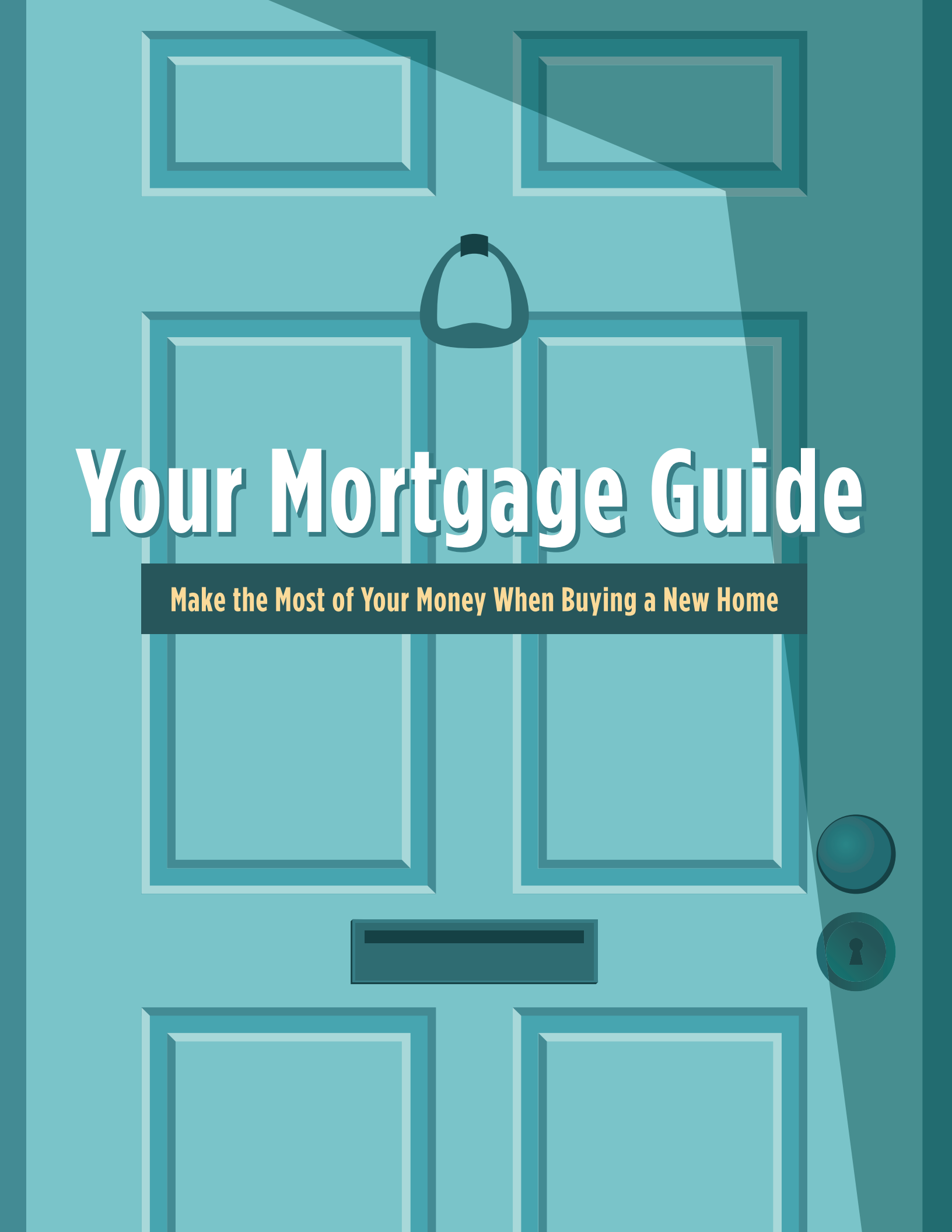


Your Mortgage Guide

Make the Most of Your Money When Buying a New Home

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Owning a home is the American dream, almost a rite of passage at certain stages of life. First comes the starter home, maybe a condo or a small house in an in-town district; later, a larger home in a child-friendly neighborhood with a landscaped yard for the kids and dog; then, as the children leave the nest, a downsized home with no lawn to mow so there's more time to enjoy retirement.

A new home is the largest investment most Americans make, and if you plan the purchase of your home carefully, it will be both a financial asset and a place for you and your family to thrive.

At La Capitol Federal Credit Union, we have deep roots in Louisiana. We're a not-for-profit financial institution here to help the community. We know all the ins and outs of buying a home in Louisiana and can help you find your best deal on a home loan. And more than that, we're your partner in the process. When you take out a loan, you have a series of choices that determine whether or not you'll make the most of your money. We're here to help you do that every step of the way.



Before You Apply for a Loan 3

Renting vs. Owning 6

How to Find the Right Home 7

How to Find the Right Loan 9

Down Payments 11

The Closing 12

Mortgage Terms 14

Your Financial Health

How to Determine If a New Home Is Right for You

Before You Apply for a Loan

Getting a mortgage is about more than having your offer accepted and signing on the dotted line. Taking these steps before you apply for a loan will pay off in a smoother process:



Check your credit before starting the loan application process.

The lender will start with your credit report, which is your financial history, and so should you. They will use the reports to determine how creditworthy you are, so you need to make sure there are no errors that bar you from getting a loan.

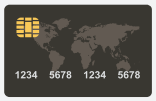
You can request a free credit report from the three national credit reporting bureaus—Experian, Equifax and TransUnion—once a year. Getting a report from all three agencies at the same time allows you to determine whether your credit information has mistakes so you can have them corrected. The bureaus have 30 to 45 days to investigate an issue and fix it.

Some examples of errors: Any accounts listed that aren't yours; accounts incorrectly listed as being in collection; incorrect large balances or late payments reported.



Start saving money now.

Not only will you need cash for a down payment (usually 20 percent of your home's price), but you'll also need funds for the fees that go along with your loan: homeowner's insurance, an appraisal, a home inspection, closing costs and escrow reserves. You may have to provide a year's worth of homeowner's insurance up front and/or show your lender that you have three to six months of your new mortgage payment in reserve. And don't forget your moving costs and utility setup fees.



Do not request a new credit card while you are applying for a mortgage loan.

When you apply for a new credit card, your credit score will dip temporarily due to the application credit check. This check counts as a hard inquiry on your account for about 12 months, which can be a red flag to lenders. Same thing with closing an old account, which affects the amount of your available credit, another negative.

In other words, don't open up any lines of credit and don't close any out. Just keep making on-time payments and reducing any debt.



Find your lender early in the process and get prequalified.

Find a mortgage lender early in the process so you can develop a relationship and get prequalified before you start house-shopping. Getting prequalified will give you an idea of how much you can spend on a new home and can shorten the mortgage application process. Prequalification also signals to a seller that you are serious while giving you some specifics (such as interest rates) to work with.

Check the lender's record: Do they close on time? Lenders who are late with the paperwork can cause your deal to fall through.



Know your assets and debts.

Your lender will have to verify all funds that you receive, so it's a good idea to get together any documents that will verify proof of funds, such as gifts and trust accounts. Your lender will also need to know about any other debt you have, such as student loans, car loans, etc.



Get an itemized list of your total fees.

You need to know just how much money to bring to the closing table, so ask about fees. These fees will be for homeowner's insurance, an appraisal, a home inspection, closing costs and escrow reserves. A lender may also require you to pay property taxes and insurance up front, and it all adds up.

Information You Need for Your Lender:



- ☐ **Name, current address, Social Security number**
- ☐ **Names and work numbers of employers for the past two years**
- ☐ **Monthly income for you and your co-borrower for the past two years (this information is on your tax return)**
  - Most recent pay stubs with year-to-date income
  - Bonuses, commissions and overtime income
- ☐ **If you are self-employed, you will need the past two years' tax returns for the type of business you own: Sole Proprietorship (Schedule C), Partnership (Form 1065), or Corporation (Form 1120 or 1120s), and your past two years' personal tax returns (including K-1s).**
- ☐ **Documentation of assets, including:**
  - All checking and savings accounts
  - The value of stock, bonds, stock options and your 401(k)
  - A 401(k) loan
  - Social Security and disability payments
  - Pension income
  - Alimony and child support
  - Family gifts
- ☐ **Documentation to support credit history problems (if applicable), which can be a written explanation of late payments, bankruptcy (petition and discharge papers), defaults, judgments and/or liens.**
  - Car loans
  - Outstanding student loans
  - Credit card accounts
  - Current mortgages or home equity lines of credit

Renting vs. Owning

A general rule is that if you intend to stay in your property for at least five to seven years, the costs of purchasing the home are more likely to be offset by accrued equity and increased housing value. Consider these factors when weighing the pluses and minuses:

Renting:



Bad credit: A history of on-time rental payments can help you improve your credit.

Flexibility: Renting allows you to explore an area before making the longer-term commitment to home ownership.

Career and income uncertainty: Buying makes it more difficult to move if you need to move in the near future for your job. Losing your job may also make it more difficult to pay a mortgage.

Maintenance: A pipe breaks? No problem. Your landlord is responsible for maintaining your rental unit.

Changes in your rent payment: Your rental rate is usually locked in for a year, but after that, it can go up, making it difficult to plan.

Buying:



Equity: When you have a home mortgage, your degree of ownership in your home—equity—grows with every payment. This equity can be used to fund other major purchases, such as your child's college education.

Tax deductions: Mortgage interest and property taxes are tax deductible, an advantage Uncle Sam doesn't give renters.

More tax bonuses: If you meet certain requirements, the IRS won't apply a capital gains tax on the first $250,000 in profit you make when selling your home if you're single, or the first $500,000 if married.

Choices: You can decide what color to paint your walls or how many pictures to hang and whether you want to maintain your yard or pay someone else to do it.

Where Does Your Real Estate Agent Fit into the Process?

The name on the For Sale sign is a listing agent, who works for the seller of the home. Find a buyer's agent who will work for you by asking friends and family for recommendations.

Your agent is responsible for making sure home inspections and repairs are completed, obtaining disclosures and coordinating the activities of your lender and other professionals involved in your purchase. If bargaining is necessary, your agent will be your negotiator. When it's time to sign the closing documents, he or she will accompany you to make sure all is as it should be.

How to Find the Right Home

Where you live influences every aspect of your daily life. Think about schools, traffic, proximity to work and recreation, parks, shopping, restaurants and personal services. Here are some ideas as you begin your search:

Where to Live?

Demographic, employment and community information is online, often on real estate sites. Concentrate your search in areas where houses are in your price range.

To find these neighborhoods:

- Work with a qualified real estate agent
- Check the real estate section of the newspaper
- Search online at various real estate sites



Your Commute:

Once you've narrowed your search, drive to and from your workplace in the morning and the evening from the neighborhoods you've chosen. How long is the commute? Is the time commitment reasonable? Are there alternative forms of transportation (bus, ferry, train) that you could use?

Think about this:

What are you chances of staying in the job you have now for the length of time you'll be living in the house? If changing work locations is a possibility, you won't want to pick a house just because it's near your current job.

Peace & Quiet:

Visit the neighborhoods you would like to call home at different times of the day and at night to check traffic and noise levels.

Listen for:

- Airplane traffic/noise
- Foot traffic
- Trains
- Cars and trucks
- Noise from dance clubs and late-night restaurants

The ABCs of Schools:

Many people begin their search with finding the right school district. The quality of your children's education will determine their future. You'll find information about districts you're considering from the U.S. Department of Education Institute of Education Sciences National Center for Education Statistics. You can also call and visit local districts to get statistics on school rankings.

Questions to consider:

- How do students score on statewide and national tests?
- How many students go to college? To technical school? Drop out?
- What colleges do they attend?
- What are some of the problems facing the schools in this area?
- Ask to see records of drug use and incidences of violence.
- What is the weapons-in-school policy?
- What is the student/teacher ratio?
- Are art, music, drama and sports programs offered?
- What are the age and condition of school facilities?
- What is the student/computer ratio? What grade do students begin learning computer skills?
- What languages are offered?

How to Find the Right Loan

Five Steps to a Successful Loan

1. Check your credit score in advance

2. Avoid making any new credit requests

3. Determine your down payment upfront and have the cash available

4. Be prepared to pay fees at closing

5. Find a loan officer who is helpful, accessible and local

The Ins and Outs of Interest Rates

Most mortgages fall into one of two categories: fixed rate and adjustable rate. The mortgage representatives at La Cap will clearly explain the benefits of each type and help you determine which is best for you. Here's a comparison:

Fixed-rate mortgage:

A fixed-rate mortgage term is generally 15, 20 or 30 years long.

You pay the same interest rate the entire length of the loan—this means the monthly principal and interest payment amount remain constant for the life of your loan, and you don't have to worry about rising mortgage rates.

Interest rates are slightly higher than adjustable-rate mortgages (ARM).

This rate is best if you plan to stay in your home at least five years.

Adjustable-rate mortgage (ARM):

ARMs are available in five-, seven- and 10-year fixed-rate periods with a 30-year term only.

At the end of the fixed-rate period, if interest rates go up or down, your payments will change at each scheduled adjustment date. Note: In most cases, there are rate caps to limit the amount your interest rate can go up or down.

An ARM generally offers a lower rate than a fixed-rate loan during the initial fixed-rate period, but that can increase.

You save money initially, and an ARM may help you qualify for a more expensive home.

This rate is best for buyers who know they'll sell within five to 10 years.

15-Year vs. 30-Year Loans

Before choosing a lender, ask yourself this question: 15 or 30 years? The 15-year mortgage requires higher monthly payments, but builds equity faster. The 30-year mortgage has lower monthly payments, yet ultimately costs more. The lower interest rate and shortened term make the loans cheaper by lowering the overall interest bill.

But the decision isn't always simple. Your La Cap representative can help you weigh the benefits of each type of loan to make the decision that's right for you and your family.

Also consider how the loan fits into your broader financial plan. Be wary of lenders who push the longer loan aggressively for tax reasons. It's true a 30-year borrower will generally get larger tax deductions than a 15-year borrower, but that's because the 30-year customer pays more tax-deductible interest in the long run.

If you do opt for a 30-year mortgage, nothing prevents you from paying that long-term loan like it's a short-term one, by adding more to your monthly payments.

Prepayment penalties

Be sure to ask your lender about prepayment penalties. Although La Cap does not penalize its borrowers for paying off home loans early, some lenders do factor prepayment penalties into their loans, usually between 2 and 4 percent of the loan. Borrowers who are required to sign disclosures about the penalties often don't notice them in the stack of papers they sign at closing. It is up to you to make sure your loan does not have these penalties, especially if there is a chance you might pay it off early.



Discount points

A lot of customers—especially first-time home buyers—don't understand the concept of discount points and may feel reluctant to ask. Discount points—often referred to just as points—are a type of prepaid interest that you can purchase based on the loan size, not the purchase price. You receive a reduction in the interest rate in exchange for paying discount points. You end up with a lower monthly mortgage payment.

Each discount point generally costs 1% of the total loan amount and may lower your interest rate by one-eighth to one one-quarter percentage point. Discount points are tax deductible only for the year in which they were paid.

For example, each point would cost $2,000 on a $200,000 loan. If the interest rate on the mortgage is 5% and each point lowers the interest rate by 0.25%, buying 2 points will cost $4,000. The interest rate would then be 4.50%.

Borrowers benefit from buying discount points only if they plan to hold onto the mortgage long enough to save money from the decreased interest payments.

The Ups and Downs of Your Down Payment

The Upside:

A down payment is the part of the purchase price of a home that the buyer pays in cash up front. It's not included in the loan and is probably the biggest hurdle for many first-time home buyers. But when you list all of your assets and sources of income to determine how much you can pay down, you may find that you can afford more than you thought you could.

The Downside:

What if your assets don't add up to the amount you need? Don't give up hope. There are ways to make your dream of home ownership work:

- Look for a loan that requires less money down.
- Consider getting Private Mortgage Insurance (PMI).
- Talk to one of La Cap's loan representatives for other loan options.



Know your assets: It's the first step in coming up with the amount of money you need to secure your interest in the home and the loan you want. When calculating your assets, include these:

All checking and savings accounts
The value of stock, bonds, stock options and your 401(k)
A 401(k) loan
Social Security and disability payments
Pension income
Alimony and child support
Family gifts

How PMI Works

Private Mortgage Insurance (PMI) is insurance provided by a nongovernment insurer to protect a lender against loss if a borrower defaults. Lenders usually require PMI if your down payment is less than 20 percent of the purchase price.

If you are having problems making your down payment, PMI is an option:

It allows for a lower down payment.

La Cap and other lenders like PMI because it protects them in case you default on the loan.

You can pay for PMI on a monthly basis, as part of your mortgage payment.

You no longer need to carry it once you reach 20% equity in your home.

The Closing

You've been preapproved, and your bid on the perfect house for you and your family has been accepted. You have your down payment. Now it's time to close.

During closing, you and your real estate agent will meet with a representative of the escrow company that's handling your loan. You will sign a stack of documents and write a few checks. Here's a list of the typical closing fees that you and the seller will pay at the closing:



Your Fees

- Credit report
- Appraisal
- Inspection
- Title search
- Recording fees
- Courier fees
- Loan origination fee
- Discount points
- Your portion of the escrow services

The Seller's Fees

- The seller's portion of escrow services
- Title insurance
- Excise tax
- Recording fees
- Real estate commissions

As part of your Purchase and Sale Agreement, you can ask the seller to pay your closing costs and prepaid items. Please be aware that lenders may have a limit on the amount of a buyer's closing costs a seller can pay—typically 3% to 9% of the sales price, depending on the loan to value.

Other information that may be required at closing, but not always:

- Water and sewer certification if your new home is not on municipal and sewer facilities
- Building code compliance letter
- Private mortgage insurance (PMI)
- Survey



Be sure you understand the loan documents you sign. Your mortgage lender should explain all of the documents you sign at the closing. Make sure you understand what kind of loan you're getting, what the payments will be from beginning to end, how much interest you're paying and whether you'll have a fixed interest rate or if it will be fixed for a limited time before becoming variable.

Once the title is recorded, ownership will transfer to you. Congratulations! You are now officially a Louisiana homeowner.

What's an Escrow Account and Do I Need One?

Escrow accounts, a means to protect people from losing their homes, were established during the Great Depression to help unemployed Americans pay their property taxes. An extra payment was attached to their monthly mortgage payment. It was hard enough to come up with the money to pay for food and clothing in those days, much less a large tax payment. Escrow accounts held that money in reserve until it was time to pay taxes. **Today, the accounts also are used for insurance payments so that houses are covered in the event of fires, floods and other hazards.**

Homeowners today are protected from the possibility of losing their homes for missing tax payments, but your lender may require an escrow account to cover any unexpected increase in tax or insurance payments.

Glossary of Mortgage Terms

Adjustable-Rate Mortgage (ARM)

A type of mortgage in which the interest rate is readjusted periodically to reflect the market rates. Rate caps limit the amount a borrower's interest rate can change. Also called a Variable-Rate Mortgage.

Annual Percentage Rate (APR)

The APR measures both the interest charged and any other costs associated with the loan, such as discount points or lender origination fees. Because the APR is designed to show the total cost of a loan, it can be useful when comparing loans from different lenders.

Application

A form, commonly referred to as a 1003 form, used to apply for a mortgage and to provide information about a prospective borrower and the proposed loan.

Appraisal

A professional assessment of a property's market value; paid for by the borrower.

Asset

Assets include real property, personal property, bank accounts, stocks and mutual funds.

Buyer's Agent

A real estate professional who represents the buyer in the purchase of a home. There's typically no cost to buyers in working with a buyer's agent, since he or she receives part of the commission paid by the seller when the house is sold.

Closing

Conclusion of a real estate sale, where the title of the property is transferred to the new owners and funds are transferred to the appropriate parties, including but not limited to: seller, previous lender, real estate broker/agents.

Closing Costs

Costs that typically range from 2% to 6% of the loan amount. They include fees paid to state and local governments, as well as those associated with obtaining a mortgage or purchasing discount points.

Courier Fees

Cost of transporting documents between the escrow service and other parties involved in the loan; paid by the borrower.

Credit Score

A numerical measure of an individual's past borrowing and repaying behavior that's determined by various factors, such as how the would-be borrower paid his/her bills, any outstanding debt, how long he/she has had credit and what kind, and how many times he/she applied for credit. This credit rating tells a lender the probability of the borrower being able to pay back a loan.

Default

Occurs when a borrower fails to make his/her mortgage payments. A mortgage default progresses through distinct stages, ultimately resulting in foreclosure and eviction.

Discount Points or Points

Prepaid finance charges tied to the interest rate paid by the borrower. Paying a discount point is essentially paying part of the interest to the lender up front. One discount point is equal to 1% of the loan amount, paid at closing.

Down Payment

The part of the purchase price of a home, which the buyer pays in cash up front. Many lenders require a 20% down payment. The amount of the down payment may also affect the interest rate the borrower pays. Lenders offer a variety of programs that make it possible to buy a home with less than 20% down.

Equity

The value of a home calculated by taking the market value of a property and deducting the amount, if any, still owing on a mortgage. Equity can be increased by making extra mortgage payments, improving the property and overall rises in real estate values.

Escrow

A bank account held by a third party to keep money safe before a mortgage loan is finalized, or closed. Escrow is also used for holding payments earmarked for the homeowner's annual expenses, such as taxes or insurance.

Excise Tax

A tax on the transfer of ownership from the seller to the buyer that's paid at closing and based on the sale price of the home; paid by the seller to the escrow agent or the attorney responsible for closing the deal, who then pays it to the government.

Fixed-Rate Mortgage (FRM)

Fixed-rate mortgages remain the most popular type. They offer a fixed interest rate for the life of the mortgage, meaning the monthly principal and interest payments never change.

Foreclosure

A legal process of taking possession of a mortgaged property as a result of the borrower's failure to make his/her mortgage payments.

Homeowner's Insurance

Insurance that protects property against loss from theft, liability and most common disasters; usually required by lenders.

Inspection

Done by an independent home inspector to provide information about the condition of the house; paid for by the borrower. This report is not typically required by the lender and can be used by the buyer as a point of negotiation to have needed repairs made.

Interest Rate

The cost of borrowing, stated as a percentage, charged by a lender on the principal amount of a mortgage.

Loan Officer

Your day-to-day contact with a mortgage lender, such as La Cap. Your loan officer can help you create a home-shopping budget and complete your mortgage application. He or she can answer questions such as which type of loan may best suit your individual needs and whether you should consider paying discount points.

Lender

The originator of mortgage loans, such as a credit union like La Cap, a mortgage banker, commercial bank or a savings-and-loan company.

Loan Origination Fee

A fee imposed by a lender to cover processing expenses in connection with making a real estate loan; paid by the borrower.

Mortgage Loan

The low-interest, long-term loans extended to consumers and investors for the purpose of buying a house.

PITI

The principal, interest, taxes and insurance paid by a homeowner.

Prequalification

The process of determining how large a loan a prospective home buyer can qualify for. This procedure is done before actually applying for the loan and is not a loan approval or commitment.

Principal Balance

The outstanding amount of a mortgage loan, not including interest or the amount on the note and minus any principal payments that have been made.

Private Mortgage Insurance (PMI)

Insurance provided by a nongovernment insurer to protect a lender against loss if a borrower defaults; paid by the borrower.

Rate Lock

The guarantee of a specific interest rate and/or points for a specific period of time. Some lenders may charge a fee for locking in an interest rate.

Recording Fees

Costs to record the transfer ownership of property with the parish; paid by the borrower.

Refinancing

The process of obtaining a new mortgage, usually at a lower rate, to repay and replace an existing mortgage.

Seller's Agent

A real estate professional representing the seller. The buyer usually does not have contact with the seller's agent. The buyer's agent will work closely with the seller's agent on the buyer's behalf.

Survey

Map made by a licensed surveyor who measures the land to chart its boundaries, improvements and relationship to the property surrounding it; usually paid for by the borrower.

Title Insurance

A form of indemnity insurance that insures a seller against financial loss from defects in title to real property and from the invalidity or unenforceability of mortgage loans.

Title Search

A review of public records to confirm a property's legal ownership and find out what claims (liens or other judgments) are on the property that's usually performed by a title company or an attorney; paid for by the borrower.

Underwriting

The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's ability and willingness to repay the debt, and the value of the property.

La Capitol
FEDERAL CREDIT UNION

Questions? Chat with one of our Louisiana home loan specialists:

800.522.2748, ext. **1**
lacapfcu.org