Home Buyer's Guide

Your complete guide to a stress-free home buying experience.

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Power Financial Credit Union™

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Thinking About Buying a House? Great!

Whether it's your first, second, or fifth home purchase, buying a house can be complex and intimidating. There is information overload and surprises that are not always pleasant if unprepared. But with the right guidance, some planning, and a little patience, you will understand exactly what to expect throughout the entire process.

In this comprehensive guide, we will walk you through everything you need to know to make your homeownership journey less stressful. We will cover the entire process from tips on what to do before you start looking for a home, to guidance on how to pick the right lender, to what happens after you get the keys to your new home. While there is no "one-way" to buy a home, the resources covered here will provide a good foundation to keep you informed and moving forward.

The goal of this guide is to give you the confidence and knowledge to find a dream home, negotiate the best deal, and pick the right lender and mortgage loan to meet your needs.

5 Things to Do Before Buying a House

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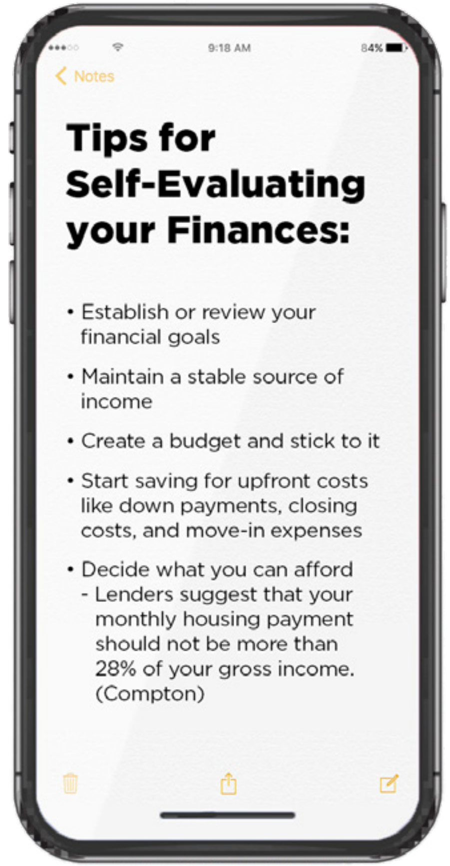
1 | Financial Self-Evaluation

Before looking at properties, you should get an understanding of your finances. By taking time to do a thorough financial self-evaluation, you will determine if buying is right for you and what you can comfortably afford. If you aren't where you want to be financially, you can start developing good money habits, which will help you save so you can eventually buy the house you deserve.



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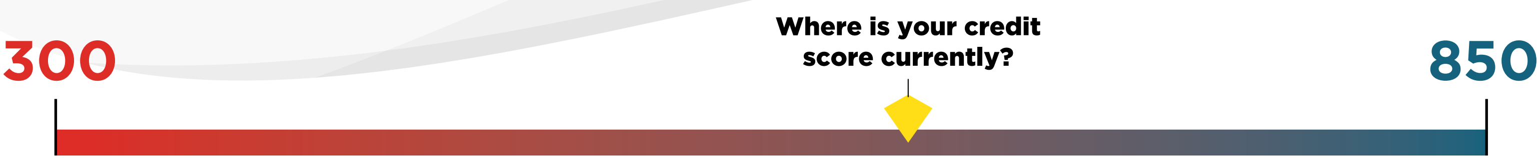
2 | Understand Your Credit

Your credit history is a critical factor in getting approved for a mortgage, so it is important to make sure your credit is in good standing. You are entitled to get a free credit report yearly from the three credit reporting agencies (Equifax, Experian, and TransUnion) from the site AnnualCreditReport.com. Download your credit report and look for any errors that may impact your credit score. If you find errors, file a dispute with the reporting agency as soon as possible to get them corrected and settle any outstanding balances or accounts in collection.

Your free annual credit report does not include your credit score, but you can get your credit score from several sources. Your credit card company may give it to you for free. You can also buy it from one of the three major credit reporting agencies. When you receive your score, you often get information on how you can improve it. A good credit score increases your chances of qualifying for a mortgage. It shows the lender you're likely to repay your loan on time. The Consumer Financial Protection Bureau (CFPB), advises using only 30% or less of your total available credit each month and make all payments on time to improve your credit score. There is not an exact credit score you need to qualify. Lenders also look at different factors, like your income, property type, assets, and debt, to determine whether to approve you for a loan.



Credit Score Ranges

3 | Manage Debt

Review your Debt-to-Income Ratio (DTI). According to the CFPB, you will need a DTI of 43% or less to qualify for a mortgage. Paying down debt proves you know how to manage your finances and you don't borrow more money than you can afford to pay back.

4 | Define Homeownership Goals

What are you looking for in a home? Visualize specific features you want in your ideal home including location, size, school zone, and other details that are important to you. You probably won’t be able to get everything you want, so stay flexible and differentiate between your must-haves and nice-to-haves. Purchasing a home is a huge investment, you deserve to find a house that fits not only your needs but also your wants and your budget.

5 | Research

Explore mortgage types, compare rates and fees, and familiarize yourself with the housing market in your area. Working with an expert during this research stage can make a difference. Real estate agents walk their clients through the entire home-buying or selling process, providing valuable information at each step. Things like experience, negotiating skills, market knowledge, and communication skills are some of the key traits to look for in a good real estate agent.

5 Stages of the Home Buying Process

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1 | Get Preapproved

The first step towards buying your dream home is getting preapproved for a mortgage loan. Shop around to find the best options and financial institution that is right for you. According to the CFPB, 77% of consumers apply to only one lender when seeking a mortgage. By shopping around and comparing different lenders, borrowers could save more than $3,500 in just the first five years. (CFPB). Have in mind that the average mortgage loan term is 15 – 30 years. There are multiple types of mortgage loans like conventional loans, Federal Housing Administration loans (FHA), veteran loans, fixed-rate loans, adjustable-rate loans, and more. Analyze your financial situation, talk to your lender, and find the loan that will satisfy your needs.

Differences between Financial Institutions

Before moving on to the next step of the buying process, it is important to understand what makes each lender different. There are countless lenders to choose from, an individual needs to understand the differences between their services to determine which type of institution is the best option for their financial situation. The most common institutions can be divided into four categories;

Large Banks

National banks with a large presence that usually offer a variety of products and services. They can be ideal for customers who know exactly what they want. However, large banks offer less personalized customer service and usually charge additional fees or require a daily balance.

Community Banks

Locally-owned and operated banks. These institutions are quite literally invested in the local community by providing loans to neighborhood businesses and individuals. Community banks offer a more relationship-focused approach to banking than larger institutions.

Online Mortgage Lender

These online-only companies have automated the application process. This can be a time-saver for individuals as they balance choosing the best mortgage, searching for a home, and their day-to-day lives. Unlike other institutions, online mortgage lenders typically do not offer personalized or relationship-focused service. Also, many online lenders charge an application fee but you should never have to pay for a preapproval or a quote.

Credit Union

Not-for-profit organizations that exist to serve the needs of their members, not outside shareholders. Like banks, credit unions accept deposits, offer loans and provide a wide array of other financial services. As member-owned, financial cooperative institutions, credit unions provide a safe place to save and borrow with fewer to no fees, typically lower rates and a focus on personalized service.

2 | The House Hunt

Now comes the fun part! It's time to start searching for your dream home. In this stage, working with a real estate agent is vital. They'll help you find properties in your area, decide how much to offer, submit the offer letter on your behalf, negotiate with a seller, and make sure that everything is in order during the closing stage.

Condominium

Single Family Home

Multi-Family Homes

3 | Offers & Negotiation

You have finally found a house that meets your expectations. Now it's time to decide how much to offer for the property. You must submit the offer letter in writing and in most cases, an earnest money deposit that's typically 1% – 2% of the purchase price. Real estate agents can be really helpful during this stage. All you have to do now is wait for the seller's response. Negotiations may go on for some time after you submit your offer, so be patient.

4 | Appraisal & Inspection

Once you and the seller agree to an offer, it's time to move on to the appraisal and inspection. Have a professional inspect your potential new home to check its overall condition. In case the inspection reveals any problem, you have the option to get your deposit back or negotiate with the seller. You must also get an appraisal before you buy a home with a loan. A home appraisal is a review that gives the current value of the property you want to buy.

5 | Closing

During this final stage, you will have some expenses to deal with like closing costs, which include attorney fees, pest inspection fees, appraisal fees, title insurance expenses, and discount points. Bring your ID, closing disclosure, and cashier's check or proof of a wire transfer for your down payment and closing costs to your closing meeting. A neutral third party called a closing agent will lead the process. You're officially a homeowner as soon as you sign all of your paperwork!

8 Things to Do After Buying a House

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1. Always save physical copies of your paperwork in a locked, fireproof file cabinet. This includes your mortgage documents, purchase agreement, escrow information, inspection reports, title, deed, home warranties, closing disclosure, and others.
2. Update your address and set up mail forwarding from your old place to your new home.
3. Your address affects your insurance services so make sure you let them know about the location change.
4. Look for home warranty options. Home warranties cover a whole host of things, from air conditioners to simply re-keying your house.

5. Take some time to get to know your new home. In case of an emergency, you need to know where everything is located:
   - Main water shut-off valve – Make sure you know how to shut off your water in case a faucet breaks or a sink starts leaking.
   - Circuit box – Make sure your fuses or switches are well-labeled.
   - Gas shut-off valve (if applicable) – During a natural disaster, the first directive is often to shut off the gas, so it's super important to locate the gas shut-off valve.
   - Septic System – If your home relies on a septic system for treating wastewater, you'll need to perform regular maintenance on your septic tank to make sure you don't end up with a malfunction.

6. For security reasons, before moving into the new home, change all the locks, garage codes, and security codes.
7. Set up your utilities, Internet, and cable/television.
8. Create a maintenance plan. Consider things like dryer hose and vent, refrigerator, water heater, air conditioner filters, and gutters.

Key Terms to Understand

Purchasing a home is one of the biggest financial decisions you'll ever make. And getting hit with a whole new language of unfamiliar terms can only add to the stress. However, this process doesn't have to be so terrifying. While we can't help you decide between a ranch and a townhouse, we can help you understand the home-buying process better. Here are some key terms that you will probably hear during the home-buying process and what they mean.

Adjustable-Rate Mortgage (ARM) - A type of mortgage in which the interest rate applied on the outstanding balance varies throughout the life of the loan. With an adjustable-rate mortgage, the initial interest rate is fixed for a while. After this initial period, the interest rate resets periodically, at yearly or even monthly intervals.

Appraisal Fees - A written estimate of the value of something. In real estate, it is a professional opinion of the market value of the property (such as a home) as of a given date.

Closing Costs - These are costs outside a property's sales price that must be paid to cover the cost of the transaction, such as a loan origination fee, discount points, insurance fees, survey fees, and attorney's fees. Closing costs vary from location to location but must be described to you when you submit your mortgage loan application.

Closing Disclosure - A form that describes in detail, the critical aspects of your mortgage loan, including purchase price, loan fees, interest rate, estimated real estate taxes and insurance, closing costs, and other expenses.

Contingencies - Conditions in a sales contract must be satisfied before the home sale can occur. Some common contingencies include: The appraised value must support the sales price, the house must pass inspection, and the borrower must be approved for a loan. Others might require a check for termites or the sale of the buyer's current home.

Conventional Loan - A loan that is not guaranteed or insured by a government agency such as the U.S. Department of Veterans Affairs, the Federal Housing Administration, and the U.S. Department of Agriculture.

Debt-to-Income Ratio (DTI) - All your monthly debt payments divided by your gross monthly income. This number is one way for lenders to measure your ability to manage the monthly payments to repay the money you plan to borrow.

Deed - Official written document declaring a person's legal ownership of a property.

Discount Points - Type of prepaid interest or fee that mortgage borrowers can purchase that will lower the amount of interest they have to pay on subsequent payments. Each discount point generally costs 1% of the total loan amount and depending on the borrower, each point lowers the loan's interest rate by one-eighth to one-quarter of a percent. Discount points are tax-deductible only for the year in which they were paid.

Down Payment - A large initial payment that you make when you buy a home. It is usually a percentage of the purchase price and ranges from as little as 3% to as much as 20% for a primary residence.

Earnest Money - Money that is put down before closing on a house to show you're serious about purchasing and to protect the seller. It's also known as a good faith deposit.

Equity - Difference between how much your property is worth and how much you still owe on your mortgage (Market value – Mortgage balance = Equity). Equity is also sometimes called owner's interest.

Escrow - Money placed with a third party for "safekeeping." During a real estate purchase, the buyer is typically required to place a portion of their down payment in an escrow account where it is held until the closing. After the home is purchased, a portion of each mortgage payment is typically held in an "escrow" account to pay for the property's taxes and insurance.

FHA Loans - Home loans insured by the Federal Housing Administration. Referred to as "FHA or FHA-Insured Loans."

Fixed-Interest Rate - An interest rate that never changes over the life of a loan. For example, if you have a fixed-rate, 30-year mortgage, you will pay the same interest rate for the entire 30-year repayment schedule.

Foreclosure - A legal proceeding that allows your creditor to sell your house to pay off your unpaid mortgage. Your house can be foreclosed on if you don't make your required house payments.

Gross Monthly Income - The income you receive each month before taxes or other deductions. The specific amount appears on both job offer letters and paychecks. Potential additions to gross monthly income include overtime, bonuses, and commission.

Home-Equity Line of Credit - A revolving loan where your home is used as collateral. You are given a credit limit and can borrow as much or as little as you want against the limit. This type of loan acts much like a checking account. Your lender provides you with checks and you can draw on the account any time you like as long as you don't exceed your credit limit.

Home-Equity Loan - A closed-ended, secured loan with your home used as collateral. It can have fixed or adjustable (ones that fluctuate based on a key index) terms, interest rates, and payments. You usually borrow a prearranged amount from your lender and pay it back in installments (usually monthly).

Home Inspection - A close physical examination of a home to evaluate its plumbing, electrical, and heating, and cooling systems, as well as its appliances, roof, foundation, and structural stability. The inspection should be completed before you purchase a home and your offer contract should state that purchase would be contingent on the home inspection results.

Homeowners Insurance - Insures your home's structure and your belongings in the event of a destructive event, such as a fire.

Lender - a financial institution or agency that loans you money such as a bank or credit union.

Mortgage - Type of loan you can use to buy or refinance a home. Also referred to as "mortgage loans." It is a way to buy a home without having all the cash upfront.

Preapproval - A written agreement from a mortgage lender to grant a loan for a home purchase. The prequalification is based on the lender's careful investigation and evaluation of the potential home buyer's income, credit history, employment history, personal assets, and debts. Preapproval assures the seller that a buyer's offer is valid. It also speeds up the buying process because, once an offer is made, there is no need to wait while the buyer finds a loan.

Prequalification - When a lender estimates in advance how much you can borrow to buy a home, based on financial and other information (such as employment history) that you provide. It is not a commitment to lend, and you will need to submit additional information for review and approval.

Private Mortgage Insurance (PMI) - insurance that protects the lender against losses if you cannot repay your loan. Your lender may require it if your down payment is less than 20 percent.

Primary Residence - Your primary residence, also known as a principal residence, is your home. Whether it's a house, condo, or town home, if you live there for the majority of the year and can prove it, it's your primary residence, and it could qualify for a lower mortgage rate and income tax benefits.

Property Taxes - Tax paid on property owned by an individual or other legal entity, such as a corporation.

Title Insurance - Title insurance is meant to protect home buyers, as well as lenders, from any damages or losses caused by a bad title and confirms that you have received ownership rights for the property from the seller.

Upfront Costs - Upfront costs are fees and other costs that a buyer must pay before closing on a home. These fees can include an appraisal fee, credit report fee, hazard insurance, flood insurance, and other inspection fees.

Wire Transfer - Electronic transfer of funds via a network that is administered by hundreds of banks and transfer-service agencies around the world.

Final Thoughts

The home-buying process can be one of the scariest and most exciting steps that you take in your life. Even though the road to homeownership might be long and winding, it can also be a very rewarding experience. The memories that you and your family create in your home will last a lifetime so this is much more than just a financial purchase. We hope that our home buyer's guide has been helpful to you as you begin this amazing new chapter. Remember, the more you learn about the process ahead of time, the less stressful it will be, and the more likely you will be to find the home you want, at a price you can afford.

About Power Financial Credit Union

Power Financial Credit Union is a full-service, modern financial institution that offers a wide variety of flexible mortgage options at great rates. Our members love us because we get to know them and tailor a solution to meet their financial needs. If we can ever help you, it would be our honor to serve you and your family and help make your homeownership dream come true. Even if you aren't ready to buy just yet, we are always happy to answer any questions you might have about the process. As a credit union, we exist only to put our members first so you can trust us to guide you and help you find the solution that best fits your needs.

Questions? Call 800-548-5465 or visit powerfi.org

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