HOME BUYER'S

HANDBOOK

Helpful Information To Find and Finance Your Next Home

POPA Peace Officers Professional Associations Federal Credit Union

Buying a home is one of the most important financial decisions you'll ever make. A home can be an excellent investment because most houses increase in value over the years. Home ownership may also bring tax benefits. (You can usually deduct mortgage interest and property taxes. Other deductions may also apply.) Just as important, the type of home you buy, its location, and the monthly mortgage payments you choose will shape your future and that of your family.

Your Credit Union is pleased to provide you with this booklet, which outlines the steps you will need to take and the terms you will need to know in order to select the home and mortgage loan that best fits your needs and desires. This information will help you work more effectively with your Loan Officer, Realtor, sellers and others on your home-buying team.

Happy house hunting!

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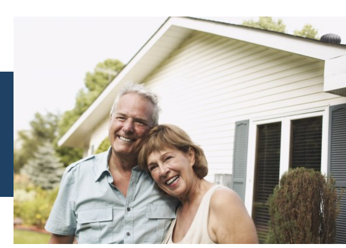


Welcome to the Home Buying Experience

As part of the many ways your credit union works to help you secure a bright financial future, we offer stable and secure mortgage loans for all our members. It's the same great service you have come to expect from your credit union, guiding you through the home loan process.

While customs and laws vary from state to state, here are some basic steps you will take in owning your own home. Even if you've bought and sold several times in the past, the information here may help you buy better the next time.

- ☐ Choose a lender.
- ☐ Learn the terms used in buying a home.
- ☐ Get pre-approved for a loan.
- ☐ Decide on the features you want in your home.
- ☐ Choose a Realtor
- ☐ Start house-hunting. Use the evaluation forms in this booklet to make notes about homes you see.
- ☐ When you find a home you want and can afford, start negotiations.
- ☐ Make an offer in writing (the contract).
- ☐ When your offer is accepted, find an inspector.
- ☐ Find a real estate lawyer if needed.
- ☐ Prepare for closing.
- ☐ Close on the property.
- ☐ Congratulations. You are a new home owner.

Getting Pre-Qualified and Pre-Approved

Before you start house hunting, it's a good idea to find out what homes are in your price range. This can be done through a simple process of pre-qualification. To pre-qualify, your loan officer will use financial information you provide to give you an estimate of the maximum mortgage you should be able to obtain. Even better, you can get pre-approved, which helps your negotiating power because the seller will know you are a serious buyer with financing secured.

Most lenders use certain formulas to determine how much house you can afford. Typically, your monthly house payment should be around 28 to 30 percent of your total monthly gross income (your income before taxes). Your total monthly debt, which includes your house payment, car payment, credit card, loans, etc.) should typically not be more than 36 to 40 percent of your gross income. These figures may vary from lender to lender.

	Maximum Monthly Payment	
Gross Annual Income	House Only* 28 Percent	Total Debt 36 Percent
$35,000	$816	$1,050
$40,000	$933	$1,200
$45,000	$1,050	$1,350
$50,000	$1,167	$1,500
$55,000	$1,283	$1,650
$60,000	$1,400	$1,800
$65,000	$1,516	$1,980
$70,000	$1,633	$2,100
$75,000	$1,750	$2,250
$80,000	$1,867	$2,400
$85,000	$1,983	$2,550
$90,000	$2,100	$2,700
$95,000	$2,216	$2,850
$100,000	$2,333	$3,000
$120,000	$2,800	$3,600
$130,000	$3,033	$3,900
$140,000	$3,266	$4,200
$150,000	$3,500	$4,500
$160,000	$3,733	$1,800
$170,000	$3,966	$5,100
$180,000	$4,200	$5,400
$190,000	$4,433	$5,700
$200,000	$4,666	$6,000

Your house payment is your basic monthly mortgage payment consisting of principal, interest, real estate taxes and homeowner's insurance. This is known as PITI and is explained in more detail later in this booklet. Your house payment may also include mortgage insurance and/or an association fee if required.

When calculating how much house you can afford, also consider how much additional expenses such as utilities and maintenance will be, as well as savings, debts, and other monthly expenses such as food, transportation, child care, etc. The figures on page XX are estimates only; your lender looks at each mortgage application separately and takes into account your special circumstances. How much house you can afford also depends on the interest rates at the time of purchase and the down payment you provide.

Down Payment

The down payment is the difference between the purchase price and the loan amount, and is due at the time of closing. It typically ranges from as little as 3.5 percent of the purchase price to however much you put down. The larger the down payment, the less interest you will pay on the mortgage. Loans with minimum down payments usually require a fee for mortgage insurance in additional to your monthly payment.

Money for the down payment may come from your savings, the sale or financing of another house, or gift or loan from family. Your Loan Officer can advise you about the regulations regarding down payments.

The Benefits of Pre-Approval

Pre-approval is more formal than pre-qualification and it takes a bit more time. To get pre-approved, you provide the same paperwork you will be asked for when making a formal loan request, including your credit history, employment, and down payment funds, all of which will be verified.

Pre-approval guarantees your loan, but it is not a mortgage contract. You can't get the mortgage until the lender can appraise the property and conduct a title search. This happens after your offer to buy a house is accepted. When you formally apply for a mortgage, certain information may have to be re-checked, depending on how much time has passed since you were pre-approved and when you have a contract for a home.

It may allow you to lock in your interest rate for a period of time. Even if rates go up while you look for your home, your rate will not.
You may be better able to bargain with a seller. When sellers receive an offer from a pre-approved buyer, they know that person can secure the loan.

To get pre-approved, you will be asked for the following information. Complete this section to prepare for a meeting with your loan officer.

Funds available for down payment: $______________________________

Credit history: ____

Employment record: ____

Assets: (savings, investments, retirement funds, etc.): __________________________________

____

Debts: (credit cards, loans, other mortgages, etc.): ______________________________________

____

Does Your Lender Offer Retained Servicing

When working with a mortgage lender, it's important to ask if it retains the servicing of your loan. What is retained servicing and what does it mean to you?

Retained servicing means that the lender does not sell the loan immediately after closing to another company who will issue payment coupons or make payments from your escrow account to cover annual taxes and insurance payments. Sometimes loans can be sold multiple times. There are several benefits to working with a lender who retains the servicing of your loan after closing:

One: You'll always know who to call about your mortgage or escrow account. We retain servicing on 98% of the loans we make. We keep your mortgage history from year to year, with records of property tax and insurance payments, if applicable, saving you time and trouble if questions arise.

Two: Because we know you and your mortgage, we also know when changes to your mortgage account are most beneficial. Plus, we can often streamline the paperwork when it's time to refinance or access your home's equity.

Three: A recent customer satisfaction survey by a national firm suggests you should consider retained servicing when you are evaluating a lender. It's just as important as the interest rate and closing costs.

For what may be the largest financial investment of your life, always consider a lender with retained servicing to ensure consistent service over the life of your mortgage loan.

The Features You Want In Your New Home

Before contacting a Realtor, think about the features you want in your home. Writing them down and providing them to your Realtor will help everyone involved save time and make the house hunting process go more smoothly.

Square feet: ______________________ Style: ____________________________________

Location: ____

School District: ____

Number of Bedrooms: ______________ Baths: ___________________________________

Family Room: _____________________ Office: __________________________________

Formal Dining Room: _______________ Eat-In Kitchen: ___________________________

Garage Size: ______________________ Central Heath & Air: _______________________

Fireplace: ________________________ Landscaping: ______________________________

Other: (pool, patio, etc.) ____

Features you do not want: ____

Working With Realtor

A Realtor can save you time and assist you in finding your new home by:

- Pre-selecting homes that are within your price range and match your requirements for size, location, etc.
- Scheduling appointments for you to see homes
- Giving you current prices for houses similar to the ones you are considering
- Getting up-to-date information about taxes, school districts and conditions in the area.
- Handling negotiations regarding the price and terms of your offer
- Arranging for a home inspection

What To Look For In A Realtor

- Knowledge about the area where you want to live
- Experience
- Patience
- Participation in the area's multiple listing service (MLS) to give you full access to all the homes for sale in your area
- Honesty and integrity
- Good communication to keep you informed

How To Estimate Your Carrying Costs

For every home you are interested in, your Loan Officer can help determine your basic monthly payment. This is known as PITI— principal, interest, taxes and insurance. This will let you see if the amount matches the expense for which you are pre-approved.
In addition, you should consider other costs associated with home ownership. Use the space below to estimate the costs for each home you are considering to come up with a realistic idea of your monthly total.

PITI: ____________________

Estimated gas/electric/water: ____________________

Estimated maintenance: ____________________

Homeowner's association dues or co-op fees (if applicable): ____________________

Special district taxes: ____________________

Other: ____________________

____

Total Carrying Costs: ____________________

Making An Offer

Once you find the house you want, your next step is to negotiate what to include in the offer you make. Your Realtor will help you with the offer and take it to the seller. If possible, ask your Realtor to give you a blank copy of a purchase agreement when you first begin looking at homes. You'll have a better understanding of what you want your own agreement to cover when the time comes.

Before Making An Offer:

1. Get recent selling prices of similar homes in the area from your Realtor.
2. If your fist offer is rejected by the seller, a second round of negotiations often takes place. Even if you can't agree, don't get discouraged. There are likely several other similar homes in the area.
3. Ask a lot of questions: How long has the house been on the market? Why is it being sold? What are its good and bad points?
4. Don't be afraid to check out the neighborhood and even talk to neighbors.
5. Consider the home's resale value.
6. Negotiate the offer price and other items to be covered in the offer before you sign any formal papers.

When you offer is formally accepted, you sign a purchase agreement, which is a legal contract. It covers many items, such as the price, total down payment, and closing date. The closing date is when you sign the closing or settlement agreement that officially makes the home yours. This date may change if all the necessary paperwork is not finished. The offer also states which party (buyer/seller) will pay for which settlement costs, the type of loan you are applying for and the interest rate.

Here are some things that are usually part of an offer:

Offering Price: $_______________________________

Earnest Money: (This is part of your down payment that you provide up front to secure an initial agreement with the seller. It shows the seller that you are "in earnest" (serious) about buying. It protects your offer for a certain period of time while you obtain financing. $___________

Contingencies: these are special circumstances such as the date by which the sale must be completed or repairs the seller must make.____

____

____

Items included in the sale: (such as appliances, window treatments, rugs, furnishings)

____

____

To protect yourself, be sure that the purchase agreement is conditional. This means you can cancel it if you do not secure a loan or if the house has major problems that can't be corrected before closing.

Appraisal and Inspection

After the offer is accepted, your loan application will be reviewed. At the same time, these steps must be taken.

The Appraisal: an evaluation of the property's value. The appraiser visits the house and reviews recent selling prices of similar homes in the area.

The Inspection: an evaluation of the property to find out if there are any problems that could change its value. The inspection also helps you determine if there are any items that you want the seller to repair before the final contract is signed.

The buyer usually hires the inspector. Because the inspector is an important member of your home-buying team, you want someone who is trustworthy and experienced. Your Realtor or Lender can refer you to an inspector. It's also a good idea to go to the inspection if possible. Walking through the house together gives you the opportunity to see first hand with the inspector what is wrong or right with the house. Inspectors check the entire house for the following:

- General condition
- Electrical system
- Heating and cooling system
- Exterior structure, water damage, garage doors, roof and chimney
- Interior structure, insulation, foundation, windows and doors
- Pest control
- Risk of earthquakes and landslides

Most areas also require a termite inspection. If termites are found, you must have proof that the house has been treated and that any termite damage has been repaired. This is usually the seller's responsibility.

Title Insurance

Once your offer has been approved, a title search is conducted. The search is performed by a licensed title company. This step is needed to uncover any possible problems with the title, which is legal ownership of the property. Problems could arise if there is a dispute by outside parties about the ownership of the property, its size, or the way it can be used (for example, there may be an unknown heir, a secret spouse, or a faulty land survey).

Title searches are generally set up by the buyer's Realtor or lawyer. If no problems are found in the search, the title company issues title insurance. Title insurance guarantees that the property you buy is as it is stated in recorded deeds, surveys and other documents. You may pay a one-time title insurance premium when you buy the house. Then you do not have to pay another premium unless you refinance your mortgage.

Homeowner's Warranty

In addition to a home inspector's report and title insurance, you can also protect yourself with a homeowner's warranty. This warranty covers any repair to the structure, mechanical systems and major appliances for a certain time. A homeowner's warranty is useful when buying an older home or one that has been vacant for a long time. The seller may offer the warranty with the sale. If not, you can buy a warranty yourself. Ask your Realtor or Loan Officer to advise you.

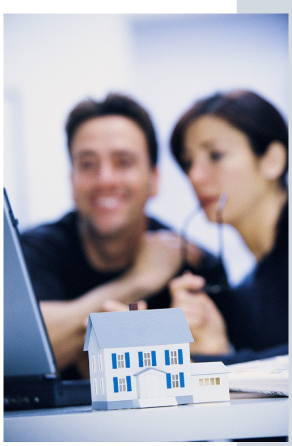
Many lenders offer a variety of home financing options. They will work with you to find your best choice.

Getting The Best Mortgage

Most loan rates don't differ widely from one company to another. However, differences in how a loan is structured can result in large savings or costs when you buy a home. Loans differ in term (the length of the loan), prepayment options and processing fees.

Most mortgages are offered for terms of 15 or 30 years. Other terms are available. Your monthly payment changes depending on the term you choose: the shorter the term, the less you will pay for your house overall. However, your monthly payments will be higher. Your Loan Officer can help you decide which loan is best for you.

You can use the chart below to estimate a monthly payment with different interest rates and terms. The chart shows the monthly principal and interest for a $1,000 loan. Multiply the monthly payment times the number of thousands of dollars you are borrowing to calculate monthly charges. For example: using an interest rate of 6.5%, multiply 6.32 (for 30 years) x 100 (for a $100,000 loan) = $632 monthly principal and interest.



Interest Rate Percent	Monthly Payment (Principal & Interest) for $1,000 Loan		
	15 Years	20 Years	30 Years
4	7.40	6.06	4.77
4.5	7.65	6.33	5.07
5	7.91	6.60	5.37
5.5	8.17	6.88	5.68
6	8.44	7.16	6.00
6.5	8.71	7.46	6.32
7	8.99	7.75	6.65
7.5	9.27	8.06	6.99
8	9.56	8.36	7.34
8.5	9.85	8.68	7.69
9	10.14	9.00	8.05
9.5	10.44	9.32	8.41
10	10.75	9.65	8.78

Types Of Mortgages

We provide a wide range of choices for home loans and financing options. Some choices are yours to make. Others are based on your special circumstances.

Conventional: This mortgage is a contract between the lender and the borrower, at the lender's risk. The borrower's property is security (which means the lender can take your home for non-payment of the mortgage). This mortgage is not insured by any federally insured program. However, it may be insured with private mortgage insurance. Conventional mortgages usually require a larger down payment than FHA or VA loans.

FHA (Federal Housing Administration): The FHA will insure the loan for the lender against loss in case the buyer cannot make payments. It requires the buyer to carry mortgage insurance through FHA. FHA loans require a lower down payment amount than most other loan options.

VA (Veterans Administration): The federal agency will guarantee the mortgages offered by private lenders to qualified members of the armed forces, active military personnel, veterans or their widows. In some cases one can buy a home on a VA loan with no down payment.

Jumbo: A loan with special terms for properties of very high value that fall outside typical lending standards.

Adjustable Rate Mortgage (ARM): The interest on an ARM may vary up or down at a fixed intervals. The ARM often offers a low beginning interest rate. However, this rate will go up after a certain time. If interest rates are low, an ARM may be a good option, especially if its cap (the highest interest you may be charged) is not more than a few points higher than the current fixed rate.

If you are considering an ARM, be sure you know:

- What is the adjustment period (the time between interest rate changes)?
- What index is used to determine interest rate?
- Does the introductory rate differ from the normal rate?
- What is the margin (the percentage added to the index rate each time your loan is adjusted)?
- What is the period adjustment cap?
- What is the lifetime adjustment cap?

Fixed Rate Mortgage: The interest rate on this agreement stays the same for as long as you hold your mortgage, no matter how interest rates change in the financial markets. You know exactly how much you will pay in principal and interest on your home each month. (Remember, taxes and insurance may change from year to year.)

It's important to keep in touch with your Loan Officer so that if interest rates fall in the future, you can refinance your mortgage and save money.

Mortgage Checklist

Answer the following questions "true" or "false" to help you and your loan officer find the mortgage that is right for you.

True or False

_____ The difference in real interest I pay for different loans is important to me

_____ I want to own my home "free and clear" by retirement

_____ I plan to keep the house for many years

_____ I plan to own the home for a short period of time

_____ I have a fixed income

_____ I worry about inflation and rising interest rates

_____ I prefer a constant payment amount to one that varies

_____ I prefer a constant payment amount to one that varies

_____ I am sure that my earnings will keep pace with inflation

_____ I think changes in the adjustable rate will average out to be equal to or better than the current fixed rate

The amount of money I have for a down payment and closing costs is: $___________________

Loan Application Checklist

Your Loan Officer is here to make sure your mortgage loan is processed as quickly as possible. Be sure to provide accurate information; otherwise your loan may be delayed or even denied. A lot of information is needed for a home loan, so it's a good idea to begin gathering the documents you need ahead of time. Here are some of the items you will be asked to provide, for both

- Picture ID
- Proof of Social Security numbers or Tax ID numbers
- Residence address for the past two years
- Names and addresses of each employer for the past two years
- W-2's and last two pay stubs
- For each checking and savings account: name of financial institutions, address, account number, balance and last two months' statements
- For each current loan: name of lender, address, account number, balance and monthly payment
- If you are self-employed: last two years' tax returns, year-to-date profit and loss statement prepared by an accountant
- Loan information and addresses of real estate owned
- Estimated value of other assets
- Certificate of eligibility or DD214s (VA Only)
- Divorce decree if applicable
- Deposit for credit report and appraisal

Your loan officer may ask for other documents as needed depending on your unique situation. All information you provide is kept highly confidential and is used only for the purposes of underwriting your loan.

The Final Steps to Closing

When you complete a formal loan application, your loan officer will give you:

A Truth in Lending (TIL) Disclosure. This statement provides information about the proposed loan such as the annual percentage rate, total finance charges, amount financed, total payments, schedule of payments, late payment charges, prepayment penalty if any, and assumption options, which indicate the lender's willingness to allow a future buyer to take over your original loan.

A Good Faith Estimate of Closing Costs. This is an estimate of the approximate amount of money you will need at closing. The forms lenders use to prepare this estimate vary, but the information is basically the same. The estimate gives you an idea of the fees charged for any interest rate adjustments, title insurance, recording fees, and survey fees. There are also many variable fees, including application fee, points, appraisal and credit report fees, and closing and settlement fees.

A Document from HUD (U.S. Department of Housing and Urban Development) to help you understand closing costs and Truth in Lending disclosures.

The actual closing is when papers change hands and the home becomes officially yours. You must pay for the rest of your closing costs and down payment at closing with a certified or cashier's check rather than a personal check.

Before closing, review all documents and your purchase agreement. Do a final walk through inspection of the property to make sure any agreed upon repairs have been made and no items from your agreement have been changed or removed from the house.

Closing Costs: Costs that the buyer of a home has to pay at the time of purchase. Closing costs usually include an appraisal fee, title search, and lawyer's fees. They may also include points and other fees such as homeowner's insurance for one year and private mortgage insurance, if required. Closing costs are in addition to your down payment.

Escrow: An account in which a third party holds the funds and documents that change hands during the home selling and buying process. An escrow officer sees that items in the purchase contract are carried out and appropriate parties are paid.

Homeowner's Insurance: Also know as hazard insurance, lenders require buyers to purchase insurance to protect against fire and floods.

Points: finance charges paid to the lender as part of the closing costs. Each point equal 1 percent of your total mortgage loan. Points can be negotiable and are sometimes tied to your interest rate.

Prepayment: making early or extra payments toward the principal. Prepayment can shorten the length of your mortgage and thus lower your total interest. Be sure to ask about any prepayment conditions on your mortgage.

Private Mortgage Insurance: insurance the buyer carries to guarantee that the lender is paid off if the buyer defaults (fails to pay.) This is different than homeowner's insurance and is generally required on all mortgages with less than a 20 percent down payment. For some people, private mortgage insurance may be deductible on federal taxes.

HOME EVALUATION FORM

Realtor ____

Price ____

Address ____

Size __________ Style ____________________ Color ________________

Construction (frame, brick, stucco) ______________________________

Number of Bedrooms __________ Baths ________ Family Rooms __________

Eat-In Kitchen ______________ Living Room ______________________

Garage/Carport ______________ Fireplace ________________________

Landscaping Features ______________________________________

Air Conditioning/Heat ______________________________________

Appliances ____

Special Features ____

Work/Repairs Needed ______________________________________

Notes ____

____

____

Realtor ____

Price ____

Address ____

Size __________ Style ____________________ Color ________________

Construction (frame, brick, stucco) ______________________________

Number of Bedrooms __________ Baths ________ Family Rooms __________

Eat-In Kitchen ______________ Living Room ______________________

Garage/Carport ______________ Fireplace ________________________

Landscaping Features ______________________________________

Air Conditioning/Heat ______________________________________

Appliances ____

Special Features ____

Work/Repairs Needed ______________________________________

Notes ____

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Home Evaluation Form

Realtor ______________________________

Price ______________________________

Address ______________________________

Size ________ Style ______________ Color ____________

Construction (frame, brick, stucco) ______________________________

Number of Bedrooms ________ Baths ______ Family Rooms ________

Eat-In Kitchen __________ Living Room ______________

Garage/Carport __________ Fireplace ______________

Landscaping Features ______________________________

Air Conditioning/Heat ______________________________

Appliances ______________________________

Special Features ______________________________

Work/Repairs Needed ______________________________

Notes ______________________________

____

____

Realtor ______________________________

Price ______________________________

Address ______________________________

Size ________ Style ______________ Color ____________

Construction (frame, brick, stucco) ______________________________

Number of Bedrooms ________ Baths ______ Family Rooms ________

Eat-In Kitchen __________ Living Room ______________

Garage/Carport __________ Fireplace ______________

Landscaping Features ______________________________

Air Conditioning/Heat ______________________________

Appliances ______________________________

Special Features ______________________________

Work/Repairs Needed ______________________________

Notes ______________________________

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Home Evaluation Form

Loan Officer ______________________________

Processor ______________________________

Office Phone ______________ Fax ______________

Email ______________________________

Notes ______________________________

____

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Realtor ______________________________

Office Phone ______________ Fax ______________

Email ______________________________

Notes ______________________________

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Title Company ______________________________

Contact Person ______________________________

Office Phone ______________ Fax ______________

Email ______________________________

Notes ______________________________

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Additional Information

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POPA Peace Officers Professional Associations Federal Credit Union

800-369-7672
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EQUAL HOUSING OPPORTUNITY

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