



Home Buying Guide



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A sunset over a field of bluebonnets. The sun is low on the horizon, creating a warm orange glow. The sky is filled with soft, wispy clouds. In the foreground, several bluebonnet flowers are in focus, their blue petals and green leaves clearly visible. A large green rectangular box is overlaid on the center of the image, containing white text.

FOUR KEY STEPS TO MAKE YOUR HOME BUYING SUCCESSFUL

BEFORE YOU BUY

BUILDING YOUR TEAM

PRE-QUALIFICATION

PRE-APPROVAL & CLOSING

Purchasing a home can feel like a very simple process with the right preparation and a clear understanding of what to expect. Put yourself on the right track toward home ownership with the help of these simple tips and begin to build a relationship with your lender by asking questions before you start the process.



BEFORE YOU BUY

Tips to help you prepare for your big investment.

UNDERSTAND YOUR CREDIT

Know your credit score.

A credit score does more than demonstrate your past success with credit; it also helps determine your mortgage terms such as interest rate and length of loan. Knowing your credit score allows you to anticipate what type of loan you qualify for and the type of documentation needed to prove your income. If you don't know your score or want to improve it, take steps now to demonstrate good credit so that you can qualify for the mortgage that best suits your budget. Making payments on time and avoiding debt will help improve your credit score.

Review and make sure there are no surprises on your credit report.

Occasionally, credit reports can have errors or are not updated with the most recent information. This can negatively impact your score. Before you begin the mortgage application process, check your credit report by visiting annualcreditreport.com and take advantage of your one free report per year. All major reporting agencies – Equifax, Experian, and Transunion – will appear on this report. If you find an error, simply file a dispute with the respective agency. It may take several weeks to resolve the error so plan ahead as much as you can.



BUDGET BEFORE YOU BUY



Know your debt-to-income ratio (DTI).

As a part of the qualification process, your lender will calculate your ratio of existing debt to total income. The ratio divides your monthly gross income in half and then subtracts existing debts from that number. Debt can be any revolving or installment loan payments such as, but not limited to, credit cards and auto or personal loan payments. This becomes your debt-to-income ratio (DTI) and helps lenders evaluate how much of a payment you can comfortably afford. You typically do not want higher than a 50% DTI. If your debt payments exceed 50% of your monthly gross income, you might need to pay down existing debt before you begin the homebuying process.

It is important to note that any major purchases during your homebuying process will affect your DTI. Holding on certain purchases or curbing your buying tendencies for a few months may help you expedite the qualification and approval process.

Determine what you can afford for your new home.

Before you apply for a mortgage, you should organize your finances so that you know how much you are willing to pay for a home and understand what types of loans might fit your budget. Don't forget to factor in monthly escrow costs such as homeowners insurance, property taxes, and in some cases, private mortgage insurance (PMI). These costs will fluctuate annual and impact your budget. Knowing what you can afford also helps you avoid dedicating too much of your monthly income to a mortgage payment.

A large, mature tree with thick, textured branches dominates the upper half of the image. A red tire swing hangs from one of the branches. The background is a solid green color with white text. Below the green box, a red tire swing is visible in a grassy yard, with a concrete path and various plants in the background.

SELECTING THE PROFESSIONAL TEAM FOR YOUR HOME OWNERSHIP JOURNEY

Once you have a better understanding of your personal finances and credit score, it's time to get pre-qualified for your mortgage loan.



Real Estate Agent

A realtor who not only knows the area but can also understand your budget and housing needs is a valuable asset. Before you begin your process, pay attention to for sale signs in the neighborhoods you like. Some realtors specialize in certain markets and can help you get a better feel for schools in the area, local businesses such as grocery stores and restaurants, as well as help you understand property tax rates. Remember, a realtor will negotiate sales prices on your behalf so make sure to find one you trust and who will work in your best interest.

Lender

Knowing your lender serves multiple purposes. For one, a lender can help you navigate the landscape of mortgage options and help you narrow down a type of loan that works best for you and your budget. They can offer clarification when documentation is needed and help explain any terms. Secondly, if you have an established relationship with your lender, either as a result of the pre-approval process or because they work within your primary financial institution, they will have access to your transaction history and know you better. Applying for a mortgage with someone who knows both your character and your finances helps you feel confident and happy with your home purchasing decisions.

You may be discouraged because a particular loan product does not work for you, but don't worry. The value of having a relationship with a lender means he or she can find different ways to make the right loan work based on your circumstances.





PRE-QUALIFICATION

Once you have a better understanding of your personal finances and credit score, it's time to get pre-qualified for your mortgage loan.



The Application

The pre-qualification process typically consists of a few brief conversations with your lender and a loan application. This is an opportunity for your lender to become familiar with your situation so they can recommend the best loan for you. It usually does not involve any verification and won't require heavy documentation.

The Pre-Qualification Letter

Once you complete the loan application, you may ask for a pre-qualification letter which states the amount you qualify for but does not guarantee a loan. The letter does demonstrate to sellers that you have begun the process for a loan and gives them confidence that you are a serious buyer. Some real estate agents will ask you to have a pre-qualification letter before looking at houses so that you will have a more competitive chance during the bidding process.

The Pre-Approval Letter

Once you qualify for a loan, you still need to complete the approval process. A lender will verify your loan application materials during this last step and will supply a pre-approval letter once complete. It isn't necessary to obtain a pre-approval letter, but it does demonstrate that you are able to close faster and can make your offer more competitive.



PRE-APPROVAL & CLOSING

Once you have completed the loan application, lenders will request documentation to verify the information you provided in the application. For instance, the income you provided in the application will need paperwork from your income sources to verify the amount. Here are just a few examples of essential documents you will be required to provide to your lender.



Consistent Employment History

Any lender wants to feel confident that you can pay your mortgage and that starts with knowing that you have a steady, dependable income. At a minimum, you might need at least two years of employment history and some might ask for an explanation of any gaps in job history.

- **Employment Verification:** At the very least, you will need to provide employer name, phone number, your title, and the name and title of your boss or HR representative.
- **Proof of Income:** Lenders will typically ask for up to two years of IRS W-2 forms and perhaps a few months worth of paystubs. If you are self-employed, you may need to provide tax returns and/or profit and loss statements. Don't forget to offer proof of bonuses or commissions if they are not included in your regular pay or fall outside the time period requested by your lender.

Down Payment Savings

A 20% down payment on any home is a significant amount of money. Lenders will look to see if you do have that amount of savings or a source of income that will provide for that up front cost. Even if you choose a type of mortgage that doesn't require **20%**, lenders will want to know that you are able to make the initial payment. It also helps lenders know whether to include private mortgage insurance (PMI) in the total cost of the loan calculations.

- **Asset Account Balances:** You will need to provide copies of checking, savings, or investment account statements. This provides evidence of your ability to make the required down payment and also demonstrates your credit and income history.
- **Down Payment Information:** If any portion of your down payment is borrowed or a gift, you may need to disclose that information. Borrowed money for down payments is not accepted by most lenders.



Debt Balances

Most lenders allow different debt to income ratios although the standard rate is less than **36%**. Contingent upon the type of loan and the lender's policies, you may qualify with as much as a **50%** DTI. Lenders may also suggest paying off certain debts to help you qualify for a better loan. Providing the following documentation may also help you prove you have paid off debts still recorded on your credit report.

- **Debt Account Balances:** You will need to provide statements for any fixed debt obligation you have including credit cards, student loans, mortgages/rent, car loans, alimony, or child support.
- **Bankruptcy or Foreclosure Information:** If you have had any bankruptcy or foreclosure within the last seven (7) years, you will be required to provide that information. As well, if you are a party to any lawsuit, or if you were a co-signer on any loans, that will be required.

WHAT DO YOU PAY AT CLOSING?

Loan origination fees

These include fees for processing and underwriting the loan and typically run about 0.5 to 1 percent of the loan. Underwriting is part of the loan approval process, when the lender checks to see if you're able to repay your loan based on many factors including credit history.

Appraisal and survey fees

The appraisal and survey are used to confirm the fair market value of your home. Fees for these services may vary but are usually several hundred dollars.

Title insurance

Policies that ensure the property can be transferred legally cover both the buyer and lender. They are calculated based on the purchase price.

Homeowners insurance

The first year is generally paid at closing.

Private mortgage insurance (PMI)

If your down payment is less than 20 percent, you may need to pay private mortgage insurance, which protects the lender against losses if you cannot repay your loan.

Mortgage points

Also known as discount points, mortgage points are paid directly to the lender at closing in exchange for a lower interest rate on your mortgage if you choose to purchase them.

Property tax

Usually, six months of advance tax is paid at closing. Taxes vary by location. Keep in mind: After the loan closes, the property may be reassessed, and the value could increase along with the real estate tax. Escrow amounts may also need to be readjusted to ensure there is enough to pay for any tax increases.

Closing or escrow fee

This fee goes to the escrow agent who helps you close. While it can vary based on the escrow company you use and the home's location, the fee is typically between 1 percent and 2 percent of the sale price.

Attorney fees

Some states require you to have an attorney. Their fees may be bundled into your closing costs or paid separately as a flat fee.

Miscellaneous fees

Several smaller fees may also be included at closing, from the cost of a \$30 to \$50 credit report to the cost of registering your purchase with the local government.





TYPES OF LOANS AND GLOSSARY

The jargon used around the home buying process can be dizzying. Having the right lender who can explain terms clearly and guide you through the process is of utmost importance.

Types of Loans

Different loan types exist to help homebuyers in various financial situations afford a home that best suits their budget. Most loan requirements include a 620 credit score, minimum 3.5% down payment, and a DTI of less than 50%. However, loan requirements fluctuate frequently, and a lender can help you select which loan is best for you. This snapshot of loan types illustrates the average differences between each.

1. Conventional Loan

- i. Credit Score: Good (660+)
- ii. Down Payment: 5-20%
 - A. PMI not required if down payment is equal to or greater than 20%
- iii. DTI Ratio: Under 50% max
- iv. Notes:
 - A. Most popular type of mortgage available from a majority of lenders with Fannie or Freddie approval

2. FHA Loan

- i. Credit Score: Average (580+)
- ii. Down Payment: 3.5-20%
 - A. PMI is required and not automatically cancelled
- iii. DTI Ratio: 50% max
- iv. Notes:
 - A. Government back loan insured by Federal Housing Authority (FHA)
 - B. Good for low-income or first-time homebuyer
 - C. Can only be used for primary residence
 - D. More lenient credit score guidelines with FHA approval

3. Jumbo Loan*

- i. Credit History: Excellent (720+)
- ii. Down Payment: High (25% or greater)
- iii. DTI: 48%
- iv. Notes:
 - A. Home price exceeds \$766,550
 - B. Might be only option in areas with high home values
 - C. Not available through all lenders

4. USDA Loan*

- i. Credit Score: Good (620+)
- ii. Down Payment: Low down payment options available
- iii. DTI: 50%
- iv. Notes:
 - A. For eligible rural area primary residence
 - B. Can be used for home purchase or renovation
 - C. Lower interest rates possible
 - D. Not available through all lenders

5. VA Loan*

- i. Credit Score: Fair (500+)
- ii. Down Payment: No minimum
 - A. No PMI or credit score requirement
- iii. DTI Ratio: 50%
- iv. Notes:
 - A. Guaranteed by US Dept. of Veterans Affairs (VA)
 - B. Military service requirement
 - a. 6 months of previous service (Military, Reserves, or National Guard)
 - b. Available to a spouse of a veteran who died in active duty
 - C. Not available through all lenders
 - D. Funding fee of 1.25-3.3% due at closing



* Check with lender for availability

Glossary of Terms

Application Fees

These are nonrefundable fees that are paid when one applies for a mortgage loan. They might include such things as a credit profile or an appraisal on property.

Appraisal / Appraised Value

This is an estimated value of a property. This is usually done together with a loan application and is done by a professional appraiser.

Cash to Close

This is the amount of cash paid by the homebuyer at the closing of the loan. This is primarily the down payment and the closing costs.

Certificate of Title

A statement provided by an abstract company, title company, or attorney stating who will hold the title to real estate based on the public record.

Close Date

The close date is the date you will sign and execute your new loan documents. Depending on where the property is located or the type of transaction, the three business days right of rescission may apply before your funds are available to you.

Closing Costs

Closing or settlement costs are those costs incurred when you obtain a mortgage loan. Costs may include, but are not limited to, attorney's fees, appraisal fees, title insurance, discount points, preparation and title search fees, and credit report changes.

Down Payment

The amount of cash that a buyer pays toward the purchase of the home. This down payment makes up the difference between the purchase price and the mortgage loan. Down Payments generally range between 5% - 20% of the sales price.

Earnest Money

A sign of good faith deposit made toward a down payment. This deposit is generally made when a purchase agreement is signed.

Fannie Mae

The Federal National Mortgage Association (Fannie Mae) a U.S. Government sponsored enterprise that purchases and securitizes mortgages for resale in the secondary market.

Federal Housing Administration (FHA)

This is an agency that is a part of the Department of Housing and Urban Development. The FHA provides mortgage insurance for certain residential mortgages. This agency also sets underwriting standards for these mortgages and for home construction secured by these mortgages.

Freddie Mac

A government sponsored enterprise that purchases and securitizes mortgages for resale in the secondary market.

Lien

The legal claim of a creditor on a borrower's property, to be used as security for the loan/debt.

Loan Estimate (LE)

A disclosure document that is prepared to help borrowers understand the key loan terms and the estimated costs of a mortgage before they complete an application. Once an individual submits their name, income, social security information, estimated property value, property address, and desired loan amount, a lender is required to provide this disclosure.

Points

This is a fee paid to a lender, usually at closing, that lowers (or buys down) the interest rate. One discounted point is equal to one percentage point of the loan amount. For example, 2 points on a \$200,000 mortgage loan will cost \$4,000.

Preapproval

This is a conditional agreement from a lender that they will lend a specific amount of money to a homebuyer based on a specific set of terms.

Prequalification

This is the process by which the prospective borrower provides the lender with financial information so that the lender can preliminarily estimate how much the individual can borrow for the purchase of a home. Information requested would be things like income, employment history, proposed collateral etc. A prequalification is not a formal commitment to lend money for the loan.

Private Mortgage Insurance (PMI)

For conventional mortgage loans, this is insurance that protects the lender if you don't repay / default on your loan. If your down payment on your mortgage is less than 20%, many lenders will require that you pay private mortgage insurance.



“We are incredibly grateful that we chose DATCU for our home loan. You made the process simple and easy to understand for us, and we appreciate your patience and expertise. Thanks for your phenomenal service.”

Carmen W.



Federally Insured by NCUA

