Home Buyer's Guide

Let Our Experts Guide You Home!

USC CREDIT UNION

Own Your Future

Thinking About Buying A Home?

You've Come to the Right Place!

The prospect of buying your home is really exciting. It's also a complex process that becomes simplified when you partner with USC Credit Union. We will provide you with the education and guidance you need to buy your home with confidence. With this guide and our team of mortgage experts at your service, you will learn:

- All you need to know about home loans and how they work
- How to determine which home loan best suits your needs
- What you need to do to qualify for your home loan
- House hunting tips and special programs to save you money–offered exclusively for USC Credit Union members

Let's get started!

Home Loans 101

What is a home loan (also known as a mortgage)?

A mortgage loan is a home loan in which your house functions as the collateral. You borrow money from a home loan lender to buy a home. You must pay back the loan—with interest—over a set period of time through monthly home loan payments. If you fail to pay back the loan, the lender may take ownership of the property through a legal process known as foreclosure.

How is my home loan payment calculated?

A monthly home loan payment includes at least two parts: The amount that goes toward the principal of the loan (the money you've borrowed) and an additional amount that goes toward interest (the cost of borrowing the money).

For most homeowners, however, there is also a third part of the home loan payment: The amount that is paid into an escrow account, which the lender maintains for you to pay for things such as your homeowners insurance, property taxes and private mortgage insurance (if applicable). This is an element that can affect whether your payment goes up or down annually, even on a fixed-rate home loan.

What does amortizing mean?

Amortizing refers to reducing the loan balance by paying principal and interest on an established schedule or term. By making regular scheduled payments on time, you will pay off your home loan by the end of the specified term (e.g. 30 years or 15 years).

What is homeowners insurance and do I need it?

Homeowners insurance will cover losses and damage to your property, if something catastrophic occurs, such as fire, wind or theft. Standard homeowners insurance doesn't cover damage from earthquakes or floods, but a lender may require that you add this coverage if, for example, your home is located in a flood zone.

Your home lender will want to make sure your property is protected by homeowners insurance, and you will be required to provide proof of it before the loan is funded.

What is mortgage insurance and do I have to have it?

Your lender will require mortgage insurance, if your down payment on a home is less than 20 percent of the appraised value or sale price. Mortgage insurance protects the lender, if the borrower fails to repay the home loan. As the borrower, you pay the premiums for the mortgage insurance. The type of mortgage insurance depends on the type of home loan:

- FHA-insured loans require a mortgage insurance premium (MIP)
- VA loans require a funding fee
- Conventional loans can be insured with private mortgage insurance (PMI)

What are the benefits of Private Mortgage Insurance?

- When you have PMI, you can get into a home with a much smaller down payment and keep more of your savings intact for a rainy-day fund or other purposes.
- Home loans with PMI often have lower payments than equivalent loans insured by the FHA.
- Once your home loan balance drops below 78% of the original value of your home, your lender will cancel PMI, assuming your loan payments are current (unlike the FHA mortgage insurance, which has to be paid for the life of the loan).

What are closing costs?

When your home loan closes, you will be required to pay closing costs, which are fees charged by lenders and third parties related to the purchase of your home, in addition to the down payment on your home. Most of the time, it is the home buyer who pays the closing costs, although on some loans, such as VA loans, the seller pays a portion of the closing costs. Additionally, your real estate agent can sometimes negotiate with the seller to pay a portion or all of your closing costs.

Private Mortgage Insurance (PMI) is required on home loans with down payments of less than 20%. But, PMI isn't just an added expense. There are benefits!

What charges are included in closing costs and how much are they?

Closing costs vary widely based on where you live and the property you buy. Typically, home buyers can pay up to 3 percent of the purchase price of their home in closing costs, which include:

- A loan origination fee, which lenders charge for making the loan
- Discount points or fees you pay in exchange for a lower interest rate
- Underwriting processing and document fee covers the cost of evaluating a home loan application
- A credit report fee
- Appraisal fee
- Tax service fee to monitor if property taxes have been paid on time
- Escrow fees
- Title search fees for a background check on the title to make sure there are no unpaid mortgage tax liens or judgements on the property
- Title insurance, which protects you and the lender in case the title isn't clear
- Recording fee, which is paid to a city or county in exchange for recording the new land records
- Pest inspection fee
- Charges for inspections required or requested by the lender or you
- Escrow deposit, which may pay for two months of property taxes and PMI.

What is a Loan Estimate?

Lenders are required by law to give you a Loan Estimate within 3 business days of receiving your application. The Loan Estimate does not guarantee you are approved, but shows you what the lender expects to offer you if you decide to move forward. The estimate provides you with important information, including your estimated: interest rate, monthly payment, total closing costs for the loan, costs of taxes and insurance, and how the rate and payments may change in the future. Additionally, the estimate also indicates if there are any pre-payment penalties or increases to the mortgage balance even if payments are made on time (negative amortization).

What are ongoing costs of ownership?

As a homeowner, housing costs will include your monthly home loan payment, property taxes, homeowners insurance, mortgage insurance (if required), utilities and maintenance. Condominium or cooperative owners also pay a monthly maintenance fee, often called a Homeowners Association (HOA) fee.

Sometimes your real estate agent can negotiate for the seller to pay a portion of the closing costs.

Qualifying for a Home Loan

How does a lender determine if you qualify?

While lenders look at a lot of different information to determine whether you'll qualify for a home loan, ultimately, it comes down to four things: credit, down payment, income and assets. If any of these areas are

not as strong as they should be, don't be discouraged. Your USC Credit Union home loan expert will provide you with the guidance you need to move to the next level.

Your credit

Your credit is one of the most important things that will be considered when determining if you qualify for a home loan. Your credit history is the way a lender judges the likelihood that you'll pay back your home loan. The lender will look at the length of your credit history, how reliably you've paid on your accounts and if you're maxed out on your credit cards or loans. These are also the factors that determine your credit rating or credit score. Your credit score will be used to qualify you for a home loan and will be one of the components used to determine your interest rate.

Credit scores for a home loan range from 620 (low) to 850 (high). A healthy credit score is generally considered to be above 740 and a poor credit score is below 600. The higher your credit score, the better the interest rate you'll likely be offered.

Lenders will also look at items on your credit report to see if you've had loan and credit card accounts open for at least a year and any outstanding collections or judgments against you. If you have collections or judgments, you may need to satisfy those before you close on your home loan. Your loan officer will advise you, if this is required to obtain your loan. Your rental history will also be verified to see if you've had late rent payments in the past 12 months.

A healthy credit score is generally considered to be above 740. A member of our mortgage team can discuss ways to maintain or improve your credit score.

Your down payment

The minimum required down payment for a conventional loan is typically 5 to 10 percent, depending on the lender. However, USC Credit Union offers a special that requires only 3 percent down on loans up to $850,000. If your loan amount exceeds 80% of the value or purchase price, you will be required to have private mortgage insurance.

Another option is an FHA loan, which typically requires a down payment of 3.5 percent of the sales price. However, there are more fees associated with an FHA loan, and borrowers are required to pay mortgage insurance for the life of the loan.

Your income

Another factor reviewed by lenders is your **debt-to-income ratio** (DTI). DTI is your fixed expenses (including your new home loan payment) compared to your gross monthly income (income before taxes are taken out). Lenders typically want to see that you are spending no more than 43 percent of your gross monthly income on fixed expenses, including your home loan payment, property taxes, association dues, homeowners insurance, car loans, student loans, credit cards and any other fixed payments for which you are responsible. Variable expenses like utilities, phone and cable are not included in your DTI.

Lenders look for a consistent, stable employment history with the ability to maintain employment, and will verify your past two years of work. If you are selfemployed, you will need to supply at least two years of tax returns as proof of income.

Your assets

Lenders will verify that the funds you are using for your down payment are in a liquid account, such as a checking or savings account. Lenders may also want to see proof that you have a "financial cushion" to handle emergencies or unforeseen expenses.

Get pre-qualified for a loan before house hunting. A pre-qualification lets you know in which price range you should be looking.

Tips to help you qualify for your home loan:

- Keep good records of your finances, including bank statements, tax returns, W-2s, investment accounts and any other assets you own.
- Don't make large purchases with a credit card or loan before applying for and closing on your home loan—it may affect your loan approval.
- Monitor your credit history and score until your loan closes. The best mortgage rates usually go to borrowers with credit scores of 720 or higher.
- Watch your spending. Lenders don't want to loan to borrowers with little money left each month after paying the mortgage and other debt obligations. Your total monthly debt obligations should not exceed 43 percent of your income.

Pre-qualification

Pre-qualification is the first step in the home loan process. The process of pre-qualification is simple and includes completing an informal application without home loan specifics (since this is typically done before you start house hunting) or running your credit report. The lender will analyze your financial scenario and provide a ballpark figure of the home loan amount for which you qualify, as well as discuss home loan options available to you—based on your income, debts and personal preferences.

The pre-qualification letter will become an important component when making your offer. It lets the sellers know that they have a willing and qualified borrower. However, your pre-qualification doesn't guarantee your final home loan amount or approval.

Choose the Home Loan That's Right for You!

The difference between conforming and non-conforming mortgages.

Many mortgage loans are sold into the secondary market. The conforming secondary market consists of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation), which establish overall home loan qualification standards—maximum loans, credit report requirements, down payment minimums and other requirements. A loan that fits into these standards is called a conforming loan.

The pre-qualification letter becomes an important component when making an offer on your future home.

Conforming loan is not to be confused with "conventional."

"Conforming" loans are often confused with "conventional" home loans, but the terms are not the same. Conventional mortgages are all home loans that are not made or guaranteed by the government. Therefore, all mortgages, other than those offered by the FHA, VA and the U.S. Department of Agriculture (through its Rural Housing Service Program) are conventional loans. These may be conforming per Fannie Mae and Freddie Mac guidelines, or non-conforming mortgages, such as jumbo or interest-only loans.

Non-conforming mortgages

True non-conforming mortgages are any loans that Fannie Mae and Freddie Mac do not typically buy. For example, if you have excellent credit, but want to buy an expensive home and need a $600,000 mortgage, you'll need a "jumbo" non-conforming loan. It is non-conforming because this amount is higher than the Fannie/Freddie $424,100 loan maximum for most counties.

Two government agencies, The Federal Housing Administration (FHA) and The Department of Veterans Affairs, make mortgages with different criteria than lenders that offer conforming loans. For example, the FHA does not define its qualifications or interest rates by your credit score. They look at your entire application package, and often approve borrowers with credit scores lower than acceptable for non-conforming loans for low rate fixed and adjustable mortgages.

Home Loan Comparison Chart

Loan Type	Features	Who Benefits?
Fixed-Rate Mortgage The interest rate stays the same for the life of the loan.	1) Predictable monthly payment, so you can more easily budget for monthly expenses. 2) At USCCU, you can pick your own term up to 30 years.	This is a great loan option for buyers who plan to stay in their home for a long time.
Adjustable-Rate Mortgage The rate is tied to an index, such as Libor or Prime, that may go up or down during the term of the loan.	1) The initial rate is generally lower than a fixed-rate loan for a specified period of time. 2) At USCCU, your rate is locked in for 5 or 7 years and then adjusts each year thereafter.	If you plan to move in 5-7 years, will have career moves, or have a partner who will be entering the work force, you will benefit from this lower introductory rate loan.

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Now the Fun Part… House Hunting!

Get your home loan pre-qualified before house hunting.

Completing the home loan pre-qualification process demonstrates to the seller that you are a serious buyer and can more quickly obtain a home loan, thereby reducing your chances of losing out to another buyer.

Choose a real estate agent.

Buying a home is one of the biggest financial events of your life, so take the time to interview at least three agents before deciding whom to hire. You want to find someone who demonstrates knowledge of your area and expertise in the buying/selling process, i.e. familiarity with all the technicalities, such as title, appraisals, financing, negotiation, inspections, etc. Above all else, make sure you'll feel comfortable with this person to guide you through the process.

Make the "Right Move" to select a qualified real estate agent.

USC Credit Union has partnered with First Team Real Estate to give you a powerful combination of service and savings. Use the Right Move program and save:

- **20% rebate** from the commission of a participating First Team Real Estate Agent who represents you
- **20% discount** on escrow services
- **10% discount** on a home warranty

We've done all of the work for you!

See if you qualify for the USC Housing Assistance Program.

Qualified USC faculty and staff members can get down payment assistance and housing subsidies when purchasing a home. Come talk to us for details or visit us online for more information.

Go with your instincts, not your emotions, when choosing a home.

There's a big difference between your emotions and your instincts. Going with your instincts means you recognize that you're getting a great house for a good value. Going with your emotions is being obsessed with the paint color or the backyard. It's an investment, so stay calm and be wise.

You can save hundreds or even thousands of dollars when you use our Right Move program to buy or sell a home.

You'll need an appraisal.

A home appraisal ensures that the home you are buying supports the sales price. It also protects you from paying too much for a house, simply because it was love at first sight. Your lender will require the property to be appraised by one of its approved appraisers. This practice helps create more consistent appraisals and gives you assurance that the appraiser is properly licensed and certified. You will pay for the appraisal as part of your closing costs. The cost is typically around $475.

The appraiser gathers information for the appraisal report from a number of sources, but the process usually begins with a physical inspection of the property inside and out. Additionally, the appraiser may look at county courthouse records and recent reports from the local real estate multiple listing service.

Appraisal reports generally include:

- An explanation of how the appraiser determined the value of the property
- The size and condition of the house and other permanent fixtures
- A description of any improvements that have been made and the materials used
- Statements regarding visible structural problems, such as wet basements and cracked foundations
- Notes about the surrounding area, such as new or established development, rural acreage, etc.
- An evaluation of recent market trends of the area that may affect the value
- A comparative market analysis that supports the appraisal
- Maps, photos and sketches

A home appraisal is NOT the same as a home inspection—you need both.

You also need a home inspection.

It'll cost about $200, but could end up saving you thousands. A home inspector's sole responsibility is to provide you with information, so that you can make a decision to buy or not. It's really the only way to get an unbiased third-party opinion. If the inspector does find any issues with the home, you can use it as a bargaining tool for lowering the price of the home. It's much better to spend the money up front on an inspection, than to find out later you have to spend money for costly repairs.

Keep in mind: You are most likely buying a "previously lived in" property. Minor defects are normal. You need to focus on issues that could be costly to repair or things that are considered health and safety violations, such as installing smoke or carbon monoxide sensors.

Be prepared with necessary documents for home loan approval:

Income

- Most recent pay stubs for your last 30 days of employment, pension or annuity income within the same month
- Past two years' W-2 forms and/or 1099s for each borrower
- Current year's Social Security Award Letter (if applicable)
- Past two years' 1040 Federal Tax Returns (including all pages and schedules)
- Past two years' Federal Business Tax Returns or K1s, if in a partnership (if 25% business ownership)

Assets

- Past three months' asset statements, including checking, savings, money market, CDs, stock portfolios, etc. (all pages, no black outs)
- Past three months or quarterly statement for retirement accounts
- USC Credit Union bank statements NOT needed

Disclosures and Fees

- Notice of intent (signed and dated)
- Check for $490 (appraisal and credit report fee), or completed Withdrawal Authorization Form
- IRS 4506-T Tax Transcript Request forms (signed and dated for all that apply)
- All disclosures (forms included with attachments)

Related Supporting Documents

- Mortgage statements for all owned properties and outstanding mortgages
- Homeowners Insurance policy (declaration page)
- Homeowners Association (HOA) contact information or statement to verify monthly dues (condos only)

Research your potential neighborhood.

It's not enough to love the house. You also need to do your research to make sure the neighborhood is the right one for you. Drive by the house at all hours of the day to see what's happening in the neighborhood. Drive your regular commute to and from the house to make sure it is something you can deal with on a daily basis. Find out how far it is to the nearest grocery store and other services. Even if you don't have kids, research the schools because it affects the value of your home in a big way. If you buy a home in a good school district versus a bad school district (even in the same town), the value can be affected by as much as 20 percent.

Choose a Lender You Know and Trust

With USC Credit Union's mortgage team by your side, home is closer than you think. Our special home buyer loan program and one-on-one guidance reduce the challenges you may experience as a first time buyer. We want to be your lender for life!

Your future starts today!

Whether this is your first home or your fifth, but it's not our first home loan. Let us guide you through the most important financial decision of your life. Start today—give our mortgage team a call at **(213) 821-7100**.

About us

One of the world's great institutions of higher learning deserves an equally great financial institution.

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Own Your Future

We're better than banks.

We're different. We're a not-for-profit financial cooperative—owned by our members—which means we work for you.

We offer virtually every financial service you need, for every stage of your life—all with better value than banks and delivered with more personal attention. And we're the only financial institution dedicated to serving the USC family.

We take the time to know you.

We take the time to get to know you. We are an equal credit and housing lender. Whether you are applying for a $100K home loan or $1M, you are important to us and we are here to help you every step of the way.

We serve all your financial needs.

Whether it's a new home, an exotic car or savings for retirement, we exist to help you fulfill your dreams. We have a complete selection of products to fit all your needs—for every stage of your life.

We're member-owned.

We're a member-owned, not-for-profit organization. So instead of profits going to stockholders, we return them back to you in the form of better rates, low or no fees, and more frequent "yes" answers.

Not a member? Not a problem.

It's easy to join!

Get Pre-Qualified Now!

Tools and resources:

Upcoming Home Buying Seminars

USC Housing Assistance Program

USC Credit Union Online Mortgage Center

Check Our Great Rates

Mortgage Calculators

Glossary of Terms

USC Credit Union makes it ultra-convenient to apply for your home loan in person, by phone or online.

Your future starts today. Own it!

It's Your Future. Own it.

USC Credit Union puts your financial success where it belongs—in your hands. We're here to serve all of your financial needs. The following are just a few of the additional services we offer:

Anytime, Anywhere Access

- 30,000 Fee-Free ATMs Nationwide
- Free Online Banking and Bill Payer
- Free Mobile Banking
- 5,000 Shared Branches Nationwide

Savings and Investments

- Checking and Savings Accounts
- Certificates and Money Market Accounts
- Traditional and Roth IRAs
- Coverdell Education Savings
- Investments through CUSO Financial Services, LP

Loans

- New and Used Autos
- Motorcycles, RVs and Boats
- Signature and Lines of Credit Loans
- Credit Cards and More

Student Services

- Student Checking
- Student Loans
- Trojan Family Account
- Money Management

Insurance Services

- Vehicle and GAP
- Property
- Payment Protection

EQUAL OPPORTUNITY LENDER

Federally Insured by NCUA

CO-OP ATM

CO-OP SHARED BRANCH

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