BUYING A NEW HOME

A Quick Start-to-Finish Guide

RBFCU

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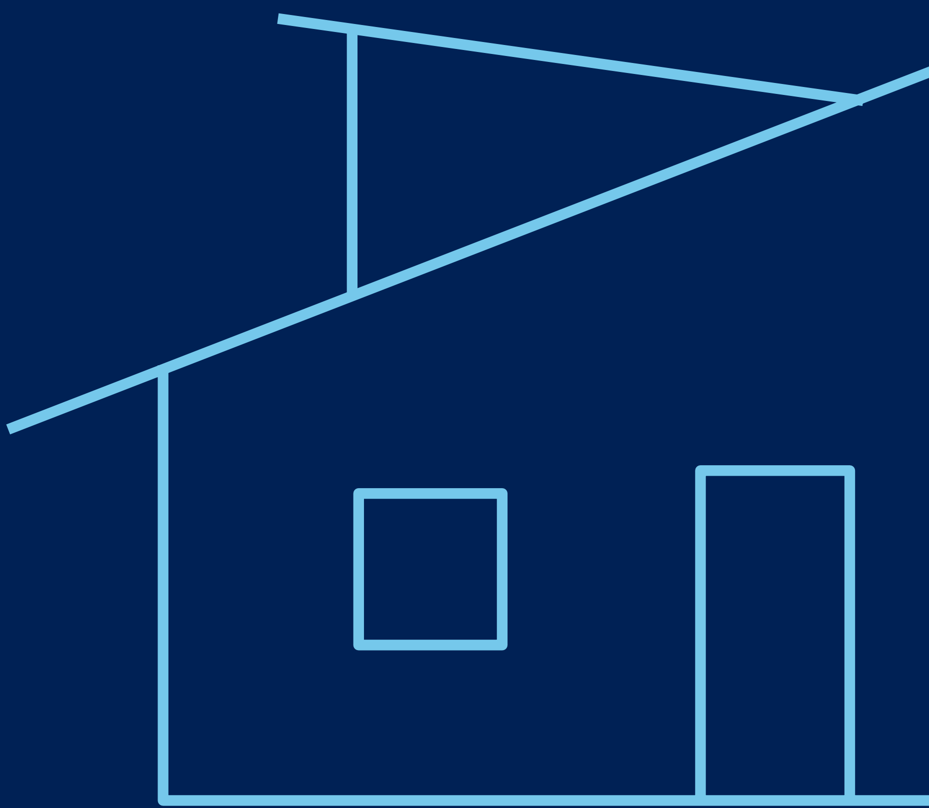
WELCOME, HOMEBUYERS!

Thank you for downloading our “Buying a New Home: A Quick Start–to–Finish Guide.” This quick and easy guide will answer many of your questions about getting a mortgage loan and buying a home.

We’ve worked with homebuyers all across Texas — from young couples to long-time renters, and from newly relocated families to lifelong Texans. While every situation is unique, we’ve learned that everyone feels nervous about the homebuying process.

The cure for this nervousness is good information and helpful advice — which you'll find on the following pages. This guide will also refer you to many of our **online support tools** that can help you make a sound financial decision.

Curious about something the guide doesn’t cover? Do you have other questions about your unique circumstances? Give us a call at 210-945-3300. The mortgage team at RBFCU is always ready to help.



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You're also welcome to pick up the phone and give us a call at 210-945-3300 with any questions. We understand, even if you're just "thinking about" buying a home, sometimes it helps to talk to someone about your specific situation and concerns. So please don't hesitate to call. We'll be happy to hear from you.

THE GUIDE AT-A-GLANCE

As a homebuyer, you're probably feeling everything from excitement to worry right now. It's only natural. Buying a home can be an emotional roller coaster ride.

With this guide, we hope to help you master the emotional side of buying a home with good, solid, easy–to–understand information that walks you through the entire process.

Among other things, this guide will help you:

- Be efficient with your time and avoid premature house hunting
- Determine what houses are in your price range
- Fine tune your personal finances and your credit score
- Learn how to get pre-qualified for a mortgage loan
- Understand the costs of buying a home
- Know what to expect at closing
- Understand your monthly mortgage payment

This guide will point you to online support tools available at **rbfcu.org.**
There's also a glossary at the end that covers homebuying and mortgage terminology.

THE BENEFITS OF HOMEOWNERSHIP

There's something about a freshly mowed lawn.

A ceiling light that needs to be fixed, a deck that needs to be sanded and stained, a tree that needs to be pruned — homeownership, no doubt, comes with responsibilities and chores.

Let's face it — when you buy a home, you're committing more than just your money. You're committing your time, too.

Still, ask most homeowners and they'll tell you they wouldn't trade their homes for anything.

Having a Place to Call Your Own

Owning a home brings with it a sense of emotional fulfillment.

Owning a home:

- Creates a sense of belonging, of putting down roots
- Makes you feel like you're part of a community
- Gives you a sense of stability and security
- Lets you customize to suit your style

Building Personal Wealth

Owning a home can be a very smart financial move. When you pay rent, the money is essentially gone. When you pay your mortgage, the money comes back to you in several ways:

- The portion of your mortgage payment that goes toward principal — that stays in your own pocket and counts toward the equity you have in your home.
- The portion of your mortgage payment that goes toward interest and property taxes — that could be tax deductible.

Rent vs. Buy Cost Comparison

Want to learn more about the cost of renting versus buying? Use our **Rent vs. Buy Calculator** to help determine which option makes the most financial sense for you. If you need a more short-term option, renting may make sense. Be sure to calculate staying in your new home for at least five years and see how the numbers compare.

WHERE SHOULD YOU START?

And How Long Will It Take?

We get it. Once you've set your heart on buying a home, you want to hurry up and get it done. You want to go house hunting — it's exciting! But there's some prep work you should do first.

For the smoothest homebuying experience:

DON'T Go House Hunting First

Rushing out to look at houses can set you up for disappointment. Even if you find a place you like and think you can afford, you won't be able to safely make an offer without first knowing if you qualify for a mortgage loan.

DON'T Rush to Make an Earnest Deposit

For a $120,000 home, you'll be asked for about $2,400 in earnest money to show you're serious about buying. If you qualify for a mortgage and buy the home, the earnest deposit will count toward your down payment. Otherwise, that money may be forfeited.

DO Talk Things Over With Friends and Family

One of the best ways to prepare for buying a home is by talking to friends and family, especially if they've recently bought a home. They know you best and may have good advice for you about buying a home and being a homeowner.

DO Take a Look at Your Personal Finances

For starters, know your credit score. Your credit score is a three-digit code that identifies you to lenders as having excellent, good, fair or bad credit. You can get a free look at your credit score at **freecreditscore.com**.

DO Take the Time to Get Pre-qualified

Getting pre-qualified is free and will make everything about buying a home easier. You'll get an idea of what loan amount you qualify for and what houses are truly in your price range. Plus, later on, being pre-qualified will speed up final approvals and closing.

DO Be Patient

Once you're pre-qualified for a mortgage loan, you'll find that buying a home still doesn't happen overnight. On average, anticipate 60 days to find a home that suits your needs and another 45 days for closing. Two to four months is a fairly typical timeframe.

FIND YOUR CREDIT SCORE

WHAT CAN YOU AFFORD TO BUY?

Rules of Thumb and Some Easy Math

It's easy to assume you can afford the same type of home your friends have. But that may or may not be true.

You and your friends may have similar jobs and similar incomes but very different financial situations. Credit history, total debt, savings — these and many other factors help determine what type of mortgage you qualify for and how much home you can truly afford.

RULE OF THUMB 1

Annual Gross Income x 2.5

A long-standing rule of thumb states that if you take your annual gross income and multiply by 2.5, you'll get an idea of how much home you can afford.

> Let's assume your annual gross income is $60,000.
>
> $60,000 x 2.5 = $150,000
>
> So you may be able to afford a $150,000 home.

Think less than $150,000 — if you're carrying significant debt (auto loans, credit card debt, etc.) and don't have at least a 20% down payment saved up.

Think more than $150,000 — if you're debt free and can make a down payment of 20% or greater.

RULE OF THUMB 2

Monthly Gross Income x .28

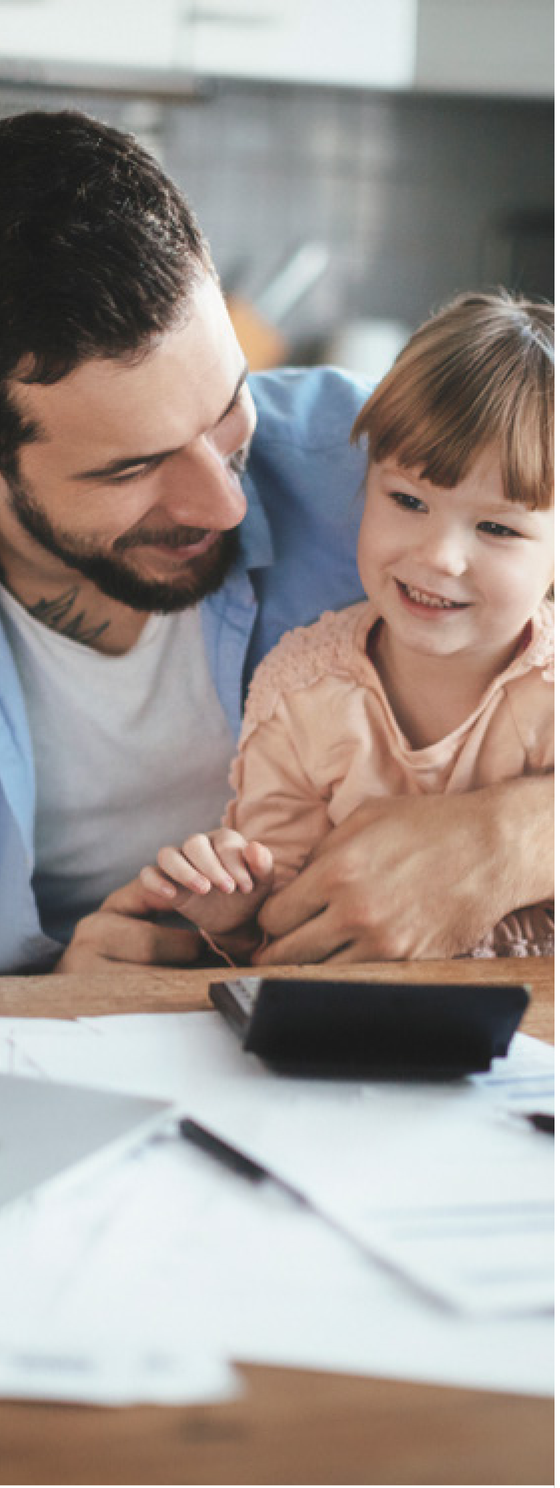
This rule of thumb states that your total monthly mortgage payment (principal, interest, property taxes and homeowners insurance) should not exceed 28% of your monthly gross income.

> Assuming your annual gross income is $60,000, your monthly gross income is $5,000.
>
> $5,000 x .28 = $1,400
>
> So you may be able to afford a $1,400 monthly mortgage payment.

How does that compare to your current rent payment? Does it feel affordable — or would you be caught short every month?

CRUNCH SOME NUMBERS

Want to get more specific and play with some numbers? **Use our Online Calculator** to figure out what your monthly mortgage payment would be under different buying scenarios. *Instead of trying to maximize your buying potential, try to find a monthly mortgage payment you're comfortable with that leaves you a little cushion each month.*



ANNUAL CREDIT REPORT

HOW'S YOUR CREDIT SCORE?

Easy Steps to Checking Your Finances

When you get pre-qualified for a mortgage loan or complete a mortgage application, lenders will ask for permission to pull your credit reports — and they'll take a look at your credit score.

- Your **credit history summarizes how much money you owe,** how long you've owed it and whether or not you pay on time.
- Your **credit score is based on your credit history.** It's a three-digit number that identifies you to lenders as having excellent, good, fair, poor or bad credit. A credit score of 740 or higher would help you qualify for the best terms and rates. A credit score around 640 can help many first-time homebuyers qualify for certain programs.
- You can **easily obtain free copies of your credit history** — and get a free look at your credit scores — without signing up for any ongoing service.
- Once every twelve months, the three reporting agencies (Equifax, Experian and TransUnion) are legally required to provide you with your complete credit reports for free. You can obtain them all by visiting **annualcreditreport.com**.
- **Once you obtain your reports, read them carefully.** The website includes instructions on how to work with the reporting agencies to correct any errors.
- While the free credit reports don't include your credit score, you can easily obtain it by visiting **freecreditscore.com**. This is a free, no-obligation service offered by Experian.

A strong credit history and high credit score means you'll be an attractive customer for mortgage lenders. You'll have more options and a better chance of getting the lowest possible interest rate.

But if your credit history is less than stellar — don't lose heart. If you're a first-time homebuyer with a low credit score, you may still qualify for special programs. Plus, your lender can help you understand how to improve your credit score, over time, with better money habits and even special credit builder loans.

THE DOWN PAYMENT

Keep Calm and Save On

Understanding and preparing for the down payment is an important step toward buying a home.

What is a down payment?

A down payment is not unique to the mortgage loan process. If you've ever bought a new car, for example, you've probably made a down payment. The down payment on your home is the amount of the purchase price you pay upfront.

The bigger your down payment, the less money you need to borrow.

On a $120,000 home, if you make a $10,000 down payment, then you'll be borrowing $110,000 for your mortgage loan. The bigger your down payment, the less you need to borrow — and the lower your monthly mortgage payment.

How much money do you need for a down payment?

It depends. The amount you need to put down can vary by the type of mortgage loan you get. If you get a conventional mortgage, you should expect to make at least a 3% down payment. For example, on a $120,000 home, you should expect to make a $3,600 down payment. If you qualify, special first-time homebuyer programs offer mortgage loans with little or no money down.

Why is a 20% down payment considered such a magic number?

When a homeowner has at least 20% equity in their home, there are concrete benefits:

- It eliminates the monthly Private Mortgage Insurance (PMI) fee from their mortgage payment, saving them on average about $35 a month.
- It also means they'll build additional equity faster — because they'll have borrowed less, more of their monthly mortgage payment will go toward principal and less toward interest.

Tips for Saving Up

There's no easy solution to saving up for a mortgage down payment. It involves taking a hard look at living expenses, eliminating unnecessary spending and disciplined saving.

Some key advice — be open to help from your family. It's not unusual for parents and even grandparents to help out with the down payment on a first home.

BEYOND THE DOWN PAYMENT

Closing Costs and Cash Reserves

When you apply for a mortgage loan, your lender is going to consider how prepared you are to make a down payment and cover closing costs — and still have cash reserves available after you move into your new home.

The Down Payment

As previously mentioned, the down payment is the amount of your new home's purchase price that you pay in advance. With a conventional mortgage loan on a $120,000 home, a minimum down payment of 3% comes to $3,600.

Closing Costs

Buying a home comes with additional one-time fees. There are lender closing costs and third-party closing costs.

- Lender closing costs can include fees for document preparation, loan origination and tax services.
- Third-party closing costs can include fees for property appraisals, credit reports, flood certification, termite inspection, title search, title insurance and other items.

All told, closing costs can range anywhere from 3% to 10% of the purchase price of your new home. On a $120,000 home, therefore, you'll need to anticipate closing costs ranging from $3,000 to $12,000.

The Loan Estimate & Closing Disclosure Statement

So how do you know exactly what your closing costs will be?

- **Loan Estimate (LE):** You'll receive the LE once you qualify for a mortgage loan. It will list what your estimated closing costs will be for homes in your target price range.
- **Closing Disclosure Statement:** A few days before you close on your new home, you'll receive a Closing Disclosure Statement, which will detail all of your closing costs. It should closely match your LE.

It's true that some mortgage loan programs allow you to include closing costs in your loan amount. Just keep in mind the more you borrow, the higher your monthly mortgage payment will be.

Cash Reserves

Ideally, after you cover your down payment and closing costs, you'll still have some cash reserves saved up. You don't want to move into your new home without any money in the bank. An emergency fund with three to six months living expenses can protect you from unexpected home repairs or loss of income.

The down payment, closing costs and emergency fund — once you add everything up, the numbers can be quite intimidating. With the right preparation and planning, though, you can enjoy the thrill of owning your new home along with a comforting sense of stability and financial security.

GETTING PRE-QUALIFIED

It Makes Everything Easier

This might hit you as a strange bit of advice — but, if you want to find the home of your dreams, don't go house hunting. *At least not at first.*

Instead, get pre-qualified for a mortgage loan. Here's why:

It Can Save You a Lot of Frustration

Homebuyers can often spend a lot of time looking at homes they can't afford and often learn the truth the hard way. They find a place they love — and then have their hopes dashed when they find out they don't qualify for a mortgage loan in the necessary amount.

It's Free! **Pre-qualification is absolutely free.**

It's Relatively Simple

Your lender will ask you to provide proof of income (W-2 statements, tax returns and maybe pay stubs), proof of assets (bank statements) and identification (driver license and Social Security number).

No Obligations

Getting pre-qualified doesn't mean you have to take out a mortgage loan or buy a house. Your pre-qualification comes with no obligations and can help determine if the time is really right for you to buy a home.

You'll Learn Your Price Range

With pre-qualification, you'll get an idea of what loan amount you qualify for — so you can target a specific price range during your house hunting.

You'll Get a "Pre-qualification Letter"

You'll get a letter from your lender saying that you qualify for a certain loan amount. Why is this important? It lets real estate agents and sellers know you're a credible buyer who can make a legitimate offer on a home.

It Speeds Things Up

Finally, with pre-qualification, your lender will already have most of the information they need to approve your final mortgage application. This also helps expedite closing on your new home.

One Precaution About Pre-qualification

Your pre-qualification letter will only be valid for a specified period of time. Be sure you're serious about making a purchase before getting pre-qualified.
Getting pre-qualified or applying for a mortgage loan multiple times will result in multiple credit pulls — which can potentially damage your credit score.

THE BUYER AGENT

Your Key Advisor

You might not know this, but most real estate agents represent both sellers and buyers — just not on the same transaction.

We're used to seeing real estate agents putting up yard signs, hosting open houses and sending around postcards — all with the idea of selling a house they've just listed. So we don't often think of hiring one to help us buy a home, but their experience and advice is essential.

How Can a Buyer Agent Help?

A good buyer agent will work on your behalf throughout the homebuying process. Your buyer agent will find and schedule tours of available homes and much more. For example, when it comes time to make an offer, your buyer agent will help you determine what your offer should be, prepare and present your offer, and negotiate price and terms on your behalf.

How Do You Find One?

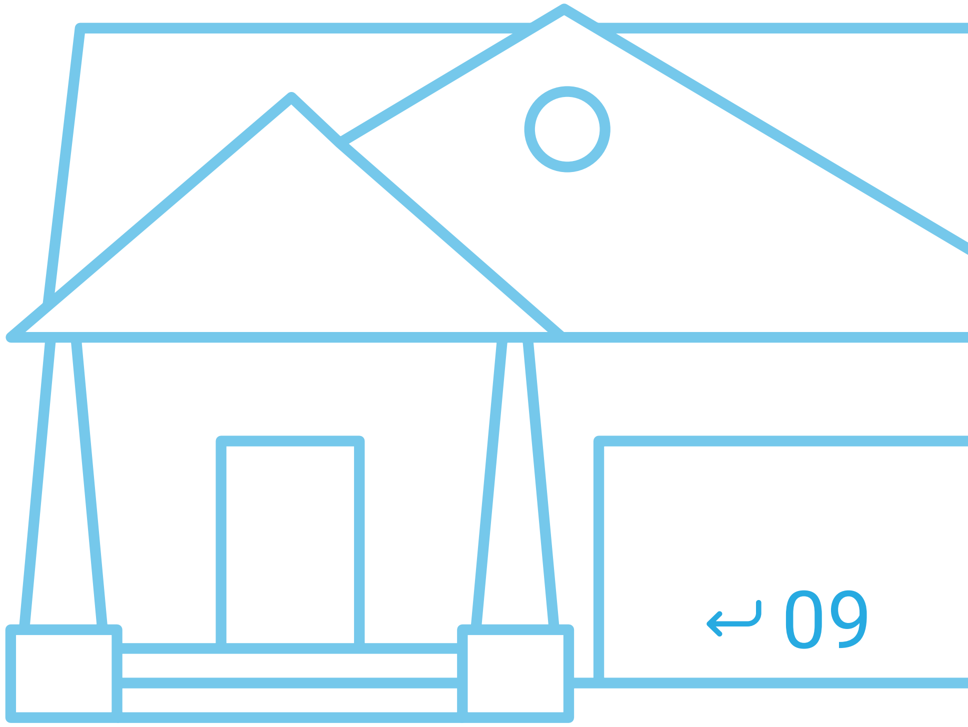
Most people find their buyer agent through referrals from friends, family or co–workers. You can also find an RBFCU preferred real estate agent by emailing realty@rbfcu.org.

What to Look for in a Buyer Agent

You're going to want to find a buyer agent you feel comfortable with. In terms of key credentials, look for a buyer agent who:

- Works full-time as a real estate agent
- Works your desired neighborhoods
- Understands the market for your desired price range and property type
- Provides references from other buyers

Just in case you're curious, in most instances it won't cost you a thing to hire a buyer agent. They get paid by splitting the sales commission with the listing agent — and the sales commission, of course, is paid by the seller. Buyer agents rarely charge additional fees, but it would be wise to ask about additional costs upfront.



MORTGAGE APPLICATION CHECKLIST

Essential Documentation

If house hunting is the fun part of buying a new home, then getting your documents together for your mortgage application is probably the least fun part. We know. But it’s an essential step that every homebuyer goes through.

The good news is — if you’ve been pre-qualified for your mortgage loan, then you and your lender have already assembled much of the needed documentation.

The Basics

- A valid driver license or other government-issued photo identification
- Date of birth
- Social Security number

Income Verification

- Pay stubs for the past month
- Personal tax returns for the past two years, including all W-2s, 1099s and all schedules
- If self–employed, year-to-date profit and loss statement and balance sheet

Financial Condition

- Most recent financial statements (two months) for all checking, savings, investment, IRA or other liquid asset accounts
- Loan information, including total balance and monthly payments

Additional Items

- If you've been divorced, a copy of the final divorce decree
- If you've got credit disputes, documentation pertaining to any resolved or unresolved issues
- If you've filed for bankruptcy, a copy of all bankruptcy documents including the discharge notice

Before submitting items to your lender, be sure to make copies of everything to keep for your own files. Your lender will want the copies, not the originals, and keeping copies of these items for yourself is a good idea. To help with your preparation, **download our complete mortgage application checklist.**

UNDERSTANDING YOUR MORTGAGE PAYMENT

The Five Key Parts

Making your mortgage payment is a lot like paying your rent. It provides you with a place to live and is probably the biggest payment you make every month.

However, your mortgage payment is very different. It feels like one lump sum, but is made up of **five key elements:**

- Principal
- Interest
- Property taxes
- Homeowners insurance
- Private mortgage insurance (PMI)

1. Principal

This is the amount you borrowed for your mortgage loan. If you borrowed $100,000, then your outstanding principal is $100,000. A portion of each monthly mortgage payment goes toward paying off your outstanding principal. During the early years of your loan, the portion that goes toward your principal is small. But this portion grows with each payment and helps you build equity.

2. Interest

This is the amount your lender is charging you for the money you borrowed. During the early years of your loan, the portion that goes toward paying interest is large — but it is also tax deductible, meaning you'll get a percentage of this money back. Plus, the portion of your mortgage payment that goes toward interest shrinks every month.

Keep in mind, just because the portion that goes toward interest shrinks every month, doesn’t mean your total mortgage payment goes down. As the portion that goes toward interest shrinks, the portion that goes toward principal grows by the same amount.

3. Property Taxes

A portion of your monthly mortgage payment will be placed in an escrow account, which your lender will use to pay your property taxes on your behalf. Property taxes are also tax deductible, so you can look forward to getting a percentage of this money back.

4. Homeowners Insurance

A portion of your monthly mortgage payment will be placed in an escrow account, which your lender will use to pay your homeowners insurance premium on your behalf. Homeowners insurance protects against things such as storm damage, fire, theft and accidents that may occur on your property.

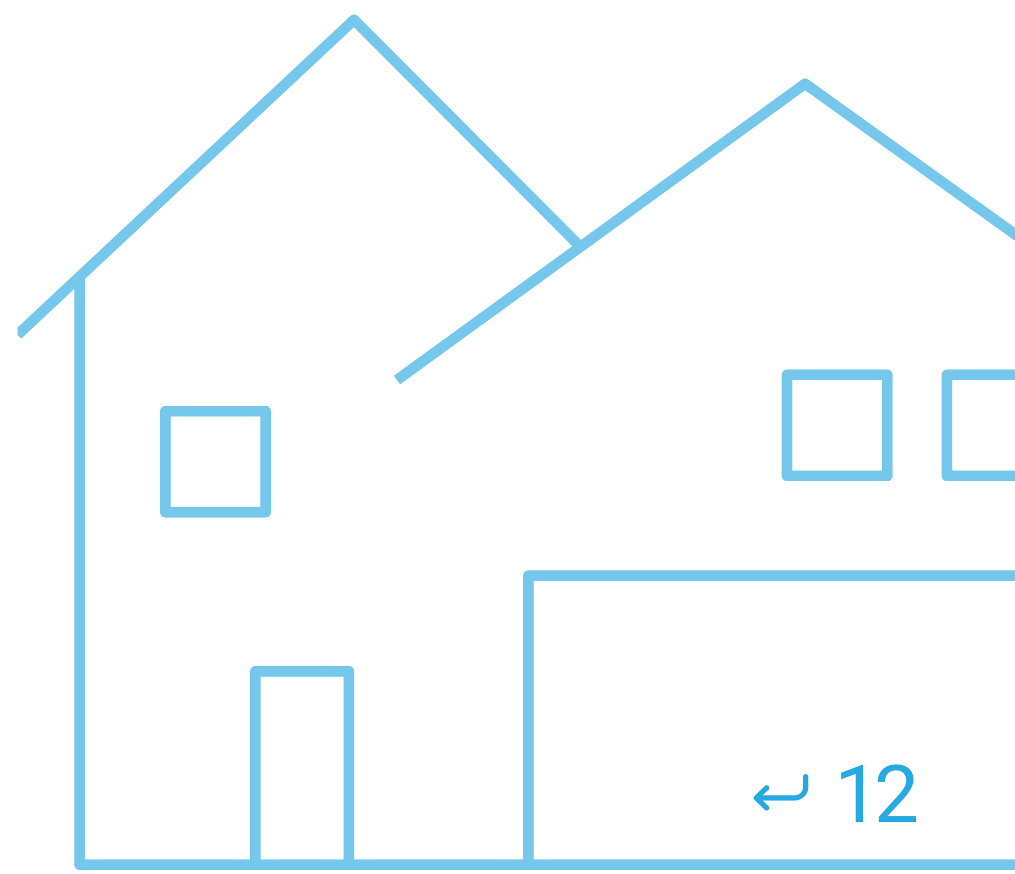
5. Private Mortgage Insurance (PMI)

If your down payment is 20% or more of the purchase price, the need for PMI is eliminated altogether.

Until you have 20% equity in your home, though, a small portion of your mortgage payment will go toward paying for PMI, which protects your lender in case you default on your loan.

Keep in mind there are a couple of ways for you to build equity. With each mortgage payment, the portion that goes toward principal builds your equity. Any increase in property value will also increase the equity you have in your home.

Once you've achieved 20% equity in your home, ask your lender to eliminate PMI from your mortgage payment and you'll save hundreds of dollars a year.



WHAT TO EXPECT AT CLOSING

And What to Bring With You

“Closing” is the final step in buying your new home and you may feel some anxiety in not knowing what to expect.

You may worry that somehow, someone is now unexpectedly going to tell you “no.” The truth is, the closing meeting wouldn’t be scheduled at all unless the decisions were already “yes” on your mortgage loan, purchase agreement and other factors.

So try to relax a bit. At closing, you’re going to provide identification, sign some documents and hand over certified checks for your down payment and closing costs. *Oh, and then get the keys to your new place*!

- Closing will usually take place at the title company’s office.
- It'll be a small meeting — usually just you, your buyer agent and an officer from the title company.
- The seller and seller agent rarely attend closings with the buyer.
- You can **bring a trusted adviser** with you, if you wish.
- Please note that everyone whose name will appear on the property title needs to attend and **bring a valid government-issued photo identification (for example, a driver license)**.
- The entire meeting will take about an hour.
- The title company officer will have everything prepared in advance and walk you through everything you need to sign.
- You’ll be signing your final mortgage papers, title forms, tax forms, affidavits, a deed of trust and various disclosure statements.
- For your down payment and closing costs, you’ll need a check or wire transfer.
- It’s a **good idea to bring a personal check**, too, to cover any last-minute corrections or changes.

When everything’s done, you’ll get the keys to your new home! **That’s a special moment and well worth all the effort you’ve put into saving, preparing and house hunting. Once you walk into your new home, you’ll know you made the right decision. There’s nothing quite like owning your own home.**

HOME SWEET HOME

We hope this guide has helped you understand the homebuying process a little better.

More than that, we hope we've been able to ease your mind about finances, mortgages and homebuying in general. We understand the whole process can be quite daunting, but in the end, there's nothing quite like moving into your new home.

If you have questions or wish to discuss what you've learned, **feel free to give us a call at 210-945-3300.** We'd be happy to hear from you. We love helping homebuyers all across Texas.

Give us a call, we are happy to help.
210-945-3300

RBFCU.ORG

VISIT US ONLINE TO FIND THESE TOOLS AND MORE

ONLINE SUPPORT TOOLS

In addition to this guide, RBFCU offers a number of online support tools to assist you through the homebuying process.

Check Today's Interest Rates

Stay current with mortgage loan interest rates.

Mortgage Application Checklist

View, print or download the Mortgage Application Checklist.

Mortgage Calculators

Use any of our online calculators to help you make a sound financial decision.

Calculators include:

- How much would my monthly payment be?
- How much can I save with a 15–year mortgage?
- How quickly can I pay off my mortgage by making additional payments?
- Does it make sense to pay points to get a lower interest rate?
- Should I buy a home or continue to rent?

Online Mortgage Applications

Apply online at rbfcu.org.

RBFCU Insurance Agency

Call 1-888-564-2999 to get a quote for home insurance coverage.[1]

Realty Service

Contact an experienced real estate professional: realty@rbfcu.org.[2]

EQUAL HOUSING LENDER

REALTOR

MLS MULTIPLE LISTING SERVICE

Membership eligibility required. Loans subject to credit approval. Rates and terms subject to change without notice. Mortgage loans are available only on property in Texas. Origination fees may apply. RBFCU NMLS# 583215.

[1] Insurance products are offered through RBFCU Insurance Agency LLC, a wholly-owned subsidiary of RBFCU Services LLC and an affiliate of Randolph-Brooks Federal Credit Union (RBFCU). RBFCU Insurance Agency LLC is operated by Banc Insurance Agency. Business conducted with RBFCU Insurance Agency LLC is separate and distinct from any business conducted with RBFCU. Insurance products are not deposits; are not obligations of RBFCU; are not NCUA insured; are not issued by or guaranteed by RBFCU or any other affiliate, and may lose value. Any insurance required as a condition of the extension of credit by RBFCU need not be purchased from RBFCU Insurance Agency LLC but may, without affecting the approval of the application for an extension of credit, be purchased from an agent or insurance company of the member's choice.

[2] Kuper Realty Holding Company, LLC dba Kuper Sotheby's International Realty is a subsidiary of RBFCU Services LLC. RBFCU Services LLC is affiliated with Randolph-Brooks Federal Credit Union (RBFCU).

GLOSSARY

Mortgage and Homebuying Terminology

Buyer Agent

A buyer agent is a real estate agent who represents you during the purchase of a home. A buyer agent walks you through the homebuying process, offers advice, schedules home tours and explains the pros and cons of neighborhoods and properties. The buyer agent also presents offers and negotiates on your behalf.

Certified Check

A certified check is guaranteed by a bank or financial institution. They've verified that sufficient funds exist in the account to cover the check and have set those funds aside. Thus, a certified check essentially functions as cash.

Closing

The final step in taking ownership of a purchased property. At closing, you sign legal documents, make your down payment and pay closing costs.

Closing Costs

Fees paid at the closing of a real estate transaction, including fees from your lender or third parties for services involved in the transfer of property, such as appraisals, inspections and title searches.

Closing Disclosure Statement

At least three days before closing, your lender will provide you with a Closing Disclosure Statement which details exact closing costs.

Credit Report

Three independent reporting agencies (Equifax, Experian and TransUnion) provide credit reports, which include a person's credit history and current debt.

Credit Score

Based on your credit report, your credit score is a three-digit number representing creditworthiness. Your credit score identifies you as having excellent, good, fair, poor or bad credit.

GENERAL RANGE

Excellent: 750+	Poor: 600–649
Good: 700–749	Bad: below 600
Fair: 650–699	

Down Payment

The amount of a home's purchase price paid in advance.

Earnest Deposit (Earnest Money)

This deposit is made in order to show the home seller that you're serious about purchasing the home. Sellers rarely accept an offer without an earnest deposit, a percentage of the home's purchase price which later counts toward the down payment.

Equity

The percentage or amount of your home that you own, calculated by subtracting your outstanding mortgage balance (principal only) from the fair market value of your home.

Gross Income

Your total personal income before taxes or deductions.

Homeowners Insurance

Your homeowners insurance provides coverage for your property against things such as fire, theft and storm damage, and the cost is usually included in your monthly mortgage payment.

Interest

Interest is what your lender charges you for the use of their money in purchasing your home.

Loan Estimate Disclosure

Your lender will provide you with a Loan Estimate (LE) of what your closing costs will be to obtain a loan and purchase a specific type of property.

Mortgage Loan

People use mortgage loans to make large real estate purchases without having to pay the entire purchase price up front.

Principal

The amount of money you've borrowed for your mortgage loan.

Private Mortgage Insurance (PMI)

Can also be referred to as Mortgage Insurance. If your down payment is less than 20%, you'll be required to pay for PMI, which protects the lender in case you default on your loan. PMI is usually included in your monthly mortgage payment; the fee can be eliminated and your monthly mortgage payment reduced once you achieve 20% equity in your home.

Property Taxes

Property taxes are assessed against houses — usually by the county government where the house is located — to help pay for public roads, school systems and other services.

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