Spirit
FINANCIAL
CREDIT UNION

HOME
BUYER'S GUIDE

14 Steps to Guide You Through the Home Buying Process

1 - Check Your Credit Score

Your credit score is very important when it comes to buying a home. A credit score tells a lender if you have been on time with your debt payments, defaulted on a loan or have had any problems with credit in the past. The better your credit score, the lower the mortgage rate you will qualify for. A higher score gives a lender confidence that you will make your payments on time.

What determines a credit score

Your credit score is based on your payment history (35%), the amount you owe (30%), length of credit history (15%), new credit (10%), and your credit mix (10%). You can be proactive and check your credit report now before you begin the process. Credit reports are kept by three major credit agencies; Experian, Equifax and TransUnion. You are entitled to a free copy of your credit report each year from each of the major credit agencies. You can order your free copies of your credit reports online at annualcreditreport.com.

The higher your score the better your chance of getting your loan and securing a low-interest rate. A credit score above 720 is considered Excellent. 680-720 is considered Good, 620-679 is considered Fair, 580-619 is considered Poor and less than 580 is considered Very Poor. If you find any inaccuracies in your credit report, report them in writing to the credit reporting company. Reviewing your credit report may also help you find ways to improve your score. This might include paying your bills on time all the time, avoiding adding new credit and reducing your debt.

Tips for improving your credit score

- Once you get the free copies of your credit report that we mentioned above, check them carefully for errors. Report any errors you find to the credit reporting company.
- Pay all of your bills on time. Payment history has the biggest impact on your score.
- Lower your credit utilization. Work to pay down debt and reduce the total amount you owe. Keep your credit card balances low.
- Clear any outstanding collection accounts. Contact the creditors about paying off the debt.
- Don’t close unused credit cards, the age of the cards helps with your length of history.
- Don’t open several new credit cards at once. This may lower your credit score.
- Get added as an authorized user on the account of a family member or friend with an excellent credit history.

2 - Determine Your Down Payment Ability

To get the best mortgage rate and terms, you should always try to put a minimum of 20 percent down in the form of a mortgage down payment. When you have 20 percent or higher down payment, it is not only a positive sign to lenders, but might also enable you to fit a pricier home into your budget. How much do you have saved for your down payment? This will also help you determine a price range you can afford. If you can save more for a down payment during this pre-planning phase, do so. Every little bit will help you achieve your goal. This may mean skipping that summer vacation this year or lowering your flexible expenses. Are you borrowing from a parent or relative to help with your down payment? Your lender will want to know, and you will want to document where the funds are coming from.

3 – Do a Little Research on the Home Buying Market

Spending some time online searching through real estate sites or flipping through a local homes for sale magazine will give you an idea of the listing price of the type of home you are looking for. Sites such as Realtor.com, Zillow.com, or Trulia.com can all provide a wealth of information. You'll get a realistic view of what is in your price range and what's not. This will help you when it comes to setting your budget and knowing what you can expect with regards to what you can afford.

4 - Set Your Home-Buying Budget

Before you begin shopping for your first home, you need to determine how much you can afford. You'll want to feel secure in knowing that you are financially stable and can afford the cost of homeownership. The amount of monthly mortgage you will be comfortable with will depend on your income, your debt and your other expenses. According to Consumer Reports, financial planners recommend limiting the amount spent on housing to approximately 25 percent of your monthly budget. Other experts say no more than 28%. Many first-time homebuyers may aim for a higher percentage and eventually find themselves struggling to pay their mortgage. Buying a more expensive house than they can actually afford is the biggest mistake of first-time home buyers.

For your own financial well-being, be realistic with your mortgage budget and leave yourself some room for emergency expenses. When determining your budget, be sure to factor in realtor fees, other fees and closing costs. Costs can include home appraisals and inspections, title insurance, origination fees and more. Don't forget about property taxes, which can be another big expense. Don't forget to take into consideration that amount you can afford as a down payment as well. As we mentioned above, that will make a difference. Working through your budget will also help you to determine if you are financially prepared to buy.

Try Zillow's Mortgage Affordability Calculator to estimate the mortgage amount that works with your budget.

5 - Shop for a Mortgage Loan

After you have an idea of your budget, you'll want to search for a mortgage lender. Shopping for a mortgage loan and mortgage lender always comes before shopping for a home. Getting quotes and speaking to various mortgage lenders will help you better understand the differences between mortgages and the various costs involved with mortgages. Your local credit union always has your financial well-being in mind. Be sure to include your credit union when shopping for a mortgage loan.

Understanding the different types of mortgage loans

A fixed rate mortgage means your mortgage interest rate and monthly payment will stay the same for the entire term of the loan. It gives you a consistent payment you can count on. If you think interest rates may rise, or just like the predictability of having that fixed payment for the entire term of the loan, then a fixed rate may be the right choice for you.

An adjustable-rate mortgage (ARM) is just like it sounds. It has an interest rate that may adjust periodically as index rates rise and fall. An ARM might be good for a buyer who doesn't plan on owning the home for a very long time or isn't bothered by possible rate increases. It's also a good option if you believe interest rates will go down in the future, as your mortgage rate will adjust to the lowering index rate.

Some home buyers may qualify for an FHA (Federal Housing Administration), PHFA (Pennsylvania Housing Finance Agency) or a VA (Department of Veterans Affairs) loan. These loan types may allow a lower down payment and more leeway with a credit score as compared to traditional mortgage loans. Talk to your mortgage lender about your options.

Things to look for when shopping for a mortgage lender

- Compare mortgage interest rates. They may vary significantly by lender. Also, be aware, as mentioned above, some mortgages offer fixed rates and others adjustable. You need to make the best choice for your financial needs.
- Ask about the different types of mortgage loans they offer and what is available for first time home buyers. In addition to a conventional mortgage loan, they may offer a special program for first time home buyers, such as FHA, as we mentioned above. They may offer other types of specialty loans or something specific to their financial institution.
- Ask once you are quoted a rate, how long you will be locked in for that rate and how long a pre-approval would be valid. If you are house shopping, you want to be sure you have enough time to find the right home and close the deal.
- Compare terms – Some homebuyers need a longer repayment period to help create a monthly payment that fits their budget.
- Ask about turnaround times – How long are the turnaround times on pre-approval, appraisal and closing? How long can you expect the mortgage process to take.
- Ask for all lender fees and other costs in writing. Fees may include an application fee, origination fee, credit report, appraisal, mortgage insurance costs, points and more). These costs and fees add up and extremely high fees can outweigh a slightly lower rate in some cases.
- Compare down payment requirements – they may also vary by lender. By now you know what you have for a down payment, so asking what they require will help you understand if you need to add to your down payment or if you're already prepared.
- Finally, you'll want a lender you can trust and a lending institution you can develop a long-term relationship with for all of your financial needs. Your local credit union is a

great place to start as we mentioned earlier. Unlike banks, which are designed to make profits for investors, credit unions are non-profits that are set up to serve a specific membership. Their earnings are used to provide members with lower fees, lower rates on loans and higher rates on savings. They also get to know their members, so it’s easy to build a beneficial relationship.

6 - Get Pre-Approved for a Mortgage Loan

Mortgage pre-approval is when a lender determines if you’re qualified for a mortgage loan. They will approve you for a loan up to a certain amount. It’s also another way to help reinforce the amount you can afford. You’ll complete a mortgage loan pre-approval application, document your income and assets and provide information on your debts. During the mortgage pre-approval process, a lender will review your income, debt, credit history and other factors to determine how much you can borrow. As we mentioned, they’ll be able to help you better understand your price range and monthly payment.

Have all of your documents in order when you begin talking to mortgage lenders. They will need proof of income, tax returns, proof of assets and liabilities, etc. They will request recent pay stubs and employment verification, as well as bank statements to verify assets. Once you have a mortgage pre-approval, you can shop for a home with confidence. A word of caution, once you are pre-approved for a mortgage, don't make any major life changes. This would include a job change or adding additional debt. Lenders will double-check before closing and big changes may affect your pre-approval. An important note, pre-qualification is different from pre-approval. A mortgage pre-qualification can help determine how much someone can afford to spend on a home. It just gives you an idea of a price range you can afford. Pre-approval on the other hand means the lender has checked and verified borrower documentation to approve a specific loan amount. You’ll get a pre-approval letter and be ready to start your search. It tells your realtor and sellers that you are a qualified buyer.

7 - Find an Experienced Realtor You Can Trust

If it’s your first time dipping your toes into the home-buying market, having a qualified realtor helping you can be a real plus. You can begin your search for a realtor as you are working on mortgage shopping and pre-approval. This way you can hit the ground running once you have both in place. An experienced realtor will be able to help you better navigate this new and sometimes confusing journey of home buying and all of the paperwork involved. Finding a good realtor is an important step. You’ll want someone you can trust and who has experience with homes in your price range and in the neighborhoods or areas in which you are searching.

You’ll want to be sure you select a realtor who is properly licensed and committed to upholding the highest level of ethical standards imposed by the National Association of Realtors. Getting referrals from satisfied home buyers is a good place to begin your search. You’ll want to interview several realtors to find the right fit for you. Remember, you’ll be working closely with this person, so you’ll want to be comfortable with their personality, experience and work ethic.

When interviewing potential realtors here are some questions you should ask:

- How long have you been a realtor?
- How many property transactions have you handled?
- How many homes have you helped buyers close in the past year?
- What percentage of your business is working with home buyers? With sellers? If you are buying, you want someone who focuses more on working with buyers.
- What is your average list price to sales price ratio as a buyer’s agent?
- Are there particular types of property in which you specialize?
- Are there particular areas of town or the region in which you specialize?
- How long does it typically take the buyers you work with to find and purchase a home?
- What is your schedule and availability? You’ll want to ensure your realtor has time to focus on helping you find a home.
- Do you work independently or as part of a team? Many agents work as part of a much larger team, so if your agent is busy and you need to see a property, someone else may be able to help.
- How many clients are you currently working with? Again, too many clients may mean a realtor is stretched too thin.
- What do you feel separates you from other realtors?
- Are you a member of the MLS (Multiple Listing Service)?
- Can you help me find other professionals, such as inspectors, title company, etc.?
- How would we keep in contact during the buying process and how often?
- What type of guarantee do you offer?
- Can you provide references? You’ll want several references of home buyers the realtor has assisted.

8 - Determine Your Criteria for a Home

In order for a realtor to help you find a home, he or she will need to know exactly what you’re looking for. You will have definite needs, as well as many wants. For instance, you may need a specific number of bedrooms and bathrooms to accommodate your growing family. There may also be a particular neighborhood you would prefer or a school district you’d like to live in. You may want to be within a certain drive time to your place of employment. You may want a large yard or an in-ground pool. Perhaps you want an open concept main floor or a finished basement. You can browse through some online listings or online photos for ideas. Knowing your priorities for a home is a must.

Think long term when you are working through your criteria. If you plan on expanding your family in the near future, you’ll want to have the bedroom space available to accommodate those needs. You should list your needs and wants in order of importance. If commute time is your number one priority, it should be top of your list. Also, if you prefer your new home in move-in condition, or if you’ll consider minor repairs or even major renovations for a lower price. The better armed your realtor is with the knowledge of your needs and wants, the better your chances of finding the right home for you. Once you have your realtor hired, you will provide him or her with your home buying budget and your criteria.

9 - Begin Shopping for a Home

Now it's the time you've been waiting for. You're ready to begin shopping for your first home. Be patient, because it may take months and months to find that house of your dreams. You'll one a home that checks all of your needs boxes, as well as most of your wants. This is where your realtor comes in. They will be able to narrow down your search and present you with homes that best fit your criteria. You'll spend your time looking at the houses that best you're your needs. You'll want to tour many houses to learn more about what you like and don't. It will be a long process, but worthwhile in the end.

10 - Make an Offer and Negotiate

Once you find the house you want, your realtor will make an offer and your realtor will begin negotiations to try to get you the best price. An experienced realtor will know what the house should sell for. Negotiations may take multiple rounds of offers and counteroffers to come up with a price that satisfies both the buyer and the seller. Once you agree on a price, you're considered under contract to buy the house.

Things to consider when making an offer

- How motivated is your seller? A good realtor will find out why the seller is selling.
- Is it a buyer's market? If there is an overabundance of homes on the market, sellers may be willing to come down more than if it's a seller's market. Again, your realtor will advise you.
- Don't just negotiate based on the cost of the home, but on the total cost of the transaction and the total cost of actually owning the home.
- Be realistic when making an offer. An extremely low-ball offer may insult the seller.
- Respond to counteroffers in a timely manner. Delays in responding may open the door for other buyers.

11 – Schedule a Home Inspection

Once your offer is accepted, you'll want to have a home inspection as soon as possible. The purchase agreement may stipulate a certain amount of time you have to have your inspection complete. Again, you'll want to do this as soon as possible. Your realtor will be able to help you by referring an experienced home inspector if you don't already have one. Although your mortgage lender will require a home appraisal, you always want to have your own home inspection performed. Once a home inspection is complete, you may need to go back to the negotiation table if there is need for major repairs, such as a new roof, plumbing issues or other significant problems.

A home inspection checklist

- Thermostats and heating, cooling, and ventilation (HVAC) system
- Roof and chimney
- Electrical systems
- Plumbing

- Foundation
- Attic space
- Exterior
- Water drainage and disbursement
- Walls, ceilings and floors
- Doors and windows
- Walkways and driveways
- Garage
- Noxious gasses
- Asbestos
- Lead paint

12 - Contact Your Mortgage Lender & get an Appraisal

If all is well with the house and the contract is signed, contact your mortgage lender to get moving on all of the paperwork. If you've already been pre-approved for your mortgage and nothing has changed with you financially, this should be a breeze. Your lender will schedule a home appraisal to evaluate the home's worth. The appraisal will let your lender know you are paying a fair price for the home or if you are over-paying.

13 – Complete all of the Required Paperwork

Your realtor and lender will help you handle all of the paperwork that you need to close on your new home. It can be overwhelming because there is lots of paperwork involved with buying a house.

14 - Close on your new home

You'll always do a final walkthrough of the home just prior to closing. It's especially important if certain repairs were required to be done. If all is as it should be, you'll meet and signs all of your required paperwork and then get the keys and move into your new home.

Spirit Financial Credit Union Mortgage Loans

If you are a member of Spirit Financial Credit Union, you are able to take advantage of Spirit's low-rate mortgage loans. Spirit Financial Credit Union offers competitive rates on traditional mortgage loans, as well as FHA Loans, VA Loans, PHFA loans and construction mortgage loans. Spirit Financial also offers mortgage loan pre-approval. Learn more about Spirit Financial Credit Union's mortgage loans and see current mortgage interest rates.

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