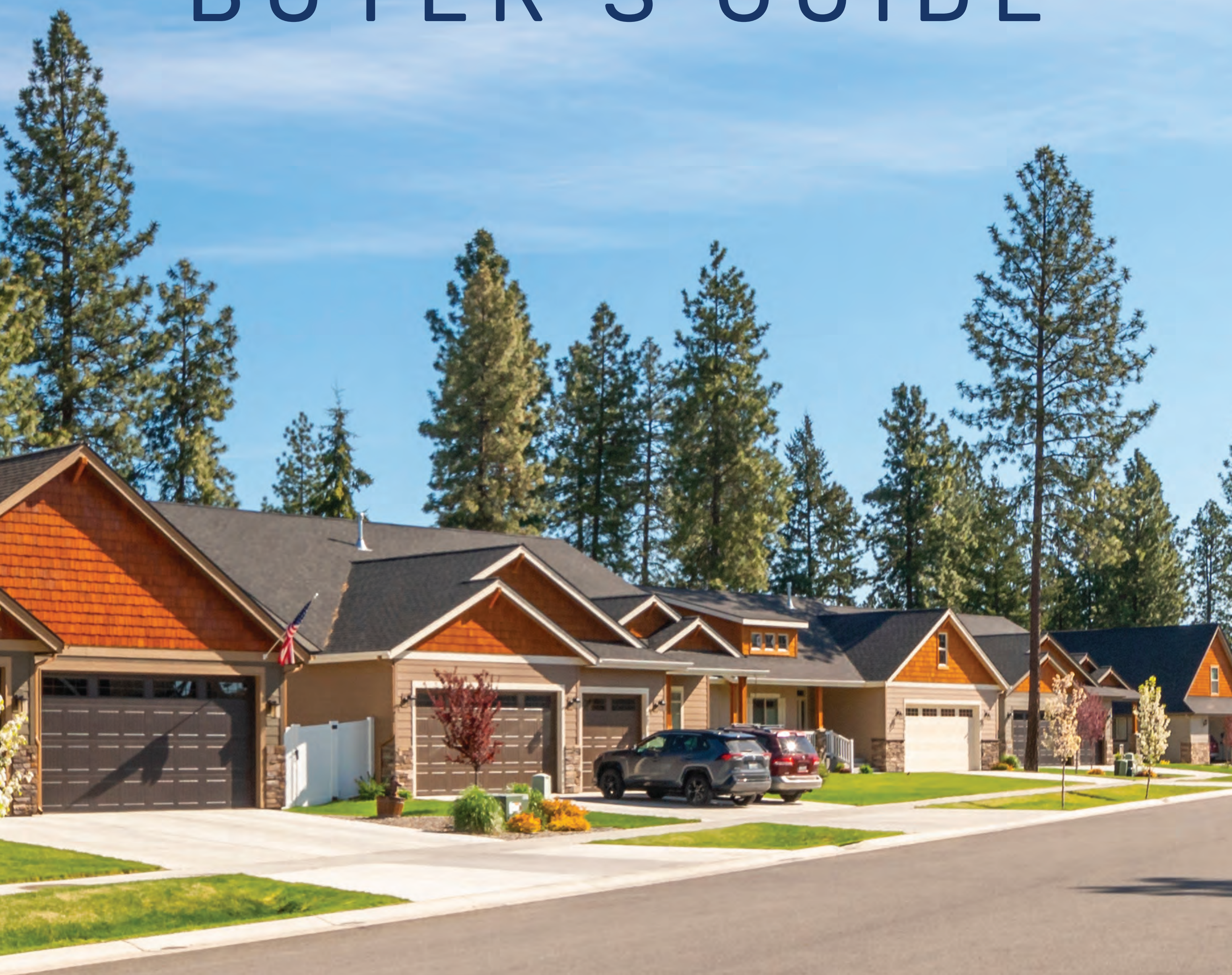
P1FCU

HOME

BUYER'S GUIDE



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Signs You're Ready

If you've been thinking about buying a home but you're not sure you're ready, here are some signs that homeownership is the right next step for you.

You have a savings for a *down payment*

While there are several options for first time home buyers for down payments, having a savings for a down payment will make the process easier. Furthermore, once you purchase your home, you'll find you might have additional expenses like improvements, furniture purchases, landscaping, and more that come up that you'll need to pay for.

Your credit is in good shape

Focus on your credit score. Make sure it's in the good to excellent ranges, this will help you secure a better interest rate when you apply for your loan.

You're planning to stay in the same place for a while

While this may seem like a no brainer to some, yes! You will want to stay in the same place for a while once you purchase your home. When you purchase a home, you also have to pay your closing costs, which you don't get back. If you see yourself moving soon, you'll just have to pay your ***closing costs*** again when you move.

You're ready for the responsibility of homeownership

Owning a home is a big commitment. When you purchase a home, the reality is that you'll be taking on a large amount of debt that you'll have to commit yourself to making monthly payments towards. It's not as easy to sell a home as it is to break a lease.

Down Payment: *The amount of your home purchase that you will pay for with cash instead of your mortgage.*

Closing Costs: *Closing costs include the actual costs associated with purchasing real estate. This includes things like appraisal fees, credit report fees, taxes, recording fees, attorney's fees, and loan origination fees. These fees must be paid outright at closing and cannot be covered by your loan.*

Buying vs. Renting

In some ways, making a mortgage payment may seem similar to paying your rent every month, but aside from the fact that both a rental and your home give you a place to live, that's where their similarities end. There is definitely a time and a place for both renting and buying.

Renting is great for shorter-term housing solutions. When you're renting, it's the landlord's responsibility to see to proper upkeep of the property and ensure that anything broken gets fixed.

When you own your home, you get the perk of getting to customize your home and making modifications to your heart's content. That being said, when something breaks, leaks, or needs replacing, you need to make sure it gets fixed. For some people, this may be a relief. For others, it may seem overwhelming. The truth of the matter is that it's the reality that all homeowners deal with.

All that said, the best part about homeownership is that you're continually building ***equity*** in your home. Your equity can help pay you back in the future if you need to borrow against it. Plus, if you make home improvements, those will add to the value of your home when you eventually sell. When you're renting, you won't build up that equity.

Equity: *The dollar value of your home that you actually own.*

Prequalification

Once you decide you're ready to own a home, prequalification is the next step in your home search. While prequalification is not required, we cannot recommend it enough. A prequalification will help you during your home search in a few ways.

They'll let you know how much you can afford.

A prequalification will let you know how much of a mortgage loan you can qualify for. This will help you when looking for homes because you will see the price range to look at.

Prequalification shows legitimacy to sellers.

If you're buying in a competitive housing market, a prequalification can show sellers that you're serious about purchasing their home. Your prequalification will also assure sellers that you've done your due diligence to secure funding and that the deal to purchase their home will not fall through at the last minute.

Prequalification makes the mortgage process go that much faster.

Since you've already started a mortgage application with a lender, you're one step further in the mortgage process with a prequalification than you would have been had you not been prequalified. Once you have executed a deal with a realtor, you'll be anxious to see the mortgage process move along as quickly as possible. Having a prequalification makes it easier for the lender to proceed.

Everything you need to know about prequalification

Prequalification is an easy process that won't take you too long. When you apply for prequalification, you'll be asked for information about the type of property you might want to buy. You'll need to provide the location of your potential home, estimated property taxes and insurance, and what you think the purchase price will be. These are answers that can be changed later on in the application. For the most part, the loan officer processing your application just needs a starting point to give you numbers.

When you apply for prequalification, there is also an inquiry on your credit. Based on the current state of your credit, you will need to decide whether the value of the information gained from the prequalification outweighs the ding the inquiry on credit may have. Even if you forgo prequalification, there will be an inquiry on your credit score later on in the mortgage process. The choice is whether you have it sooner or later.

Once you've submitted your application, you should hear back from your loan officer in less than a day. You'll be asked to send in your pay stubs, W2s, and other documents verifying your employment. You should usually have a good idea of how much you are prequalified for in less than a week.

Documents you'll need:
One month of paystubs
Your two most recent W2's
Your most recent Federal Tax Return

How much can you afford?

Whether budgeting is a new practice for you or you've been sticking to one for a while, looking to buy a home is a great time to reevaluate your finances and assess what you can afford. Even if you're preapproved for a certain amount, that doesn't mean you can afford a loan of that amount.

MONTHLY INCOME

Wages after taxes: ____________________

Other income: ____________________

TOTAL INCOME: ____________________

FIXED EXPENSES

Rent: ____________________

Car loan: ____________________

Gas: ____________________

Insurance: ____________________

Groceries: ____________________

Utility bills: ____________________

Internet: ____________________

Phone: ____________________

Student loan payments: ____________________

Other minimum loan payments: ____________________

Parking fees: ____________________

Public transportation fees: ____________________

Child support or alimony: ____________________

Medical bills: ____________________

Toiletries: ____________________

Other: ____________________

TOTAL FIXED EXPENSES: ____________________

VARIABLE EXPENSES

Clothing: ____________________

Dining out: ____________________

Coffee shops: ____________________

Alcohol: ____________________

Gym or exercise memberships: ____________________

Streaming or cable packages: ____________________

Travel expenses: ____________________

Other: ____________________

TOTAL VARIABLE EXPENSES: ____________________

TOTAL INCOME: ____________________

- TOTAL EXPENSES: ____________________

= LEFT OVER FOR ADDITIONAL LOAN REPAYMENT AND SAVINGS: ____________________

Take a look at your budget. How does your savings stack up to your discretionary purchases and fixed expenses? Is your budget in a place where you can take on additional expenses, or would your mortgage payment need to be about the same as what you're currently paying for rent?

You can calculate how much of a loan you can realistically afford based on current interest rates by using affordability calculators online. That being said, try not to get paralysis by analysis. Everyone's situation is different, from their credit score, debt to income, and financial situation. These calculators can be helpful but don't dwell on them too long before contacting our mortgage team. They'll be able to provide you with clearer answers than a calculator can.

Why We Love Real Estate Agents

While we by no means require that you work with a ***real estate agent*** in order to finance your mortgage, we do think it's a good idea. Here are a few reasons why we think it's helpful to work with a real estate agent when looking for a home.

First, agents will work with you to find the right home for you. While you have a good idea of what you want, they spend every day helping their clients find the right home. Real estate agents will help you find homes that fit your needs, from your budget to size, neighborhood, and amenities. Agents also usually know about homes that will go on the market before they're listed.

Once you find the right home, real estate agents will also help you make an offer on the home to get the best deal. Agents know about different negotiation options that might be available to you. Plus, if you're in a competitive housing market, agents will help you provide the most attractive offer to the seller with the assets you have available.

Furthermore, real estate agents are licensed and capable of drawing up the necessary contracts to help you create a purchase agreement once an offer has been agreed upon. Agents are also familiar with the intricacies of the home-buying process, something that most people go through only a few times in their life. While we are happy to walk you through the lending side of buying a home, real estate agents will help you with other coordination between title companies, the seller, and the seller's agent.

While real estate agents charge a fee for their services, we find the service they offer invaluable during the home purchase process.

Real Estate Agent: *Someone who is licensed and capable of negotiating the purchase and sale of real estate for buyers and sellers. Real estate agents can be REALTORS® if they're part of the National Association of REALTORS®.*

Making an Offer

Once you've found the right home, your real estate agent will help you make an offer on the home you want to buy. The type of offer you send the sellers depends on your local housing market. If you're in a seller's market, odds are you'll need to provide something over the asking price. You may have more room to negotiate in a buyer's market.

If you're buying in a more competitive market, you'll want to ensure your offer is as attractive to sellers as possible. Your offer includes more than just the amount you're offering for the seller's home. When you're prequalified, you will have a letter you can present with your offer. Your prequalification will assure sellers that you're committed to a home purchase and have done your due diligence to ensure that you can actually secure the funds needed to purchase their home. Along with your prequalification, you can also include a personal letter to the sellers about why you'd like to purchase their home. While this personal touch may not work for every seller, it has worked for some. To some sellers, taking the time to share your motivations and hopes for their home can give you a leg up when your offer may not be as financially competitive as others.

Inspection: *Examination of the property to find any problems the home may have, from foundation to wiring to animal infestations and more. While not always required by a mortgage lender, we can't recommend an inspection enough before buying.*

When it comes to negotiations, our number one tip is to ask for an ***inspection.*** If an inspection uncovers any major issues with the home, you can negotiate with the sellers to have them pay for necessary repairs. Your negotiations can also include having the sellers pay closing costs or other closing stipulations. What you can successfully negotiate depends on the seller, but your real estate agent can help you understand what tolerance for negotiations your seller will tolerate. While negotiating, we cannot stress the importance of communicating through your real estate agent enough. This prevents confusion, miscommunications, and any potential legal issues with the terms being used.

Looking for homes can be an emotional process. You want to love the place you're going to live! That said, if the negotiations aren't going your way and pushing you too far outside your budget, don't be afraid to walk away. We can assure you there will always be more homes on the market. Negotiating a deal that fits your financial condition is equally important as finding a home that suits your needs. The home search requires resilience and determination, but it's one that is well worth the effort in the end.

Contract to Closing Timeline

Once you have your purchase contract, you'll be ready to proceed further in the actual processing of your mortgage application. We work hard to make the process of closing on your mortgage as smooth as possible.

Here's a timeline of what happens once a seller has accepted your offer between the lender, buyer, and title company:

**Closing Contract - ** with negotiations regarding closing date, purchase price, and more. Final copies of this are sent to your lender, the seller, and the title company.

Submit your Earnest Money Deposit - this is a show of good faith to the sellers that you'll follow through on this purchase.

P1FCU - Meet with your loan officer to sign your loan application, initial disclosure, and intent to proceed

Title Search and Title Insurance - Usually, the title company handles this. Work is done to ensure that this home can be sold to another individual with no issue.

Inspections - You'll order inspections of the home you're looking at purchasing. If your inspection has notable findings, you can request that the seller make repairs within a specific time period. If the problems found on the inspection are too severe, this may be the time when you walk away and find a new home to purchase.

P1FCU - Appraisal - Your lender will order an appraisal to determine the value of your home to ensure the loan is not greater than the value of the home.

P1FCU - Underwriting - once we know your home's value, we evaluate your application for approval. Underwriting follows the principle of the three C's: credit, capacity, and collateral. This process will determine more formal details of your loan and can take a few days. Once the underwriters are complete, they will provide you with a list of conditions required to fund the loan. These conditions can vary from borrower to borrower.

P1FCU - LOAN APPROVED!

P1FCU - 3 Days before your closing date - We send you a closing disclosure with all the final details of your loan.

Final Walkthrough - before closing, you'll walk through the home to make sure any necessary repairs have been made, the sellers' belongings have been removed, and the home is in the condition you expect it to be.

P1FCU - 1 Day before Closing - We send your loan documents and disclosures to the title company.

Title Company - The title company compiles all necessary paperwork to facilitate your purchase between you, the seller, and your lender.

Closing - This is when you sign the paperwork at the title company that finalizes your loan and transfers ownership of the property to you. You'll also pay any closing costs at this time.

P1FCU - Funding - Once all the documents have been signed, your loan will be funded. The funds from your loan go into an escrow account at the title company, which will ultimately pay the seller.

On average, this entire process takes 52 days, and a lot can change in your life during that time. Due to the strict regulations surrounding mortgage lending, your lender will want to see your financial condition stay the same the entire time. Here are some dos and don'ts to follow from start to finish:

Do

- Keep all existing credit cards and lines of credit open
- Maintain employment at your current job
- Stay in contact with your loan officer – they can answer any questions you have

Don't

- Apply for credit of any kind or max out your existing credit cards
- Cosign a new loan for anyone during the mortgage process
- Make any large purchases.

WHAT HAPPENS NEXT?

Once the closing is done, you're now the legal owner of that property. You'll get the keys and can move in! This should be a sigh of relief for you as this big purchase is complete. Going along with moving in as a homeowner, you'll also be in a different financial situation than you were before.

Your Mortgage Payments

Once your loan has been funded, you'll start making payments the first month after you've closed on your loan. All of our mortgages are due on the first of the month, so you'll need to figure out what payment method works best for you. This is also a good time to decide if you'd like to make additional payments toward your principal balance each month.

Mortgage Payments Explained

Your mortgage payment consists of three elements: your principal, interest, and escrow. Each year, your payment amount is fixed at a certain amount, then you pay interest, principal, and escrow based on where you are at in your loan.

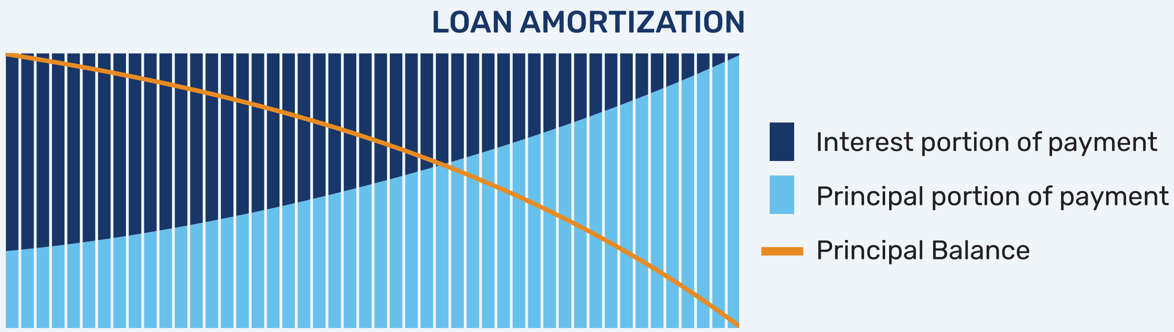
Interest: Each month, the amount of interest you are paying is calculated based on the amount of your mortgage you still owe, multiplied by its interest rate, and divided by twelve. For example, if your current loan balance is $250,000 and your interest rate is 6%, you will pay $1,250 in interest that month based on the below equation:

$$\frac{(250{,}000 \times .06)}{12} = 1{,}250$$

6% interest rate is an example used for educational purposes only. To see up to date interest rates, visit p1fcu.org.

Escrow: Your escrow pays your property taxes and home insurance. Each year, the amount you will owe in escrow will be estimated by your mortgage company and distributed between your twelve payments. Fluctuations in property taxes and home insurance can cause the most change in your payment year to year.

Principal: This is a payment towards the loan balance. The amount you pay in principal will go up as the balance goes down and the amount in interest you're paying goes down, but your monthly payment stays the same. This process is amortization.



Invest in Your Home

Real estate is frequently referred to as a "good investment." Your home is much more important to you than its return on investment. Real estate does tend to increase in value over time. Furthermore, the work you put into your home will increase its value. The kitchen remodel you have planned down the line will benefit you while you're in your home and your home's value when you eventually sell later on.

We know purchasing a new home and moving is a costly process, but we want you to remember how much more financial independence you're gaining in the long term by purchasing a home. Your home is an important asset that will be able to serve you in many ways through the years you live there.

TYPES OF P1FCU HOME LOANS

Adjustable Rate Mortgage (ARM): A mortgage loan with an interest rate that fluctuates depending on current market conditions during the term of the loan. These loans are typically limited by a rate change cap and a lifetime cap.

Conventional Mortgage: Homebuyers loans that are made through a private lender, and not backed by a government entity.

Construction Loan: A short term loan that will finance the construction of your new home. During the term of this loan, you will make continual draws on this loan to pay the bills associated with building your home. Once your build is complete, your construction loan will be converted to a conventional loan.

FHA Loan: Loans insured by the government intended to make homeownership possible for low to moderate-income borrowers. These loans come with additional requirements for insurance, home value, and can impact your interest rate.

Home Equity Loan: A loan secured against the equity you own in your home.

Home Equity Line of Credit: A revolving line of credit with a limit set based on the value of your home's equity.

Jumbo Loans: Home loans that exceed the loan limits set by the Federal Housing Finance Agency. These loans are not eligible to be purchased or guaranteed by Fannie Mae or Freddie Mac.

Lot Loan: Loans for the purchase of land that do not have a structure on them. Our lot loans require that you have plans to build on them in the future.

Manufactured Home Loans: Loans meant to fund the purchase of a manufactured or mobile home.

Refinance: Paying off your existing mortgage loan with a new one. This can be done for more than the value of your mortgage to get cash out or the value of your loan to reduce your interest rate.

VA Loan: Home loans provided through the department of Veterans Affairs that make it possible for veterans and their surviving spouses to purchase homes with little to no down payment and no mortgage insurance.

COMMON TERMS

Amortization: The process of paying down your loan through regular payments.

APR: Annual Percentage Rate, this is a numerical representation of the interest you will be paying on your loan.

Appraisal: An estimate of the value of your property. Most mortgage lenders require this before funding the loan.

Closing: Closing is the finalization of the home purchase process. You'll sign all the documents that finalize your purchase at your closing. In the weeks leading up to your closing, you will have gone through all the details of your loan with your loan officer and the details of your purchase with your real estate agent. This is also when you pay any closing costs associated with your mortgage.

Closing Costs: In the simplest terms, closing costs include the actual costs associated with purchasing real estate. This includes things like appraisal fees, credit report fees, taxes, recording fees, attorney's fees, and loan origination fees. These fees must be paid outright at closing and cannot be covered by your loan.

Collateral: Something of value that a lender is securing the value of your loan against. Most mortgages are secured against the property you're purchasing.

Debt to Income: Commonly abbreviated to DTI, this is a ratio of how much debt you owe and how much your income is. Lenders calculate DTI by dividing monthly debt by gross income. Your DTI dictates how much of a monthly payment you will be approved for.

Down Payment: The amount of your home purchase that you will pay for with cash instead of your mortgage.

Earnest Money: Earnest Money is part of your down payment that is paid to sellers before closing. This shows sellers that the buyer is serious about their deal. At closing, this money goes towards the home purchase.

Escrow: In the context of mortgage lending, a payment made towards your lender, which they hold until they are needed. Escrow payments cover real estate taxes and insurance.

Equity: The difference between the value of your home and the amount you owe on your mortgage. In simple terms, this is the amount of your home that you own outright.

Fixed Rate: An interest rate that remains the same throughout the life of the loan.

Gifted Down Payment: Just as it sounds, a gifted down payment is a down payment that has been provided to you as a gift from someone else.

HOA: Home Owner's Association, these are private associations in a specific subdivision, condo, or planned community that makes and enforces rules for the community.

Home Insurance: Insurance that protects homeowners against the cost of damages to their property caused by most natural disasters. Sometimes also called hazard insurance.

Inspection: Examination of the property to find any problems the home may have, from foundation to wiring to animal infestations and more. While not always required by a mortgage lender, we can't recommend an inspection enough before buying.

Interest: The price you pay to borrow money from a lender. Usually, this is reflected as a percentage of the amount of the loan.

Lender: The financial institution that is lending funds to a borrower.

Mortgage: A legal document that allows a borrower to pledge their property as collateral for a loan used to purchase a property. The loans procured by mortgages, called Mortgage Loans, are frequently shortened to the word mortgage.

Neighborhood Covenant: A set of rules that govern the use of real estate within a certain neighborhood or subdivision. These can exist without an HOA.

PMI: Private Mortgage Insurance, additional insurance that is usually required when mortgage loans cover more than 80% of the home's value. This insurance protects lenders against losses should a borrower default on their loan.

Points: Fees paid at closing to reduce your interest rate.

Prequalification: A lender will determine how much you will be eligible to borrow before you apply for your loan. This prequalification can be leveraged when making offers on homes because it shows sellers that you can secure the funds needed to follow through on your offer.

Property Tax: Taxes that are charged to you as a home owner based on the value of your home.

Real Estate Agent: Someone who is licensed and capable of negotiating the purchase and sale of real estate for buyers and sellers. Real estate agents can be REALTORS® if they're part of the National Association of REALTORS®.

Underwriting: A financial institution's process of evaluating a borrower's application, the property being lent against, and the risk involved in the loan.

NOTES

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