Helpful Information for a First Time Mortgage

Getting Started

Many people buying their first home are afraid lenders don't really want to work with them. But that's simply not true. Without you, there would be no mortgage lending business. Lenders want to help you buy your first house!

Q I really want to own my own home, but I'm not sure I can afford it. Where do I start?

A). Lots of people don't even consider buying a home because they're afraid they can't afford it. But for most people, home ownership is within reach — especially with some of the special programs for first-time home buyers. In fact, for many, home ownership is as affordable as renting — in some cases even more affordable.

Q How do I know how much house I can afford?

A). Before you start looking at homes, you need to have some idea of what you can afford. As a general guide, you can purchase a home with a value of two to three times your annual household income, depending on your savings and debts. However, you may be able to take advantage of special loan programs for first time buyers to purchase a home with a higher value.

If you'd like to know more exactly how much you can afford, talk to your NCACU mortgage service specialist.

Q When should I talk to my Credit Union?

A). The short answer: when you start thinking about buying a home, but before you shop for your new home, your credit union can pre-qualify you for a mortgage.

Any NCACU mortgage service specialist will be happy to help you as you look for a home. The lender will work with you to determine how much house you can afford, help steer you to special mortgages for first time home buyers, and perhaps make suggestions that could make it easier to get the best mortgage for you.

How to Make Your First Meeting Work

Your first meeting is a time to ask questions and evaluate your needs. The more information you provide the mortgage service specialist the more accurate your pre-qualification will be.

It is helpful, but not required to bring the following information to this meeting.

About your employment and income

- Your employment, salary and bonuses, and any other source of income for the past two years (example: W-2 forms/current pay stub).
- If self-employed, the last 2 years federal income tax return.
- The amount of any other regular income you may receive (alimony, child support, etc.).

About your personal assets (bring any that apply)

- Current balances and recent statements for any bank accounts.
- Current market value of any investments you may have such as stocks, bonds, or Certificates of Deposit.
- Current value of retirement funds.
- Face amount and cash value of life insurance policies.

About your credit and debts

- The balances and account numbers of your current loans and debts, including car loans, credit card balances, and any other loans you may have.

Decisions, Decision, Decisions....

When our parents were buying homes, there was basically one kind of mortgage: the 30-year fixed. Today, you can choose from many different kinds of mortgages. It may seem confusing — but these new kinds of mortgages can make home ownership more affordable.

Q Aren't there really just two kinds of mortgages: fixed and adjustable rate?

A). You could say that, because all mortgages fall into one of these two categories — that is, the interest rate you pay is either the same (fixed) for the life of the mortgage, or it can change (adjust) over the life of the mortgage.

But within these two broad categories, there are many different kinds of mortgages, designed to fit people in different financial situations — and many of them are especially for first time home buyers.

Q How do I know which type of mortgage is best for me?

A). There isn't a single, simple answer to this question. The right type of mortgage for you depends on many different factors:

- Your current financial picture;
- How you expect your finances to change;
- How long you intend to keep your house;
- And how comfortable you are with your mortgage payment changing from time to time.

For example, a 15-year fixed rate mortgage can save you many thousands of dollars in interest payments over the life of the loan, but your monthly payments will be higher. An adjustable rate mortgage may get you started with a lower monthly payment than a fixed-rate mortgage — but your payments could get higher when the interest rate changes.

The best way to find the "right" answer is to discuss your finances, your plans and financial prospects, and your preferences frankly with a NCACU mortgage service specialist. We have provided you with this convenient mortgage calculator to help determine your total monthly payments.

Q What does my mortgage payment include?

A). For most homeowners, the monthly mortgage payments include three separate parts: a payment on the principal of the loan (that is, the amount borrowed); a payment on the interest; and payments into a special account (called an escrow account) that your lender maintains to pay for things like your hazard insurance and property taxes. These elements are called P.I.T.I. (Principal-Interest-Taxes-Insurance).

Q How much will I need for the down payment?

A). It's probably less than you think. Many first-time buyers are surprised to learn there's no set answer to this question. Generally, though, your down payment can be anywhere from three to twenty percent of the home's value. Down payments can be lower for some special, first-time buyer loans, and veterans or those on active military service can obtain loans with no down payment at all.

Q What happens after I've applied — and how long will it take?

A). Your lender will begin the work of verifying all the information you've provided. This process can take anywhere from one to six weeks, depending on the type of mortgage you choose, whether you're buying a home outside your local community, and other factors.

Within three business days after your application, the lender must give you an estimate of your closing costs. (The closing is the actual settlement of your loan.) You'll also get a statement that shows your estimated monthly payment, the cost of your finance charges, and other facts about your mortgage.

For many home buyers, this waiting period can be nerve-wracking. So stay in touch with your mortgage lender, be prepared to answer any questions that might come up — and remember that mortgage lenders are in the business of making loans, not denying them.

Some homebuyers find the closing process to be one of the most intimidating aspects of buying a home because it's so unfamiliar. Ask your mortgage lender what to expect at your closing.

The Low-down on Loans

Although there are many options for your first mortgage loan, they all fall into one of these general categories:

Fixed Rate Mortgages

Your monthly payments for interest and principal stay the same for the life of the loan. Your property taxes and homeowners insurance may increase, but generally your monthly payments will be very stable.

Fixed rate mortgages are available for 30 years, 20 years, 15 years and even 10 years.

Adjustable Rate Mortgages (ARMS), also called Variable Rate Mortgages

These loans generally begin with an interest rate that is 2-3 percent below a comparable fixed rate mortgage, and could allow you to buy a more expensive home.

However, the interest rate changes at specified intervals (for example, every year) depending on changing market conditions; if interest rates go up, your monthly mortgage payment will go up, too. However, if rates go down, your mortgage payment will drop also.

There are also mortgages that combine aspects of fixed and variable rate mortgages — starting at a low fixed rate for seven to ten years, for example, then adjusting to market conditions.

Balloon Mortgages

These mortgages offer low, fixed rate payments as though the mortgage was a thirty-year term. But instead, the loan has a fairly short term — for example, five to seven years — and then ends with a single large payment or could be renewed for another balloon period at current rates. It can be a good choice if you know you'll only be in your home for a short time.

There are other special kinds of mortgages available now that help achieve specific goals. Ask your NCACU mortgage service specialist for more information about your options.

How to Choose Your Lender

Choosing your mortgage lender can be as important as choosing your home. If you're comfortable with your mortgage lender, getting your mortgage — and your home — will be a less stressful and more pleasant experience.

But rates shouldn't be your only criteria

You'll find some of the lowest mortgage rates and best terms at north Central Area Credit Union. Don't let the rates be your only criteria for choosing a lender. Mortgages, with the same nominal interest rate, can end up costing different amounts because of additional cost such as origination and application fees. Consider the different rates lenders offer, but you also want a lender you can trust and someone you can work with effectively that cares about you.

Fifteen Commonly Used Mortgage Terms

Here are 15 of the most common terms used to describe mortgages. If you hear other terms you don't know, ask your mortgage lender what they mean.

Adjustable Rate Mortgage (arm, also called Variable Rate Mortgage) is a mortgage with an interest rate that is adjusted periodically to reflect changes in market conditions. Your mortgage payments are adjusted up or down as the interest rate changes.

Annual Percentage Rate (APR) is an interest rate that reflects the actual cost of a mortgage as a yearly rate. Because APR includes points and other costs, it's usually higher than the advertised rate. The APR allows you to compare different mortgages based on actual annual costs.

Appraisal is an estimate of the value of a home, made by a professional appraiser. The maximum amount of the mortgage is usually based on the appraisal.

Closing Costs (Settlement Costs) is all the charges associated with getting your mortgage, including the origination fee, discount points, appraisal fee, title search and insurance, survey, taxes, deed recording fee, charges for credit reports and other costs. Costs of closing usually add up to 3 to 6 percent of the mortgage amount.

Equity is the value of your home after the outstanding balance of any loans are subtracted.

Escrow is a special third-party account set up by the lender in which your funds are held to pay for taxes and insurance. "Escrow" can also refer to a third party who carries out the instructions of both the buyer and seller to handle the paperwork at the settlement.

Fixed Rate mortgage is a mortgage with an interest rate that stays the same (fixed) for the life of the mortgage. Monthly payments for a fixed rate mortgage are very stable. (

Interest is the sum paid for borrowing money, which pays the lender's costs of doing business.

Origination Fee is the fee charged by a lender to prepare all the documents associated with your mortgage.

PITI (Principal-Interest-Taxes-Insurance) is shorthand for the separate parts of a typical monthly mortgage payment

Points (Loan Discount Points) are prepaid interest on your mortgage, charged by the lender at the time of the closing. Each point is one percent of the loan amount — that is, 2 points on a $100,000 mortgage would be $2,000.

Prepaids are the expenses that are put into escrow at closing, usually including real estate taxes, insurance, and interest.

Principal is the amount of debt, not including interest, left on a loan.

Private Mortgage Insurance (PMI) is an insurance policy the borrower buys to protect the lender from non-payment of the loan. PMI policies are usually required if you make a down payment that is below 20% of the appraised value of the home.

Title Insurance is an insurance policy which insures you against errors in the title search, essentially guaranteeing your and your lender's financial interest in the property.