

# HOME BUYER'S GUIDE



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Since buying a home can be a bit overwhelming, this guide will walk you through some of the basics of the home buying process to get you started on the right track.

For questions, feel free to call us at **516-714-2876** or visit any NEFCU branch. Access our Mortgage Center from the Lending page for helpful tools and additional information on: **[www.myNEFCU.org](http://www.myNEFCU.org)**.

## STEP 1. Start Saving Now

Setting goals early and establishing a monthly budget will help you save enough money for your down payment, which can greatly vary depending upon the type of loan you choose. For example, to avoid mortgage insurance, a typical down payment is 20% of the home's purchase price. If you are a first-time homebuyer, you may qualify for a mortgage that accepts a lower down payment. Either way, establish a monthly budget to help you save by assessing what your budget will support.

**Tip:** Consider setting up automatic deposits from your paycheck or bank account to a savings account to simplify the savings process and ensure you stay on track to meet your savings goals.



## STEP 2. Check Your Credit Score

**When you have a good credit score, you are in a strong position to**

**be approved for a home loan.** That's why it's a good idea to obtain a copy of your credit report at least three months in advance of starting the home buying process.

You will see what your credit profile looks like to potential lenders and can then take action to improve your credit score as needed.



**You are legally entitled to one free credit report per year from each Credit**

**Reporting Agency.** Most mortgage lenders use: TransUnion, Experian and Equifax.

You can go to [www.annualcreditreport.com](http://www.annualcreditreport.com) and order your free reports. Upon receipt, review them and inform the credit bureaus of any mistakes - which can take 30 days to 4 months or longer to correct. The sooner you correct your reports, the faster your scores will improve.

**Paying your bills on time is the most important thing you can do to create credit**

**score improvements.** A recently missed payment is more likely to lower your score than an isolated late payment from a long time ago. If you are prone to forgetting to pay your bills on time, use tools - such as autopay or online bill payment - to ensure your minimum balance is automatically paid each month. Speak with your financial institution to learn more.

**Tip:** Be careful not to do anything to bring down your credit score while your loan is being processed. For example, be sure to pay all your bills on time, and avoid applying for new credit of any kind until your home loan has closed.

### STEP 3. Determine How Much House You Can Afford

A general rule of thumb is to look for a home that costs no more than three to five times your annual household income. Stick to three unless you plan to make a 20% down payment and have a moderate amount of additional debt. Depending upon your current debt to income ratio (see **Mortgage Vocabulary 101**), you may need to reduce your debt before you apply for a mortgage loan.



**Tip:** Use a **Mortgage Payment Calculator** - such as the one available on [www.myNEFCU.org](http://www.myNEFCU.org) - to help you determine how much you can comfortably pay monthly for your housing expenses. Don't be afraid to ask for help from a mortgage lender in understanding the many lending options available to you.

## STEP 4. Get a Conditional Approval

You will have a better sense of how much you can borrow and the price range of the home you can afford once you get a conditional approval. The process is simple and requires you to provide financial information such as proof of your income and the amount of savings and investments you have.

**Tip:** Contact a mortgage lender to get started.



## STEP 5. Begin Your Research Early

Read websites, newspapers, and magazines that have real estate listings, and take drives through various neighborhoods to find homes that you are interested in and to see how long they remain on the market. Keep notes on any changes in asking prices to give you a sense of the housing trends in specific areas.

**Tip:** Make a detailed list of criterion that is most important to you, such as proximity to schools, work, transportation, shopping, etc., and use this as a guideline when comparing options.





## STEP 6. Find the Real Estate Agent Right for You

Shop around for an agent that you are most comfortable working with and can trust. Agents are important partners when buying or selling a home as they can provide you with helpful information on homes and neighborhoods that isn't easily accessible to the public. Their knowledge of the home buying process, negotiating skills, and familiarity with the area you desire to live in can be extremely valuable.

**Tip:** Good news! There is no cost to you for using an agent, since their compensation comes from the commission paid by the seller of the house.

## STEP 7. Shop for Your Home

Now comes the fun part! Begin the search of homes in your price range and take notes. Check out details such as plumbing (e.g. strong water pressure, hot water), electricity (turn lights on and off), open and close windows and doors, check out the neighborhood (e.g. well-maintained, traffic, parking, distance to places of interest, such as schools, work, shopping, parks, transportation).

**Tip:** Use the attached **NEFCU Homebuyer's Worksheet** to keep track of your visits so you can more easily remember and compare the features and benefits of various homes. You may also want to take pictures or video to help you visualize each home more clearly. To find realtors on Long Island, you can search various websites such as [Lirealtor.com](http://Lirealtor.com), [mlsli.com](http://mlsli.com), etc.

## STEP 8. Make an Offer

When you feel you have found the 'right fit', work with your real estate agent to negotiate a fair offer based on the value of comparable homes in the same neighborhood. Homes are considered comparable when they are in the same school district, and have similar features and layout in terms of style and number of rooms and square footage.

Once you and the seller have reached an agreement on the price, the house will go into contract, after which time you will complete the remaining steps in the home buying process. The contract represents the legal commitment between yourself and the seller for the purchase and sale of the home.

**Tip:** Take as much time as you need to find the right home. You should not feel pressured by the seller or agent to make an offer that you are not comfortable with.

## STEP 9. Get a Home Inspection

Once you are in contract, contact a licensed home inspector to perform a thorough review of all aspects of the home including **structure, equipment, utilities**, etc. Your real estate agent can provide you with a list of inspectors or you can select your own. You should have the inspection completed within a few days of your accepted offer.

Purchase offers are usually contingent on a home inspection to check for signs of structural damage or items that may require repair prior to closing. The inspection gives you a chance to renegotiate your offer or withdraw it without penalty should it reveal significant property issues.

**Tip:** Upon the receipt of the home inspection, you can decide if you want to ask the seller to fix anything on the property prior to closing the sale or to renegotiate the selling price. Before the sale closes, your real estate agent will arrange a walk-through of the house to provide you with the chance to confirm that any agreed-upon repairs have been completed to your satisfaction.



## STEP 10. Work with a Mortgage Lender

Once you have signed a formal contract, a mortgage lender (like NEFCU) will help you understand your various loan options. Although some buyers prefer the predictability of a fixed-rate loan, others may prefer the lower initial payments provided by an adjustable-rate mortgage. Every home buyer has their own unique needs and it's important to understand which type of loan best suits your financial situation.

**Tip:** Lenders have a wide range of competitively priced loan programs. Even if loans have the same interest rate, there could be differences in the points and fees that make one offer more expensive than another. It's important to understand all of the components that are involved in determining the price of your mortgage, so you can accurately compare the offers being made. Ask your lender for details.

## STEP 11. Be Timely with Your Paperwork

When applying for a mortgage, there are a number of financial documents that must be provided to your lender. By having these documents pre-assembled, the processing of your loan application will be accelerated and simplified.

After you have applied, respond promptly to any requests for additional information from your lender and return your paperwork as quickly as possible. Delays could affect your loan closing, which could result in potentially losing your dream home, as well as any deposit you may have put down.

**Tip:** At a minimum, be prepared to provide your lender with your two most recent pay stubs, two years of W-2s and tax returns, current bank and brokerage statements, and a copy of the completed sales contract. Use the **Homebuyer's Application Checklist** attached to aid you in the application process.

## STEP 12. Review the Closing Costs

Your lender will outline your closing costs in a Loan Estimate (LE), so you can get a sense for how much you will need to pay when the loan closes (approximately 2-6% of the loan amount, although they may be higher in certain situations). Typically your lender must provide you with a loan estimate within three business days of receiving your application.

**Tip:** Note that some of these costs are controlled by the lender, while the remaining are established by other firms that are involved in your loan process, such as the title company (verifies property ownership), the appraiser, etc.



## STEP 13. The Home Appraisal

Your lender will arrange for an appraiser to contact your real estate agent to coordinate an independent review and resulting estimate of the value of the house you are buying. The appraiser is a member of a third party company and is not directly associated with the lender.

**Tip:** An appraisal should confirm that you are paying a fair price for the home.

## STEP 14. Closing Your Mortgage

At closing, you will sign all of the paperwork required to complete the purchase, including your loan documents.

**Tip:** Have your own attorney review all contracts and loan documents before you sign. Do not use an attorney provided by the seller or the lender and ask your attorney to explain any provision(s) that you do not fully understand. One way to find an attorney on Long Island is by calling the Nassau or Suffolk County Bar Association.

## STEP 15. Move into Your Dream Home!

Once you have closed on your loan, you are ready to move into your new home. Check to ensure your utilities have been turned on so all is in working order for your arrival.

**Tip:** When you become a home owner, be sure to live within your budget. Maintain your home and make your monthly mortgage payments your highest priority.



# MORTGAGE VOCABULARY 101

Don't worry - it's really not as complicated as you may think. Here are some of the most common terms you'll hear when seeking a mortgage and their corresponding definitions.

**Mortgage:** A loan to finance the purchase of your home. It's also a legal contract stating that you promise to pay back the loan on a monthly basis. Your monthly payment typically goes toward paying back the principal - or basic loan amount - and interest. Your monthly payment may also include funds for your property taxes and insurance (escrow).

**Adjustable Rate Mortgage (ARM):** A mortgage loan with an initial fixed-rate period (usually 5, 7 or 10 years). After the fixed-rate period, your interest rate may change once per year - either up or down depending on market conditions. ARMs usually start out with an interest rate lower than fixed loans and can offer huge savings to first-time home buyers, especially those who don't plan on staying in their first home for more than the initial rate period or who are hoping to qualify for a more expensive home. "Rate caps" limit the amount your interest rate can change during a given period and over the life of the loan.

**Amortization:** The gradual reduction of debt over the term of the loan, by making regular payments over a specified period of time. Amortization occurs through repayment of principal, but payments must be sufficient to cover both principal and interest.

**Annual Percentage Rate (APR):** The yearly cost of a mortgage including interest and other expenses or charges, such as discount points or lender origination fees, expressed as a single percentage rate. Because APR is designed to show you the total cost of a loan, it can be helpful when comparing loans from various lenders.

**Appraisal:** A written estimate of a property's current market value.

**Closing:** The conclusion of your real estate transaction when legal documents are signed and funds are disbursed.

**Closing Costs:** Expenses over and above the cost of the property. These fees can include items such as title insurance, appraisal, processing, underwriting, and surveying fees. Although fees can vary, they typically range from 2-6% of the total amount of the loan.

**Collateral:** Something of value that can be used to secure a loan. When the loan is for a mortgage, the collateral is always the home itself. The collateral can become the property of the lender if you default on your loan.

**Conditional Approval:** A process whereby a lender tells you how much you would be qualified to borrow based on information that you provided.

**Credit Report:** A report from an independent agency, which details your credit history and aids in determining your creditworthiness.

**Credit Score or Rating:** A model that calculates the number and value that reflects the applicant's creditworthiness. This is based on your credit history, outstanding debt, type of credit, bankruptcies, late payments, collection judgements, how long you've had credit, and the amount of times you've applied for it.

**Debt to Income Ratio (DTI):** DTI = Your total debt payments including your mortgage payment reflected as a percentage of your monthly gross income. This percentage should be below 43%. A high level of debt may make you ineligible for loans.

**Deed:** The legal document that transfers property from one owner to another.

**Down Payment:** The amount of your home's purchase price you pay upfront. Lenders require a down payment of 20% to avoid mortgage insurance. The amount of the down payment may also affect the interest rate you pay.

For questions, feel free to call us at **516-561-0030** or visit any NEFCU branch. Access our Mortgage Center from the Lending page on **[www.myNEFCU.org](http://www.myNEFCU.org)**.



**Equity:** The amount of the home's value above what you owe on it.

**Escrow:** A special account that lenders set up to pay your property taxes and/or insurance. With an escrow account, you pay a portion of your taxes and/or insurance every month instead of once or twice a year. Each month, part of your monthly mortgage payment goes into your escrow account. When your taxes and insurance premiums are due, your lender pays those bills for you with the money in your escrow account.

**Fixed-Rate Mortgage:** A mortgage in which the interest rate remains the same over the term of the loan.

**Flood Insurance:** A financial instrument that protects real property owners from water damage to the structure and/or contents of their property. Flood insurance is mandatory for those who live in a high-risk area and have a mortgage from a federally regulated or insured lender.

**Home Inspection:** A visual examination of the home by a certified professional to provide an accurate evaluation of the home's condition at the time of purchase.

**Homeowners Insurance:** A form of insurance which protects your property against loss from theft, liability and most common disasters. Mortgage lenders often require a borrower to maintain an amount of Homeowners Insurance on the property that is equal to the amount of the mortgage loan or the insurable value of the improvements.

**Interest Rate:** The money you pay a lender in exchange for a loan, expressed as a percentage.

**Jumbo Loan:** A loan that is for a larger dollar amount than the limits set by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines (currently \$417,000).

**Loan Estimate:** Written estimate of the closing costs the borrower will most likely have to pay in order to obtain the loan. The lender must provide you a loan estimate within three business days of receiving your application.

**Points/Origination Fee:** Points are upfront fees paid to the lender at closing. Typically, one point equals one percent of your total loan amount. For example, one point on a \$100,000 loan would require an up-front payment of \$1,000. Generally speaking, the longer you plan to remain in a property or hold your mortgage it is to your advantage to pay points.

**Principal:** The balance - not including interest - owed on a loan.

**Private Mortgage Insurance (PMI):** Insurance to protect the lender in case the borrower defaults on the loan. PMI is generally required with a down payment of less than 20% of the home's purchase price.

**Rate Lock or Lock-In:** The guarantee of a specific interest rate for a specific period of time. This protects you from rate increases during the loan application process.

**Term:** Number of years you have to pay back the loan.

**Title:** Document that shows ownership of a property.

**Title Search:** Examination of municipal records to ensure that the seller is the legal owner of a property and that there are no liens or other claims against the property that require clearing before the sale is complete.

**Underwriting:** In mortgage lending, the process of determining the risks involved in a particular loan and establishing suitable terms and conditions for the loan.



# NEFCU HOME BUYER'S WORKSHEET

Seeking the perfect home can be a challenge. To make your search a little easier, use this Worksheet to keep track of the properties you visit so you can more easily draw comparisons when making your final decision.

## PROPERTY INFORMATION

**Address:** \_\_\_\_\_ **Age of Property:** \_\_\_\_\_

**Price:** \_\_\_\_\_ **Lot Size:** \_\_\_\_\_

**Date Visited:** \_\_\_\_\_ **Square Footage:** \_\_\_\_\_

**Time Visited:** \_\_\_\_\_ **Detached/Attached:** \_\_\_\_\_

**# Bedrooms:** \_\_\_\_\_ **Garage:** (Attached/Detached/# Cars): \_\_\_\_\_

**# Bathrooms:** \_\_\_\_\_

**Style** (e.g. Ranch, Split, Traditional, 2-story, Other): \_\_\_\_\_

**Construction** (e.g. Vinyl/Wood/Aluminum Siding; Brick; Stucco; Stone): \_\_\_\_\_

## SPECIFIC FEATURES:

(e.g. waterfront, view, large lot, pool, fireplace, basement, distance to school and shopping, etc.)

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**ADDITIONAL COMMENTS:** \_\_\_\_\_

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# NEFCU HOME BUYER'S APPLICATION CHECKLIST

You may be asked to provide the information below when applying for a first mortgage or during some part of the application process. See our [Home Buyer's Documents and Definitions](#) on the next page for additional details.

## IDENTITY AND INCOME VERIFICATION

- Full legal name/SS#/Birthdate
- Phone/Email/Current Residence (if less than 2 years, previous address required)
- Government-issued photo ID (e.g. passport, driver's license)
- Name/address/phone of current employer and years of service

## INCOME/TAX DOCUMENTS

- Pay Stubs: Covering past 30 days
- W-2s: Past 2 years
- Federal Tax Returns: Past 2 years (as needed)
- Asset/Bank Statements:
  - Most recent complete 2 months' statements for all asset accounts in your name - not applicable to NEFCU accounts
  - Indicate source(s) of down payment/closing costs
- Written Explanation: If employed less than 2 years or employment gap exists within the last 2 years
- Pension and/or Social Security award letters: If retired or receiving Social Security

## INCOME VERIFICATION - SELF-EMPLOYED

- Federal Tax Returns: Personal and Business for past 2 years, including all schedules
- Profit and Loss Statement: Year-to-date

## CREDIT VERIFICATION

If applicable:

- Credit explanation letter: If credit history contains late payments, collections, judgments, or other derogatory items
- Judicial decree or court order: For each obligation due to legal action (e.g. divorce, legal separation)
- Bankruptcy/discharge papers: For any bankruptcies in credit history

## OTHER

- Source of funds documentation: Identifying large deposits on asset or bank statements
- Purchase Contract: Signed, fully executed contract of sale
- Copy of cancelled down payment check
- Realtor's name/phone



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# HOME BUYER'S DEFINITIONS & DOCUMENTS

## ASSET/BANK STATEMENTS:

Statements from personal and/or business checking, savings, brokerage, retirement, and money market accounts that are a means to verify assets, income, or sources of large deposits, excluding paychecks. Typically, borrowers are asked to send statements from the most recent 2 months.

## BANKRUPTCY DISCHARGE PAPERS:

Legal proof of the discharge of any bankruptcies in a borrower's credit history. Bankruptcy documentation may also be requested to verify that any mandated waiting period has been satisfied.

## CREDIT EXPLANATION LETTER:

A written letter of explanation, statements, and verification which documents or describes a variety of special credit situations, e.g. bankruptcy or an explanation of derogatory credit.

## FEDERAL TAX RETURNS (PERSONAL & BUSINESS):

May be requested, along with accompanying schedules, to verify income derived from a variety of sources, including:

- Self-employed or contract income
- Business expenses, e.g. car allowance
- Rental income
- Pensions, Social Security or retirement income
- Royalty payments, interest or dividend income
- Seasonal income/unemployment compensation
- Capital gains, notes receivable
- When employed by a relative, family business, or someone involved in the transaction

## GOVERNMENT-ISSUED PHOTO ID:

Includes a driver's license or passport.

## HOMEOWNERS INSURANCE:

Real estate insurance policy to protect against loss caused by fire, vandalism, select natural disasters, personal injury, and theft.

## IRS FORM 4506-T:

Request for Tax Transcript form; required from all applications. Gives permission to verify the income reported to the IRS, and is usually requested for the previous 1 or 2 years.

## JUDICIAL DECREE OR COURT ORDER:

Verification of a legal ruling that impacts a borrower's assets or debt obligation. For example, proof that an obligation to make certain debt payments has been assigned to another person, or validating the transfer of property ownership.

## LIST OF BUSINESS DEBTS:

Accounting of business-associated debts for which a borrower is personally responsible.

## PAY STUBS:

Documentation of compensation from employer. Online pay stubs must be signed by a company representative. Usually the most current pay stubs covering the past 30 days from the application date must be provided.

## BUSINESS PROFIT AND LOSS (P&L) STATEMENT:

A summary of the revenues, costs, and expenses incurred during a specific period of time. Such a statement demonstrates the ability of a company to generate profits by increasing revenue and reducing costs.

## PURCHASE CONTRACT:

A signed agreement between the buyer and seller describing all the terms of a real estate purchase transaction. Also known as a sales contract.

## SOURCE OF FUNDS:

Written documentation to state the origins of any large deposits on asset statements, excluding paycheck deposits.

## W-2S:

Wage and Tax Statement. A borrower may be asked to provide a W-2 from the most recent year or two years to verify monthly income.

## WRITTEN EXPLANATION:

A letter of explanation re: an employment gap or, if employed less than 2 years, employment history.





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color, religion, sex or national origin.

