lists prepaid costs that will be subtracted from the total on the truth-in-lending statement.
- **Monthly payment letter.** Outlines your itemized monthly payment amount. Includes loan principal, interest, taxes, insurance payments and other escrows.
- **Promissory note.** An "IOU" to your lender stating the amount, interest rate and terms of the loan.
- **Deed of trust.** Notes that your lender is placing a lien against the property.
- **Mortgage note.** Includes the loan amount and term, as well as your lender's course of action if you don't make payments on time.

This meeting can take a good amount of time, since there is a lot of paperwork to go through. But few events are as satisfying as when you finally get those keys.

Congratulations, you are now a homeowner!

Judging if You are Ready to Buy

Unsure if you want to leave the world of renting behind? Many people believe that renters are "throwing their money away" while homeowners are building value. However, continuing to rent is sometimes the better option. A good way to decide is to weigh the pros and cons. Decide which categories on the table below are most important to you.

	RENTING	BUYING
MOBILITY: Do you expect to move often?	You're able to move from place to place quickly and easily with little planning.	You establish semi-permanent residency. It takes time and money to sell your home.
MAINTENANCE & REPAIRS: Do you want to make repairs yourself?	The landlord is responsible for all maintenance and repairs. You are not liable for damage due to depreciation.	You're responsible for all maintenance and repairs. If repairs are sub-par, it can affect your ability to resell.
INITIAL COSTS: How much cash will you have on hand?	A rental contract can be secured at little expense, usually first and last month's rent and a security deposit.	A large down payment (plus closing costs) can be required, depending on your mortgage plan.
TAX BREAKS & INVESTMENTS: Are tax incentives important to you?	You're not building equity and therefore cannot take advantage of home equity borrowing options or tax breaks.	Your home is an asset that can be borrowed against. Property tax and interest on home loans is often tax deductible. (Consult your tax advisor.)
RENOVATION & DECORATION: Is painting or remodeling your home important?	Usually you are not free to remodel or paint the property. Improvements that you do make increase *your landlord's* investment value.	You can change your home's appearance as many times as you like (subject to neighborhood codes). Improvements can increase the value of your investment.
RESIDENTIAL RESTRICTIONS: Do you have pets, children (or other circumstances that can limit your rental options)?	Your landlord can set rules such as no children or pets or a limit to the number of non-related residents.	You can live with whomever you please and have pets if you choose.

BUY AT THE APPROPRIATE TIME

If you decide to buy, check the terms of the lease at your current residence. Make sure that your lease expires around the same time that you plan to move, or that there are provisions for you to bow out early. Don't get stuck making mortgage payments and rent payments at the same time.

Conducting a Walkthrough

Even if you've already had an inspection, it's important to do a walkthrough before settlement. You want to make sure that the home will be "delivered" to you in the condition that it was promised by the seller. Your real estate agent will accompany you on the walkthrough.

Schedule your walkthrough for a few days before settlement so that the seller will have time to correct any problems. Take a copy of the sales contract with you, as well as any addendum and your notes from your home inspector.

Make sure that all repairs promised by the seller were made and that all items he or she promised to you in writing, such as the curtain rods or the chandelier, are still present and have not been replaced. Check that all trash and unwanted items have been removed. As you walk, write down any problems, questions or concerns.

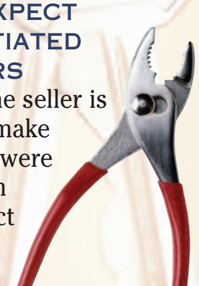
Take a **detailed** look at the following:

- Floors, walls and ceilings
- Attic and basement conditions (to check for flooding or a leaky roof)
- Furnace and air conditioner (including ducts and vents)
- All appliances the seller is leaving behind: refrigerator, microwave, stove and oven, garbage disposal, washer and dryer, etc.
- Plumbing (toilets, sinks, bathtubs/showers, outside water spigots, pipes, drains, water heater)
- Exterior (roof conditions, downspouts, gutters, foundation, paint and/or siding, driveway and landscaping problems)
- Exterior additions (patios, decks, garages, sheds, etc.)
- Electrical (all interior and exterior lighting, electrical outlets and visible wiring)
- Fireplace and chimney (if applicable)
- Windows (drafts, cracks and difficulty in opening or closing)
- Doors (interior and exterior)
- Kitchen counters, cabinets and drawers

Make sure that the seller is notified of any discrepancies as soon as possible.

Only Expect Prenegotiated Repairs

Remember, the seller is not required to make any repairs that were not mentioned in the sales contract or addendum.



Choosing a Real Estate Agent

Real estate agents show you homes, answer your questions, help you get insurance and loans, handle settlement paperwork and act as liaisons between you and the seller. They can play three roles: seller's agent, buyer's agent or dual agent.

Seller's Agents — Unless you find a property that is "for sale by owner," the houses you look at will be listed through seller's agents, that is, agents hired by the homeowners or developers. They represent the sellers, but they'll also help buyers interested in their properties.

Even if an agent represents the seller, he or she must give you honest answers to your questions about the property, reveal any problems related to it and, if you decide to put a contract on the home, promptly present your offer to the seller. However, a seller's agent isn't obligated to get you the best deal when it comes to contract negotiation.

If you want, you can simply find properties you like and call the seller's agents "attached" to them. Look in the paper, check online real estate listings, such as www.homesdatabase.com, and look for for-sale signs posted in front of homes. Seller's agents almost always represent multiple properties, so if you don't like the first home you see, ask what else is available. Avoid signing exclusivity contracts. It's okay to work with multiple seller's agents.

Buyer's Agents — As a first-time homebuyer, it's best to get your own agent. This "buyer's agent," will try to get you the home you want at the best possible price and terms. Your agent can show you any property for sale, even those not listed with the company he or she works for.

Your buyer's agent will tell you things a seller's agent won't, such as whether the seller's willing to accept a lower price, how long the property's been on the market, how eager the seller is to sell, the status of any other contracts on the property and any inside information that could affect the home's price or terms.

How do you find a good agent? Start by asking friends, relatives or coworkers for referrals. You're usually limited to one buyer's agent, so choose wisely.

What to Look for in an Agent

- Is the agent familiar with the area where you're looking to buy?
- Does he or she explain things to you in a way that's easy to understand?
- Does he or she ask you a lot of questions and seem interested in your needs?
- How much experience does he or she have?
- Can he or she meet your needs as far as meeting times, price range, etc.?

Dual Agents — Dual agency occurs when your agent and the seller's agent are affiliated with the same real estate company. Because the company's legally bound to represent both you and the seller, the amount of confidential information that can be revealed to either of you is limited, unless you and the seller agree to disclose this information.

payment totals less than 20% of the value of the property.

- **Hazard insurance.** Used to insure the property in case of loss or damage. Receipt of a hazard policy is usually *required* at settlement.

Settlement Costs: Actual costs for the settlement process.

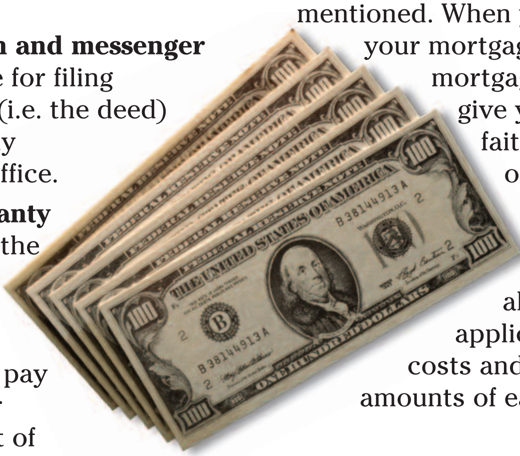
- **Title insurance fee.** Protects you from an inaccurate property title inspection, and insures against any defects in public records.
- **Title search fee.** Paid to the settlement company to search public records to insure the seller is the sole legal owner of the property and has the right to sell.
- **Settlement/attorney fees.** Paid to the settlement company to cover legal representation and other fees.
- **State taxes.** Mortgage taxes charged on the sale of the home.
- **Recordation and messenger fees.** Charge for filing documents (i.e. the deed) at the county recorder's office.
- **Home warranty fee.** Paid to the insurance company for a warranty to pay for repair or replacement of defective items.

Closing Costs are Due at Settlement

Bring a cashier's check for the closing costs you are responsible for to your settlement meeting. Also bring a blank personal check, in case there are any expenses you have overlooked.

- **Home inspection fee.** Charge for a professional inspection arranged by the seller.
- **Survey fee.** Charge for a surveyor to measure the property to determine its dimensions, as well as to assess exterior improvements.
- **Notary fee.** Paid to a notary public to witness the signing of paperwork and insure its validity.

Not all of these costs will apply to your situation, and there may be additional fees that were not mentioned. When you apply for your mortgage loan, your mortgage officer will give you a "good faith estimate of settlement costs." This document will outline all of the applicable closing costs and the dollar amounts of each.



DETERMINING HOW MUCH YOU CAN AFFORD

Fewer than ten percent of homebuyers purchase their homes with cash, so chances are you're going to need financing. Anyone can get a mortgage loan, but not everyone can get a *good* mortgage loan. The best way to get a low interest rate (and to avoid a default later!) is to not borrow more than you can afford.

Here's how to figure out a reasonable amount:

Calculate Your Debt-to-Income Ratio

The general rule of thumb is that your mortgage payment should equal no more than 28 to 33 percent of your gross income. And your total debt (i.e. your anticipated mortgage amount plus your car loan, credit card balances, etc.) should not surpass 36 percent of your gross income.

Determine Your Down Payment

Look at how much cash you have saved up for a down payment. The larger the down payment, the lower your monthly payments can be.

Map Your Budget

Use a budget worksheet similar to the one on the right to determine how much income you can spare each month to put toward a mortgage payment. Simply subtract your expenses from your total income.

Test Yourself

Do a "practice run" for two months by saving the difference in your anticipated monthly mortgage payment—don't forget to add 15% for taxes—and your current rent payment. See if you can maintain the lifestyle that you are accustomed to while not neglecting savings activities such as college funds for the kids or your IRA. If you find yourself falling short you may want to consider a smaller mortgage.

INCOME	
Your monthly salary	
Co-signer's monthly salary	
Miscellaneous income	
Interest on savings	
TOTAL INCOME	
EXPENSES	
Money owed to others	
Groceries	
Long-term savings	
Savings for investments	
Travel	
Gym/club memberships	
Eating out	
Clothes/shoes	
Credit cards and other loans	
Health/medical expenses	
Telephone bill and utilities	
Recreation/hobbies	
Gas/commuting	
Vehicle maintenance	
Childcare	
Movies/concerts/ sporting events	
Other expenses	
TOTAL EXPENSES	

Comprehending Closing Costs

Don't forget to discuss closing costs with your lender. These are fees charged to complete the sale of the property. They typically add up to anywhere from three to ten percent of the value of your total mortgage loan.

The seller may pay some of these fees; others you will be responsible for. Your lender may also finance some, or even all, of your closing costs.

Closing costs can be divided into three categories: lender fees, prepaid expenses and settlement costs. Here are some of the most common:

Lender Fees: Charged by the financial institution that will fund your mortgage loan. (As a non-profit institution, your credit union will keep these fees to a minimum.)

- **Points.** Each point equals one percent of your loan's value. For example, one point on a $100,000 loan would equal $1000. Many lenders offer optional "discount" or "buy-down" points at closing in lieu of higher loan rates.
- **Appraisal fee.** Charge for an appraiser to assess the current market value of the property and produce a written appraisal document.
- **Credit report fee.** Almost all lenders will obtain your credit report from one or more of the three bureaus. There is a charge for this service.
- **Document preparation/ underwriting fee.** The charge for the preparation of the loan agreement document.
- **Loan processing fee.** Paid to the lender to process the loan.
- **Loan origination fee.** Charge to originate and close the loan. Usually equal to one point.
- **Tax service fee.** Charge to hire a tax services agency to ensure that you pay your property taxes on time, or that your bills are submitted to your lender.

Prepaid Expenses: Two months of payments on each of these long-term expenses will be held "in escrow." This means a third party will hold the funds until they need to be disbursed.

- **Interim interest.** The interest charged for the remainder of the month in which your loan originates.
- **Property taxes.** Local taxes on the ownership of the property. The amount will vary by your area of residence and the property's appraised value.
- **Mortgage insurance.** Also called "PMI," this is used to protect the lender in case you default on the loan. PMI is required when your down

Increasing Your Borrowing Power

Here are some tips to help you make the most of your money:

Don't Deplete Your Savings

Lenders often look at your cash reserves. They don't want you to empty your savings accounts in order to afford your mortgage payments. For this reason, avoid making other major purchases in the year you plan to buy.

Borrow with a Co-signer

You may be able to borrow a larger amount or get a lower interest rate if you borrow with a co-signer. Consider this option carefully. You will both be held responsible if you default on the loan.

Track the Current Housing Market

Look at the current buyer's market and interest rates. Are rates increasing or decreasing? The lower the interest rate, the more home you can afford.

Patch Up Bad Credit

Get a copy of your credit report from each of the three credit bureaus (see below). Make sure that there are no mistakes on it that could cost you—or even prevent you from getting financing. Pay *all* of your creditors in full and on time for at least a year before you want to get a mortgage loan. And try to avoid changing employers. The better your credit rating, the more you'll be able to borrow—and at a better interest rate.

The Three Credit Bureaus:

1. Experian	www.experian.com	(888) 397-3742
2. Equifax	www.equifax.com	(800) 685-1111
3. TransUnion	www.transunion.com	(800) 916-8800

Get a Loan Preapproval From Your Credit Union

Come down to the credit union and we will discuss your lending options with you, write out **non-binding** terms and give you an estimated loan amount (a preapproval letter). This will take the guesswork out of determining your price range. To schedule an appointment with our lending department call or stop by during business hours.

Weighing Your Options

How to Compare Loans

- Make sure you are looking at like interest rates. Compare rates "apples to apples."
- Don't just look at rates. Ask about points, down payments and other fees, such as closing costs. Your mortgage officer should have a good idea of what your overall cost will be.
- Look at the features of each loan. Is there an insurance requirement, a lock-in period or a prepayment penalty?
- Ask whether the loan application and lock-in fees (charged to maintain the agreed-upon rate) are refundable if you're not approved.
- Have your mortgage officer plug in numbers for a variety of mortgage plans and present each scenario to you on paper.

Consider Conventional/Government Loan Programs

You may be able to get loan assistance, such as a reduced down payment or better terms, through the following organizations:

1. Federal Housing Administration—www.fha.com
2. U.S. Department of Housing and Urban Development—www.hud.gov
3. USDA Rural Housing Service—www.rurdev.usda.gov/rhs
4. U.S. Department of Veterans Affairs—www.homeloans.va.gov
5. State and local housing programs—www.hud.gov/buying/localbuying.cfm
6. Fannie Mae and Sallie Mae—www.fanniemae.com and www.salliemae.com

Contact the organizations for more information and to see if you qualify.

Looking For Homes

The Meeting

Schedule a meeting with your agent when you're ready to start looking for homes. Make a "wish list" of what you're looking for to avoid being shown homes that are inappropriate. Your list shouldn't be so specific as to rule out all possible homes, but it should be a useful tool for focusing your search.

Items on your list may include: the number of bedrooms, the number and the size of bathrooms, whether you want a garage and/or a basement, the size of the yard and any special features, such as skylights or bay windows. Rank the items on your list according to importance.

Bring your agent your estimated budget or your preapproval letter. Make your price ceiling a little lower than what you can actually afford. This will allow for negotiation room on homes at the top of your price range.

The Search

When you begin your search, don't become so focused on finding that "dream home" that you overlook viable options. Have your agent show you several types of homes. You may find that the home you choose is quite different from your ideal.

Once you find something that you like, look at it realistically. Be willing to make small changes or improvements, but don't take on more than you can handle.

Also consider the home's resell value. You want to come out ahead if you move in a couple of years. And, as a first-time homebuyer, you probably will.

Make a list of pros and cons for each home that you like. In addition to the structure itself you should consider the neighborhood, your commuting distance to work, the quality of nearby public services and schools and the convenience to grocery stores and other necessities.

Take a Look Around the Neighborhood

Feel free to knock on doors or ask questions of passersby. Visit the property at a variety of times of day, on weekdays and weekends, as the atmosphere may change.

- Do neighbors seem friendly and approachable?
- Are nearby homes and yards well-maintained?
- Is the noise level satisfactory?
- Is there a lot of traffic nearby?
- Will there be adequate parking?
- Is there room for your kids and/or pets to safely play outside?
- Do homes in this area tend to retain or go up in property value?
- What are the common repairs on homes of this type?

Adjustable-Rate Mortgages (ARMs)

Adjustable-rate mortgages are 15- or 30-year loans with monthly payments that change over the term of the loan due to increases or decreases in the interest rate.

Regular ARMs

Adjustments are made at prenegotiated periods of time (six months, one, three or five years) based on changes in the "index." The index is set when you apply for the loan. One example would be the Prime Rate. Fixed percentage points, the "margin," are then added to the index (e.g. Prime + 1%). The sum of the two is added to the existing rate at the time of adjustment.

Most ARMs have rate caps to protect you if there is a drastic increase in the index. These may be in the form of limits per adjustment or a lifetime limit for the loan.

Advantages: Margins remain static over time. The introductory rate is usually low.

Disadvantages: You cannot anticipate rate changes. The interest rate has the potential to become higher than with a fixed-rate loan.

Negatively Amortizing Loans

These ARMs have payment caps instead of rate caps. Any charges above the cap are added onto the balance of the loan. This means the loan balance can "negatively amortize," increasing to higher than the original loan amount.

Advantages: Monthly payment amount is controlled and can be fit into a budget. Rate does not increase due to inflation.

Disadvantages: You may take longer than planned to pay off the loan balance and end up paying more over time.

Fixed-Period ARMs

Fixed-period ARMs start out like fixed-rate loans. The loan maintains a fixed rate for a period from three to ten years before it adjusts. The most common terms are 30/3/1 (30-year loan, rate increases after the third year, then increases every year thereafter), 30/5/1 and 30/10/1.

The index is usually tied to the One-Year Treasury Securities Index. You can choose to have a first adjustment cap to avoid a huge increase in payments all at once.

Advantages: Introductory rate is lower than with a 30-year fixed-rate mortgage. You can enjoy a fixed rate for longer than with a regular ARM.

Disadvantages: Rates increase after the fixed period. Introductory rate may be higher than with other ARMs.

Making an Offer

Although you should take time in your search, once you've found the home you want, jump on it! Remember, you are competing with other buyers. The house you like may not stay on the market for long.

Ask your agent for the seller's terms and asking price. Then together you will write up a contract. Ask your buyer's agent if any other contracts have been submitted and get his or her opinion of what price the seller will accept. (A seller's agent will not disclose this information.) You can agree to the seller's terms and price or suggest a counter-offer.

There is no standard that must be followed when writing a contract. Your agent will probably have a stock form that you can work from. In addition to the price you are offering, this document will describe your and the seller's responsibilities as far as repairs, inspections and closing costs (explained later in this booklet).

You can also ask for special conditions, such as an extended amount of time before your settlement date, a required minimum appraisal value, that you want the lawnmower included, etc. But, the more restrictions you add, the lower the odds that your contract will be accepted.

After you have gone over the contract down to every detail, sign it and give it to your agent. He or she will get it to the seller's real estate agent, who will go over it with the seller. The seller has the opportunity to accept, reject or counter your offer.

If the seller rejects your offer, you can still try to work with them to find a compromise—unless the seller accepts another person's contract. If the seller suggests a counter-offer, you can accept it, reject it and search for other homes, or counter back. Your buyer's agent will be a good source of advice on this matter.

If your offer is accepted and signed by the seller, it becomes a legally binding contract. This does not mean that you unconditionally have the house. However, you can only back out under the conditions stated in the contract. At this time, you may be asked to submit a deposit or "earnest money" to place a hold on the home. This will prevent other buyers from submitting offers.

Get a Home Inspection

Make your contract contingent on a home inspection—even if the seller has already had one. Your buyer's agent should be able to recommend an inspector, or you can find one on your own that is a member of the American Society of Home Inspectors (ASHI). The inspection will cost you between $300 and $600, but it is well worth it.

Tour the home with your inspector. He or she will look for flaws in the structure, electrical systems, appliances, etc., and write up a report and estimate the cost of repairs.

You may want to hire separate inspectors to check for radon, lead, asbestos, carbon monoxide or termites. If the home is older, or the home inspector raises flags, you may want to consult a structural engineer.

After your inspection(s), present the report(s) to the seller. He or she may agree to fix these items, give you money to repair them yourself or offer to sell you the home "as is."

Deciding on a Mortgage Plan

Once your contract has been ratified, you need to apply for a mortgage loan. If you got a preapproval, you've got a good head start. But still take some time to review your options. You don't want to choose the wrong mortgage plan.

It's important to not rule out any mortgage plans until you've spoken with your credit union. Use the next three pages as a reference to get an idea of what to look for.

Fixed-Rate Mortgages

These are the most common types of mortgage loans. The interest rate and monthly payment amount remain the same throughout the loan period.

<u>Regular Fixed-Rate Mortgages</u>

Terms are usually for 15, 20, 25 or 30 years. The shorter the term, the higher the monthly payment and the lower the interest rate. These loans are "fully amortizing," meaning that the balance is fully paid off at the end of the stated loan term.

Advantages: Loan is fully amortizing. You will always know what your payment will be.

Disadvantages: Large down payment. Loan takes a long time to pay off.

<u>Balloon Loans</u>

These loans have the same amortization schedule as regular fixed-rate loans. The terms are shorter, usually for three, five or seven years. The difference is that the remaining balance must be paid off in a lump sum or "balloon" at the end of the loan term, or you must sell the home or refinance.

Advantages: Lower interest rates and monthly payments than with a regular fixed-rate loan.

Disadvantages: Loan must be paid off or refinanced at the end of a short term.

<u>Two-Step Mortgages</u>

The borrower enjoys a fixed rate for the first five or seven years of the loan. Then the rate increases to the market rate. This new rate, the "conversion rate," becomes the fixed rate for the remainder of the loan.

Advantages: Low introductory rate with the possibility of a low rate for the remainder period.

Disadvantages: Uncertainty about what the rate will be after the introductory period. The conversion rate may be high.

<u>Graduated Payment Mortgages</u>

Interest rates increase on a set schedule. All interest rates and payment amounts are predetermined at the start of the loan.

Advantages: There is no guesswork about what the interest rate will be in the future. Low interest rates apply at the beginning of the loan.

Disadvantage: Payments due on the latter part of the loan will be higher.