



The ABCs of Buying Your  
**FIRST**  
*Home*



**MOUNTAIN  
AMERICA**  
CREDIT UNION



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**Introduction**

**Nothing like the feeling  
of homeownership**

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Owning a home has long been described as the fulfillment of the American dream. It ranks high among the many milestones of life, such as graduating and earning your first paycheck.

When you buy your first home and stop renting, you're taking an important step on the path to financial security. Making a mortgage payment rather than a rent payment means you are building wealth in three ways:

**First**, as you pay down your home loan, you're gradually building equity. This equity can be used when you sell the property or as a resource to borrow against. You can use it for a down payment on another home, debt consolidation, home upgrades, emergency expenses and more.

**Second**, you can usually reduce your federal income tax burden by deducting some of the costs of homeownership such as the interest you pay on your mortgage.

**Third**, while there's no guarantee, and home values fluctuate by location and over time, historically, most homes increase in value at an average of 3% to 5% annually. This increase in value is called appreciation. The money you spend each month paying down your loan balance combined with property appreciation means, when you're ready to move again, you'll have a financial gain to show for years of home payments.

*When you buy your first home and stop renting, you're taking an important step on the path to financial security.*

Purchasing property isn't just about money. Most homeowners will tell you what they love about their residence is making it a home—a place they can paint, decorate and remodel as they choose, without requiring permission from a landlord. Building a lifetime of memories in a home of your own can count more than the investment potential of owning property, however, generating a profit is certainly a nice bonus.



Our mortgage specialists at Mountain America will guide you through your homebuying journey from start to finish by helping you to:

- ▶ Get preapproved.
- ▶ Explore mortgage options.
- ▶ Calculate a down payment.
- ▶ Determine the home price you can afford.
- ▶ Navigate the loan process like a pro.

Buying a home is a big leap! We'll be there to answer all your questions, send updates and help make the process easy and smooth.

## Chapter 1

# Homebuying and mortgages—getting preapproved

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Today, virtually all homebuyers get a mortgage preapproval after they decide they want to buy a home, but the best time to get a preapproval is the minute you are considering becoming a homeowner. A preapproval requires talking with a lender and providing documentation of your income and assets with recent paystubs, tax returns and statements from all your bank and investment accounts. Your lender will access your credit report and ask about job history. If you plan on buying your home with another person, such as your spouse or a relative, that person should also be preapproved for a loan.

A mortgage preapproval can make your homebuying process much smoother. First, your lender can review your credit report with you and give you tips on how to fix mistakes or improve your credit score. That process can sometimes take months—so the sooner you start, the better. In addition, your lender will tell you the maximum loan amount you can borrow. While you may not want to borrow up to your limit, it’s important to know your price range before falling in love with a house you can’t afford. One more benefit of having a loan preapproval is that when you find the right house and make an offer, most sellers require proof of your ability to pay for their home before they sign a contract with you. A preapproval letter from Mountain America can lead to a successful purchase agreement.

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**How much can you afford?**

A big dilemma for most first-time homebuyers is deciding how much they can spend. Start with your current budget and rent payments and think about how much you would be comfortable spending monthly on housing. While your lender can tell you your maximum borrowing capacity, you should carefully consider other financial decisions that may not show up on your credit report, such as plans to work fewer hours or for recreational items such as golf green fees or ski lift tickets.



One rule of thumb commonly used by financial experts is that your housing costs should be a maximum of 28% of your gross monthly income. Many mortgage lenders will qualify borrowers at a slightly higher percentage if they have good credit and cash reserves.

Remember that your monthly housing cost includes principal, interest, property taxes, homeowners insurance and other assessments (such as HOA fees or mortgage insurance). If, for example, you have an annual income of \$50,000, which is about \$4,166 monthly, your housing payment could be a maximum of \$1,167. You can estimate your loan payment using Mountain America’s [mortgage calculator](#).

Loans on approved credit.

## Why is your credit score so important?

Lenders have a variety of tools for determining your likelihood to repay your home loan—one of the most frequently used is your credit score. You actually have three credit reports generated by the major credit reporting bureaus (Experian, Equifax and TransUnion) that report on your lines of credit and their limits, balances, minimum payments and payment history. Lenders rely on your credit reports and scores to evaluate your future behavior. To check for accuracy, you are entitled to request a free credit report from each agency annually at [annualcreditreport.com](https://annualcreditreport.com).

The better your credit score, the more options you have for loan products. Many loan programs rely on risk-based pricing, which means your interest rate will be higher if you appear to be a greater credit risk or have a lower credit score. The lowest interest rates are reserved for borrowers with a credit score of 740 or above, up to the highest score of 850. Many lenders approve loans only for borrowers with a credit score of 620 or higher.

While it may take a few months for your credit score to improve, some steps you can take to raise yours include:

- ▶ Pay down your credit card balances to less than 25% of the limit on each card.
- ▶ Bring any late accounts up to date and pay off any late fees or over-the-limit fees.
- ▶ Pay all your bills on time—and pay at least the minimum.
- ▶ Keep your oldest credit line open—closing accounts not only reduces your overall credit availability, but it also means you lose a long payment history.
- ▶ Avoid applying for new credit other than a mortgage.

Your mortgage specialist at Mountain America can also provide individualized suggestions about how to improve your credit score.

## How much cash will you need?

For most first-time buyers, the biggest obstacle is cash for a down payment. When you're paying rent and starting your career, it can be tough to accumulate substantial savings. The good news is first-time buyers have loan options with low or zero down payments. Your loan consultant can help you determine which loan program is best for you. You'll find out more about different types of mortgages in Chapter 2.







While saving, keep in mind that you'll need 2% to 3% of the home price for closing costs, which comes to \$8,000 to \$12,000 on a \$400,000 home. In some cases, you can negotiate with the sellers to pay those costs, but you should be prepared with the cash in case you need it.

You'll have some other reasons to save money before buying a home, such as moving costs and perhaps new window treatments or furniture. You should also budget at least 1% or more of your home value for repairs and maintenance each year. More importantly, you should have an emergency fund of at least three to six months of your housing payment in your savings account in the case of an unexpected financial crunch like an illness, job loss or unplanned travel expense.





## Chapter 2

# Finding the best mortgage for you

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Our mortgage experts at Mountain America are happy to meet with you one-on-one to explore the best loan options for your unique circumstances. There are a variety of mortgages available to homebuyers, including:<sup>1</sup>

- ▶ **100% first-time homebuyer loan:** This loan, available for loan amounts up to \$617,270,<sup>2</sup> can get you into a home with as little as \$1,000 cash and without paying private mortgage insurance (PMI). PMI is insurance paid by the borrower that protects the lender in case of a loan default and is normally required when buyers make a down payment of less than 20%.
- ▶ **Conventional loans:** Conforming loans, as set by Fannie Mae and Freddie Mac, are limited to \$726,200 except in some high-cost housing markets—available with fixed or adjustable rates and a down payment as low as 3%. If you make a down payment of less than 20%, you'll have to pay PMI, but that will be eliminated once you meet certain conditions.
- ▶ **FHA loans:** FHA loans, popular with first-time buyers, require a down payment of just 3.5%, all of which can come as a gift from a relative. These loans also have less restrictive credit guidelines, so they are a good fit for borrowers with less-than-perfect credit. You'll have to pay mortgage insurance upfront and for the entire loan with an FHA loan.
- ▶ **Utah homebuyer programs:** Several loan programs are available to Utah residents with moderate incomes to help them with down payment and low-interest loans. These loans are limited to \$349,500 to 536,900, depending on where you're purchasing a home.
- ▶ **Construction loans:** If you plan on building a new home, Mountain America offers a one- or two-time loan program with up to 95% financing, fixed or adjustable rate loans and a 12- or 18-month construction period.
- ▶ **Lot loan:** If you've found land where you plan to build a home someday, a lot loan can provide you with up to 85% financing for 10 years or for 20 years with a 7-year balloon. Your lot loan can be refinanced as a construction loan when you're ready.
- ▶ **VA loan:** Eligible veterans can take out a VA loan with no down payment and no mortgage insurance. Loans are available with various fixed or adjustable rate terms.
- ▶ **Jumbo loan:** If you have the income and assets to purchase a more costly home and need to borrow more than the conforming loan limit in your area (usually \$726,201), you'll need a jumbo loan. You can borrow as much as 95% of the sales price with a fixed or adjustable rate loan, but you'll need a credit score of at least 680 FICO®.

1. Loans on approved credit.

2. Loan limits may differ based on county limits. Membership required—based on eligibility.



## Chapter 3

# Finding the right real estate agent for you

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Choosing the right professionals to support your homebuying efforts makes the difference between a smooth transaction and a stressful one. Buying your first home works best as a team effort between you, your lender, real estate agent, title company, a home inspector and an appraiser. As a member of Mountain America, you can be assured you are working with a trustworthy and reliable financial partner. When you choose the right real estate agent, you'll find the right home for your needs and budget, and your interests will be represented during the entire homebuying process.

In most of today's real estate transactions, the sellers and buyers each have an agent to represent them. Both real estate agents are typically paid their commission by the seller at the loan settlement, so as a buyer, you essentially have free representation.

You can meet a real estate agent at an open house, but remember, that agent usually represents the seller of the home. If you like this real estate agent but don't want to make an offer on the home, you should add this person to your list of real estate agents to interview. You can also ask for recommendations from family, friends and coworkers or look for a real estate agent who works with buyers and sellers in your preferred neighborhood and price range.

Some real estate agents have particular expertise with first-time homebuyer and will take the time to both broaden the search parameters and narrow the priorities. For example, if your most desirable community has homes priced above your budget, an experienced real estate agent can help you identify the attractive characteristics and find other locations that are more affordable, yet still appealing.

When you decide on a few potential real estate agents to work with, ask the following:

- ▶ Are you a full-time real estate agent? Full-time agents are likely to give you more time and attention than part-time agents.
- ▶ Do you often work with first-time buyers?
- ▶ What price range do you typically represent? Most agents will work with any price range, but a few specialize in luxury homes.

*Choosing the right professionals to support your homebuying efforts makes the difference between a smooth transaction and a stressful one.*



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- ▶ How many sales transactions did you close last year?
  - ▶ Can you help me evaluate the work and expenses of a fixer-upper? Experienced real estate agents can help you decide if a home that needs work is something you'd want to take on. In addition, they can often recommend licensed contractors.
  - ▶ How often should I expect to hear from you while we're looking for a home? Good communication is essential when you're working with a real estate agent, so make sure you establish a comfortable relationship from the beginning.
  - ▶ Can you describe the process for buying a home and the role you'll play? This question gives a real estate agent a good opportunity to explain what you can expect throughout the entire transaction.
  - ▶ Will you be present when I close on a home? Your real estate agent should be present, if possible, just to make sure you understand everything you're signing.



Your relationship with your real estate agent will impact every part of your homebuying experience, so take the time to talk to several agents until you feel confident you've found the right one.




## Chapter 4

# What to do when you find the home you want

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When you have your mortgage preapproval in place, and you and your real estate agent have identified the property you hope to purchase, it's time to make an offer. Your real estate agent can help you determine an appropriate offer, depending on local market conditions, the condition of the home and an evaluation of the homeowner's level of motivation to sell. Whether you're competing against other potential buyers or not, your preapproval letter shows the sellers you are capable of paying for the home. A strong preapproval letter from Mountain America can influence the sellers to accept your offer instead of another buyer's, even if they promise to pay more, particularly if they lack a firm loan approval.

Your real estate agent will help you write a home purchase agreement and advise you on how much to offer as an earnest money deposit. The deposit will be kept in an escrow account and used as part of your down payment. Keep in mind that it is possible to lose your deposit if you fail to follow through with the obligations in the final purchase agreement signed by both you and the sellers. Careful communication with your real estate agent will prevent the loss of your deposit.

Your offer will likely include several contingencies, such as having a home inspection and appraisal and finalizing your financing.

Once the sellers receive your offer, they can accept it, reject it or make a counteroffer with changes to the terms and conditions of the agreement. Your real estate agent and the sellers' real estate agent can help negotiate which items are included with the home, the date of the settlement, the amount of the deposit and the price. You can have an unlimited number of offers and counteroffers until a final agreement is reached or one side decides to walk away from negotiations.

Once you have a purchase agreement signed by both parties, you should ask your real estate agent to recommend a home inspector. It is always wise to have a home inspection, even if you agreed to have an information-only home inspection rather than one that allows you to ask the sellers to make repairs. Attend the home inspection to learn more about the home's systems and appliances, as well as how to maintain them. If the home inspector finds serious problems with the property, you can negotiate with the sellers, through your real estate agent, to fix them or reduce the price so you can make repairs after you own the home. The lender will require proof, often from a licensed professional, that repairs have been completed if they are listed on an addendum. Keep in mind, though, that sellers are not obligated to make cosmetic repairs or replace appliances as long as they work.

Mountain America will hire an appraiser to value your home. An appraisal ensures you don't pay more than the property is worth. If your contract is contingent on an appraisal and the value is lower than the agreed upon price, you can renegotiate the contract or be released from the contract and receive your deposit back. If the appraisal comes in higher than the contract price, you already have additional equity in the property.

## **Congratulations!**

Once you have reached this point, you just need to sign the closing paperwork, and then you'll receive the keys to your new home.

## Chapter 5

# A home run for first-time homebuyers

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For consumers looking to buy their first home, Mountain America is here to help! Thanks to our first-time homebuyer (FTHB) program, you can get into a new house with as little as \$1,000 down. Added bonus—you can have a lower monthly payment because you won't be required to obtain mortgage insurance.

### The smile-inducing benefits of a FTHB loan:

- ▶ Up to 100% loan-to-value financing
- ▶ Down payment as little as \$1,000
- ▶ One low payment
- ▶ No income limitations
- ▶ No private mortgage insurance
- ▶ Loan amounts up to \$617,270—[calculate your payment](#)
- ▶ Seller can contribute up to 3% toward closing costs
- ▶ Payments can be conveniently deducted from your Mountain America checking or savings account each month\*
- ▶ No prepayment penalties
- ▶ Quick Close<sup>SM</sup> electronic closings available
- ▶ Various payment options:
  - ▶ 7/6 adjustable-rate mortgage with a fixed rate for the first seven years and rate adjustments every six months (for buyers who don't plan on living in one place for very long)
  - ▶ 5/6 adjustable rate mortgage with a fixed rate for the first five years and rate adjustments every six months.
  - ▶ 30-year, fixed-rate mortgage (for buyers who expect to stay longer)
  - ▶ 40/15 balloon mortgage with the option to pay off the full balance or refinance at year 15 (for buyers interested in staying longer and having a lower monthly payment)
- ▶ Cheers, screams of joy and sighs of relief



\*Insured by NCUA

### Meet with a mortgage specialist

Please click below to request a free consultation with a Mountain America mortgage specialist.

**Request a  
consultation**



## Additional resources

**Estimate payments with our mortgage calculator.** Use Mountain America's [mortgage calculator](#) to determine how much you can afford to pay for your home. Not only will it help you set a budget for house hunting, but it will also allow you to compare rates and understand the benefits of making a larger down payment or earlier loan payoff.

**Understanding PMI and down payment:** Make the home-buying process less daunting with proper guidance for understanding private mortgage insurance (PMI) and your down payment. [Learn more.](#)

**Give us a call:** Mountain America is here to help. Call us at 1-800-277-7703 to learn about all of your home financing options.

