FEDERATED EMPLOYEES CREDIT UNION

Home Buying Basics

Topics

- The Buying Process
- Decide to Buy
- Credit Scoring, Fixing and Maintaining
- Finding a Great Loan Officer
  - 4 questions to ask
  - How much can I afford
  - Pre-qualify vs. pre-approved
  - Do's & Don'ts
  - Types of mortgages
  - Documents needed
- Finding a Great Realtor
  - Making the offer
- Final Approval
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- Closing Costs
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The Buying Process:
From Pre-Approval to Close

- Decide to buy
- Find a great loan officer
- Find a great Realtor®
- Look at homes
- Make an offer
- Move in

Decide to Buy

- Why buy?
  - Tax deductions
  - Stable housing costs
  - Appreciation on your investment
  - Gain equity
  - You control your property

Decide to Buy

- Are you ready to buy?
  - Steady income
  - Pay bills on time
  - Low to medium debt
  - Down payment saved or assistance available
  - Ability to pay mortgage

How to repair credit and improve FICO Scores

It's important to note that repairing bad credit is a bit like losing weight: It takes time and there is no quick way to fix a credit score. In fact, out of all of the ways to improve a credit score, quick-fix efforts are the most likely to backfire, so beware of any advice that claims to improve your credit score fast. The best advice for rebuilding credit is to manage it responsibly over time. If you haven't done that, then you need to repair your credit history before you see credit score improvement. The tips below will help you do that. They are divided up into categories based on the data used to calculate your credit score.

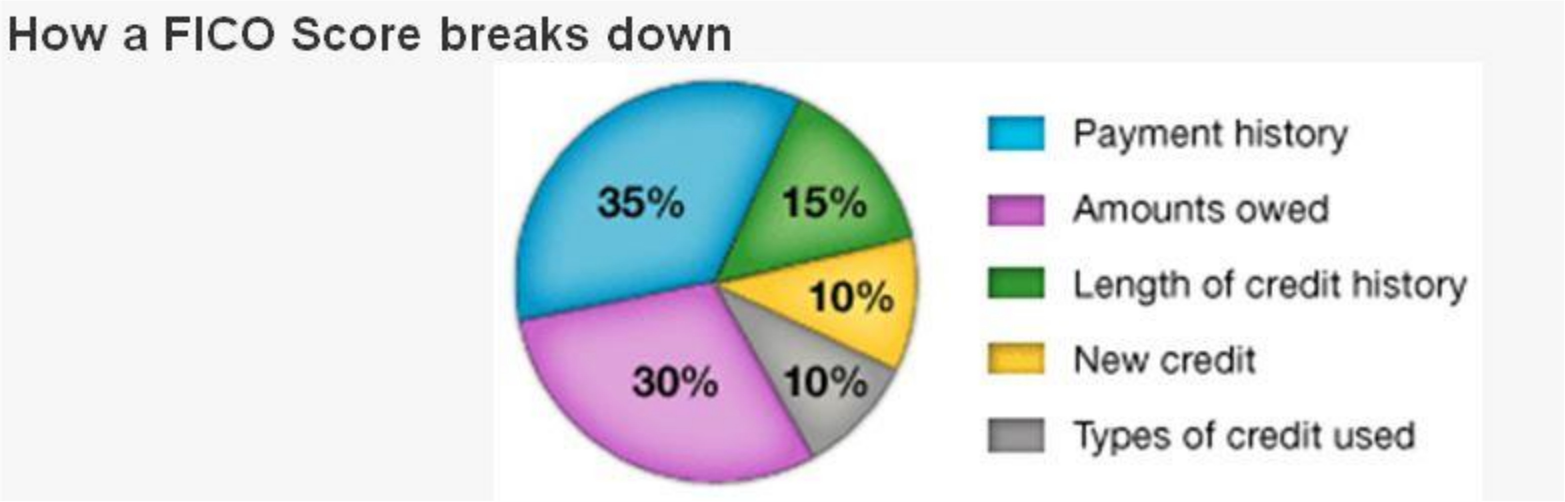
3 Important Things You Can Do Right Now

- **Check Your Credit Report** – Credit score repair begins with your credit report. If you haven't already, request a free copy of your credit report and check it for errors. Your credit report contains the data used to calculate your score and it may contain errors. In particular, check to make sure that there are no late payments incorrectly listed for any of your accounts and that the amounts owed for each of your open accounts is correct. If you find errors on any of your reports, dispute them with the credit bureau.

  Read more about Disputing Errors on Your Credit Report
- **Setup Payment Reminders** – Making your credit payments on time is one of the biggest contributing factors to your credit scores. Some banks offer payment reminders through their online banking portals that can send you an email or text message reminding you when a payment is due. You could also consider enrolling in automatic payments through your credit card and loan providers to have payments automatically debited from your bank account, but this only makes the minimum payment on your credit cards and does not help instill a sense of money management.
- **Reduce the Amount of Debt You Owe** – This is easier said than done, but reducing the amount that you owe is going to be a far more satisfying achievement than improving your credit score. The first thing you need to do is stop using your credit cards. Use your credit report to make a list of all of your accounts and then go online or check recent statements to determine how much you owe on each account and what interest rate they are charging you. Come up with a payment plan that puts most of your available budget for debt payments towards the highest interest cards first, while maintaining minimum payments on your other accounts.

Credit Scoring

- FICO® Scores are calculated from many different pieces of credit data in your credit report. This data is grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining how your FICO Scores are calculated.
- Your FICO Scores consider both positive and negative information in your credit report. Late payments will lower your FICO Scores, but establishing or re-establishing a good track record of making payments on time will raise your score.



These percentages are based on the importance of the five categories for the general population. For particular groups—for example, people who have not been using credit long—the relative importance of these categories may be different.

How to repair credit and improve FICO scores, continued

- **Payment History Tips**

  Contributing 35% to a FICO Score calculation, this category has the greatest effect on improving your scores, but past problems like missed or late payments are not easily fixed.
- **Pay your bills on time.**
  Delinquent payments, even if only a few days late, and collections can have a major negative impact on your FICO Scores.
- **If you have missed payments, get current and stay current.**
  The longer you pay your bills on time after being late, the more your FICO Scores should increase. Older credit problems count for less, so poor credit performance won't haunt you forever. The impact of past credit problems on your FICO Scores fades as time passes and as recent good payment patterns show up on your credit report. And good FICO Scores weigh any credit problems against the positive information that says you're managing your credit well.
- **Be aware that paying off a collection account will not remove it from your credit report.**
  It will stay on your report for seven years.
- **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.**
  This won't rebuild your credit score immediately, but if you can begin to manage your credit and pay on time, your score should increase over time. And seeking assistance from a credit counseling service will not hurt your FICO Scores.

Amounts Owed Tips

This category contributes 30% to a FICO Score's calculation and can be easier to clean up than payment history, but that requires financial discipline and understanding the tips below.

- **Keep balances low on credit cards and other "revolving credit".**
  High outstanding debt can affect a credit score.
- **Pay off debt rather than moving it around.**
  The most effective way to improve your credit scores in this area is by paying down your revolving (credit cards) debt. In fact, owing the same amount but having fewer open accounts may lower your scores.
- **Don't close unused credit cards as a short-term strategy to raise your scores.**
- **Don't open a number of new credit cards that you don't need, just to increase your available credit.**
  This approach could backfire and actually lower your credit scores.
- **Length of Credit History Tips**
- **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**
  New accounts will lower your average account age, which will have a larger effect on your scores if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.
- **New Credit Tips**
- **Do your rate shopping for a given loan within a focused period of time.**
  FICO Scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.
- **Re-establish your credit history if you have had problems.**
  Opening new accounts responsibly and paying them off on time will raise your credit score in the long term.
- **Note that it's OK to request and check your own credit report.**
  This won't affect a score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.
- **Types of Credit Use Tips**
- **Apply for and open new credit accounts only as needed.**
  Don't open accounts just to have a better credit mix – it probably won't raise your credit score.
- **Have credit cards – but manage them responsibly.**
  In general, having credit cards and installment loans (and paying timely payments) will rebuild your credit scores. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.
- **Note that closing an account doesn't make it go away.**
  A closed account will still show up on your credit report, and may be considered by a score.

To summarize, "fixing" a credit score is more about fixing errors in your credit history (if they exist) and then following the guidelines above to maintain consistent, good credit history. Raising your scores after a poor mark on your report or building credit for the first time will take patience and discipline.

Decide to Buy

- What type of home?
  - Type of community
  - Location, location, location
  - New home
  - Existing home
  - Fixer upper
  - Features
    - # bedrooms
    - # of bathrooms
    - Garage type

Find a Great Loan Officer

- Friends and family are great resources but may not be the best partners
- There are professionals in this room to help you every step of the way during what may be the biggest financial decision in your life

4 Questions to Ask

Question: What are mortgage rates based on?

Answer: The only correct answer here is mortgage backed securities or Mortgage Bonds. It is not the 10-year treasury note (which sometimes trends in the same direction but many times does not).

Question: What is the next economic event affecting rates?

Answer: There are a handful of reports issued each month, for example: Jobless Claims, Retail Sales, Retail Sales ex-auto, Producer Price Index, Consumer Sentiment. A great lender will know what report is coming out when and how it could affect rates (otherwise how will you know when to LOCK your best rate?)

Question: What does it mean when the Fed changes interest rates?

Answer: When the Fed changes rates, those are "short-term" rates that affect credit cards, home equity credit lines and auto loans. Long-term mortgage rates tend to move in the opposite direction of short-term rates.

Question: Do you have access to real-time rates and not just a daily rate sheet?

Answer: Yes

Get Pre-Approved

- Before even beginning the process of looking at homes (online or with a Realtor®) … **GET PRE-APPROVED!**

- Your loan officer will work with you to determine how much you can borrow or a payment you are comfortable with.
  - This is determined by your income, credit score, debt-to-income ratio and down payment.

Pre-qualified vs. Pre-approved

- Prequalified is some version of a process where a loan officer takes your name, address, income, and social security number and reviews your credit history. Based upon your credit score and income, they determine how much -- in a perfect world -- you could borrow. Being pre-qualified is **not** a guarantee of obtaining a mortgage.

- Pre-approved is a more extensive and thorough process. A full application, referred to as a 1003, for a mortgage will be completed. Documents required, but not limited to:
  - 2 years W2's
  - 2 most current paystubs
  - 2 months of bank statements – all pages
  - 2 years tax returns – if self-employed
  - Divorce decree – if applicable
  - Student loan information – if applicable

Do’s & Don’ts

Do:

- Do continue to make your rent or mortgage payments
- Do stay current on all existing credit cards and other accounts
- Do keep working at your employer
- Do keep the same insurance agency
- Do continue using credit as usual
- Do call your lender if you have questions or want to change your finances in any way

Do’s & Don’ts

Don’t:

- Don’t make any major purchases
- Don’t apply for new credit
- Don’t open a new credit card
- Don’t transfer credit card balances
- Don’t pay charge-offs
- Don’t pay off any collections
- Don’t close any credit cards accounts
- Don't increase credit card debts
- Don’t consolidate debt or credit cards
- Don’t take out a new loan
- Don’t open a new cell phone account – or any new accounts
- Don’t pay off loans or credit cards unless your lender says it’s ok

Good Faith Estimate and TIL

When you go through the pre-approval process, you will fill out or sign several documents:

- You will be provided a **Good Faith Estimate** and **Truth-In-Lending** based upon the amount you are pre-approved for.
  - This provides you with an "estimate" of the costs you will have when purchasing a home. This can and does change based upon the purchase price of the home and other related factors.

Types of Mortgages

- **Conventional**
  - 10, 20, 15 or 30 year fixed rate mortgage
  - Requires at least 5% down payment
  - Good credit required
- **Adjustable Rate Mortgage - ARM**
  - Interest rate is fixed for 5, 7 or 10 years then adjusts, typically higher
- **FHA**
  - 3% down payment
  - Flexible credit guidelines
- **VA**
  - Loans for military members and military families
- **Special Programs**
  - FNMA 97%
  - My Community Mortgage
  - Additional options may be available

Find a Great Realtor®

- A great Realtor® guides you through the buying process, knows the community, and can provide you with current listings that meet your requirements
- Again, friends and family are great, but find a full-time, professional realtor to represent you
- It costs you little to nothing to have a professional Realtor® represent you
- Yes, you can look at homes online, but a professional Realtor® has the most current listings at their finger tips right when they become available
- A Realtor® listing a home has a responsibility to the seller to sell that home for as much as possible, so find your own Realtor® to represent you as the buyer

Making the Offer

- **What are comparable homes selling for?**
- **What is the condition of the home?**
  - Get an independent inspection done on the home, mechanical systems, and well/septic ,if applicable
- **How long has the home been on the market?**
- **What is the seller's situation? (Close date)**
- **Offer → counter-offer → negotiate price → closing costs → close date**
- **What is Earnest Money?**
  - Borrower writes a check when making an offer (typically $500-$1000) that tells the seller that you are a committed buyer. **It will be cashed** if your offer is accepted and is applied to your closing costs
  - If your offer is accepted and you back out of the deal, you may lose your earnest money

Final Approval from your Loan Officer

- You or your Realtor® will submit your **Purchase Agreement** to your lender
- Lender may require updated bank statements, paystubs, and any other related documents
- Obtain **Homeowner's Insurance**
- Obtain an accurate estimate closing costs from your loan officer in the form of a **Good Faith Estimate**

Locking your Interest Rate

- Once you have a signed **Purchase Agreement**, know your closing date, and are in the final approval process, your loan officer will lock in your interest rate for 30-45 days (or longer, depending upon your close date and rate movement).

- Once your rate is locked in, **your rate remains the same if rates go up or down.**

- Earlier we reviewed **4 questions to ask a loan officer.** This is when their knowledge and answers to those questions can save you thousands over the life of your mortgage.

- Your loan officer will review current rates and economic events that could affect rates, and will advise you on the best course of action.
  - Like the price of gas, rates can make a big leap higher verses a sharp drop lower…if you like the current rate - **LOCK!**

Typical Closing Costs

- Down payment
- Origination fee/points
- Escrow fees
- Interest
- Recording fees
- Appraisal
- Homeowner's insurance (also referred to as Hazard Insurance) – talk to your auto insurance agent
- Mortgage insurance – if applicable
- Title insurance
- Documentation preparation fees
- Other fees may apply

YOU WILL NEED A CERTIFIED CHECK MADE OUT TO THE TITLE COMPANY

Closing Day

- Typically the closing happens at a title company of the seller’s choosing.
- Here you will present any remaining closing costs you have, in the form of a cashier’s check, to the title company.
- You will sign many documents that the closer will walk you through, and provide you a copy of once your closing is complete.

CONGRATULATIONS!