



## Home Buying Tips

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# Agenda

- Industry overview
- Interest rates
- Mortgage loan product comparison
- Loan qualifications
  - ✓ Capacity
  - ✓ Assets
  - ✓ Credit
  - ✓ Collateral
- Loan process
- Home Buying Process



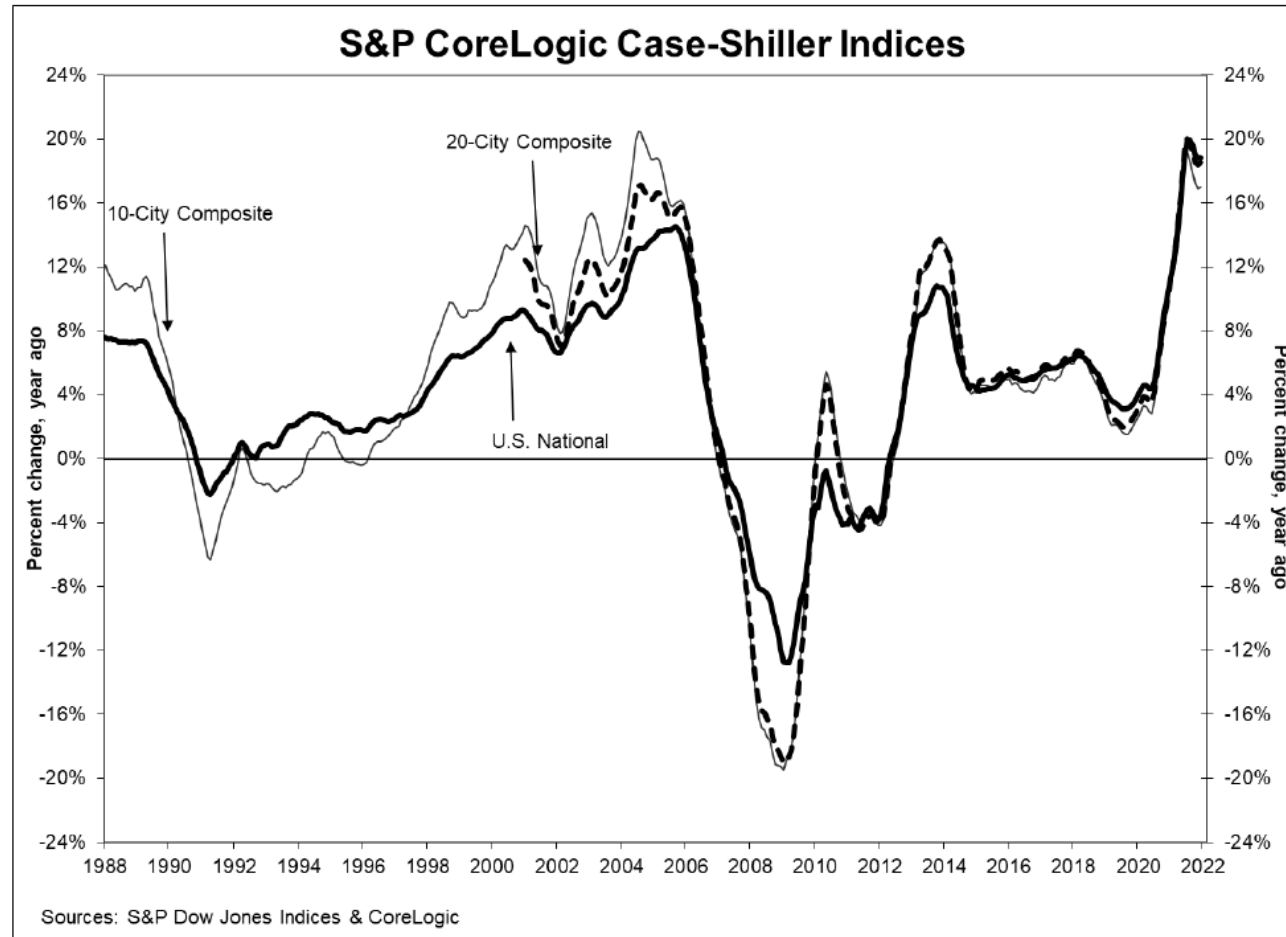


## Industry Overview

- Real Estate value trends
- Marketing times
- Inventory
- Interest rate environment

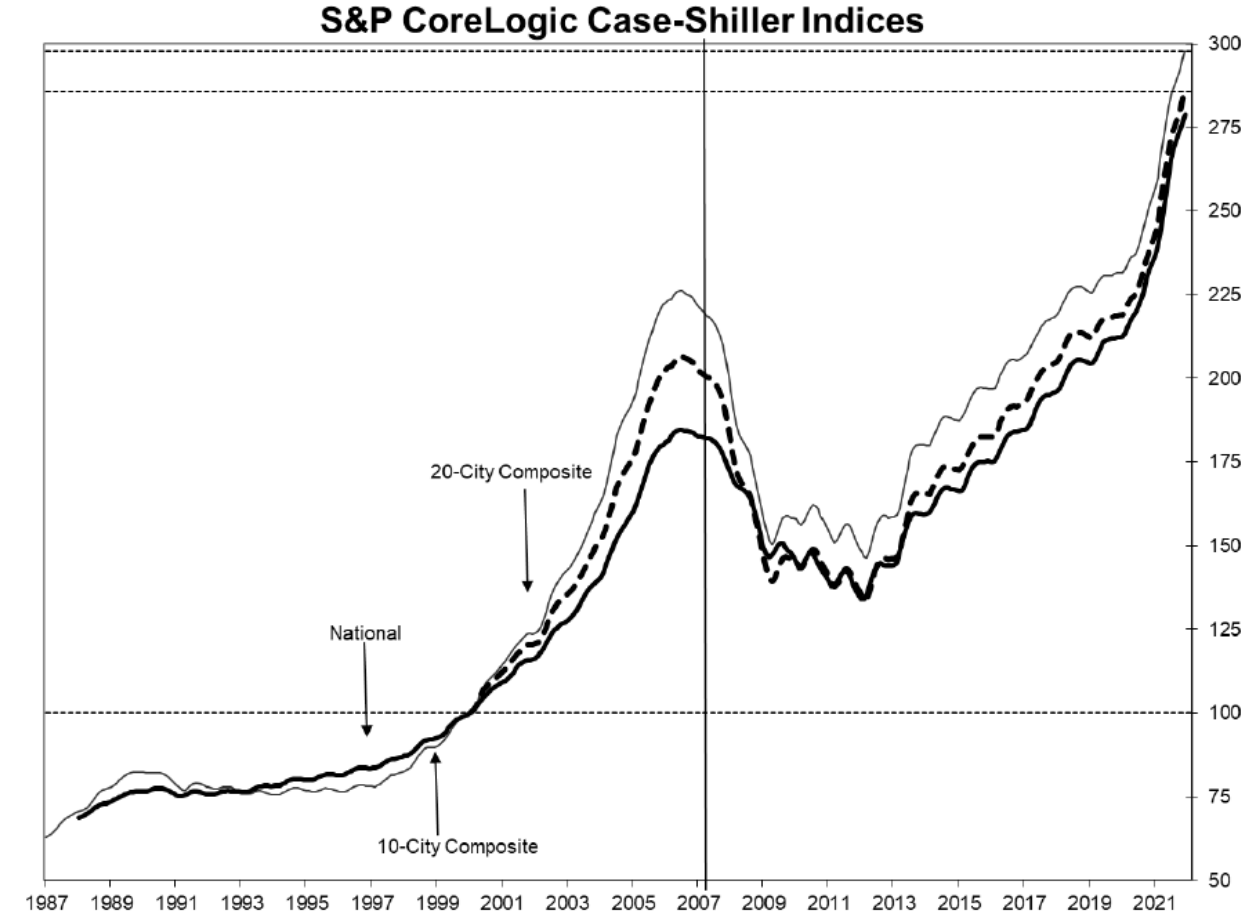
# National Home Price Indices

## S&P/Case-Shiller Home Price Indices



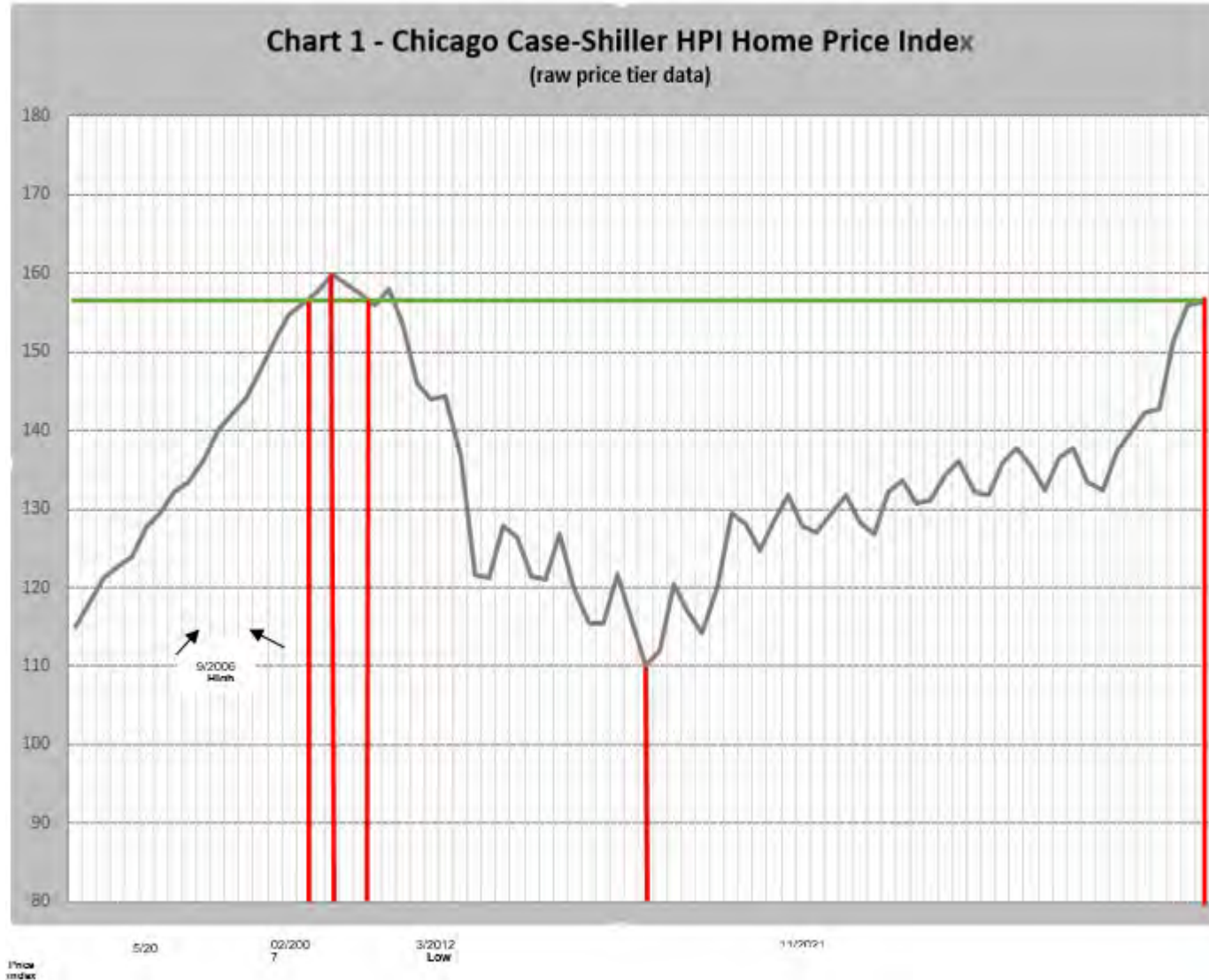
# National Home Price Indices

## S&P/Case-Shiller Home Price Indices



Sources: S&P Dow Jones Indices & CoreLogic

# Chicago Metro Home Price Indices





## Home Market Overview

- Home sales/Inventory
- Mortgage interest rates
- Employment/Labor market
- Limited inventory of quality homes
- Lending guidelines
- Preparation including prequalification

# Houses Sold in the U.S.

NEW AND EXISTING HOME SALES, IN THOUSANDS — SEASONALLY ADJUSTED ANNUAL RATE



Sales of existing homes (including single-family, condos and co-ops) totaled 6.1 million units in 2021, which was 8% above 2020 sales and the highest since 2006. New home sales slowed to 763,000 in 2021, down 7% from 2020 but otherwise the highest level of sales since 2007. The pace of new home sales has been limited by labor and supply chain constraints, which has caused homebuilders to hold back sales activity to manage through these challenges. Existing home sales are based on the closing of contracts signed one to two months earlier, while new home sales are counted at the time of signing.

Source: NAR/U.S. Census Bureau/Moody's Analytics/Arch MI



# Monthly Supply of Homes for Sale

MONTHS' SUPPLY OF HOMES FOR SALE



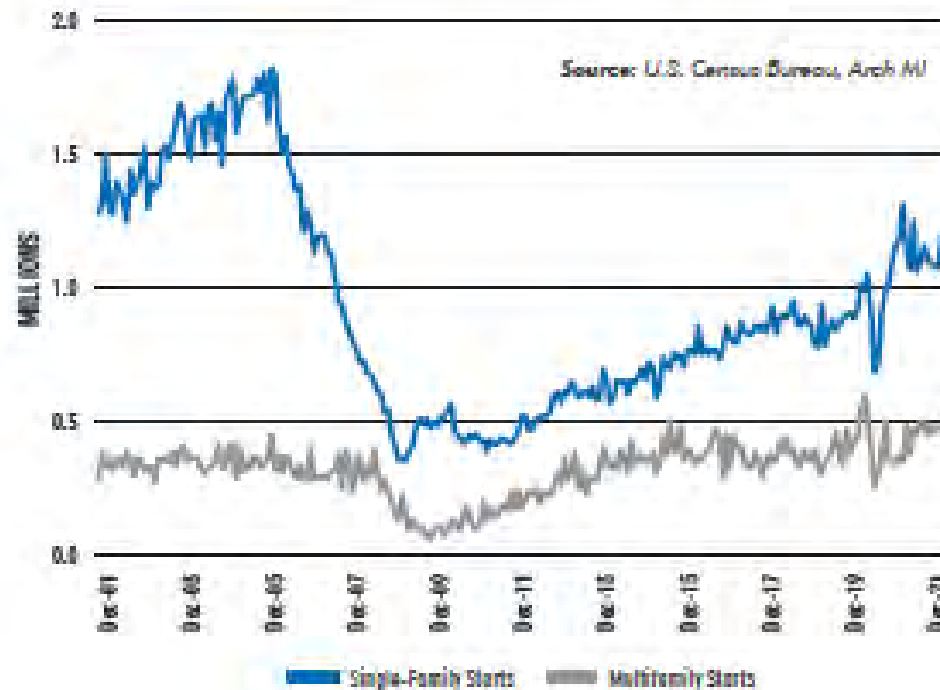
The inventory of homes for sale remains near record lows. The months' supply of existing single-family homes for sale (total seasonally adjusted listings  $\div$  last month's seasonally adjusted annualized sales pace) was 2.1 months as of December 2021, down from an average of 3.1 months in 2020 and the pre-pandemic average of 4.5 months. The months' supply of new homes for sale dropped to 6.0 months in December from 7.2 months in October. However, an unusual share of the new home inventory comprises units still under construction and units not yet started due to builder backlogs. Considering only the inventory of completed homes for sale, the inventory was equivalent to 2.5 months of supply in December, down from an average of 2.6 months in 2020 and the pre-pandemic average of roughly 4 months.

Source: NAR/Moody's Analytics/Arch MI

# Multi- and Single-Family Housing Starts

## Housing and Mortgage Market Indicators

HOUSING STARTS, IN THOUSANDS — SEASONALLY ADJUSTED ANNUAL RATE



Single-family housing starts reached their highest level since 2007 in December 2020 at 1.3 million units (seasonally adjusted annual rate) and have remained elevated at about 1.2 million units as of December 2021. Despite supply constraints impacting construction activity, the current pace of single-family housing starts is nearly 25% above the pre-pandemic pace. Additionally, the pace of multi-family starts increased to about 530,000 units (annualized rate) in December, nearly 15% above the pre-pandemic pace.

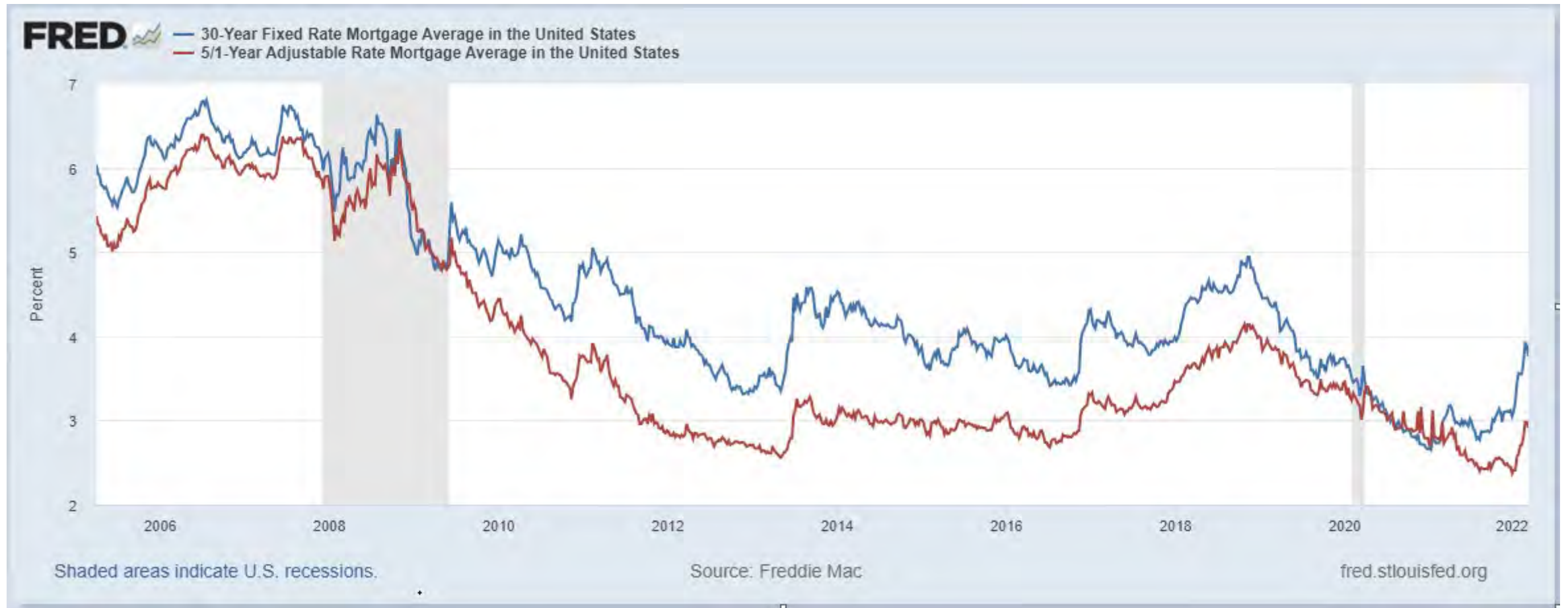
Source: U.S. Census Bureau/Moody's Analytics/Arch MI

# Interest Rates

- Historical perspective
- Volatile – can change at any time (intraday)
- Factors influencing rates:
  - Ten Year Treasury
  - Federal Reserve
  - Political and Economic Events (domestic and international)
- Securitizations / Freddie Mac & Fannie Mae
- How to get the best rate

# Historical Rates

## 15 year Interest Rate Comparison - 30 Year Fixed & 5 year ARM



# Product Comparison

## **Fixed** *(30 Year Fixed Rate)*

- Higher initial rate
- Higher initial payment
- Limited purchasing power
- 30 year amortization
- Rate fixed for life of the loan
- Favorable if rising rates

## **ARM** *(3 to 7 Year Fixed Rate)*

- Lower initial rate
- Lower initial payment
- Higher purchasing power
- 30 year amortization
- Rate fixed for initial term
- Favorable if declining rates

# What is the best loan for me?

## Questions to Consider:

- Average length of loan
- First time home buyer
- Personal housing demand
- Length of residence
- Tolerance for payment changes
- New payment vs. current housing expense
- Income cycle – Do you foresee any changes?

# ARM/Fixed Rate Comparison

Assume \$200,000 Loan

Mortgage	Rate	Monthly Payment
30 Year Fixed	4.25%	\$ 983.88
5 Year ARM	3.375%	\$ 884.19

ARM monthly savings = \$99.69

ARM annual savings = \$ 1196.00

# Keys to Qualifications

## Evaluation Criteria Overview

- Capacity
- Income/ Employment Stability
- Assets / Savings
- Credit Worthiness
- Collateral



# Capacity/ Income Stability

- Employment history
- Education
- Debt to income
- Disposable income
- Payment shock
- Income trend



# Debt to Income

## Basic Rule:

Gross monthly income x 28%\* = **Total housing expense**

Gross monthly income x 36%\* = **Housing plus all other time payments**

*\*Variances Allowed*

# Assets/Savings

## Funds to Close

- Savings
- 401K
- Gift funds
- Minimum 3% down payment\*
  - ✓ First-time Home Buyer
  - ✓ No ownership for 3 years
  - ✓ Down payment and closing costs can be a gift

\*Varies by property and loan type

# Source of Down Payment Funds

## **Source of funds:**

- Deposits
- Secured loan
- Sale of assets
- Gift
- Earnest deposits

## **Keys:**

- Establish depository account
- Demonstrate history of savings
- Funds will be verified

# Example: \$200,000 Purchase

Down payment	\$10,000
Closing costs	\$4,000
Reserves	\$3,000
<b>Total Cash*</b>	<b>\$17,000</b>

*\* Plus any moving expenses*

# Down Payment Amount and PMI

- Required on all loans with less than 20% down payment
- Premium amount function of:
  - ✓ Loan type
  - ✓ Loan amount
  - ✓ Credit history
- Borrower benefits from being able to obtain financing
- Lender benefits from insurance protection

# Private Mortgage Insurance Comparison

## Assume \$200,000 Loan

Mortgage Term	LTV	FICO Score	Monthly Premium
30 Year Fixed	95%	740	\$51.67
30 Year Fixed	95%	680	\$101.67
15 Year Fixed	95%	740	\$41.67
15 Year Fixed	95%	680	\$81.67

# Credit History / FICO Score

- FICO scores are your credit rating
- They range from 300 – 850
- Higher scores mean lower interest rates

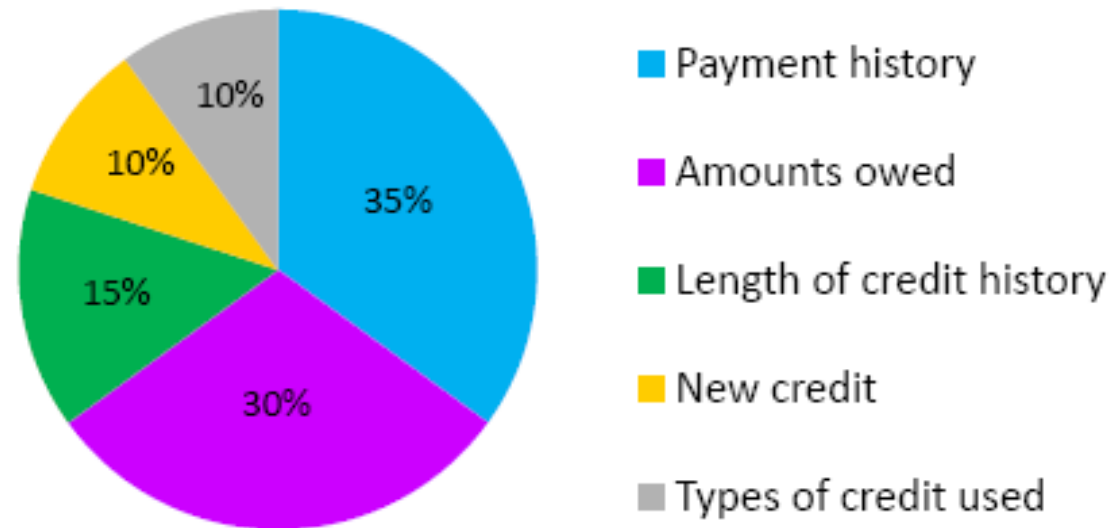




# Credit History / FICO Score

**FICO scores are calculated based on your rating in five general categories:**

## Components of FICO



# Credit Score

## COMPONENTS

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### Payment History (35%)

- Is the most important factor.  
Making your payments on time help score.
- Late payments (30 days past due date) hurt score.
- More recent and numerous late payment's hurt score.
- Collection accounts or legal action serious negative impact.
- Time distance from late payments reduce negative impact.

# Credit Score

## COMPONENTS

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### **Utilization 30%**

- Balances on Revolving Debt  
Close to Credit Limit
- Correlation Between  
Outstanding Balance and Credit  
Limit
- More Credit Available Relative  
to Actual Balance Positive

### **Length of Credit 15%**

- Longer Dated Accounts  
Favorable

### **Type of Credit 10%**

- Variety to Boost Score
- Credit Cards
- Retail Accounts
- Direct Loan

# Credit Score

## COMPONENTS

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### **New Credit 10%**

- It's OK to Use Credit!
- Number of Recently Opened Accounts
- Proportion of Recently Opened Accounts to All Accounts
- Inquiries
- New Accounts can Damage Your Score, Especially in Comparison to Total Accounts

# Credit Related Resources

**AnnualCreditReport.com**  
The only source for your free credit reports. Authorized by Federal law.

Home | All about credit reports | Request yours now! | What to look for | Protect your identity | Frequently asked questions | Contact us

**You've found your dream house. Are your credit reports ready?**

People with good credit should check their credit reports, too. Regular checks ensure the information stays accurate. Your good credit will be ready when you need it.

[Learn what to look for](#)

IPALISE || SPOT IDENTITY THEFT | **GOOD CREDIT** | DON'T BE FOOLED | MORE THAN A SCORE | NOT LIKE THE OTHERS

**Your credit reports matter.**

- Credit reports may affect your mortgage rates, credit card approvals, apartment requests, or even your job application.
- Reviewing credit reports helps you catch signs of identity theft early.

[Request your free credit reports](#)

**FREE Credit Reports. Federal law allows you to:**

- Get a free copy of your credit report every 12 months from each credit reporting company.
- Ensure that the information on all of your credit reports is correct and up to date.

**BROUGHT TO YOU BY**

**EQUIFAX**

**Experian**

**TransUnion**

<b>Credit Bureau Information</b> <i>List the three major repositories and how to contact them.</i>	
	Equifax Credit Information Services Inc PO Box 740241 Atlanta., GA 30374 Phone: 800.685.1111 <a href="http://www.equifax.com">www.equifax.com</a>
	Experian PO Box 4500 Allen, TX 75013 Phone: 888.397.3742 <a href="http://www.experian.com">www.experian.com</a>
	TransUnion Consumer Solutions PO Box 2000 Phone: 855.681.3196 <a href="http://www.transunion.com">www.transunion.com</a>

# Collateral / Market Value

## Professional appraisal

- Supply & demand
- Inventory, location and marketing time
- Property features & amenities
- Comparable properties
- Transparency



# Pre-Approval: What to Expect

# Overview

- Timing
  - Before you make an offer
  - Valid for 120 days
- Purpose of pre-approval
- Buyer Guidance
- Qualification



# Pre-Approval Information

- Online approval
- No cost – No obligation
- Automated underwriting
- Contacted by Loan Officer
- Discuss products with Loan Officer
- No need to re-apply if the terms of your loan change



# How to Apply

- Online at [alecu.org](http://alecu.org)
- Products
- Lending —————> Mortgages
- Apply now!

# Pre-Approval Information



Your actual rate, payment and costs could be higher.  
Get an official Loan Estimate before choosing a loan.

March 17, 2022

Member Name  
123 ALEC  
Gurnee, IL 60031

Thank you for choosing Abbott Laboratories Employees Credit Union to provide you with financing for a new home. Your pre-approval for a mortgage has been approved with the following terms:

Loan Type:	<b>30 Year Fixed</b>
Loan Amount:	<b>\$160,000</b>
Value:	<b>\$200,000</b>
Estimated Payment:	<b>\$1,583.88</b>

**Total payment includes estimated taxes, insurance, mortgage insurance, and association dues if applicable.** This pre-approval has been issued based on the information you provided in our on-line application and the credit information we obtained with your permission. At this time your rate is not locked and rates are subject to change on a daily basis. If any information is to change, the pre-approval may not be valid. Credit may need to be re-run at the time of approval to adhere to investor changes and guidelines.

Of course, after you decide on a new home, we must still document your income, assets, liabilities and other relevant information (such as property value and title information). We will also require the necessary documents with respect to the purchase of the any land and all contract agreements with builders. Finally, we must show evidence of sufficient funds to close the loan per the underwriting regulations.

# Real Estate Center

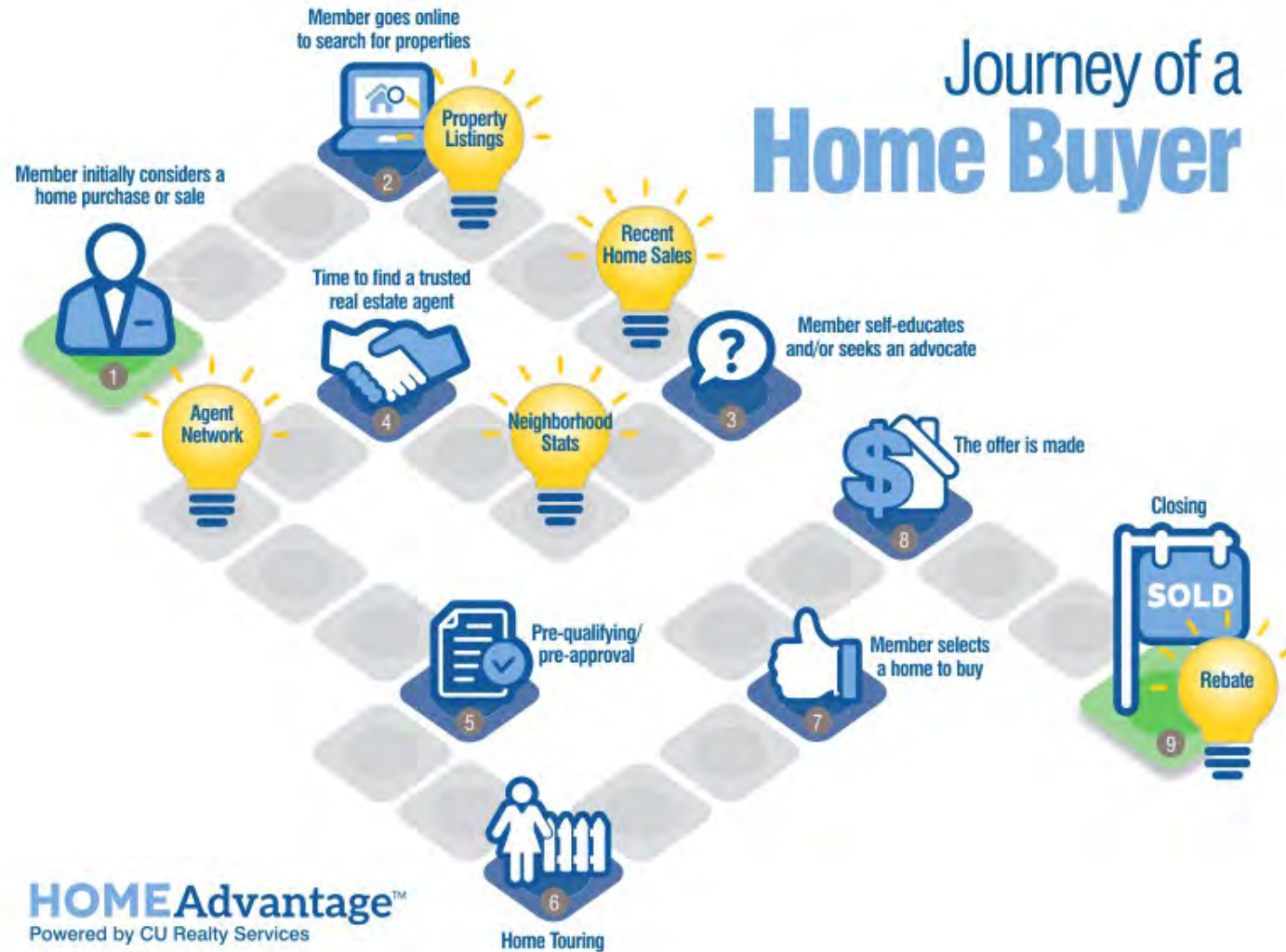


HOME  
Advantage<sup>TM</sup>

Powered by CU Realty Services

# Buying a Home

## Journey of a Home Buyer



**HOMEAdvantage™**  
Powered by CU Realty Services

Home Touring

# Real Estate Center

- Free Service of ALEC
- Use it to Buy and/or Sell Real Estate
- Search online Listings
- Real Estate education tools
- Connect with a preferred HomeAdvantage Agent
- Save money with Cash Rewards

**<https://alecu.myhomeadvantage.com>**

# Home Advantage Program

**ALEC**

Buy ▾ Sell ▾ Save ▾ Agents ▾ Mortgage ▾ Resources ▾ Contact

Sign In Join Free How It Works HOMEAdvantage

## Get Rewarded for Selling or Buying with HomeAdvantage

Use one of our agents and earn \$1000s in Cash Rewards at closing.

Find My Home's Value Start My Home Search

City, Zip or Neighborhood **Property Search**

★★★★★ "I would give it a six if possible." Peter S HomeAdvantage User

CHAT

# Cash Reward at Closing

## Rebate

- Reduce Sales Commissions
- Lower Closing Costs

HOME SALE PRICE	CASH REWARDS*
\$100,000	\$600
\$200,000	\$1,200
\$300,000	\$1,800
\$400,000	\$2,400
\$500,000	\$3,000
\$600,000	\$3,600
\$700,000	\$4,200
\$800,000	\$4,800
\$900,000	\$5,400
\$1,000,000	\$6,000

\*Rebate examples are based on a 3% commission. Since agent commissions vary, rebate figures may adjust accordingly.  
Calculation: sale price x commission x 20% = Member rebate



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Questions?