HOME BUYING GUIDE

Buying a house doesn't have to be hard.

5Point® CREDIT UNION

You belong here.

Welcome to 5Point Credit Union,
where our mortgage lenders are here to help turn a stressful experience into a positive 5Point experience.

We hope you will find this guide useful, as it will help answer many of your questions about getting a mortgage loan. If you have additional questions, feel free to reach out to one of our mortgage experts at 800.825.8829 ext. 3404 or visit our website **5PointCU.org** for additional information and helpful tools such as:

Mortgage Payment Calculator
Online Application
Mortgage Qualification Calculator
Application for download

HOW TO GET STARTED | DO'S & DON'T'S

Buying a home for the first time tends to be a learn-as-you-go process. But it doesn't have to be. Even though everyone's experience purchasing their first home is unique, you can prepare yourself for what's to come by learning what helped others and what held them back. Before you embark on your own home buying journey, take a look at some of the most important do's and don't's to help you get on the right track.

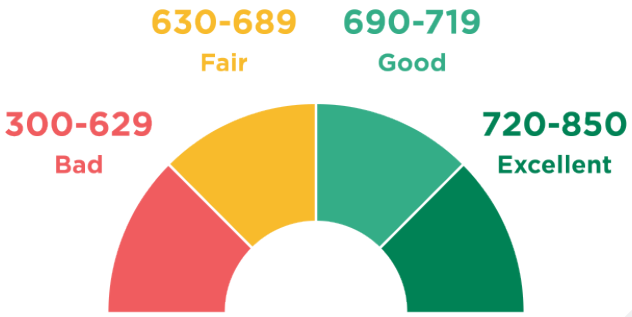
Do's

- Have your closing cost and down payment saved
- Find a lender
- Be honest with your lender
- Get pre-approved
- Research the neighborhood
- Look at several houses before you buy
- Find a realtor
- Ask questions about the home
- Be prepared to make a quick decision once you find the home you like–*there may be multiple offers on the home*
- Have a home inspection done

Don't's

- Do not go house hunting until you have been pre-approved
- Do not change jobs
- Do not make large purchases
- Do not open new lines of credit
- Do not pay your bills late
- Do not talk to the sellers–*that is what your agent is for*

TAKE A LOOK AT YOUR CREDIT SCORE



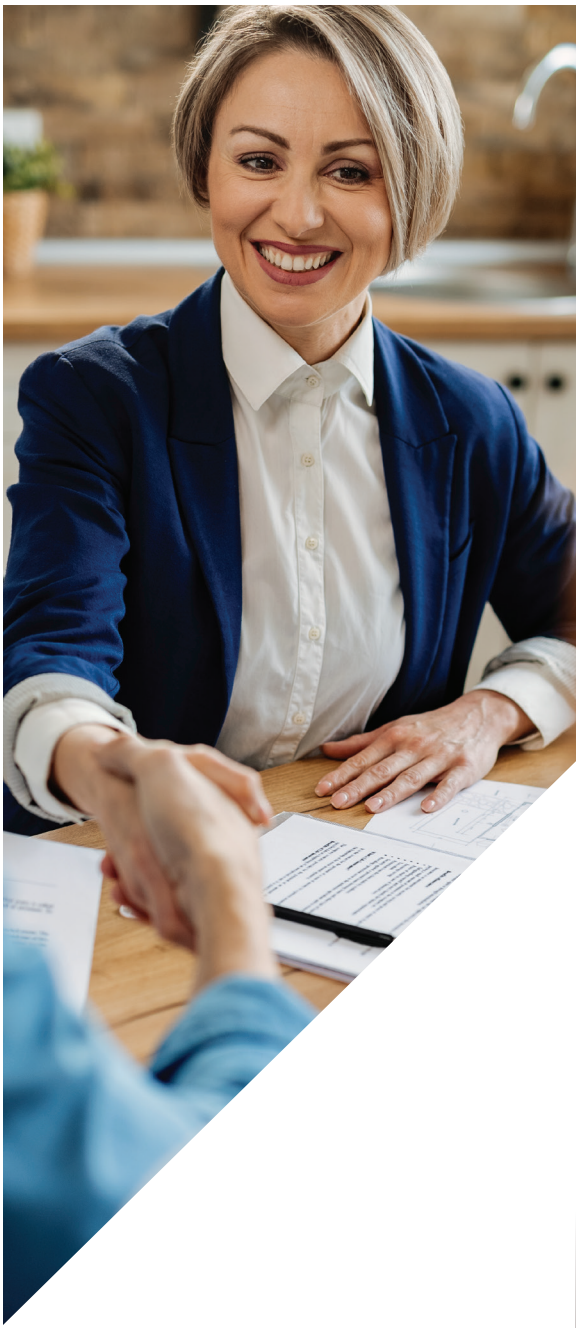
Your score is based on credit history. How much credit you have and how well you have paid.
A credit score of 730 or higher is excellent credit and will qualify you for the lowest rate. But don't worry if your credit score is lower. There are still options for you. Your lender can help you understand your credit score and credit report and how you can better your score over time.
A low credit score does not mean you cannot get a mortgage loan.

HOW MUCH CAN YOU AFFORD MONTHLY FOR YOUR MORTGAGE PAYMENT?

The amount of mortgage loan you can afford will depend on your gross annual income and what other debt you owe. Your lender will calculate your debt-to-income ratio and advise what you can afford. A general Rule of Thumb is that you can afford 2.5 times your annual gross income depending on what other debt you owe. Example: Annual Gross Income $80,000 x 2.5 = $200,000. So, while you may be eligible for a mortgage loan in the amount $200,000, if your other debt is a significant amount you may be required to put a larger down payment or qualify for a lesser loan amount.

WHAT AMOUNT OF CASH DO YOU NEED TO BUY A HOME AND WHAT DOES THAT AMOUNT COVER?

Understanding what the total amount needed to buy a home is very important and involves several different costs:
Down payment, Closing costs, insurance premiums and Escrow.



DOWN PAYMENT

What is a down payment?
A down payment is a percentage of your home's purchase price that you pay upfront when you close on your home loan.

How much do you need for a down payment?
The amount of down payment will depend on what type of loan you get and your lender's requirement. The larger the down payment the less loan amount you will borrower and the lower your monthly payment.

UNDERSTANDING THE CLOSING COST

Beyond your down payment that is required by your lender. There are other costs associated with the home buying transaction. You will have closing cost, insurance premiums and escrow funds that are also required.

CLOSING COST

Additional cost for closing includes Lender closing cost fees and Third-party closing cost fees. Lender closing cost fees are fees that are charged by your lender for loan origination, document preparation and tax services.

Third-Party closing cost fees are fees that are paid to the title company for the title insurance and other fees, appraisal, flood certification, credit report, survey, etc.

The percentage of closing cost fees can vary depending on the purchase price of the home and your down payment amount.

INSURANCE PREMIUMS

The first-year insurance premium will be required and collected at closing. You will be required to have Hazard, Windstorm, and Flood Insurance (if in a Flood Zone).
These premium amounts will be collected and paid out by the title company to the insurance company you select.

ESCROW FUNDS

Along with your down payment, closing cost, and insurance premiums, your lender will establish an escrow account for your taxes and insurance amount to be paid out annually. Escrow amounts will be collected at closing to give the lender a cushion to make sure the money is always there when needed. The amount of escrow required at closing depend on the tax and insurance amounts and how many months must be collected at closing time. Escrow accounts are analyzed yearly by your lender and the amounts are adjusted accordingly depending on increase or decrease in premiums. A shortage in the escrow will cause an increase in payment while an overage will cause a decrease in payment.
Any overage over $50.00 will be refunded to you annually.

It is always a good idea to shop for insurance before buying a home and yearly when it is time for renewal. You will also want to check the county appraisal district when you know what area you are looking to buy in to get a good idea of what the taxes are.

UNDERSTANDING YOUR MONTHLY MORTGAGE PAYMENT

Your monthly mortgage will most likely be the largest monthly bill that you will have. It is important to understand how your mortgage payment is broken down.

PRINCIPLE

The principal amount is what is paid to your lender and is applied towards your loan balance.

INTEREST

The interest amount is what your lender is charging monthly for the loan amount you borrowed. Interest amounts will be less each month as you pay down the principal loan amount. Also, interest amounts MAY also be tax deductible when filing your income tax. You will want to consult with a CPA to verify your options.

TAXES

A portion of your monthly payment is applied to your escrow account that was set up by your lender to pay your taxes on your behalf. If the home is your primary residence you will want to be sure you homestead the property with the appraisal district so that you receive the homestead exemption for a lower tax amount. Tax amounts can include, property tax, MUD, and school tax depending on where the home is located.

INSURANCE

A portion of your monthly payment is applied to your escrow account that was set up by your lender to pay your homeowner's insurance on your behalf. Homeowner's insurance is broken down by Fire, Windstorm, and Flood. Homeowner's insurance is required and protects against damage to your property.

GET PRE-QUALIFIED

To have a piece of mind and make things easy, you will want to contact or visit your lender to get pre-qualified before you start looking for a home.

You are not bound to a mortgage loan just by getting pre-qualified. This will only help speed up the process as you move forward. Your real estate agent will require a pre-approval letter once you began looking at homes. This assures the realtor and seller that you have already started your loan process and you are approved pending all underwriting. Pre-qualifications may vary depending on lender guidelines. You will want to make sure you are seriously looking to purchase a home, so that your credit is not affected by too many credit inquiries as this could lower your credit score.

ITEMS NEEDED FOR MORTGAGE APPLICATION

- Completed application
- Proof of income-paycheck stub for most recent month, 2-year tax return if self-employed, retirement statement, pension statement, social security award letter
- Most recent bank statement showing down payment availability
- Residential Sales Contract once you have found a home

WHAT TO EXPECT ONCE CONTRACT HAS BEEN ACCEPTED

- Bring a copy of contract to your lender
- Have an inspection done on the home
- Lender will send you a Loan Estimate showing all fees and total estimated funds needed to close
- After you have signed the Loan Estimate. Your lender will order your title and appraisal
- Once all documents are received and approved by underwriting, your lender will send a Closing Disclosure showing all final numbers
- Closing date will be set
- Closing takes place at a title company
- You will need a Cashier's Check made payable to the title company to cover the total amount of closing cost
- Title company closer will have you sign all closing documents
- Once everyone has signed (buyer and seller), the lender will wire funds to the title company

Once everything has funded, you will receive keys to your new home. All the saving and effort you have put into finding your new home has finally paid off. Congratulations! We hope you enjoy your new home.

COMMON MORTGAGE TERMINOLOGY

A

Annual Percentage Rate (APR)
The APR includes the interest rate as well as other fees that will be included over the life of the loan (closing cost, fees, etc) and shows your total annual cost of borrowing. As a result, the APR is higher than the simple interest of the mortgage. That's why it's always important when comparing lenders to look at the APRs quoted and not just the interest rate.

Appraiser
A person qualified by education, training, and experience to estimate the value of real estate and personal property.

Appreciation
An increase in value of property for any reason, except inflation.

B

Bankruptcy
A legal proceeding in federal court in which a debtor seeks to restructure his or her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

C

Charge-off
To treat as a loss, to designate as an expense an amount originally recorded as an asset.

Closing Cost
Various fees required to conclude a real estate transaction.

Closing Date
In real estate, the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to consummate a sale or loan transaction.

Collateral
An asset that secures a loan or other debt that a lender can take if you don't repay the money you borrow. For example, if you get a home loan, the bank's collateral is typically your house.

Commission Income
Commission income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

Conventional Financing
In real estate, mortgage financing that is not insured or guaranteed by a government agency such as HUD/FHA, VA, or Rural Housing Service.

Credit Bureau
An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.

COMMON MORTGAGE TERMINOLOGY

Credit Report
A credit report is a statement that has information about your credit activity and current credit situation such as loan-paying history and the status of your credit accounts.

Credit Score
A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula (called a scoring model) to create your credit score from the information in your credit report. There are different scoring models, so you do not have just one credit score. Your scores depend on your credit history the type of loan product, and even the day when it was calculated.

D

Debt-to-Income Ratio (DTI)
Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income.

Deed
A legal document under which ownership of a property is conveyed.

Depreciation
A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

Down Payment
The amount of cash a borrower may need to pay to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.

E

Earnest Money
You typically will need to pay what's called "earnest money" which shows the seller you are serious about buying the home. Think of earnest money as a deposit you are providing the seller (usually around $500-$1000 or a certain percentage of the offer price) that will be applied to the purchase once the contract is finalized.

Equity
The percentage calculation of what the fair market value is minus your outstanding balance.

Escrow Account
An escrow account is an account that is set up by your lender. Funds are deposited into this account out of your monthly mortgage payment so that funds are available to payout taxes and insurance amounts upon renewal.

F

Fixed-Rate mortgage
A mortgage that provides only one interest rate for the entire term of the mortgage loan.

Flood Insurance
Insurance that compensates for physical property damages resulting from flooding. This insurance is required in federally designated Special Flood Hazard Areas. The premium for flood insurance is usually included in your monthly mortgage payment.

COMMON MORTGAGE TERMINOLOGY

Foreclosure
The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

G

Gross Income
Your total income before any tax deductions.

H

Homeowner's Insurance
Insurance that provides coverage for your dwelling against fire, theft, and storms. The insurance premium is normally included in your monthly payment amount.

I

Interest
Interest is charged by the lender for borrowing the funds to purchase a home.

L

Loan Estimate Disclosure
A Loan Estimate Disclosure of what your estimated closing costs will be to obtain a loan to purchase a specific type of property will be provided to you by your lender.

P

Private Mortgage Insurance (PMI)
Private Mortgage Insurance can be required by your lender if your down payment is less than 20%. PMI is usually included in your monthly mortgage payment and can be removed once you have 20% or more equity in your home.

Property Taxes
Property taxes are assessed by the county government where the house is located. These taxes are to help pay for public roads, schools, and other services. The tax amount is normally included in your monthly mortgage payment.

T

Title Insurance Policy
Title Insurance is a form of indemnity insurance that protects lenders and homebuyers from financial loss sustained from defects in a title to a property. This type of insurance is purchased from a title company and premium fee is paid at closing.

W

Windstorm Insurance
Insurance that protects a policyholder from property damage caused by gusty events such as tornadoes and hurricanes. The premium for windstorm insurance is usually included in your monthly payment.

Have more questions?
Call our mortgage experts at
800.825.8829 ext. 3404