HOME BUYER'S GUIDE

An overview of easily navigating the home buying process.

Benchmark
Federal Credit Union

A Guide for First Time Home Buyers

You are about to embark on one of the biggest investments of your life and the mortgage specialists at Benchmark Federal Credit Union would like to help you navigate through the long process of purchasing your first home. Knowledge is power when buying your first home. From knowing if you are financially prepared and understanding the first steps to selecting the right professionals to help along the way and being fully prepared to close the deal. At Benchmark Federal Credit Union, we want to help you realize the dreams of owning your first home. There are many things you will need to do to prepare before your home search even begins. Here are some important considerations to help you along the way.

Are you financially ready to purchase a home?

The first-time home buying process all starts with this important first question, can you afford to buy a home? If you believe you can, then it's time to determine how much you can afford. An affordable mortgage will be determined by your income, your budget (income vs. expenses), and the total you have saved for a down payment. A mortgage lender can help determine a mortgage amount in your range and start you on the important process of mortgage pre-approval. You can also find various mortgage calculators online at the Benchmark Federal Credit Union Mortgage Center to help you determine monthly payments based on various mortgage amounts, rates, and terms. You can find current rates; as well as sign up for our rate watch.

Understanding your credit score

Your credit score will also come into play when preparing to purchase your first home. You may not have focused much on your credit history in the past, but now it's an important factor in realizing your home-buying goals. A higher credit score means a better loan rate; as well as a better chance of getting approved for your mortgage loan. Even a small rate difference on a mortgage loan can make a significant impact over the life of the loan. Your credit score can determine whether or not that is a positive impact or negative, depending on the rate you qualify for.

First, request a free copy of your credit reports from each of the three major credit-reporting agencies – Equifax, Experian, and TransUnion – one time each year. Access your reports at https://www.annualcreditreport.com/index.action. Once you receive your reports, review them carefully. You will want to check for any incorrect information or other errors. If you find any errors, be sure to report them to the individual credit reporting agencies.

Next, it's important to understand how your credit score is determined. Five important factors are weighed in varying amounts when determining your score. They include:
Payment history - 35%
Outstanding credit balances - 30%
Length of credit history -15%

Credit mix - 10%
New credit - 10%

So obviously from the breakdown above, paying your bills on time and keeping your outstanding balances down plays an important part in your credit score. Credit scores usually range from 300-850. According to Experian, a credit score of 700 and above is considered good, while credit scores under 620 are considered low. Higher scores show lenders that you are a good credit risk and are responsible with paying off your debt. If your credit score is on the low side, a focus on improving it now can mean the difference between being approved or denied for a mortgage loan.

Five tips for improving your credit score

- As we stated above, review to make sure your credit reports are accurate. Inconsistencies are not uncommon, so be sure there are no mistakes on your report that are resulting in a lower score. If you do have any incorrect information, report it to the credit reporting agencies to request it be removed.
- Pay your bills on time all the time. As we've shown, payment history is one of the most important factors in determining your credit score. On time payments every month will help to improve your score. Set payment due date alerts for yourself, or better yet, set up automatic bill pay with your credit union. Keep in mind that delinquent payments can remain on your credit report for years, so prompt payment is always important.
- Lower your credit utilization ratio. If your credit card balances are more than 30% of your limit, your credit score may be suffering, even if you are paying your bills on time. Your debt to credit ratio is another big factor in determining your score. You can improve this by paying down your loan and credit card balances. It's better to pay down the debt rather than moving it around. It also helps to keep the cards open after you pay them off, as it will add available credit to lower your debt to credit ratio.
- Work to build a strong credit history. The age of your accounts definitely matters when borrowing money. Lenders like to see a long history. If you have a short history, there's not too much you can do quickly. One possibility is to become an authorized signer on the credit card of a family member or close friend with a stellar credit history. The longer your positive credit history, the better your score. Length of history is another reason we suggest keeping credit cards open, rather than closing them. You don't need to use them, but having them open for a long period of time helps to improve your length of history. As you establish your credit, charging smaller amounts on different cards and paying them off on time every month can also enhance your payment history.
- Finally, have a good credit mix. Lenders like to see a good mix of debt, which can include bank and credit union credit cards, retail credit cards; as well as vehicle or other installment loans.

Improving your credit takes time, but it will be worth it in the long run. If your credit score is low, you may want to delay your home search until you can improve it a bit. Talking with a Benchmark Federal Credit Union Mortgage Lender can help you determine if you should wait. Keep in mind, paying off your outstanding debt and making all monthly payments on time can make a big impact on your score. You may see an improvement faster than you think.

Mortgage down payment

The amount of a mortgage down payment varies from lender to lender and may also depend on your credit score and income; among other factors. It also may be much lower if you qualify for an FHA loan, which is a mortgage that is insured by the Federal Housing Administration. The percentage of down payment required is a question you can ask mortgage lenders as you are comparing loans from Benchmark Federal Credit Union and other lenders. Obviously, the more you have saved for a down payment, the less you have to borrow. This will give you a better chance of loan approval; as well as a lower monthly payment. We hope you've been saving towards your home purchase goals, but if you haven't, there's no time like today to begin. Start by reviewing your monthly budget and searching for ways to save. This can include eliminating unnecessary expenses, so think before you spend. That weekend getaway or fancy new car you give up may mean achieving your down payment goals much faster. Once you've found where you can save each month, open a dedicated savings account and have money direct deposited each pay period into that account. Consider a Benchmark Federal Credit Union Money Market Account or Certificate of Deposit for a higher interest rate. There are a wide range of share certificate terms available. Keep terms in mind as you are investing your money. If you know you are only saving for 1 year, then don't invest in a Certificate with a longer term. Most importantly, don't touch your down payment savings for anything other than your down payment. Click here to see various options for saving at Benchmark Federal Credit Union. When you apply for your mortgage, you are going to have to show the source of the funds for your down payment. Keep record of your savings, so you can show where your funds will be coming from.

Time to shop around for mortgages & get a pre-approval letter

You need to begin the mortgage search, before you begin the home search. You'll want to compare at least three or more lenders, including Benchmark Federal Credit Unionand speak to your credit union representative and other lenders to compare rates, terms, and fees. When you compare quotes, be sure you are taking all factors into consideration. The lowest rate is not always the best deal as fees can vary greatly.

It's important to get pre-qualified for a mortgage before you begin looking for your new home. Pre-approval is simply an evaluation by a lender that determines if you qualify for a loan, and if you do qualify, the maximum amount the lender would be willing to lend. Mortgage pre-qualification helps you to determine the range of a home you can afford; as well as any obstacles for approval. A best practice is to get pre-approved before you start shopping for a home. Having a pre-approval letter is also a great negotiating tool when it comes time to purchasing your house. You will have an advantage over other buyers who haven't taken the time to secure a pre-approval.

4 tips for comparing mortgage loans

- Interest rate – A lower rate may mean a lower monthly payment. Ask lenders how long the rates quoted are good for. Ask whether they are fixed or adjustable. Compare the pros and cons of fixed rates vs. adjustable rates. Adjustable rates may look better at first, but they generally come with a higher risk. They can fluctuate over the term of your loan.
- Terms – Typically mortgage loans are for 15 or 30-year terms, however other terms are available. Although a 30-year term will give you a lower monthly payment, you will pay more over the life of the loan.
- Monthly payment – Does the payment fit your budget? This is an important question and may determine the term and amount of your loan.
- Points & Fees - Points are fees that are usually linked to the interest rate. You may pay points upfront to lower your interest payments over the course of a loan. You may or may not pay points, depending on the lender. Mortgage fees can vary considerably from lender to lender. Mortgage closing costs could include a variety of fees. Here are some examples: appraisal fees, home inspection fee, credit report fee, document preparation fee, loan origination fee, and title fees. As you can imagine, these fees can add up quickly. When comparison-shopping for a mortgage loan, you'll want to consider and compare the total cost of all fees.
- Down payment – Ask about the lenders requirement for a down payment; as well as any special mortgage programs they may offer, such as FHA loans.

As you research and compare mortgage loans, it's important to select the best mortgage for your individual needs and your long-term financial plans. Be sure to review your written loan estimate carefully. Once you've compared mortgage quotes and have selected the best loan it's time to get a written "rate lock" and apply for pre-approval. Your rate lock will be for a certain period of time.

Apply for your mortgage pre-approval

We can't stress enough that the best time to get pre-approved for a mortgage is before you start searching for a house. If you've followed all of our suggestions above, it's time to apply for mortgage pre-approval. Your lender will require various documents to verify income and assets. They will consider your credit score, debt and cash available for down payment, and closing costs. After an examination of your finances, the lender will give you a written confirmation of an amount they are willing to lend.

Experts typically recommend your monthly mortgage payment be no more than 28% of your monthly gross income. This percentage may change based on other debt you owe.

Pre-approval is not a guarantee that you will get the loan and is conditional. Major changes in your financial situation after pre-approval, may change your loan eligibility. Pre-approvals are also not indefinite. They are only valid for a limited period, so be sure when you are seeking pre-approval that you are ready to begin your search.

Selecting the right real estate agent

You will begin by compiling a list of qualified buyers agents to interview. You should first seek referrals from family and friends; as well as those realtors you know with an excellent reputation in the area. You want a realtor with a proven track record of success with homebuyers. An experienced realtor can make the process of searching for a home much easier. You should seek out a realtor with access to extensive home search research; as well as many resources and contacts to assist you in your search. The ideal buyers agent will have all of the tools and knowledge needed to take you through the entire home search process, from advance search study through the closing. Their available research should include facts related to area school districts, individual neighborhoods, arts & entertainment available in specific areas, crime statistics; as well as taxes and more. You're potential realtor should be knowledgeable about the communities in which you are searching, so keep that in mind if you are relocating. It's important to find someone you can work closely with, as you will be spending a lot of time with your realtor and you want it to be a positive experience.

Five steps to finding a skilled realtor

- Ask others for recommendations.
- Look for a local realtor who is part of a larger team and has access to the tools you need for a successful home search. This includes access to resources such as home inspectors and other professionals you may need along the way.
- Do some background research. Be sure they are properly licensed and credentialed. Do an online search for reviews; as well as any complaints or disciplinary actions.
- Ask for several references and speak to clients who have worked directly with the realtor.
- Interview each of your prospective realtors to test his/her knowledge of the real estate market in general, the home buying process, and the geographic area. Ask about their negotiating skills and ask them to give you specific examples. Ask about their availability. You want to know your realtor is responsive and can dedicate the time needed to help you find the right home. You may also want to meet others in their company who you may be working with. Most importantly, don't just settle on the first realtor you meet, be sure to interview multiple agents, so you have something to compare.

Determine your housing needs and wants

Your mortgage pre-approval will have given you a good idea of your budget range. In addition to your budget, there are many other things you will need to communicate to your realtor for them to effectively help you in your home search. Other considerations include the number of bedrooms and bathrooms you need. This will include everything from a specific city or neighborhood to a school district, access to public transportation, commute time, and size of the house. You will have a list of your minimum requirements, such as a large yard for children and pets, a certain number of bedrooms or bathrooms, or perhaps a certain school district. Then you may have a wish list, which may include a home with a pool, an ultra modern kitchen, a home in close proximity to shops and restaurants, a large open floor plan, or huge master bedroom. Every homebuyer has specific things they are looking for, so it's best to prioritize them. Your realtor will be able to help you with a questionnaire that will give them an idea of your exact wants and needs. Again, prioritize your list and specify your must haves vs. other wishes in a new home. Communication between you and your realtor will be key to you successfully finding a home that fits your needs.

Let the home tours commence

By now, both you and your realtor will have done your homework and there will be a list of homes that fit your specifications to begin to look at. In addition to looking through each home, walk and drive through the neighborhoods. You will want to get a better idea of the type of neighborhood and the other homes. You won't want your home to be the nicest home in a run-down neighborhood. When looking through a home, be sure there is enough room if you have a growing family. Are there enough bedrooms and bathrooms? Is the yard big enough? Do you like the floor plan? Does it need a lot of repair work, such as a new roof? Don't be afraid to take photos as you go through a home, you will be looking at many and want to compare after the fact. Once you narrow your search, go back for a second or even a third visit. You will want to be absolutely sure the home you choose is right for your family. Ask your realtor to gather all of the costs associated with the home, such as cost of utilities, homeowners insurances; as well as taxes and any other fees. This will help you to determine if the home really fits your budget.

It's time to make an offer

Let the negotiations process begin. This is where the negotiation skills of your realtor come in, so hopefully you hired a realtor who is a great negotiator. Have your realtor do a bit more research to prepare for negotiating and help to determine your offer price. What are the housing trends in the area, how have other homes been selling, how long has this home been in the market, is it in need of major repairs? These are all questions to answer before negotiations begin. It's also helpful to know exactly why the seller is selling. Is there a divorce or major life change? Is there a job relocation? Are they empty nesters that have decided to downsize? Have they grown out of the home and are upgrading? The answers may help you to determine if they are anxious to sell and more apt to be open to negotiating. On the other hand, if the seller is in no hurry, they may not be as willing to negotiate.

Once the negotiations are complete and your offer is accepted, you will sign a contract and provide a small amount of cash in the form of a deposit. Your offer will be conditional upon a home inspection and financing. You will have a specified amount of time to complete your due diligence on the property, which includes home inspections.

Home Inspections

You will have a limited amount of time to have professionals inspect the home. A home inspector will check the safety of your new home; as well as any need for repairs. They will focus on the structure, construction, and mechanical systems; as well as alert you to any repairs needed or major problems found. It's not the inspector's job to determine whether you are overpaying for the house, only to look for any problems there may be with the home. An experienced realtor with many contacts will be able to help you find an experienced home inspector. You can also seek recommendations from co-workers, family, and friends.

You may also want more than one home inspector if there's something in particular you are worried about. Generally, a home inspector will check the electrical system, plumbing, waste disposal, water heater, insulation and ventilation, HVAC systems, water source, foundation, structure, doors and window, roof, and more. Some of the problems your home inspector(s) will look for include lead-based paint in older homes, wood damage, which can be a sign of termite problems, asbestos, mold, and any other potential problems or structural defects. A pest inspection or termite inspection is usually performed separately. You may also want to have separate inspections for things such as a problem with the water system or the presence of asbestos, mold, or radon. A basic home inspection takes approximately 3 to 4 hours and the cost varies depending on the location and size of the home; as well as the experience of the inspector.

Your home inspector(s) should be professional, licensed, insured, and highly experienced. You want someone who will guarantee the inspection and is licensed to practice in your state. You should also check to see if they are affiliated with any professional inspection organizations, such as the National Association of Home Inspectors. Do a search to be sure there are no complaints lodged against them. You want to ensure you receive a thorough inspection. Finally, be sure your inspection is independent of any inspection report the seller may have. While you are not required to be there for the home inspection, it's a good idea to accompany the inspector. You can ask questions during the inspection and he or she can show you any defects or other problems they find. You never want to skimp on the home inspection process. It's worth every penny you invest it in for the peace of mind in knowing your home is safe.

Depending on the report from the home inspector, you may need to go back and renegotiate a price based on any repairs that are needed or major defects found. Some realtors will suggest having the homeowners fix various problems as a condition of a purchase. In the case of a serious defect, the seller may lower the asking price or you may want to reconsider your offer completely.

Call your Benchmark Federal Credit Union Mortgage Lender

If you secured your pre-approval, you will already have a lender, and we hope it's your local credit union, Benchmark Federal Credit Union. Now it's time to inform them you've found a home. If you haven't already done so, you may want to work out the details of the loan, such as fixed or adjustable rate and also the term of the loan. You may also have to provide more details and information, such as purchase contract and property information, additional personal information, employment history and income, assets and liabilities. Your lender will arrange for an appraiser to visit the home and provide an independent estimate of the value of the home. The appraisal assures that you are paying a fair price for the home. The appraisal is a report that states the value of the home based on the size, condition, and the features of the home; as well as the sales price of similar homes sold recently in the area. Your mortgage application will move through loan processing and then underwriting. Once everything has been reviewed, the underwriter will approve or reject the loan. They may also approve the loan with certain conditions, such as an explanation for a poor credit score or late payment. Once your loan is approved, the file will move on to the title company.

You will work with your lender and your real estate agent to ensue that all of the relevant paperwork is completed for your purchase.

Closing the Sale

Closing is when you will actually take ownership of the home. Once your closing date is set, you will schedule a time to do a final walk through of the home. It gives you one last opportunity to be sure everything is still in good order or any necessary repairs were made. Prior to your closing date you will receive a closing disclosure which summarizes the costs and fees associated with the transaction and the amount of money you will need to bring to the closing. Closing costs can include many different things, such as attorney or escrow fees, property taxes to cover a certain period, loan origination fee, recording fees, title insurance, first premium of mortgage insurance, any document preparation fees, among other things. Everything will be spelled out on your closing disclosure.

During the closing, all parties meet and sign all of the paperwork involved in the sale. You will have to provide proof of homeowners insurance at this time. Funds are then transferred from you and your lender to the seller and the deed is transferred to you. All closing costs are also paid at this time, which can include all fees, such as title search and insurance, appraisal and inspection, points if applicable, and any other closing costs.

Congratulations, you are a new homeowner!

For more information on the home buying process contact a Benchmark Federal Credit Union Mortgage Lender. To view mortgage loan rates and terms or apply for mortgage pre-approval or a mortgage loan, visit us online.