



## Home Buyer Education

### Mortgage Information

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### Objectives

- What is a MORTGAGE?
- Value Proposition: Low costs + Low fees  
(Member versus Customer)
- Initial "steps" to shopping for a mortgage
- Understand how to apply for a home loan
- Consulting with a lender: mortgage types, terms and documentation
- Understanding settlement and closing costs




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### Mortgage Financing




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### What is a Mortgage?

- You are borrowing **MONEY** over a period of **TIME** (term – 15 years, 30 years, etc.) at a specific **RATE** (interest rate).
- Mortgage document is recorded after closing.
- "Discharge of Mortgage" or "Satisfaction of Mortgage" is recorded when loan is paid off.
- Is the interest rate most important?




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### Value Proposition

What should you be looking for?  
Low Mortgage Fees + Low Interest Rate =



What are you paying to get the rate?

- Loan Estimate** – Issued to applicant within 3 business days of receiving the loan application
- Closing Disclosure** – Issued to applicant 3 business days before closing

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### Types of Mortgages




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## Conventional & Government Loans

### Conventional Loans

- Fixed-rate: 10 years / 15 years / 20 years / 25 years / 30 years
- 3% minimum down payment
- 3% Sellers Assist (6% allowed if you put down 10%)
- Adjustable Rate Mortgages (ARMs)

### Government Programs

- FHA (Federal Housing Administration)
- VA (Veterans Administration)
- USDA (United States Department of Agriculture)
- PHFA (Pennsylvania Housing Finance Agency)
- 0% to 3.5% minimum down payment
- 6% maximum sellers assist

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## Self Analysis

### What to Consider:

- What can I afford today?
- Will my finances change?
- How long am I going to stay?
- Will my lifestyle change?
- Will my needs change?




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## Initial Steps to Preparing for a Mortgage

- Have a spending plan in place – a Budget to identify your spending practices:
  - 1.) housing expense
  - 2.) food
  - 3.) vehicles / transportation
  - 4.) utilities – electric, gas, water, cable, internet, phone
  - 5.) insurance – medical, homeowners, vehicles, flood
  - 7.) furniture and appliances

Personal budget sheet	
Category	Amount
Step 1: Income	
Step 2: Expenses	
Step 3: Savings	
Step 4: Debt	
Step 5: Net Income	

- Understand the difference between Borrow and Afford
- Perform a Self-Analysis today
- Review your credit report and take steps to improve your credit score
- Save for down payment and closing costs – the larger the down payment, the lower the monthly mortgage payment
- The larger your down payment, the higher your credit score, and the larger your cash reserves make you a better risk as a mortgagor with your credit union.

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## Budgeting

### Sample Budget Guidelines

Keeps you informed of your money coming in, money going out, what it's being used for, & the amount of each expense during a specified period of time.

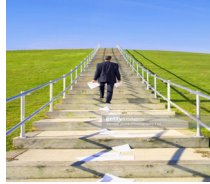
### Examples

- Allocate **50%** of your net income (after tax) for **"needs"** - Essentials like rent, groceries, utilities, transportation, insurance, minimum loan payments, child care or other expenses you need to meet so you can work.
- Put **20%** toward paying off debt & saving for the future, including an emergency fund.
- Set aside **30%** for **"wants"** - Dining out, gifts, travel & entertainment.
- You can also set up separate "buckets" or accounts for each goal:
  - 1.) emergency fund
  - 2.) retirement savings
  - 3.) travel / vacation / entertainment
  - 4.) a future purchase - new vehicle, furniture, or appliances



## Down Payment & Closing Cost Tips

- Seller Contribution - 3% to 6% by an interested party to the transaction, depending upon amount of down payment
- Grant Programs - Provides a limited amount of funds for buyers to assist with their purchase
  - 1.) Comes from Federal, state, or local governments
  - 2.) Private foundations
  - 3.) Amount of assistance varies by grant program
- Gift funds - Follow the proper "paper trail"
- Write down and stick to a weekly budget



## First Front Door Grant Program



- It opens the door for first-time homebuyers by matching a qualified homebuyer's contribution for down payment and closing costs 3-to-1.
- For every \$1 the homebuyer contributes, they will receive \$3 in grant assistance, up to a maximum of \$5,000.

### First Front Door Grant Program, (continued)

#### Who Qualifies?

- Be a first-time homebuyer (not owned a home within the past 3 years.)
- Contribute personal funds as part of the down payment and closing costs
- Have household income at or below 80% of the area median income at the time of registration. ([www.huduser.org/portal/datasets/il.html](http://www.huduser.org/portal/datasets/il.html))
- Complete at least 4 hours of homeownership counseling through an approved counseling agency prior to the purchase of the home (your Loan Officer will provide the link)
- If a student, work at least 30 hours a week
- Keep the home for 5 years from the closing date in order to keep the full amount of the grant
- Only primary residences are eligible as well as various property types

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### Erie FCU 1<sup>st</sup>-Time Home Buyers Program

- Terms: **10 / 15 / 20 / or 30 – Year Fixed Rate!**
- Maximum Purchase Price: **\$100,000**
- Minimum Credit Score: **620**
- Income Restrictions: **None!**
- Maximum Financing: **97% LTV / 105% CLTV !**
- Grants: **Permitted up to 105% CLTV !**
- Mortgage Insurance: **Not required!**
- Eligible Properties: **Single family, owner-occupied**
- Ratios: **31 % / 50 %**
- Cash Reserves: **2 months PITI reserves required**
- Seller Contribution: **6 % maximum**




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### Consulting with a Lender




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### Pre-Approval

**Get pre-approved for a loan** - this helps you understand what you can afford based upon your income, assets, and other debt.

- You will have a detailed consultation with your lender to identify your best financing options.
- They will help you to make pre-approval application simple and easy.
- The pre-approval will indicate how much you can afford **BEFORE** you start looking at houses.
- Commit to **only** looking at houses within your budget.
- Create buyer confidence to negotiate in today's real estate market.
- A pre-approval adds creditability to any offer you place on a property.
- **FREE ! FREE ! FREE !**




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### What Does the Lender Look For?

Your **ability** to repay the loan

- Stable employment and / or income
- Comfortable monthly obligations-to-income ratio
- Sufficient assets for down payment, closing costs, and cash reserves
- Good bill-paying history reflected on your credit report
- A real estate appraisal report provided by an experienced, licensed real estate appraiser that reflects the estimated market value and other details of the property.




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### What Documentation Do You Need?

- ☐ Most recent 30-day paystubs
- ☐ Most recent 2 years IRS W-2 forms and income tax returns
- ☐ Copies of any pension, Social Security, and VA "Award Letters"
- ☐ 2 months bank statements
- ☐ Employer contact information / job history for past 2 years
- ☐ Driver's License / ID
- ☐ Signed Agreement of Sale
- ☐ Are you self-employed?




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## How to Apply for a Mortgage Loan




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## Easy Application

- Apply in person at any branch **(FREE !)**



- Apply over the phone **(FREE !)**



- Apply online **(FREE !)**




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## Pre-Approved!

- ✓ Consulted with your credit union Mortgage Loan Officer
- ✓ Submitted an application
- ✓ Documentation reviewed and credit report obtained

NOW YOU'RE PRE-APPROVED!




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### Find a Real Estate Agent and a Home




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### What Type of House Do You Want?

- ☐ Single-family, duplex, or multi-unit (1-4 living units)
- ☐ New or pre-owned properties
- ☐ Owner-occupied, 2<sup>nd</sup> home, or investment property
- ☐ Manufactured homes
- ☐ Condominiums




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### Needs vs. Wants

#### "NEED"

Geographic location  
# of Bedrooms  
# of Baths  
Basement  
Land / lot size  
Landscaping  
Parking  
Garage  
Storage  
Public water & sewer

#### "WANT"

Swimming pool / hot tub  
Gourmet kitchen  
Fence  
Garden  
Barn  
Porch  
Sunroom  
Deck / patio  
Fireplace(s)




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### Settlement Day




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### Settlement Costs & Closing

- Closing costs will vary depending upon county and state
  - Cash needed at settlement consists of:  
1.) any remaining down payment owed 2.) closing costs 3.) real estate taxes 4.) insurance premium for homeowners and flood policies as required 5.) transfer tax
  - Costs may range from about **3% to 7%** of sale price (not including down payment)
  - This largely depends on the real estate taxes and insurances in the specific state, city, county and township or borough where you are financing your purchase
- Examples:  
Escrow Funds + Property Taxes + Title Insurance + Transfer Taxes




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### Settlement Costs & Closing, (continued)

#### Your primary responsibilities:

- Review and sign all documents
- Pay closing costs and any remaining down payment owed



#### Make sure you:

- Keep a copy of every document you sign
- Keep paperwork in a safe place



#### Be sure to:

- Read your paperwork
- Ask questions




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### In Conclusion .....

- ☐ Get a free pre-approval from your credit union  
(online, in person, or over the phone)
- ☐ Interview realtors
- ☐ Your realtor will show you homes in your price range
- ☐ Sign an Agreement of Sale
- ☐ Proceed with the purchase of your dream home




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### Contact Us!

**Call:** (814)-825-2436, Option 2  
(800)-480-0494, Option 2

**Go To:** [www.ErieFCU.org](http://www.ErieFCU.org)

Erie Federal Credit Union  
3503 Peach Street  
Erie, PA 16508




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### Questions ?



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