

Anytime Adviser—Home Buying Coach

Welcome.

This interactive guide coaches you through the process of finding and buying a house.

You may move from chapter to chapter by selecting headings from the left. Click on "next" or "previous" to move from page to page.

On pages with audio, you may choose to turn off the sound. You also may view or print a transcript.

Let's begin.

Introduction

It's early Sunday morning. You've been awake since 5:30, and finally the paper has arrived. You tear past the news and sports to find the housing section. Your finger runs down the columns of open houses, stopping on one that interests you.

Hilltop setting overlooking city has 14-year-old ranch ready for your growing family. Three bedrooms, 2 baths, great room, detached 3-car garage. Unity Point School District. \$189,900. South on Hwy 51, left on Range Road. 3561 Range Road, open 2-4.

It sounds perfect. You see photos on the Internet—it still looks good. You throw a coat on over your PJs and drive past the house—it's beautiful. What's wrong? Please select an answer:

- a) You haven't discussed housing priorities with your city-dwelling, nature-reluctant spouse.
- b) You don't know what you can afford.
- c) You don't have an agent to represent you.
- d) All of the above.

D) All of the above? Yes!

You'll save a great deal of time if you know what you're looking for first. Spend time discussing what each member of the family is looking for in a home.

See your credit union, first, to prequalify for a loan. Your credit union will recommend a maximum loan amount, leaving you no doubt about what you can afford.

In nearly all cases, the seller covers the buyer's real-estate agent fee. You may as well take advantage of the expertise of an agent—it could save you time and money.

Interested in a little guidance finding and buying a home? Spend 10 minutes here. This quick guide offers you a home-buying approach that can save you time and money. We'll coach you to:

- Set priorities for home features.
- Follow the process for buying a house.
- Determine how much you can afford.
- Practice interviewing potential lenders.
- Find an agent to represent you.
- Understand mortgage options and terminology.

Home Buying Process

There are several steps to finding and buying a home. Your challenge is to put the home buying steps in the correct order.

1. Determine what you want.
2. Visit CU to learn what you can afford.
3. Find a real-estate agent.
4. Identify a house to pursue.
5. Negotiate the price.
6. Have the house inspected.
7. Apply for a mortgage.
8. Lender will get an appraisal.
9. Purchase homeowner's insurance.
10. Close the deal.

Great work! Now you can determine what you're looking for in a house.

Set Priorities

A house may be the most expensive purchase you'll make, but it's not flexible. You can't return it for a full refund after a week if you decide it doesn't suit you. This purchase requires a great deal of thought.

When setting priorities, you'll need to consider:

- What you want in a home;
- What family members want in a home;
- What you may need in a home in three years; and
- What the average buyer wants in a home.

Clearly, the house you choose must meet your needs—both now and perhaps in a few years. Unless you'll be living there alone, consult the needs of your family. Have each member complete the Housing Priorities Checklist; and then compare your lists.

Reaching agreement now on “must-have” features can make the house-shopping process go smoothly.

Quite likely, the time will come when you'll be selling this house and moving on. Keep in mind the features the average home buyer in your area prefers. Be especially thoughtful if you intend to keep the home three years or less.

Once you have a sense of what you're looking for in a home, visit the credit union to determine how much you can reasonably afford to spend.

Visit the Credit Union

What can you afford? Ask your credit union loan officer. You'll get a thorough answer. The credit union also may offer you a prequalification letter for a loan up to a certain amount.

This isn't a preapproval—which requires you to actually apply for a loan—but more of an informal estimation of what your credit union believes you can afford.

One general guideline recommends that your mortgage payment be less than 28 percent of your monthly gross income (before taxes and Social Security are deducted). Another guideline recommends your total long-term debt load be less than 36 percent of your monthly gross income. Total long-term debt would include your monthly mortgage payment, car payments, college loans, and installment payments.

The home-buying process is filled with terminology. Here are some key mortgage terms. Match each term with the correct definition.

Loan amount—Amount you want to borrow—purchase price less your down payment.

Loan term—Set number of years over which you repay your loan, often 15 or 30.

Property taxes—Annual city or county tax on the land and any improvements; also known as real-estate taxes.

Property insurance—Protection against damage to property, home, and perhaps possessions; also covers medical coverage of visitors injured on your property.

Interest rate—Annual percentage you pay a lender. In some cases, it varies from year to year; in others, it remains set for the life of the loan.

Now that you understand basic mortgage terminology, you'll be able to use the Payments Calculator. You've probably glanced at the ads or searched the Internet to see what homes cost in your desired area. Plug in some numbers to get a sense of how changing the interest rate and the loan term can affect the monthly payment.

The key to what you can afford will be the monthly payment. The type of loan you select will impact your monthly payment. Mortgages fall into two broad categories: Fixed rate and adjustable rate.

With a fixed-rate mortgage, the interest rate remains the same. With an adjustable-rate mortgage, your interest rate may change. The advantage here is that you'll start out with a lower interest rate, hence smaller payments.

Which loan type is right for you?

Typically, you'll qualify for a more expensive home with an adjustable-rate mortgage. The trade-off is the risk that rates will rise, increasing your payments down the road.

Interview Potential Lenders

There's more to evaluating mortgages than going with the lowest interest rate and fees. To help you practice, we've prepared nine questions to ask three fictional lenders. After you see the response from each, select the answer you like best—either lender number one, lender number two, or lender number three. At the end, we'll reveal the identities of our three mystery lenders.

Q1 How long have you been making mortgages?

#1 We're new in the mortgage industry, but our staff has many years of experience.

#2 I've been here seven years, and we've been making mortgages at this location for 18 years.

#3 Personally, I've been a loan officer here for four years. We used to be called Star Trust, but we've recently been bought by First States.

Q2 How much are closing costs?

#1 I can't tell you that until you select a loan option. Once you've set the terms of the loan, just plug in that information in an online "Closing Costs" calculator.

#2 We charge a \$300 application fee, which we apply to your appraisal. In addition, you'll have the title insurance search fee and recording fees. For the price range you're looking at, I'd estimate the total fees at \$1,200 to \$1,400.

#3 I need \$500 from you today to process your application. Then there's the appraiser, title insurance, and processing fees. Most of the time it's less than \$2,000.

Q3 What other fees do you charge?

#1 Like I said before, I can't tell you until you select a loan option. Once you've set the terms of the loan, just plug in that information in a "Closing Costs" calculator.

#2 None.

#3 So you want to know every fee? Well there's a credit report fee, document preparation fee, escrow closing fee, attorney fee, underwriting, flood certification....

Q4 How big a down payment must I pay?

#1 As little as 3% of the selling price.

#2 In your case, 5%, but based on your savings, I'd recommend you try to pull together 10%—to reduce your monthly payment.

#3 Five percent.

Q5 What will private mortgage insurance (PMI) cost?

(When your down payment is less than 20%, your lender will require PMI).

#1 You can figure this yourself by plugging in your loan amount and down payment in a “PMI” calculator.

#2 You’re looking at \$80 added to your monthly payment with 5% down. If you put down 10%, that drops to \$47. And I’d recommend you have your house reappraised in about 18 months—housing values have been rising quickly. By then, you may have enough equity in your home that we can cancel the PMI.

#3 \$80 a month.

Q6 How much can I afford to borrow?

#1 You can figure that yourself using an Internet “What Can I Afford?” calculator.

#2 Let me ask you some questions, and we’ll see what monthly payment you can comfortably handle. Then I’ll show you a few loan options. I’ll give you a copy of this chart to take with you—it translates ...

#3 If you’ll fill out this questionnaire, I’ll have someone in our central processing center review it and contact you this week.

Q7 Should I go with a fixed-rate or adjustable-rate mortgage?

#1 You’ll find a lot of information online to help you decide.

#2 Given the current interest rates, most of our mortgages have been for fixed-rate loans. Now if you think you’ll be in this house for three years or less, consider the three-year adjustable. It’s about a percentage point less right now, and it’s locked for three years.

#3 It’s really up to you. Your payment will be lower with the adjustable, so you can buy more house.

Q8 When is the mortgage payment due each month?

#1 We’ll set you up with automatic payments, which deduct your payment the first of each month.

#2 To avoid a late charge, you must make each payment by the 14th of the month. We can set up an automatic transfer from your checking or savings account on a day that works best for you.

#3 The 10th of each month.

Q9 Is there a prepayment penalty?

#1 You'll find a listing of all our fees on our Web site.

#2 No. In fact, any extra payments you make go directly to reducing your principal.

#3 We have a \$300 fee if you pay off the mortgage within the first 18 months.

Now let's meet all three lenders...

Lender #1 is an Internet-only lender that has been making mortgages for less than a year.

Lender #2 is a credit union interested in providing the best service and competitive rates.

Lender #3 is a large bank with branches across several states.

While these answers were a bit dramatized, the fact is that credit unions have ranked No. 1 in customer service over all other financial institutions every year since the 1980s. Also, credit unions typically have fewer and lower fees.

Find a Real Estate Agent

Your best ally when house shopping is a dedicated real-estate agent. Where do you find the right agent for you? Ask for recommendations from everyone you know:

- Credit union lending staff
- Local friends and family
- Co-workers
- Your lawyer

Real-estate agents are trained professionals, connected within a community to all phases of the home-buying process. They are expert problem solvers, with a mission to find you a house in your price range.

By law, a ***seller's*** agent represents the seller; consider a ***buyer's*** agent, who will work in your interests.

You'll want to find a qualified agent whose style complements your own. Consider interviewing two or three.

Also, gather names and phone numbers of clients from the last three months and call them to learn how satisfied they are.

Then select an agent, and be prepared to work closely with that person over the next few months.

What can you expect from a real-estate agent?

Do Expect

Assistance in setting housing priorities
Commitment to find you a home
Appropriate property showings
Full disclosure of property defects
All offers presented to sellers

Don't Expect

Legal opinion about properties
Lifelong friendship
Help moving your furniture in
Property showings you can't afford
Pressure to buy the wrong house

Find a Home

Based on the "must-have" features you've identified for a home on the Housing Priorities Checklist, your agent should show you appropriate properties. After looking at a few houses, the details can blur in your mind. To help you keep them straight, complete a House Evaluation Checklist for each property you visit.

When you find a property you like, investigate further.

- Check the neighborhood in the evening, daytime, and weekends for traffic and noise levels.
- Ask neighbors about the school district's reputation.
- Identify any vacant lots that may later be developed.
- Learn property values of houses on the block.

If you have Internet access, you can learn a great deal about a neighborhood and the surrounding homes.

When you've identified a house you want to buy, your agent will prepare a contract to purchase. The seller most likely will counteroffer at a higher price. You can accept the price and terms or counter with a higher price than you originally

offered. This can go on and on, or it can stop suddenly, especially if the seller has other interested parties.

If you want to bargain, you'll need to mentally prepare yourself to walk away from that house if you don't get your price. One way to accomplish this is to pick two houses that you like. Bid on the first one, and if that house goes to someone else, start bidding on the second one.

Once your offer is accepted, you'll need a home inspection. If the inspector identifies any undisclosed problems with the home, you'll need to renegotiate with the seller to either lower the price or make the repairs.

After the home inspection, visit your credit union to formally apply for a mortgage.

Keep or Pitch

Buying a home creates a great deal of paperwork. You'll need to keep some documents; others are fine to pitch.

Safety Deposit Box

- Insurance record
- Settlement statement
- Mortgage and note
- Deed
- Inspection report

Waste Can

- Checklists
- Listings of other houses
- Work sheets
- Closing estimate
- Housing classifieds

Congratulations! Enjoy your new home!