Your New Home

A Guide to Buying and Financing

Tower
FEDERAL CREDIT UNION

Contents

Navigating Your Way to Home Ownership

Learning As Much As You Can

Buying a new home is an exciting event in your life, and it's likely to be the most expensive purchase you'll ever make. When you decide to buy a home, you're making a major investment in your future. Before making that commitment, it's important to be prepared so you make the right decision.

This guide covers the general steps involved in buying and financing a home. Use it to learn as much as you can about what lies ahead. Then you'll know the right questions to ask later, and you'll feel more at ease navigating your way to home ownership.

- Understand the important advantages of home ownership
- Understand the Federal Government's *Know Before You Owe* mortgage initiative
- Understand your upfront costs
- Determine a purchase price range that's realistic and comfortable
- Know how a real estate agent can help you
- Know the basic principles of home loans
- Understand the paperwork you need for a smooth loan process

Whether you're a first-time home buyer or a repeat home buyer, buying a principal residence, buying an investment property, or a vacation home; the information here will help you open the door to your new home with great joy and satisfaction, knowing you made the right decision.

The Benefits of Buying

Buying a home, rather than renting, comes with many benefits.

A sound financial investment

With each mortgage payment, the money you pay toward the loan principal increases the percentage of your home that you own—your home equity. For example, if your home appraises at $350,000, and your mortgage balance is $250,000, you would have $100,000 in equity.

With each mortgage payment, not only do you increase your personal investment in your home, you also increase your net worth. As your home value increases, so does your equity. Whether you have a 15- or 30-year loan, at the end of that time, the house will be yours. Renters pay every month indefinitely and build no home equity.

Property tax deductibility on your income taxes

You may be able to deduct the mortgage interest and some portion of your local property taxes. The savings could be substantial, especially in the early years of your mortgage when your payments will be mostly interest. Renters do not receive this tax break.

You can make it your own
When you live in a rental, there is usually very little you can do to customize your interior space. Renters are usually restricted—sometimes not allowed to even re-paint walls. When you own your home, you can design and decorate it the way you want. You can develop a feeling of permanence in a place you can call your own.

Getting Started

Know Before You Owe

The Consumer Financial Protection Bureau (CFPB)'s Know Before You Owe mortgage disclosure rules are designed to make sure you, as a consumer, have the information you need, in a form you can easily understand and use, before making a buying decision. Your lender will provide these simplified forms to you when applying for and closing on a mortgage. The rules also allow you more time to review your mortgage documents. See more information at the CFBP's website, consumerfinance.gov.

The Loan Estimate and Closing Disclosure were implemented to ease the process of taking out a mortgage and to ensure you know before you owe.

Loan Estimate: A Loan Estimate tells you important details about a mortgage loan you have requested. Review your Loan Estimate to make sure it reflects what you discussed with the lender. If something looks different from what you expected, ask why. Request multiple Loan Estimates from different lenders so you can compare and choose the loan that's right for you.

Closing Disclosure: Use this tool to double-check that all the details about your loan are correct. Lenders are required to provide your Closing Disclosure at least three business days before your scheduled closing. Use these days wisely—now is the time to resolve problems. If something looks different from what you expected, ask why.

Understanding Your Credit History

Your credit score is a determining factor in your ability to secure a loan and to repay it. Your score is based on the information in your credit report. It's very important to understand your credit report and know your credit score before you work with a lender.

When you apply for a mortgage loan, your lender collects as much information about your finances as possible and decides whether lending you money is a good risk. A higher credit score increases your chances of approval for a loan. It's critical to make sure your credit report is accurate.

By law, you're allowed to receive one free copy of your credit report per year from each of the three major credit reporting agencies—Equifax, Experian and TransUnion. To get your free credit report, go to AnnualCreditReport.com.

> Find additional information on Tower's website (see Advice & Planning) about how to improve your credit and maintain good credit as well as on other sites like myfico.com and creditreport.com.

Calculating Your Budget and Expenses

Before you start your home search, it's important to get an idea of how much a lender will be willing to give you to purchase a home. The amount will depend on factors like how much overall debt you have, your monthly income and how long you've been with your current employer.

To determine how much home you can afford, you first need to understand how to calculate your debt-to-income ratio and know what is included in your monthly mortgage payments.

Debt-to-income ratio

A debt-to-income ratio is one of the first ways lenders measure your ability to manage mortgage payments. A low ratio shows you have a good balance between debt and income—so lenders like to see a number between 41 percent and 45 percent. Some lenders have stricter guidelines, so the lower your ratio, the better your chances of a loan approval.

To calculate your debt-to-income ratio, add up all of your monthly payments—your new mortgage payment, minimum monthly payment on your credit card bills, car payments and all other debts, and divide the total by your gross monthly base income (generally, the amount of money you've earned before your taxes and other deductions are taken out).

> Take a look at Mortgages at towerfcu.org. You'll find information and calculators to help you determine how much home you can afford, what your payments will be and what the most advantageous term is for you. Speak to a Tower loan advisor to help you calculate your income and expenses and to determine what you can afford. For assistance, call **301-497-7000 or 866-56-TOWER**.

Monthly payment

PITIA is an acronym lenders use to describe the different components that make up your monthly mortgage payment—principal, interest, taxes, insurance, and Association fees.

Principal: The actual amount of your loan before the interest is added. A portion of the principal is usually paid off with each mortgage payment, thereby gradually reducing the outstanding balance you owe and increasing your home equity.

Interest: The amount a lender charges you for borrowing the money to buy your home. It's given in terms of a percentage of the outstanding principal.

Initially, the largest part of your mortgage payment goes toward paying the interest. However, as time goes by, more of your monthly payment goes toward paying the principal and less toward paying the interest. Your mortgage rate can change periodically if you have an adjustable-rate mortgage.

> For Tower's current mortgage loan rates, call the Member Service Center at **301-497-7000 or 866-56-TOWER** or check towerfcu.org.

Taxes: Many home owners also pay their real estate taxes as part of their mortgage payment. The lender passes these on to the local municipality (state, county, and city or town) to pay for community schools, roads, police and other services. Taxes can be a significant part of your total mortgage payment, and tax rates can vary significantly from area to area. So it's wise to find out the local tax rate before you purchase a home.

Insurance: First is your home owner's insurance, which may be collected by your lender and paid to your insurance company. Typical home owner's insurance protects your home and property against fire or other damage. Secondly, you may be required to have private mortgage insurance to protect the lender if you default on your loan.

Association Fees (Homeowner Association Fees): Fees charged by a homeowner's association. HOA's are organizations that are created to set up and enforce rules typically in planned communities, subdivisions or Condominium Complexes. Real estate contracts should contain special addendums that disclose these fees and give the buyers an opportunity to review the homeowner's/condo association rules and regulations.

Home owner's insurance

Many lenders require that you get a home owner's policy before settlement. 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

You may need to pay private mortgage insurance to your lender if your down payment is less than 20 percent of your home's purchase price. Private mortgage insurance monthly premiums vary based on your type of mortgage loan.

The premium is added to your monthly mortgage payment.

Before you commit to paying for mortgage insurance, find out the specific requirements for cancellation. Mortgage insurance should not be confused with mortgage life, credit life, or disability insurance, which are designed to pay off a mortgage in the event of a borrower's death or disability.

For most mortgage loans, private mortgage insurance may be removed when you've paid enough principal to own more than 20 percent of the house.*
Ask your lender if there are other conditions that apply before private mortgage insurance may be eliminated.

*Based upon the original value of the property.

Calculate your Total **PITIA**

P Principal + **I** Interest + **T** Property Taxes per month + **I** Insurance per month + **A** Association Fees

= Total **PITIA**

Your total debt obligations (PITIA, student loans, car loans, credit cards) should be no more than 45% of your gross monthly income. This percentage is a guideline and may vary by lender. Low down payment mortgages may have a stricter debt-to-income ratio requirement.

Money Down

Now that you've calculated your budget and expenses, the next step is to consider your down payment and closing costs.

Down payment

The down payment is a percentage of the purchase price of the home. You pay it at final settlement. Most buyers make a down payment on a new property. The down payment is not included in the loan amount.

Some lenders have special, low down payment programs as low as $0 money down. Lenders may require 5 percent to 20 percent of the home purchase, depending on the type of mortgage loan. The higher the down payment, the lower your mortgage loan will be. You may be required to have your own funds for the down payment.

> Tower's low down payment financing option removes the high down pament obstacle from buying your dream home, especially for first-time home buyers. Talk with a loan advisor for eligibility details. Not available in all states.

Many first-time buyers just starting out get help with the down payment and/or closing costs. Your lender will ask to see a letter verifying this money is a gift, not a loan.

A gift letter is a letter or form verifying that part of the down payment and/or closing costs is supplied by someone other than the borrower (usually from family, fiancé or domestic partner) as a gift that does not have to be repaid.

According to the CFPB, some kinds of mortgage loans do not permit you to use gifts for your down payment. The CFPB also says you must present your lender with a signed statement saying the money is a gift and not a third-party loan. Ask loan officers whether gift funds are allowed and what documentation of the gift is required for the mortgage options you are considering.

Loan Consummation

The closing (or settlement) is the final transaction to home ownership. It involves signing documents and paying costs associated with settlement, which could range from 3 percent to 5 percent of your mortgage amount.

In addition to various lender fees, closing costs include charges for property appraisal, escrow payments, a deed recording fee, and other items. The closing costs are due in full on closing day. Your lender will provide detailed information about your closing costs 3 business days prior to closing.

Choosing the Best Mortgage

A mortgage is a critical part of the home-buying process. When choosing the mortgage loan that best meets your needs, consider the following:

- The length of the term
- Whether the rate is fixed or adjustable
- The available rates, point scenarios and rate lock period
- The closing costs
- The length of the mortgage application and approval process
- Required documents and application deposit
- Loan servicing

Mortgage Options

When shopping for your loan, you'll find a wide variety of mortgage options. The type of loan you select and the interest rate will not only influence your total settlement costs but will also determine your monthly mortgage payment. Discuss the different options available with your lender.

Mortgage loan types

Most mortgages fall into two categories. A fixed-rate mortgage has repayment terms where the monthly interest payment does not change over time. A variable or adjustable-rate mortgage has an interest rate that can change periodically over the term of the loan.

VA loans

Veterans Affairs (VA) home loans are provided by some banks and mortgage companies. The VA guarantees a portion of the loan, enabling the lender to provide you with more favorable options, such as low or no down payment.

Low down payment loans

Some lenders offer low down payment loans. You may be able to pay as little as zero percent to five percent down.

Jumbo loans

A jumbo loan exceeds conforming loan limits set by the federal agencies, Fannie Mae and Freddie Mac. A jumbo mortgage is one way to buy a high-priced or luxury home. If you have a low debt-to-income ratio, a high credit score, and a large down payment, a jumbo loan may be right for you.

Loan Terms

The length of time you have to repay a loan is called the term. Most mortgages are 30-year loans. There are also 10-, 15- and 20-year options. In general, the longer the term of the loan, the lower your monthly payments will be.

You may be able to reduce your interest rate from your lender when you “pay for points” to lower your monthly payment. One point costs 1 percent of your loan amount and will reduce your interest rate. For example, if the amount you borrow is $200,000, one point is $2,000. Points are assessed at closing and are also referred to as loan origination fees or discount points.

Tower has mortgages to fit your needs.

Fixed-Rate Mortgages
30-, 20-, 15-, 10-year fixed

Adjustable-Rate Mortgages
1/1, 3/1, 5/1, 7/1 ARMs

Jumbo Mortgages
Visit towerfcu.org for loan amounts

Little to No Money Down
For many buyers, having the funds for a down payment is one of the biggest obstacles to purchasing a home. Tower’s low down payment financing options help remove this obstacle, especially for first-time home buyers. See Mortgages at towerfcu.org for more details. Not available in all states.

Subject to application and credit approval. Not all applicants will qualify for 97% and 100% financing. Private mortgage insurance, homeowner’s insurance, flood insurance (if applicable) required. Other terms and conditions will apply.

Loan Servicing

Servicing refers to the billing and processing of your mortgage loan payments. Loans are sometimes sold and serviced by a lender other than the one from which you originally borrowed. If this happens, both the original institution and the new holder of your loan are required to notify you.

> When you borrow at Tower, the servicing of your mortgage loan will remain with Tower for the life of the loan.

Preapproval

After you've considered your mortgage options, and before searching for your new home, it's smart to have your loan pre-approved. The pre-approval loan amount will be based on disclosed income, debts and assets.

Your pre-approval letter to the seller shows that you are a serious buyer. In some areas, real estate agents require a pre-approval letter before showing a buyer a house or submitting an offer to the seller. Your pre-approval letter saves you time when house hunting.

> **How to get your Tower pre-approval letter**
>
> - Choose the mortgage loan option that's right for you. Visit Mortgages at towerfcu.org.
> - Begin the online mortgage application online-you'll need to create a User ID and password.
>
> **Important**: Make sure to provide your signed contract immediately to Tower after your contract has been ratified to avoid loan processing delays.

Finding Your Home

Searching Home Listings

Make sure to take advantage of all the available options for finding homes on the market, including using a real estate agent, searching for listings online and driving around neighborhoods that interest you in search of for sale signs. Also, put out feelers with your friends, family and business contacts. You never know where a good reference or lead might come from.

Tower's HomeAdvantage® program, helps you search, buy and sell a home; find an agent; and save money with Cash Rewards.* See Mortgages at towerfcu.org.

- Search MLS home listings
- Save home searches and receive e-mail alerts
- Take virtual tours of properties
- Research and compare prices
- Track market trends
- Get real-time updates
- Choose a local agent
- View recently sold properties
- Check property values
- Earn Cash Rewards*

*See tower.mycuhomeadvantage.com for complete details.

Choosing a Real Estate Agent

The details involved in buying a home can be confusing. Finding the right real estate agent is a great first step toward making the experience much easier to navigate.

Agents are paid on commission—only when a house is bought or sold. They are not salaried or hourly workers. The seller pays the commission. But as a buyer, you can expect to pay an administrative fee.

When you're looking for a real estate professional to help you, look for someone you can relate to, someone who understands your needs and has the expertise and know-how to help you find that perfect home. The more information you can offer about yourself and your needs, the better the service your agent will be able to provide, such as:

- Help you find a house you love
- Inform you about neighborhoods, local schools and public safety
- Make your home search more efficient by narrowing your choices based on your preferences
- Recommend or suggest an offering price or give you an opinion about whether a particular house is priced too high or too low
- Structure the offer with your best interests in mind
- Answer your questions and provide guidance

If you want someone to represent only your interests, look to hire a buyer's agent—one who works with buyers, not sellers. Keep in mind the listing agent's first responsibility is with the seller. If you use the same agent, there could be a possible conflict of interest. Your contract with any agent should allow for an 'out' if you are dissatisfied with the agent.

Real estate agents can provide you with a valuable research tool called the Multiple Listing Service (MLS), a database listing houses for sale in your area, often including pictures and numerous details about each house. Be sure your agent is an MLS member.

With Tower's HomeAdvantage® program, you choose from a network of expert real estate agents who know the local market and will guide you through every stage of searching for and buying a home.

Tower can also recommend an agent. Call **301-497-7000** or **888-56-TOWER**.

Identify "Must Haves"

Everyone's idea of a "dream home" differs, so it's important to make a list of the features and options you would like in a home. Consider your priorities: pricing, location, style, size, amenities. Would you prefer a large kitchen or an extra bathroom? Would you trade a bigger yard for a shorter commute? Share your priorities with your agent. This will help your agent limit the search to only those homes truly of interest to you.

Neighborhood Research

No one neighborhood is right for every buyer. Determining which community meets your needs and your budget requires research. Consider these factors as you narrow your search:

- Quality and availability of schools and libraries
- Proximity to work, major highways and mass transportation
- Immediacy of shopping, religious centers, hospitals, recreation facilities and parks
- Property tax rates, utility and other community expenses as compared with similar homes in other neighborhoods (i.e., association fees, snow and trash removal, common ground maintenance)
- The condition of other properties in the neighborhood
- A list of recently-sold homes in the neighborhood
- Market trends (pricing, demographics) of homes sold in that neighborhood

Where to Search for Your Home

Many buyers today start searching for a new home on home search Web sites. You can request e-mail alerts from the site, which will notify you when a home that fits your list of priorities comes on the market. Most home listings are now available online, making it more convenient to view homes that meet your specifications. Although you can find volumes of useful information online, it's a good idea to talk with an experienced agent who will focus on your best interests.

You can evaluate a home first by looking at photos and a description online. In many cases, online home listings show virtual tours or videos that give you the opportunity to see more.

> Tower's HomeAdvantage® program provides you with up-to-date MLS listings to find homes with the features you want. To register with HomeAdvantage, call **301-497-7000 or 866-56-TOWER**.

Making an Offer

Once you select a house, you'll make an offer to the seller, and, if accepted, secure a contract to buy the property.

Your real estate agent will write the offer, which will include the purchase price, the type of financing, any contingencies (such as a home inspection) and the proposed closing date. You and your agent will work together to determine your offer price based on a number of factors—the most important of which are the comparable sales figures, or comps. This is a list of similar properties in the area that have recently sold.

Along with the offer, you'll typically include an earnest money deposit, a nominal amount to show that you're serious about the purchase. This deposit will become part of your down payment, the total amount of cash for the home purchase that is not financed. This deposit should be placed in an escrow account—maintained by a third party. The seller may accept your offer to purchase, reject it, or make a counter-offer.

If the seller wants to change any part of the offer, you may receive a counter-offer specifying those changes. You have the option to accept the counter-offer, decline it, or present a new offer.

Contingencies and Other Provisions

Your offer also spells out contingencies or conditions 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.

Professional house inspection

For your own protection, this is the time to hire a qualified professional home inspector who will evaluate the physical condition of the structure and the mechanical systems of the house, or any items that should be repaired or replaced.

Ask if your inspector is licensed as many states don't require certification. For specifics, consult your real estate agent and/or attorney. You can find an inspector through the American Society of Home Inspectors at ashi.com, along with a list of states that require licensing.

It's a good idea to be present for the home inspection so the inspector can address any concerns or questions you may have.

Obtaining financing

This contingency states that the offer depends on whether you can obtain mortgage financing for a stated amount at acceptable terms. It also will state how long you have to obtain financing. If you have a preapproval from your lender, you're a step ahead.

An appraisal
Before issuing you a mortgage, the lender will require a professional appraisal to be sure the house has sufficient value. An appraisal contingency will specify that the appraisal be ordered within a certain amount of days. Sometimes, a contract will require that if the property does not appraise high enough, the buyer may withdraw the offer.

Additional inspections
You may want to have other inspections and tests performed, such as lead-based paint tests, radon tests and furnace heat exchanger inspections. In some parts of the country, lenders will require a termite inspection. When you're buying a new home with a well water system, lenders require a well inspection. Contact your local public health department for more information.

You may want to insert other provisions into your offer. For example, you might stipulate that the owner repair a cracked window before the closing date. Also, if certain items in the house are included in the sale, be sure this is written in the contract.

Finalizing Your Financing

Now that you have found your home and your contract to purchase has been accepted, you are ready to finalize your mortgage financing. The loan preapproval you obtained from your lender gives you a head start on completing the loan process.

The Steps You Take

- Send your contract to your lender
- Pay the mortgage loan application fee
- Provide verifying documentation.
- Select a title company to handle settlement
- Secure funding for closing costs

Your mortgage lender will require certain documents, such as paystubs, W-2s, and bank statements. They will verify the information you have provided and will contact you if additional information is needed.

The Steps Your Lender Takes

- Reviews your contract, finalizes the mortgage loan amount, and locks in your mortgage rate
- Sends you an estimate of the closing costs
- Schedules the property appraisal, flood-prone area assessment and title search
- Sends you a request for necessary documents including pay stubs, bank statements and conditions for loan approval
- Sends you a copy of the property report final appraisal valuation

- Works with the title company to finalize settlement preparation and documents
- Provides a Closing Disclosure outlining your final closing costs

Once your loan is approved, your lender will schedule your closing.

Final Closing

What to Expect

The final closing transfers home ownership from the seller to you and completes both the real estate sale and mortgage transaction. You sign all the necessary documents and the deed and deed of trust (also known as mortgage in some states) are sent for recording to the county courthouse. Closing procedures may be held at the title company's office, lawyer's office, real estate agent's office or lender's location.

As the buyer, it's your choice to select the title company that will handle your real estate title and settlement services at the final closing. Your title company will represent you and protect your interests.

Title search

When you purchase your house, you receive "title" to the home. Certain title services will be required by your lender to protect against liens or claims on the property. Title services include the title search, examination of the title, preparation of a commitment to insure, conducting the settlement, and all administration and processing services that are involved within these services. Many lenders require a lender's title insurance policy to protect against loss resulting from claims by others against your new home. A lender's title insurance policy does not protect you.

If a title claim occurs, it can be financially devastating to an owner who is uninsured. If you want to protect yourself from claims by others against your new home, you will need an owner's policy. To save money on title insurance, compare rates among various title insurance companies.

> When it's time to close on your new home loan, Tower Title Services will make your closing quick, easy and seamless. Call **301-497-7000** or **866-56-TOWER**, or e-mail towertitle@towerfcu.org.

Preparation

As soon as you receive your lender commitment letter, you should confirm that everything is on schedule for closing. Be sure to provide all documentation the lender requested. Your real estate agent will arrange a walk through of the home before closing to make sure it looks as you expected and is in move-in condition. This final inspection gives you the opportunity to verify the seller has completed all repairs agreed to in the sales contract. Check for damage you didn't notice before. Make sure all appliances and systems are working and that any items the seller agreed to leave are in the house.

Prior to closing, you'll receive a Closing Disclosure showing you the final figure and a breakdown of all the closing costs (you received a Loan Estimate shortly after your loan was approved). Look over the disclosure to be sure all is in order. Bring your home owner's insurance policy and/or receipt showing payment (usually for the first year's premium) to settlement.

Closing documents

The closing agent will conduct the closing and explain each of the forms as you sign them. Bring a certified check for the closing costs, including the balance of the down payment.

Make sure you carefully read and understand all the documents before you sign them and question the closing agent if anything is not clear.

At closing, the buyer and seller each pay for certain closing costs. Who pays which costs depends on the custom in the area where the home is located and on negotiations between you and the seller. Other costs may include:

- Charges for appraisal
- Structural pest inspection
- Loan document preparation
- Credit report
- Tax Service
- Title Search
- Title Insurance
- Hazard Insurance

Escrow

Escrow is an account separate from the mortgage account. It holds deposit of funds safely for payment of certain conditions that apply to the mortgage, usually property taxes, home owners and flood insurance, so the lender can pay those bills when they come due.

Congratulations!

After all the documents are reviewed, explained, signed and exchanged and the seller is paid, you—the buyer—will be handed the keys to your new property.

Don't forget to ask for keys to the mailbox and shed, the remotes for the garage door opener and security codes, if any.

You will receive ownership of the home in the form of the deed. The deed/title and deed of trust (or mortgage, in some states) will be recorded with the town or county clerk. The closing process is complete. You have just purchased your new home.

To speak with a Tower loan advisor or to apply for a mortgage loan, call **301-497-7000** or **866-56-TOWER**.

To apply online or for current rates, visit Mortgages at towerfcu.org.

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