

The ABCs of Buying Your First Home



MOUNTAIN AMERICA
CREDIT UNION



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Introduction

There Is Nothing Like the Feeling of Homeownership

Introduction: There Is Nothing Like the Feeling of Homeownership

Owning a home has long been described as the fulfillment of the American Dream. When you take on the responsibility for your home from foundation to rooftop, you can take pride in the financial accountability you've demonstrated to get to this point.

Buying your first home ranks high among the many milestones of life such as graduation, earning your first paycheck, getting married and having a baby. Every one of these moments is an emotional high point and a sign of your increasing sense of adult responsibility to yourself, your family and your community.

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

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 indefinitely means that you are building wealth in three ways:

First, as you pay down your home loan, you're gradually building equity in your home that you can access when you sell the property or by borrowing against it. You can use that equity for a down payment on another home, for an investment or to pay for a major expense such as college tuition for your children.

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 that, when you're ready to move again, you'll have a financial gain to show for your years of home payments instead of a handful of rent receipts.

Purchasing property isn't just about money, of course. Most homeowners will tell you what they love about their residence is making it a home—a place that 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 counts even more for most homeowners than the investment potential of owning property, but generating a profit is a nice bonus.

Your method of paying for your home has a big impact—not only on your initial housing payments—but on your entire financial plan. Most first-time buyers opt for a 30-year, fixed-rate mortgage, and within that framework, you have options for loan programs with Mountain America Credit Union at various down payment levels and that match your credit profile. Working with an experienced mortgage professional at Mountain America is crucial to your success as a homeowner. We can help you decide on an appropriate down payment, estimate the cash reserves you need to keep on hand and help you decide what would be a comfortable mortgage payment based on your current finances and your future plans.



Chapter 1

Home Buying and Mortgages: Getting Preapproved

Home Buying and Mortgages: Getting Preapproved

Today, virtually all home buyers get a preapproval for a mortgage at some point after they decide they want to buy a home, but the best time to get a preapproval is the minute you think you want to become 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 your job history. If you plan on buying your home with another person, such as your spouse or a relative, that person also should be preapproved for a loan.

A mortgage preapproval can make the difference between a smooth home buying process and a painful experience. First, your lender can review your credit report with you and give you tips on how to fix mistakes on your credit report or improve your credit score. Sometimes that process can 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 you go house hunting and fall in love with a place 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 will 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 buyers is to decide what you can spend for your home. You can start with your own current budget and rent payments and think about how much you would be comfortable spending on your monthly housing payment. While your lender can tell you your maximum borrowing capacity, you should carefully consider other expenses that may not show up on your credit report but are in your budget, such as plans for one spouse to reduce work to raise your children or for important-to-you items such as golf greens 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 should be a maximum of \$1,167. You can estimate your loan payment using Mountain America's [mortgage calculator](#).

Why your credit score is so important?

Lenders have a variety of tools for determining your likelihood of repaying your home loan, but one of the most frequently used tools is your credit score. You actually have three credit reports generated by the three major credit reporting bureaus (Experian, Equifax and TransUnion) that report your lines of credit with 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 once per year at www.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 you’ll pay a higher interest rate if you appear to be a greater credit risk or have a low 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 of the steps you can take to raise your score include:

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

Your loan consultant at Mountain America can also give you 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 that there are options for minimal-down-payment loans from Mountain America for first-time buyers. Your loan consultant can help you determine which loan program is best for you. In addition to the 100% financing option for first-time buyers, there are zero-down-payment loans for veterans through the Veterans Affairs (VA) loan program or federally-insured loans through the Federal Housing Administration (FHA) program that require just 3.5% as a down payment.

While you're saving, though, keep in mind that you'll need 2-to-3% of the home price for closing costs, which comes to \$4,000 to \$6,000 on a \$200,000 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 you buy a home, such as paying for moving costs and perhaps new window treatments or furniture for your new place. 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 3-to-6 months of your housing payment in your credit union account in case of an unexpected financial crunch like an unexpected illness, major car repair, etc.

The good news is that there are options for low or even zero down payment loans from Mountain America for first-time buyers.

Chapter 2

Finding the Best Mortgage for You

Finding the Best Mortgage for You

A 1-on-1 consultation with a representative of Mountain America can provide you with an individualized exploration of your loan options, but to get a general idea, there are multiple mortgages available for home buyers, including:

- ➔ **100% First-Time Home Buyer Loan:** This loan, available for amounts up to \$275,000, 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 \$417,000 except in some high-cost housing markets and are 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 Home Buyer 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 \$250,000 to \$350,000, depending on where you're purchasing a home.
- ➔ **Construction Loans:** If you plan on building a new home, Mountain America offers a one-time or a two-time loan program with up to 95% financing, fixed or adjustable rate loans and a 9- or 12-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 70% 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 \$417,000), 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 700.

*Loans on approved credit.

Chapter 3

Finding the Right Real Estate Agent for You

Finding the Right Real Estate Agent for You

Whether you're buying your first home or your tenth, choosing the right professionals to support your efforts makes the difference between a smooth transaction and a stressful one. Buying your first home requires a team effort including you, your lender, your real estate agent, your title company, a home inspector and an appraiser. As a member of Mountain America, you know you are working with a trustworthy financial partner. When you choose the right real estate agent, you can feel confident that you'll find the right home for your needs and your budget, and that your real estate agent will represent your interests during the entire home buying process.

In most real estate transactions today, the sellers have an agent to represent them and the buyers have their own real estate agent to protect 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 and don't want to

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make an offer on that 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 buyers and will take the time to both broaden their search parameters and narrow their priorities. For example, if your most desirable community has homes priced above your budget, an experienced real estate agent can help you identify the characteristics of that area that attract you and help you find others that might be more affordable, yet still appealing.

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

- ➡ 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 work often 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.
- ➡ How many sales transactions did you close this year?
- ➡ Can you help me evaluate the work a fixer-upper might need and how much it would cost? Experienced real estate agents can help you decide if a home that needs a little work is something you want to take on. In addition, they can often recommend several 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 relationship from the beginning that you're both comfortable with.
- ➡ Can you describe the process for buying a home and the role you'll play in it? This question gives a real estate agent a good opportunity to explain the entire transaction to you and gives you an idea of what to expect.
- ➡ Will you be present at the closing when I buy 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 home buying experience, so take the time to talk to several agents until you find the right one—someone you feel comfortable with and confident about.

Chapter 4

What to Do When You Find the Home You Want

What to Do When You Find the Home You Want

When you have your preapproval for a mortgage in place, and you and your real estate agent have identified a property that you hope will become your first home, 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 that 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 purchase agreement for the home you want to buy and advise you on how much you should offer as an earnest money deposit. The deposit will be kept in an escrow account and used as part of your down payment, but 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 an appraisal and finalizing your financing. To learn more about the home financing process, please download our ebook, [Manage the Mortgage Process Like a Pro](#).

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 seller's real estate agent can help each side negotiate things, such as which items convey 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 sides, 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 so you can 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 to fix them or reduce the price so you can make repairs after you own the home. 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 that 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 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 paperwork at your settlement and receive the keys to your new home.

An appraisal protects your financial interest in a home and ensures that you don’t pay more than the property is worth.

A Home Run for First-Time Home Buyers

For consumers looking to buy their first home, it's Mountain America to the rescue! Thanks to our oh-so-affordable 100% First-time Home Buyer Loan Program, you can get into a new house with minimal out-of-pocket expenses—as little as \$1,000 down—believe it or not. Added bonus: You can have a lower monthly payment because you aren't required to obtain mortgage insurance.

The Smile-Inducing Benefits of a First-Time Home Buyer Loan:

- ➔ Up to 100% financing (OAC)
- ➔ Down payment as little as \$1,000
- ➔ One low payment
- ➔ No income limitations
- ➔ No [private mortgage insurance](#)
- ➔ Loan amounts up to \$275,000—[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 electronic closings available
- ➔ Various payment options:
 - ➔ 5/1 and 7/1 adjustable-rate mortgage with a fixed rate for the first 5 and 7 years respectively (for buyers who don't plan on living in one place for very long)
 - ➔ 30-year fixed rate mortgage (for buyers who expect to stay longer)
- ➔ Education on the Road to Homeownership**
- ➔ Cheers, screams of joy, sighs of relief

Meet With A Mortgage Specialist

Please visit [our website](#) to request a consultation with a Mountain America loan officer.

*This loan requires enrollment in the Automatic Payment Program.

**“Road to Homeownership” course is required to maintain program eligibility.

Additional Resources

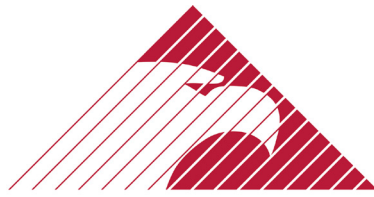
- ➔ **HOW MUCH HOME CAN I AFFORD?** Before you start house hunting, review your finances and determine how much you can realistically pay. Read this short article to learn about a few things to consider. [Learn more.](#)
- ➔ **ESTIMATE PAYMENTS WITH OUR MORTGAGE CALCULATOR:** You can estimate your loan payment using Mountain America's [mortgage calculator](#). Not only will it help you set a budget for your home purchase, but it will allow you to compare rates and understand the benefits of making a larger down payment or earlier loan payoff.
- ➔ **UNDERSTANDING PMI AND DOWN PAYMENT:** Buying your first home? The process can be a little daunting. But with proper guidance, understanding PMI and your down payment are easier than ever. [Learn more.](#)
- ➔ **GIVE US A CALL:** Mountain America is here to help. Give us a call at 1-800-277-7703 to learn about all of your home financing options.



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