

Opening the Door to Your New Home



A Guide to Buying and Financing.

Contents

Navigating Your Way to Home Ownership.....	1
Getting Started.....	3
Finding Your Home.....	9
Finalizing Your Financing.....	12
Final Closing.....	13

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 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 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 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 repaint 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.



A Closer Look at Tax Breaks

When tax season comes around you'll be happy you made the decision to buy a home. For your state and federal taxes, you may be able to deduct your mortgage interest and property tax.

Mortgage interest

If you itemize deductions, you may be able to deduct the interest you pay on your mortgage. Because the bulk of your monthly mortgage payment goes toward interest—especially in the early years of home ownership—all that interest may be deductible.

Points

If you pay points to get a lower rate on a home loan, there is a tax break. The IRS allows you to deduct points in the year you pay them.

Property taxes

You can generally deduct taxes that you pay on your property the year you pay them.

Additional tax breaks

The IRS often provides a number of other tax breaks, which expire in one year or are only for home buyers in certain categories. Check with a tax advisor or the IRS Web site—irs.gov—for more information.

Interest tax breaks don't end with your home's first mortgage. If you decide in the future to refinance or establish a home equity loan or line of credit, this interest may also be deductible.

Getting Started

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 Web site 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, credit card bills, car payments and all other debts, and divide the total by your gross monthly income (generally, the amount of money you've earned before your taxes and other deductions are taken out).

Take a look at Home Loans 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. Call 301-497-7000 or 800-787-8328, select Mortgage Loans, option 6.

Monthly payment

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

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 800-787-8328 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.

Home owner's insurance

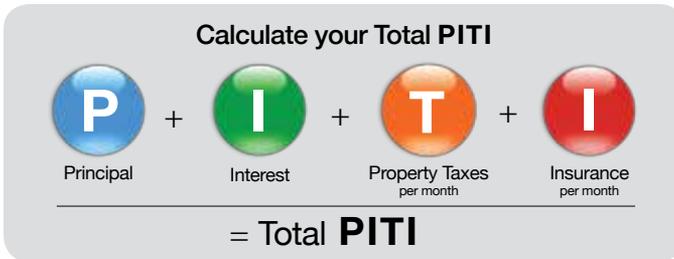
Many lenders require that you get a home owner's policy before settlement. You must have a policy in place by closing day. Your lender might require you to pay the entire first year's premium at closing.

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.



Your total debt obligations (PITI, 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 for first-time home buyers. 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.

Many first-time buyers just starting out get help from their parents or other relatives with the down payment. Your lender will ask to see a letter verifying this money is a gift, not a loan.

Tower's 100% financing option removes the high down payment 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.

Closing costs

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 prior to closing.

Prequalification vs. Preapproval

Following the personal assessment of your financial situation, you need to know how much house you can afford. You may encounter the terms “preapproval” and “prequalification” as you do your homework on buying a house. It’s important to understand the difference between these terms—they are not the same, although many people confuse them.

Prequalification simply involves a rough calculation of the mortgage payment you can afford.

Preapproval means you’re essentially approved for the mortgage loan as long as your financial situation remains the same and necessary documents can be verified. The lender determines that you are eligible for a mortgage of a certain amount. Sellers like preapproved buyers because there’s less risk the deal won’t go through due to financing issues.

Get preapproved for a mortgage loan from Tower before searching for a new home. A loan advisor can help you fill out the loan application. Call 301-497-7000 or 800-787-8328, select Mortgage Loans, option 6. To apply online for preapproval, visit towerfcu.org, go to Home Loans and select Get Preapproved under Mortgages.

So why is it called preapproval, rather than approval? Before making a final commitment to you, the lender must verify your information regarding salary and assets. Also, the lender needs to see a professional appraisal of the house to be sure its value is at least equal to the selling price. Your lender usually can give you a preapproval in a short time, often immediately after you apply for a mortgage loan. It's important to note that obtaining a prequalification or preapproval from a lender does not obligate you to get a loan from that lender.

	Prequalification	vs.	Preapproval
Cost	No fee or obligation to you		No fee or obligation to you
Results	A ballpark loan estimate		Credit-approved loan amount
Credit Check	No credit check		Includes a credit check

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 3 percent to 5 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 can 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, 7/23 ARMs (30 year)

Jumbo Mortgages

For loan amounts up to \$848,200

100% Financing—Little to No Money Down

Tower's 100% financing option removes the high down payment obstacle, especially for first-time home buyers. Not available in all states.

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.

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, in partnership with CU Realty Services, gives you a wealth of information. See towerfcu.org.

- ▶ Search MLS home listings
- ▶ Save home searches and receive e-mail alerts
- ▶ Research and compare prices
- ▶ Track market trends
- ▶ Research communities
- ▶ Get real-time updates
- ▶ Choose a local agent
- ▶ Earn a rebate

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.

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 Realtors® 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 800-787-8328, select Mortgage Loans, option 6 to speak with a loan advisor.

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



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 800-787-8328, select Mortgage Loans, option 6 to speak with a loan advisor.

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, such as draperies or a dishwasher, make sure this is written into 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
- ▶ Select a title company to handle settlement
- ▶ Secure funding for closing costs

Your mortgage lender 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 appraisal report
- ▶ Works with the title company to finalize settlement preparation and documents
- ▶ Provides a settlement statement 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 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 800-787-8328, 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 statement showing you the final figure and a breakdown of all the closing costs (you received an estimate shortly after your loan was approved). Look over the statement 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 and 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 title and mortgage will be recorded with the town or county clerk. The closing process is complete. You have just purchased your new home.



Notes:

To speak with a Tower loan advisor or to apply for a mortgage loan, call **301-497-7000** or **800-787-8328** and select Mortgage Loans, option 6.

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



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All information is current as of January 2015 and is subject to change.



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