HOMEBUYING:

PRESENTED BY:
NUMERICA CREDIT UNION

NUMERICA
FINANCIAL EDUCATION

GETTING READY TO BUY YOUR HOME

Buying a home is a significant life and financial decision. The right home bought at the right time can be a fantastic place to live and a key way to build wealth.

Looking for a home, knowing if you're ready to buy, and understanding the steps to take can be overwhelming. Numerica is here to help.

Use this guide to get your finances in order as you begin your home-buying journey.

Before getting started, ask yourself a few key questions:

- Why do I want to buy a home?
- How much am I comfortable spending on a house payment?
- How soon would I like to move into my home?
- What can help me feel more confident in the home-buying process?
- How do I feel when I think about buying a home?
- How will I know I'm ready to buy a home?
- What are some of the key features I would like in a home (location, school district, size, etc.)?

Answering these questions first can help you develop your home-buying game plan.

At Numerica, we want to support you whether you are...

- **READY:** Dreaming of buying a home in the future
- **SET:** Preparing to buy soon, or
- **GO:** Gearing up to buy right now

THE HOMEBUYING JOURNEY
AN OVERVIEW

START

1. Evaluate your financial situation
- Review your assets, debts, and credit score.
- Is your income stable? At least two years of employment history boosts your ability to get a loan.
- Determine a monthly home payment that fits your budget.

2. Consult with a Numerica home loan officer
- Talk about your goals and loan options, including assistance programs.
- Review details of your financial situation. This helps you dial in your budget.
- Receive a loan estimate. See what your monthly payment could look like, including taxes and insurance.

3. Apply for pre-approval
- Submit a loan application to Numerica.
- We check your credit and request documents that verify your financial capacity.
- If approved, you receive a pre-approval letter. This states the maximum amount Numerica will lend you.

4. Partner with a real estate agent
- A real estate agent helps you find a home that aligns with your needs.
- Look for someone knowledgeable and trustworthy. After all, your agent will help you locate, negotiate, and close on your new home.

5. Shop for your home
- Pick your desired location and any "must-haves."
- Surf online listings and agent recommendations for homes that match your criteria.
- Have your agent schedule showings.
- Talk to your agent about what fair prices are in your area.

6. Make an offer
- Have your agent draft an offer with your price and terms.
- Send your offer to the seller's agent. Be prepared to negotiate if they counteroffer.
- Once an agreement is reached, a good-faith deposit is made into a third-party — or escrow — account. While a home is "in escrow," you can scrutinize the home more closely and make the final preparations for purchase.

7. Inspect and appraise the home
- Hire a licensed home inspector. This step is usually optional, but always encouraged. If problems with the house are discovered, you may choose to negotiate remedies with the seller — or even call off the purchase.
- Meanwhile, Numerica will schedule an appraisal of your home. This report estimates the value and condition of your property, and it's essential for your loan amount to be finalized.

8. Sign everything and move in!
- When the loan receives the final green light, Numerica will send you closing costs and mortgage terms to review.
- Schedule your closing appointment.
- Sign all the paperwork and provide final funds.
- Congrats! It's time to move into your new home.

FINISH

CREATE A SPENDING PLAN FOR YOUR MONEY

If you don't already have a personal or family spending plan, create one using Numerica's spending plan worksheet. (**Scan the QR code to get started.**)

A **spending plan** is an important element of determining how much you can afford to spend on your new home. It may also open your eyes to areas you should address before taking the home-buying leap.

It can also help you pay off other debts like credit cards or student loans. This way, you'll have more money available to buy a home.

Before you purchase your home, we recommend a spending plan where 25% of your monthly income goes toward savings (including saving for a home), 70% to spending, and 5% to sharing (with nonprofits, family and friends, etc.).

After buying your home, these figures will likely change. That's OK. Continuing to save cash is important. But keep in mind each mortgage payment you make builds equity in your home. That's a form of savings, too.

READY
(buying in the future)

- Work toward saving 25% or more of your monthly take-home income.
- Keep your cash savings in a high-yield account at Numerica.
- Slowly decrease your spending, especially in discretionary areas like food, entertainment, and travel.
- Consider looking for a new job to increase your income.

SET
(buying soon)

- Ramp up your savings by increasing how much money you save each month.
- Try to increase your income. Negotiate a pay raise or seek a promotion with your current employer. Start or scale up a side hustle.
- Save any pay raises, putting the funds toward your home purchase.

GO
(preparing to buy right now)

- Avoid expensive purchases.
- Maximize your savings. Slash expenses like streaming services, subscriptions, and memberships.
- Write down your target savings goal. Track your progress as motivation.
- Live as if you're already making your new monthly mortgage payment.

DETERMINE HOW MUCH HOME YOU CAN AFFORD

There can be a big difference between how much you could afford for a house and how much you should spend. Ideally, your debt payments (including your mortgage) should total 45% or less of your pre-tax monthly income. Most mortgage payments include paying your taxes and homeowner's insurance. Those do not count toward this 45% figure. The best way to determine how much home you can afford is to connect with one of Numerica's home loan experts. Call them at 800.433.1837 or scan this QR code to connect with the team.

PLAN FOR OTHER EXPENSES

Remember that buying a home includes additional costs.

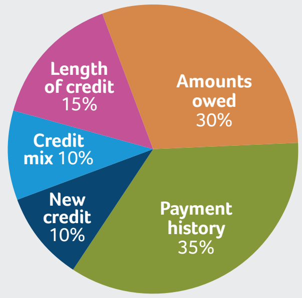
- **Closing costs.** They can cost about 3% to 6% of your loan amount. These may be negotiated during the buying process, and some loan programs help you pay for them.
- **Property taxes.** Check your county assessor's website to figure out how much you'll pay in annual taxes.
- **Homeowner's insurance.** What you pay will depend on the value of your home, but an insurance agent can help you pin down how much it will cost you. If you have an escrow account for your mortgage, your insurance will be included in your monthly mortgage payment.
- **Private Mortgage Insurance (PMI).** PMI is usually applied when your down payment is less than 20% of the home's value. PMI typically costs between 0.5% to 1% of your remaining loan amount each year. It's included in your monthly mortgage payment. As you pay down your loan, the cost of PMI will go down. Depending on your loan program, it may be eliminated.
- **Maintenance costs.** These depend on factors like the age of your home, but it is a good idea to set aside about 1% to 2% of your home's value each year for repairs. A home warranty may also be able to help with some costs for major repairs.

CREDIT SCORE

INCREASE YOUR CREDIT SCORE

Understanding your **credit score** is a key step in the home-buying process. A higher credit score can help you qualify for a lower interest rate on your mortgage. It may also help you save money on homeowner's insurance.

Ready to increase your credit score? Here are some steps you can take at each stage of your journey.



Your credit score is based on five main categories.

FICO® SCORE BREAKDOWN

READY
(buying in the future)

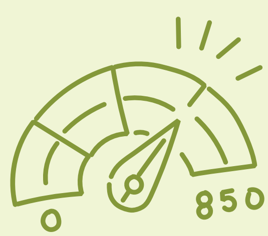
- Continue to pay all your credit accounts on time.
- If you owe a lot of money on credit cards with high interest rates, talk to us about options. A Numerica consolidation loan or balance transfer to a Numerica credit card may help. The goal is to save money by paying off high-interest credit cards.
- Consider credit-building accounts. Ask Numerica about personal loans and credit card options that could boost your credit score.
- Don't close older credit accounts. This maximizes the length of your credit history.

SET
(buying soon)

- Continue to pay all your credit accounts on time.
- Pay down your credit cards to lower your credit utilization ratio. This increases your credit score.
- Access your credit report at annualcreditreport.com to ensure it is correct. If you find inaccurate information, file a dispute with each credit bureau.

GO
(preparing to buy right now)

- Continue to pay all your credit accounts on time.
- Consider increasing your credit card limits to improve your credit utilization ratio. Your Numerica home loan officer can help you determine if this could boost your credit.
- Avoid opening or closing any existing credit accounts.



Improving your credit score could save you thousands of dollars in interest on your mortgage. If your credit could use some help, now is the time to start working on it. Numerica is here to help you create a plan that will help you achieve your homeownership goals. You can also connect with a financial counselor through our partnership with GreenPath Financial Wellness. Receive free, personalized guidance by calling 855.400.3710.

Next, we'll look at how mortgage costs compare for excellent credit vs. fair credit. The difference a credit score makes may surprise you.

INTEREST RATE
BREAKDOWN

EXCELLENT CREDIT

Homebuyer qualifies for a 5.25% interest rate to purchase a $350,000 home

- **Down payment:** 20% ($70,000)
- **Principal loan amount:** $280,000
- **Loan term:** 30 years
- **Estimated monthly payment:** $2,000 (includes taxes and insurance)
- **Total interest paid over life of the loan:** $276,621
- **Total amount repaid:** $556,621 (includes original loan amount plus interest)

$350,000 HOME PRICE

Down payment

$70,000	20%

Length of loan

30 years

Interest rate

5.25%

PAYMENT BREAKDOWN

Principal & interest		$1,546
Property tax	+	$270
Homeowner's insurance	+	$104

Total monthly payment = $1,920

FAIR CREDIT

Homebuyer qualifies for a 7.25% interest rate to purchase a $350,000 home

- **Down payment:** 20% ($70,000)
- **Principal loan amount:** $280,000
- **Loan term:** 30 years
- **Estimated monthly payment:** $2,364 (includes taxes and insurance)
- **Total interest paid over life of the loan:** $406,758
- **Total amount repaid:** $686,758 (includes original loan amount plus interest)

$350,000 HOME PRICE

Down payment

$70,000	20%

Length of loan

30 years

Interest rate

7.25%

PAYMENT BREAKDOWN

Principal & interest		$1,910
Property tax	+	$270
Homeowner's insurance	+	$104

Total monthly payment = $2,284

In this example, the buyer with the better credit score:

- Saves almost $130,000 in total interest
- Pays $364 less per month

LIST OUT YOUR ASSETS

The more assets you have, the more solid your mortgage application will be. This is especially true if those assets can be used for your down payment or home maintenance costs. Here are some examples:

- **Cash and cash equivalents:** This includes cash in any financial institution accounts, including checking, savings, money market, and CDs. Lenders like to see you have cash reserves. This helps you be covered for potential maintenance and other homeownership expenses.
- **Life insurance cash value:** If you own a life insurance policy with a cash value, this can be considered an asset for your application.
- **Other real estate you own:** Land, second homes, vacation homes, etc.
- **Retirement accounts:** Your 401(k), 403(b), IRAs, etc.

DETERMINE YOUR DOWN PAYMENT

You have flexibility when choosing how much money to put down on a house. You don't need to put 20% down. Depending on the mortgage type, you may be able to put no money down. Annual research from the National Association of Realtors puts the average down payment for first-time buyers at around 7%. So don't be nervous it if you can't come up with the full 20%. Here are some advantages and disadvantages of a 20% down payment.

Advantages

- **More equity in your home right away:** The larger your down payment, the more of your home your own the second you get the keys.
- **Lower monthly mortgage payments:** As your down payment increases, the amount you borrow to buy a home decreases. So does your payment.
- **No mortgage insurance:** You avoid paying private mortgage insurance (PMI) when you put the full 20% down.
- **An edge in a competitive market:** Having a large down payment shows a seller you are in a strong financial position. This may differentiate you from other buyers.

Disadvantages

- **Earlier home purchase:** A smaller down payment may allow you to enter the market sooner. This could lead to purchasing a property you want instead of waiting to save more.
- **Lost potential for appreciation:** If home prices are increasing in your market, buying earlier may allow you to benefit. This allows you to take advantage of your property's appreciation and avoid the risk of paying more later for the same type of home.
- **Opportunity cost:** Using a significant portion of your savings for your down payment ties that money up in your home. Lost access to that cash could cause you to miss out on other opportunities.

DOWN PAYMENT

While a down payment may not be required for every mortgage, investing some of your own money can help to lower your monthly payment. A large down payment could make it easier for a lender to approve a borrower with a lower credit score. Having at least 20% down will help you avoid private mortgage insurance (PMI).

Note the changes in total amount paid in principal and interest as your down payment adjusts. These examples are for a $350,000, 30-year mortgage at a 5.25% interest rate.

$350,000 HOME PRICE

PAYMENT BREAKDOWN

IF PAID FOR 30 YEARS WITH NO EXTRA PAYMENTS:

Down payment: **$12,000** | **3%**

Length of loan: **30 years**

Interest rate: **5.25%**

Principal & interest		$1,866
Property tax	+	$270
Homeowner's insurance	+	$104
Mortgage insurance (PMI)	+	$141

TOTAL PRINCIPAL $338,000

TOTAL INTEREST $333,921

Down payment: **$35,000** | **10%**

Length of loan: **30 years**

Interest rate: **5.25%**

Principal & interest		$1,739
Property tax	+	$270
Homeowner's insurance	+	$104
Mortgage insurance (PMI)	+	$131

TOTAL PRINCIPAL $315,000

TOTAL INTEREST $311,199

Down payment: **$70,000** | **20%**

Length of loan: **30 years**

Interest rate: **5.25%**

Principal & interest		$1,546
Property tax	+	$270
Homeowner's insurance	+	$104

TOTAL PRINCIPAL $280,000

TOTAL INTEREST $276,621

CHOOSE YOUR MORTGAGE TYPE

There are a variety of mortgage options available. Our home loan experts can help you choose the right mortgage for your situation, but here's a quick rundown of each type.

Conventional

A 30-year conventional mortgage is the most common home loan option. This mortgage comes in two forms, conforming and non-conforming. A conforming loan follows the standards put in place by the Federal Housing Finance Agency and can be purchased by Fannie Mae or Freddie Mac. Fannie and Freddie (as they are commonly known) are federally backed companies that buy mortgages. A non-conforming loan doesn't adhere to those standards due to the loan amount, property type, or other factors. The interest rate on a non-conforming mortgage may be higher because it won't be sold on the secondary market.

Conventional loans may come with a fixed interest rate or an adjustable rate. The difference lies in whether your rate is subject to change over the life of your mortgage.

Government-insured

Government-backed mortgages are offered by the Federal Housing Administration (FHA), the U.S. Department of Agriculture (USDA), and the U.S. Department of Veterans Affairs (VA).

FHA loans offer solid interest rates and make homeownership possible for borrowers with challenges to their credit. They also do not require a large down payment. You need a minimum credit score of 580 and at least a 3.5% down payment to qualify.

USDA loans help borrowers purchase homes in eligible rural areas.

VA loans offer eligible members of the U.S. military (active duty and veterans) access to a loan with no down payment needed, no minimum credit score requirement, and no mortgage insurance required.

Construction loan

A construction loan is a short-term loan that covers the costs of building your new home. Once your home receives a certificate of occupancy, it converts into a mortgage with traditional terms.

State-assistance programs

Depending on where you live, you may have access to mortgage down payment assistance programs. Talk with your Numerica loan officer to explore options that may fit for you.

APPLY FOR A LOAN

It's important to understand what a lender looks for before approving someone for a home loan. In addition to what we've already covered, you'll need to provide some documentation, including:

- Identification documents such as your driver's license, passport, military ID, or state-issued ID.
- Last two years of W2 statements from your employer.
- Verification of other income, such as Social Security.
- Last 30 days of pay stubs.
- Last two years of individual tax returns (especially if you are self-employed).
- Last three months of any investment and retirement account statements.
- Checking and savings account statements.

Once you've submitted your application, here are some dos and don'ts for your pre-approval process.

DO:

- Continue to make your rent payments on time
- Stay current on all your existing accounts
- Keep working at your current employer
- Continue to use your credit accounts as normal, keeping your balances low
- Stay in contact with your loan officer

DON'T:

- Make a major purchase (such as a car, boat, or RV)
- Apply for or open any new credit accounts
- Change jobs without notifying your loan officer
- Close any credit accounts
- Max out any of your credit cards

Our loan officers will prioritize your pre-approval application so you can begin searching for your dream home.

OUR BEST TIPS FOR NEW HOMEBUYERS

1. **Skip prequalification and apply for pre-approval.** There are big differences between prequalification and pre-approval. Getting pre-approved as a homebuyer sets you apart. You go through a credit check and income verification to determine your mortgage qualification. This helps you hone in on the price range you can afford. In contrast, prequalification provides a rough estimate of how much of a mortgage you can qualify for.
2. **Don't make any big credit moves.** Keep making on-time payments for your credit cards and other loans. Avoid opening any new forms of credit. Check your credit regularly at annualcreditreport.com.
3. **Start saving now.** Future you will be so thankful you started saving now for your down payment, closings costs, and move-in expenses. Maximize what you earn on your savings by keeping it in high-yield accounts like Numerica's Bonus Checking and Bonus Saver accounts.
4. **Use a real estate agent.** When you have a good real estate agent, you have an expert who is your advocate for the entire buying process. When choosing your real estate agent, look for someone with robust experience in your price point who is willing to share references with you.
5. **Negotiate with the seller.** Depending on market conditions, you may be in a strong negotiating position. For example, in a buyers' market (where the number of listed homes exceeds demand), things like the purchase price, repairs in advance, and closing costs may be negotiable with your seller.
6. **Say yes to a home inspection.** A home inspection is a crucial part of any home purchase, and we don't recommend skipping it. Even though you have to pay for it out of pocket, an inspection gives you the opportunity to identify major and expensive issues with a home before you buy it. We recommend inspections whether buying an older home or a brand-new home. In addition to the standard inspection, you can also opt for tests like a sewer scope that can help identity issues a normal inspection doesn't look for.
7. **Enjoy the process.** Buying a home can be a wonderful and enjoyable process of seeing your dream come to fruition. Soak it up!

When you're ready to begin your homeownership journey, Numerica would love to work with you. Visit our website at numericacu.com, call us at 800.433.1837, or scan this QR code to take the next step on your home-buying journey.