Zing
Credit Union

Home Buying with Confidence

Benefits Of Homeownership

Owning your own home makes a lot of sense, as it may save you money in many ways. Here we'll discuss a few:

- By making a mortgage payment every month, you invest your money in a property that will be yours until you choose to sell it.
- During tax time, you may be able to deduct the interest you've paid (as well as any paid points) on the mortgage throughout the year. *
- You have the freedom to do whatever you want in your own house as long as it is legal, follows rules set by your homeowner's association (HOA), and doesn't harm anybody else.
- You can decorate your house the way you like it. You often may be able to make structural changes by extending the property with a room addition, a larger indoor, or outdoor living space. You can't even think of doing anything like that in a rental property or apartment.
- There is no need to contact a landlord for problems around the house.
- If you have children, it's always nice to have a space of your own. They won't have to change schools because the landlord increased rent. They can make life-long friends in their neighborhood, and build memories clowning around on their bikes.
- No pet deposits or restrictions from a landlord.

* Consult a trusted tax advisor for details.

Where to Start

During the homeownership journey—from dreaming, to buying, to living in a home of your own—it's hard to know how to start with many decisions and paperwork. To simplify it, begin by asking yourself specific questions to calculate the expenses and identify if you can afford them.

- **CHECK YOUR CREDIT**
  Your credit score will determine the mortgage that you qualify for. Go to **annualcreditreport.com** to see your credit report. Work to remove any collections, judgments, or charge-offs.

- **IMPROVE YOUR SCORE**
  Pay your bills on time and keep your balances low. In most cases, don't close current credit cards or open any unnecessary credit cards. Learn about credit from a credible source, like our **eCourse**.

- **KNOW WHAT YOU CAN AFFORD**
  You should pay no more than 35% of your gross income on monthly mortgage payments including your PMI, insurance, HOA costs, and taxes.

- **LOWER MONTHLY DEBT**
  If you have debt, your total debt-to-income (DTI) ratio ideally should be less than 43% of your gross income. That includes your mortgage payment.

- **SAVE MONEY**
  The amount that you need for a down payment can vary greatly with the type of loan that you need. You also need to save for closing costs. Discuss with your lender about how much you need to save.

- **SEEK HELP**
  These things can be difficult or confusing to calculate. Feel comfortable seeking help from a financial coach. Schedule an appointment at **MyZing.com/coaching**.

How Much for a Down Payment?

A down payment is the money you pay upfront when you take over ownership of your new home. It is the cash you bring to the table to buy your home at the time of closing. A down payment is usually a percentage of the purchase price typically ranging from 5% to 20%. If at all possible, it's a good idea to put down 20% or more of the purchase price. With 20% down, your loan amount will be lower, you can avoid Private Mortgage Insurance (PMI), and you may have more borrowing options.

To calculate the amount of the down payment, multiply the percentage as a decimal fraction by the home price. For example, if the down payment is 20%, simply multiply the purchase price by 0.20.

Here are a couple of sample scenarios if you were to buy a house priced at $185,000.

A 5% down payment would be $9,250 ($185,000 * .05 = $9,250)

A 10% down payment would be $18,500 ($185,000 * .10 = $18,500)

A 20% down payment would be $37,000 ($185,000 * .20 = $37,000)

WHAT IF YOU CAN'T SAVE 20%?

Most first-time homebuyers do not have 20% for their down payment. Though it is best to have as much saved as possible, there are options to help buyers with less than 20% to put down. Lower down payment options are explored on the next page.

Other Down Payment Options

- ► **CONVENTIONAL LOANS WITH PMI**
Conventional mortgages are often possible with as little as 5% as a down payment. However, Private Mortgage Insurance (PMI) is then required by the lender. PMI protects lenders against loss if a borrower defaults on his or her mortgage. If the prospective homeowner can make a down payment of 20% or more, the mortgage default insurance (PMI) is usually not required. Also, once the mortgage balance has dropped below a set threshold during the course of repayment, PMI charges will automatically stop being charged, thus lowering your monthly payment.

- ► **FEDERAL HOUSING AUTHORITY (FHA) LOANS**
A Federal Housing Authority (FHA) mortgage is a government-insured loan. This requires the homeowner to pay the mortgage insurance premiums (MIP) for the cost of insuring the loan. The advantage of an FHA loan is that the rates are usually lower. FHA loans can also be secured with as little as a 3.5% down payment. The downside is that the FHA loans have both an upfront mortgage insurance premium as well as the annual mortgage insurance premium.

- ► **VETERAN AFFAIRS (VA) LOANS**
The US Department of Veteran Affairs (VA) helps military service members, veterans and surviving spouses of veterans become homeowners. VA loans allow eligible members to buy, build, repair, refinance or adapt a home in which to live. The rates are very attractive, and there may be no need for a down payment.

Before You Start Shopping

Unless you're wealthy enough to pay the full price for your house upfront, you'll need to arrange for a home loan, commonly known as a mortgage loan. In most situations, it's actually a good idea to take care of this step before you start home shopping with a letter of pre-approval.

WHAT IS PRE-APPROVAL?

Usually, prospective homeowners want to be pre-approved for a home ownership loan. This means the individual, couple or group hoping to purchase a home goes to a lending institution, which then evaluates the party/parties and provides a pre-approval for a mortgage loan.

The lender or loan officer is simply saying you are qualified to borrow up to a certain amount of money at a specific interest rate. However, it is not a guarantee to finance whatever home you select. This promise of a mortgage hinges upon an appraisal of the property and other conditions set forth by the lending institution.

YOUR PRE-APPROVAL LETTER

If you are successful in seeking pre-approval, the lender or loan officer will furnish you with a letter outlining your pre-approval status and information. This means the loan will likely be approved when the buyer has made an offer, the seller has accepted it and all the conditions stated by the lender have been verified. Being pre-approved not only ensures that you can afford the home, it also helps prove to the seller that you're prepared to make the purchase and makes your offer more attractive than a buyer that is not pre-approved.

Closing Day

WHAT IS CLOSING?

Also referred to as "settlement," closing on a home refers to the time when the title to your new home is finally transferred to your name and the lender provides the home loan.

THE PROCESS

Closing begins at the moment you sign a purchase contract. It ends a month or two down the road with a "closing meeting." You sign papers on your loan as well as pay any applicable fees, taxes and service charges to finalize the sale. Then, you typically receive the keys and the deed to your home.

CLOSING COSTS

Costs for closing can be up to 2% of the purchase price. You will need to budget for these costs when you decide to purchase your home.

BUYER BEWARE!

Closing costs vary widely. The potential buyer must look around for the most reasonable fees and budget these expenditures into his or her home ownership costs.

We're Happy to Help

GET IN TOUCH WITH AN EXPERT

Our mortgage lenders are here to answer any questions that you might have.

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START THE PROCESS NOW

If you're ready to get the ball rolling on a loan, start with the application today.

>> Apply now at **MyZing.com/homeloan**