

FIRST HOME PURCHASE

Congratulations on your plans to buy your first home!

We're happy to hear that you've decided to become a homeowner. Not only does buying your first home give you a place that's your own – it's also one of the most important steps in developing your own financial security. As you pay off your mortgage loan, you'll build up equity (your share of ownership) in the home, which can help you weather financial "rainy days."

That's why FORUM Credit Union is happy to encourage home ownership, and why we created this kit. Our goal is to provide the information you need to make buying your home easier and less stressful. Inside, you'll find a variety of helpful resources and suggested sources for more information. And don't forget that answers to your questions are as close as your nearby FORUM location.

Financial Resources

FORUM Credit Union offers products and services for every aspect of your financial life. Some of the ways we can help you include:

Mortgages

We offer a wide array of mortgage programs, one of which is sure to be ideal for your situation and needs. Fixed-rate loans give you the confidence of a predictable monthly payment and interest rate, while adjustable-rate loans may make it possible for you to buy more home than you expected. We also have a special Construction/Perm program for people who want to build a new home, and a low down payment FHA Loan option for borrowers with perfect to less than perfect credit.

The best way to learn about all your options and choose the one that's best for you is to call 317.558.6160 and talk with one of our friendly Mortgage Consultants, or visit our online Mortgage Center at www.forumcu.com. You can also use our online application, which can speed up the loan approval and homebuying process.

Home Equity Credit

Once you own your home, if you're looking for an affordable way to finance any remodeling or improvements, consider a home equity loan or line of credit. Borrowing against the equity (ownership) you've built up in your home is convenient and affordable. It's especially sensible when you're using the funds to improve your home. Plus, your interest payments may be tax-deductible.

Savings Accounts

If you're trying to build up a down payment, consider one of our many savings accounts. One great strategy is to automatically deposit a set amount each month.

Insurance

As a homeowner, you'll be required to have homeowner's insurance. FORUM Representatives can refer you to insurance professionals that will help you find the right coverage at a very affordable cost.

NEED TO KNOW

Some things you need to know about buying your first home.

About Real Estate Agents

It's possible to find the right home on your own, but many buyers find it easier to work with a real estate agent. Agents have access to more information about homes that are for sale, and they have knowledge about matters such as neighborhood and schools. A good agent will learn more about you and what you're looking for before making recommendations. In addition, he or she will be able to point out issues you probably wouldn't consider on your own.

The best way to find the right agent is to ask people you know for a recommendation. It's a good idea to interview several real estate agents to ensure you find the one who is the best match for your needs and personality. Ask about experience, professional qualifications, and how many transactions he or she has handled in recent months. Don't be afraid to trust your gut, because a home purchase is one of the biggest financial transactions you'll ever make, and you need to be completely comfortable with the person who represents you.

Finding The Perfect Area

Before you start looking for the right home, spend some time identifying the right neighborhood. After all, you want to be certain that the area you're planning to move to fits your needs and lifestyle. If your family is young, and you want your children to have other kids around, a neighborhood that's dominated by senior citizens may be a friendly place, but not the right choice for you. Consider schools, access to shopping and work, and local services. Walk through parks or visit local coffee shops and strike up conversations. Ask people what they like and dislike about the area. If you hear good things, and you feel comfortable, you're probably in the right place.

The Best Time To Buy

While many people will tell you that there are certain times of year when you should or shouldn't look for a house, the right time depends on many factors. Generally, the best time for buyers is when the greatest number of homes is available, because a large supply helps to keep prices lower and may encourage sellers to make a deal. Buying in traditionally slow seasons may also give you an advantage, because many of the sellers will be moving because of issues like job transfers, so they'll be motivated to make a good deal.

Unfamiliar terms you may encounter

The world of real estate has a language all its own. Here are some of the more common terms you may encounter, and what they mean in simple English.

Adjustable Rate Mortgage (ARM)

A mortgage with an interest rate that may change, based on an outside economic factor such as the Prime Rate.

Amortization Schedule

A chart that shows how your house payment is divided between the interest and the principal.

Annual Percentage Rate (APR)

The actual rate you pay on a mortgage, including both the interest rate and any additional finance charges.

Appraisal

An independent estimate of a home's market value.

Assessed Value

How local government officials value the home for property tax purposes.

NEED TO KNOW (continued)

Closing

The meeting at which your home purchase actually takes place. The sellers, you, the real estate agents, and a representative from the company handling the closing are present. Everyone reviews and signs the documents that are related to the sale, and the company handling the closing ensures that the proper payments are made.

Closing Costs

Costs involved with the purchase of your home that are not part of the purchase price, such as an appraisal fee and title insurance. As a buyer, you are usually responsible for these costs.

Covenants

Some neighborhoods or communities have specific rules that property owners must follow, such as what types of fencing or outdoor recreation equipment are allowed.

Debt-to-Income Ratio

A number of lenders use this to determine your ability to afford a home, which is arrived upon by dividing your total monthly debt payments by your monthly income.

Deed (or Title)

A legal document that describes the property and specifies who owns it.

Disclosures

Information the seller shares about current or potential defects with the home.

Down Payment

The money that you pay the lender at closing. Your mortgage amount will be the difference between the purchase price and your down payment.

Earnest Money

A deposit given to the seller of a home to lock in the offer and prevent the seller from selling to someone else.

Equity

Another word for ownership. When used in conjunction with a home, it refers to the percentage of the home you actually own. For example, if your home is worth \$200,000, and you still owe \$120,000 on the mortgage, your equity is \$80,000.

Escrow

A special account maintained by an independent third party in which funds can be held until the conditions of a contract are met. The term also refers to the account the lender maintains to pay homeowners' insurance and/or property taxes on the homeowner's behalf.

Flood Insurance

If the home is located in a floodplain, you will be required to buy this insurance. Ordinary homeowners' insurance does not cover damage from flooding.

Home Inspection

A process carried out by a professional inspector to ensure that a home is safe, and to identify areas that need to be repaired.

NEED TO KNOW (continued)

Joint Tenancy With Right of Survivorship

A type of ownership in which two or more owners have equal ownership. Upon the death of one of the owners, ownership passes to the surviving owner(s). This is the approach used by most married couples.

Lien

A legal claim in which a property owner owes money to someone, typically either for unpaid taxes or for work on the home for which payment was not made. A home generally cannot be sold until any liens are satisfied.

Loan-To-Value (LTV)

This is a ratio expressing a percentage of a home's value that a lender is willing to lend. For example, a lender that will lend up to 90 percent of LTV to a borrower would be willing to lend up to \$180,000 on a \$200,000 home.

Mortgage Insurance

If your down payment is small and your LTV is high, the lender may require you to buy insurance that protects its investment if you fail to make your payments as promised.

Points

Additional fees paid to the lender to obtain a mortgage or a lower rate. One point equals one percent of the overall loan amount.

Preapproval

Applying for and receiving approval on a loan amount before making an offer on a house.

Principal

The actual amount of the loan.

PITI (Principal, Interest, Taxes, and Insurance)

The total of a borrower's monthly payment, including all four of those components.

Property Tax

Schools, fire protection, police, parks and other municipal services are funded by these taxes on the value on a home.

Title Insurance

A special insurance policy that guarantees the accuracy of the title information and protects the lender if there is a problem with the title. The buyer pays for this.

Title Search

A review to verify the correctness of a home's title. The buyer pays for this.

Underwriting

The word that describes the process a lender follows to verify that all of the information in a loan application is accurate, and the lender's many steps involved in getting ready for closing.

Zoning

Local laws that regulate how property may be used.

The financial side of owning a home.

While you may be excited by the thought of owning a home, don't buy until you've done your financial homework. While becoming a homeowner makes good financial sense for most people, doing it before you're ready, or buying more house than you can really afford, can cause more trouble for you.

How Much Can You Afford?

The first step in preparing to buy a home is to determine just how much of a house you can comfortably afford. Because you probably don't have enough money stashed away to pay cash for your new home, you're going to need to finance it through a mortgage. That means you'll have to convince a lender that you can afford to make the payments on the mortgage.

Lenders make their decisions about home loans in the same way they review any other kind of loan. First, they want to make sure you're paying a fair price for whatever you're planning to buy. Then they take a close look at your finances and credit history to determine whether you'll be likely to pay the loan back. One way they do that is by comparing your monthly income with your monthly expenses. Another factor is how much of a down payment you'll be able to make.

Based on all that information, a lender will be able to tell you how much of a monthly payment you can comfortably afford. They can then suggest a price range that's right for you. Once you know that price range, you'll be better able to find homes you can afford.

More Than A Mortgage Payment

When deciding whether or not to buy, some people only think about whether they can afford the monthly mortgage payment. But owning a home involves a variety of other costs. Some, like homeowner's insurance and property taxes, you'll probably pay as part of your monthly payment. But others will be in addition to that.

For example, you'll have to pay the cost of utilities, such as your electricity, gas, water and sewer. You may also need to cover the cost of trash pickup or have to pay dues to a local homeowner's association. You'll be responsible for regular maintenance to your home, and if something needs to be repaired (such as a water heater or a furnace), the cost comes out of your pocket. That's why it's important to make sure that your mortgage payment doesn't use up every free dollar you have.

How can you make sure that you're not spending more than you should? A good way to start is by developing a household budget that covers all of your expenses. You can write down every penny that you spend for a month and enter it into a chart like the one that appears on the next page. That way, you'll have an accurate picture of your spending – and a better idea of what kind of house payment is right for you.

BUDGETING (continued)

EXPENSES

Rent/Mortgage: _____
Insurance: _____
Property Taxes: _____
Gas: _____
Electric: _____
Phone: _____
Cable: _____
Water: _____
Trash: _____
Sewer: _____
Internet: _____
Cell Phone: _____
Groceries: _____
Eating Out: _____
Pocket Cash: _____
Total Expenses: _____

Daycare: _____
Camps: _____
Kids Lunches: _____
Team Fees: _____
School Photos: _____
Allowances: _____
Office Supplies: _____
Bank Fees: _____
Credit Cards: _____
Bank Loans: _____
Auto Loans: _____
Auto Gas: _____
Auto Insurance: _____
Tires/oil/maint: _____
Tolls: _____

Doctor Bills: _____
Dental: _____
Eye Care: _____
Repairs: _____
Gifts/Cards: _____
Cleaning Supply: _____
Clothing: _____
Barber: _____
Nails: _____
Pet Care: _____
Magazines: _____
Newspaper: _____
Health Ins: _____
Life Ins: _____

INCOME

Wages & Salary: _____
Rental Income: _____
Investments/
Interest: _____
Total Income: _____

Business Income: _____
Pension: _____

Child Support: _____
Alimony: _____

Looking for some expert advice about buying your first home?

There's a lot to learn when you're buying a home for the first time – and you're probably hearing a lot of conflicting advice from well-meaning people. If you'd like help from some real experts, check out these websites and books.

Helpful Websites

Metropolitan Indianapolis Board of Realtors® — www.mibor.com

Central Indiana's Realtor association has excellent advice for buyers and sellers.

National Association of Realtors® — www.realtor.org

This site offers a lot of good general information, with a focus on finding the right professional Realtor.

About Home — homebuying.about.com

This resource-rich site has articles on all aspects of homebuying.

HGTV Online — www.hgtv.com

There's a wealth of entertaining information at the online counterpart of the popular TV network.

This Old House — www.thisoldhouse.com

If you're thinking about buying an older fixer-upper, check out this online companion to the long-running TV show.

American Homeowners Association — www.ahahome.com

The nation's largest homeowners' organization has a site with a wide variety of helpful hints.

American Home Guides — www.americanhomeguides.com

Thinking about building your first home? Look here for handy advice from the popular new-home builders' guide.

Books

The First-Time Homeowner's Handbook: A Complete Guide and Workbook for the First-Time Home Buyer by Joe Adamaitis

Home Buying For Dummies by Eric Tyson and Ray Brown

100 Questions Every First-Time Home Buyer Should Ask by Ilyce R. Glink

Home Buying by the Experts: The Pros Make Your Dream Home a Reality by Brian Yui and Robert Allen

How to Buy Your First Home by Diana Brodman Summers

The Home Owner's Journal by Colleen Jenkins

Buying Foreclosures by Bobbi Dempsey