GPO
FEDERAL CREDIT UNION

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BUYING A HOME

The Single Most Important Transaction of Your Life

Buying a home is the single most important transaction of your life. It is also an exciting experience that gives new home buyers a sense of pride that they have made it and can afford to buy a home.

Home-ownership is a big responsibility and the home-buying process can be intimidating, especially if you are a first-time home buyer. Should you buy a home or continue to rent? Can you afford to buy a home? Do you really want to own a house?

Consider these ADVANTAGES of owning a home:

- **It's your castle.** No one can tell you what you can or can't do.
- **Your housing costs will stay somewhat steady.** There are no rent increases every year or two. With a fixed-rate loan, your monthly principal and interest payment remains the same, however, your property taxes and insurance premium will fluctuate.
- **It's an investment.** House values are still appreciating or at least remaining stable in most areas, so buying a house is still a sound investment.

There are many factors to consider when buying a home. This workshop contains information on the basic steps in the home-buying process. Your GPO Federal Credit Union mortgage representative will work with you from start to finish and help you reach your goal of home-ownership.

GETTING PRE-QUALIFIED FOR A MORTGAGE LOAN

Getting pre-qualified for a mortgage loan shows you where you stand financially. A pre-qualification is based upon your current income, debt, savings and employment history. Pre-qualifying is used to estimate the monthly house payment that you can afford – it does not guarantee you a loan.

ADVANTAGES OF PRE-QUALIFYING:

- Tells you approximately the price of the home you can afford.
- Tells you how much money you will need for the down-payment and closing costs.
- Helps define your budgeting goals.

PITI

PITI is a term used in the lending industry that refers to the four components of the monthly mortgage payment:

- **Principal:** The portion of the payment that is used to reduce the loan balance.
- **Interest:** The portion of the payment used to pay interest that is due.
- **Taxes:** One-twelfth of the annual property tax bill.
- **Insurance:** One-twelfth of the annual mortgage insurance and property hazard insurance bills.

The amount that is paid monthly for taxes and insurance is usually put into what is called an escrow account.

DEBT RATIOS

Lenders use calculations, or ratios, to determine the level of housing and overall debt which can realistically be carried by a borrower. Debt ratios are calculated from gross monthly income and monthly debt figures. Borrowers can generally afford to spend no more than 29 percent of their gross monthly income for housing debt and 41 percent for overall debt.

HOUSING & DEBT RATIO WORKSHEET

Understanding the Terms

To determine the amount you qualify for, we will use the Housing and Debt Ratio Worksheet. You will need to understand the terms used on the form.

GROSS MONTHLY INCOME

This is your total stable and verifiable income from all sources. This is the amount before taxes and insurance premiums are deducted.

NET INCOME

This is what is left of your gross income after taxes, insurance premiums and other deductions.

MONTHLY INSTALLMENT DEBT

This is a loan account which has a specific term (length of time to repay) and a set payment per month.

REVOLVING DEBT

Revolving debt includes accounts where the balance may change each month. The monthly payment will also change. Credit cards are examples of revolving debt.

HOUSING DEBT RATIO

This ratio determines the amount of gross monthly income that can be applied to principal, interest, taxes and insurance. Many lenders use 29 percent as the maximum for the housing debt ratio.

TOTAL DEBT RATIO

This ratio determines the amount of gross monthly income that can be applied to all monthly debts, including housing. The maximum percentage used by lenders is generally 41 percent.

PITI

P: Principal
I: Interest
T: Taxes
I: Insurance (includes Hazard and Mortgage Insurance)

These are the four parts of a mortgage payment. The amount that is paid monthly for taxes and insurance is usually put into what is called an escrow account.

HOUSING & DEBT RATIO WORKSHEET

(Sample)

Borrower's Gross Monthy Income	$1,900
Co-Borrower's Gross Monthly Income	$1,100
Total Gross Monthly Income	**$3,000**
Monthly Installment & Revolving Debts	
Car Payment	$250
Total Monthly Installment & Revolving Debt	**$250** (A)
Housing Debt Ratio	
Gross Monthly Income	$3,000
Housing Debt Ratio	X 29%
Estimated Monthly Housing Expense	**$870** (B)
Total Debt Ratio	
Gross Monthly Income	$3,000
Total Debt Ratio	X 41%
Estimated Total Monthly Expenses	**$1,230** (C)
Available Income Test	
Estimated Total Monthly Expenses	$1,230 (C)
Total Monthly Installment & Revolving Debt	– $250 (A)
Available Housing Income	**$980** (D)*
The amount you can afford to spend on PITI (Principal, Interest, Taxes and Insurance) is the smaller of Lines B or D.	

HOUSING & DEBT RATIO WORKSHEET

(For You)

Borrower's Gross Monthy Income	
Co-Borrower's Gross Monthly Income	
Total Gross Monthly Income	
Monthly Installment & Revolving Debts	
Car Payment	
Total Monthly Installment & Revolving Debt	
Housing Debt Ratio	
Gross Monthly Income	
Housing Debt Ratio	X .29
Estimated Monthly Housing Expense	
Total Debt Ratio	
Gross Monthly Income	
Total Debt Ratio	X .41
Estimated Total Monthly Expenses	
Available Income Test	
Estimated Total Monthly Expenses	
Total Monthly Installment & Revolving Debt	
Available Housing Income	
The amount you can afford to spend on PITI (Principal, Interest, Taxes and Insurance) is the smaller of Lines B or D.	

CONSIDER THE COSTS

You have determined the amount of home you can afford, but have you considered the costs that must be paid? Major costs include:

DOWN-PAYMENT

Different mortgage types require different down-payments. GPO offers mortgage programs with as little as 0 to 5 percent down-payment. A 3 percent down-payment on a $60,000 house would be $1,800. A 5 percent down-payment on a $90,000 house would be $4,500.

CLOSING COSTS

Closing costs are usually between 3 and 6 percent of the mortgage amount. They include fees such as the origination fee, appraisal fee, title search, title insurance, recording fees and others.
You may be able to negotiate with the seller to pay some of these costs. This is referred to as seller credits or concessions. These credits or concessions are negotiated in the purchase contract.

PRE-PAID EXPENSES

These include the daily interest on the loan up to 30 days, one year of hazard insurance premiums that are paid prior to closing and one year's property taxes.

SOURCES FOR DOWN-PAYMENT AND CLOSING COSTS INCLUDE:

- Share Draft or Checking Account
- Savings Accounts (funds must be in account for two months)
- Stocks, Bonds, etc.
- Roth IRA
- Gift from Family Member

EXPENSES OUTSIDE OF CLOSING:

- Home inspections
- Surveys
- Well Tests
- Septic Texts
- Attorney's Fees

SHOPPING FOR YOUR DREAM HOME

Working with a Real Estate Agent

Real estate agents can be helpful as they know about the local real estate market. Most agents belong to multiple listing services which publish directories of all properties listed for sale in a particular market. Another advantage of working with a real estate agent familiar with the area you would like to live in is that he or she will usually have information about such things as school systems, tax rates, water and sewer charges, public transportation and other concerns that might affect your decision to buy a particular home.

THE LOAN APPLICATION

Once you have found a property that you want to purchase, you will put in a purchase offer which is completed on a purchase contract. Typically, a realtor will assist with the completion of your contract. After the seller and buyer agree on a price, it is time to start an application.

Contact your credit union mortgage representative to make an appointment to begin the application process. Refer to the checklist on Page 8 for an idea of potential and required documents.

THE LOAN APPLICATION

Documents Checklist

In order to expedite your loan application, the home lending department will need **ALL** of the following documents during the mortgage process.

IDENTITY

☐ Copy of photo ID
☐ Copy of Social Security card

INCOME/EMPLOYMENT

If employed:

Most recent paystubs from all employers

- ☐ Must provide last 30 days
- ☐ Must be consecutive
- ☐ Must show year to date earnings

W2 statements from all employers

- ☐ Must provide last 2 years

Verification of employment

- ☐ Must provide contact person in human resources to verify employment
- ☐ Include name, phone number, email and/or fax

If self-employed, receiving commission or bonus income

Federal tax returns

- ☐ Must provide last 2 years
- ☐ Must include all pages/schedules
- ☐ Must be signed
- ☐ If corporation, provide 2 years corporate returns and K-1s
- ☐ If independent contractor 2 years 1099s

☐ Provide signed letter from your accountant verifying the date you became self-employed.

If Fixed Income

- ☐ Copy of current award letter for Pension and or Social Security Income
- ☐ Copies of 1099s
- ☐ Copies of last 3 months bank statements showing direct deposit (if applicable)

ASSETS

Bank Statements

- ☐ Must provide last 2 months
- ☐ Must be consecutive
- ☐ Must include all pages even if blank
- ☐ Must include your name, account number and name of financial institution
- ☐ Large deposits over $1,000 that are not payroll must be documented

Retirement/Investment Account Statements

- ☐ Must provide last 2 months
- ☐ Must be consecutive
- ☐ Must include all pages even if blank
- ☐ Must include your name, account number and name of financial institution
- ☐ If using funds from this account for closing, document terms of withdrawal

PROPERTY

Purchase contract

- ☐ Must be fully signed by all parties
- ☐ Must include all addendums/riders
- ☐ Please include contact sheet for any realtors/attorneys/settlement agents

Tax bills

- ☐ Include property and school tax bills for subject property
- ☐ Include property and school tax bills for any other property you may own

***PLEASE NOTE, WE CANNOT ACCEPT ORIGINAL DOCUMENTS, COPIES ONLY.**

INCOME

A borrower must show, through verification, that they have stable and sufficient income to support the proposed loan payment as well as other monthly obligations. The borrower's income must be such that the payments fall within the ratios for the loan program.

Two years of employment history on a job or occupation is usually required. The form of income is looked at carefully. It is derived from hour wages and salary. More common forms of income, when properly documented and verified are: full-time/part-time income, retirement income, Social Security income, child support (proof is required), and verifiable rental income.

Typical income documents required are:

- Current and consecutive paystubs from the past 30 days.
- W-2s from the past two years.
- If self-employed or if including rental income, tax returns from the past two years.
- Award letters from Social Security.
- 1099-Rs indicating retirement income for the past two years.

ASSET VERIFICATION

The lender will check through account statements to ensure that the borrower has adequate funds to close the transaction. The lender will check for the balance of the down-payment, closing costs, prepaid expenses, as well as any reserves that a particular program may require. Typical forms of these assets are:

- Checking and savings accounts
- Equity from an existing home
- Gift funds

The information provided will then be verified by an underwriter and additional information or documentation may be required.

CREDIT HISTORY

The amount and quality of a borrower's credit is a major factor in obtaining a mortgage loan. Lenders order credit reports from credit reporting agencies to examine each borrower's credit history. The credit report tells the lender if you have repaid credit on a timely basis or if there are now or ever have been problems.

The credit report provides information on credit cards, mortgage history, bank loans and public records relating to any financial matters such as bankruptcies or judgments. If the credit report reveals any credit errors, you are encouraged to contact the credit reporting agency and correct the errors.

DISCLOSURES

Three business days after you begin application your disclosures will be sent to you electronically or via mail. Disclosures are required documents that you must sign to proceed with your loan. These documents include an estimate of closing costs, intent to proceed, rate lock agreement, etc.

You will also pay for your appraisal at this point. It's very important to be sure you pay this fee in a timely manner as it could stall the process of your loan if it's not completed.

COMMITMENT LETTER

This is a letter that indicates the borrower has passed the underwriting guidelines and that the credit union is willing to offer the loan. It's an indication the buyer has been approved.

This letter should be shared with your attorney and it's helpful to the realtor as well.

TITLE WORK

Once a commitment has been issued, the subject properties abstract is updated and title policies are ordered. This process is handled by the attorneys and title companies. It verifies whether there are any title issues that need to be cleared prior to closing.

THE CLOSING

Closing is the final step in the home-buying process. At the closing you will sign all closing documents, bring a cashier's check for the final closing expenses and receive the keys to your new home. Prior to the closing you will pay the premiums for a full-year of home-owner's insurance.

CERTIFIED OR CASHIER'S CHECK

You will need a certified or cashier's check for your down-payment and closing costs. You can find out the exact amount you will need by contacting your personal attorney the day before the closing.

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GLOSSARY OF REAL ESTATE FINANCING

Annual Percentage Rate (APR): The actual interest rate the borrower pays when all the costs of obtaining credit are included.

Appraisal: A report made by a qualified appraiser setting forth an opinion or estimate of value. The term also refers to the process by which this estimate is obtained.

Deed: The formal written document that transfers the rights of ownership and possession (that is, the title) from the seller to the buyer.

Escrow Account: An account held by the lending institution to which the borrower pays monthly installments for property taxes, hazard insurance, and special assessments, and from which the lender disburses these sums as they become due.

Gift Letter: A letter or affidavit that indicates that part of a borrower's down-payment is supplied by relatives in the form of a gift, and that the gift does not have to be repaid.

Hazard Insurance: A broad form of casualty insurance coverage for real estate that includes protection against loss from fire, certain natural causes, vandalism and malicious mischief.

Loan To Value (LTV): Mathematical computation that compares the loan amount to the value of the property.

Survey: A measurement of land, prepared by a registered land surveyor, showing the location of the land with reference to known points, its dimensions and the location and dimensions of any improvements.

Title Insurance Policy: A policy that insures against financial loss from defects in title to real property and from the invalidity or unenforceability of mortgage loans.

> **A. Owner's Title Policy:** Usually issued to the land-owner. The owner's title insurance policy is bought and paid for only once and then continues in force without any further payment. Owner's title insurance is not assignable.
>
> **B. Mortgagee's Title Policy:** Issued to the mortgagee and terminates when the mortgage debt is paid. In the event of foreclosure or if the mortgagee acquires title from the mortgagor in lieu of foreclosure, the policy continues in force, giving continued protection against any defects of title which existed at or prior to the date of the policy.