COMMUNITY BANK

THE COMPREHENSIVE GUIDE TO

Finding | Buying | Financing

A HOME

Nothing Means More Than Having Your Own Front Door…..

YOUR JOURNEY TO

Home Sweet Home

Purchasing a home is an emotional journey. After all, you're not just buying a house. You're investing in family dinners, lazy Sunday mornings in bed and a yard built for backyard barbecues on sunny summer afternoons. [Or at least, that's the idea.]

Yes, it's true that a home is where families are raised and memories are made, but the priceless joys of owning a home aren't really priceless at all. The last thing you want is to get in over your head with a mortgage payment you can't comfortably afford. And, on the flip side, you don't want to buy a home that doesn't comfortably suit your family's needs.

No pressure, right?

In all seriousness, buying a home doesn't have to be scary. But it should be approached with a level head, a clear list of priorities, realistic expectations and a whole lot of research.

>> Read on to discover everything you need to know about finding, buying and financing a place you'll love—with a payment you can afford.

HOME IN ON YOUR

FIRST HOME

HOUSE HUNTING TIPS

Unless you have a large budget or are incredibly flexible in what you're looking for, finding a home that meets your needs—at the right price, and in the right location—can be a bit like finding a needle in a haystack. Many first-time buyers look forward to the house-hunting process, and then become discouraged when they actually start touring houses.

Keep in mind that almost all first-time buyers end up having to compromise on something, so don't be disappointed if you can't seem to find your idealistic "dream home." Try to think logically—rather than emotionally—about the house-hunting process, and factor into your decision the guidelines below.

REMEMBER THE REAL ESTATE MANTRA: LOCATION, LOCATION, LOCATION!

Almost anything about a house can be changed—except where it's located. That's why it's so important to take a home's location into consideration during your house hunt. You'll likely want a home that's within a reasonable distance of where you work, if possible. And do some research about the area's crime rates and schools, too. These are additional factors that can play a huge role in how happy you are with your purchase.

THINK ABOUT YOUR FUTURE NEEDS

Homeowners should generally plan to stay in their homes for at least four or five years to break even on closing costs and other fees. So, if you have immediate plans to start a family, purchasing a one-bedroom downtown loft [no matter how swanky] probably isn't your best option. Instead, consider how your family or lifestyle may change in the next few years and strive to purchase a home that can accommodate your future needs.

FOCUS ON FUNCTION

When touring a home it can be easy to get sucked in by the house's curb appeal or "cuteness" factor, but try to focus on how the home will function when living there. Is there an entryway closet to stash shoes, coats and other gear? Is there enough garage space to house your vehicles? Does the home have laundry facilities that are easily accessible? These are issues that you might not think about when doing a quick walk-through of a home, but the absence of such features can become a huge source of annoyance once you move in. And, don't make the mistake of thinking your love for a home's aesthetics will make up for its lack of function.

KNOW YOUR LIFESTYLE AND BUY ACCORDINGLY

You may think you want a five-bedroom home with an acre yard, but if you value a low-maintenance lifestyle, a condo or townhome is probably a better fit. Think about what's on the outside of the home, too. Do you enjoy being able to walk to restaurants and shops? Or are you hoping to escape the hustle and bustle of city life? Your home can greatly influence your lifestyle, so make sure it will positively—rather than negatively—affect your everyday life.

CONSIDER LONG TERM COSTS.

Most buyers gauge a home's affordability based solely on its list price. But some houses come with more expenses than others, and those extra costs can add up over time. If you purchase a condo or townhome—or a house in a neighborhood with a homeowner association—be prepared for monthly fees. If you purchase a home that needs a significant amount of work, think about those costs too. It's even a good idea to consider a home's size, as heating and cooling larger homes requires higher costs than smaller or more modestly-sized houses. Do the math and ensure you can afford the extra expenses that may come with the home before making an offer.

TAKE RESALE VALUE INTO THE EQUATION.

Few people make their first home their forever home, so it's a good idea to consider a home's resale value when making your decision. Since location can play a significant role in a home's resale value, buying a house located in a sought-after neighborhood is probably worth your while [if the home fits your budget and other requirements, of course.] Also, think twice before buying a unique, out-of-the-box home. Highly-customized properties usually don't appeal to the masses, so you might have a difficult time finding a buyer when it comes time to sell.

DISTINGUISH BETWEEN YOUR WANTS AND NEEDS.

Sure, you may want a kitchen with granite countertops and stainless steel appliances, but don't let that take precedence over your needs. Prioritize and try to figure out what you absolutely must have in a home, and what you can live without. Make a list and rank your needs so when you find a home you like, you can make a confident and informed decision about its ability to truly make you happy for the long haul.

TIME TO EARN SOME EXTRA CREDIT

Once you decide you're mentally, emotionally and financially ready for homeownership, it's a good idea to check your credit score, as it will largely determine the terms of your mortgage. If your credit score is lower than you'd like due to missed payments, it's in your best interest to put off purchasing a home until your credit score rises.

>> With a few strategies and a commitment to smart money management, you can boost your score and save yourself a lot of money in the long run. Just follow these tips:

FIND YOUR SCORE

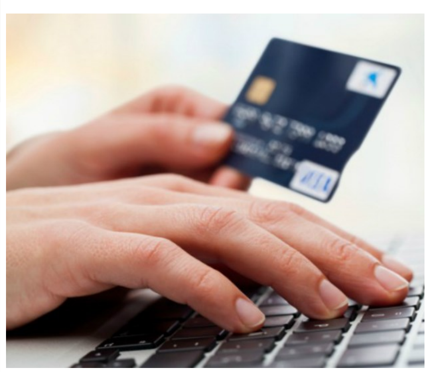
Determine your credit score by obtaining a free credit report from one of the three main credit bureaus. Just go to www.annualcreditreport.com or call 1.877.322.8228. Credit scores range from 300 to 850; a score around 700 is considered good, while anything above 720 is excellent. A score below 620 is generally considered poor. Once you know your starting point, you can create a goal credit score and map out a plan of how you will get there.

DON'T CLOSE OLD ACCOUNTS

A part of your credit score comes from how long you've had credit. The longer a card is open, the higher your score will be. Keep old accounts open; they can help boost your score and balance out newer lines of credit.

DON'T OPEN NEW CARDS THAT YOU DON'T NEED

Avoid opening new cards at department stores or gas stations for one-time promotional discounts. New cards carry 10% of your credit score, and can bring down the average age of your credit, lowering your score even more.



PAY DOWN YOUR CREDIT CARD BILLS

Start by paying down your card with highest interest rate first, and aim to get all balances below 50% of your credit limit. Since 33% of your credit score is based on the amount you owe, work on relieving your debt in any way that you can.

The Basics About Real Estate Agents

You probably already know what real estate agents do: they find houses that meet your needs and interest, tour the properties with you and help you negotiate a purchase price. But many first-time homebuyers have questions about other aspects of real estate agents, such as: Who pays them? How do you find a real estate agent? Find answers to these and other FAQ’s below.

What is the difference between a real estate broker, a real estate agent and a realtor?

Real estate brokers manage, own or operate a real estate company. They generally have a high level of experience and must have education beyond the agent level. Real estate agents work for a broker and have taken classes and passed exams to meet the requirements to sell property. Realtors, on the other hand, are real estate agents who belong to the National Association of Realtors [NAR] and have agreed to abide by the association’s strict code of ethics.

How do real estate agents get paid?

As a first-time homebuyer, you likely won’t have to pay for a real estate agent’s services, as these costs are typically covered by the seller. Here’s how it works: sellers must pay their agent a commission [calculated as a percentage of the home's purchase prices,] and then the listing agent splits that commission with the buyer’s agent. Be aware, though, that if you buy a “For Sale By Owner" property, you may be responsible for paying your agent’s commission, if the seller does not agree to do so.

If I’m at an open house and want to make an offer, can I ask the listing agent to help me?

If you’re not already working with an agent—and if a dual agency situation is legal in your state—then the short answer is yes. However, it probably wouldn’t be wise of you to do so, in a dual agency situation, one agent represents both the buyer and seller of the property. Obviously, the seller wants to sell the home for the highest price possible. And you, as the buyer, wants to purchase the home for the lowest price possible. It is the agent’s duty to work in the best interest of his client, but you can likely see why that is difficult to do in a dual agency situation. If possible, work with an agent of your own who truly has your best interest at heart.

How do I go about finding a reputable real estate agent?

The best way to find a real estate agent is to ask friends and family members in your area for recommendations. [If you’re new to the area and don’t know many people yet, an online search is a good place to start.] Consider meeting with a few different agents to get a feel for how well they listen to you. Also, do some research to make sure any agents you are interested in working with have dealt with homes directly in the area you want to buy in. Finally, ensure your agent is experienced, but not so busy that he or she won’t be able to devote to you the time you need in your home-buying journey.

TO BUY OR NOT TO BUY:

Owning a home is often touted as the American Dream. But the truth is: Homeownership isn't always rainbows and butterflies. For some, renting may actually be a better option. So before you venture too far down the home buying path, first take some time to decide whether or not homeownership is right for you.

>> Here are some things to consider:

FLEXIBILITY

General Guidelines dictate that homebuyers should stay in their home for at least four or five years to break even on closing costs and other fees. For those who appreciate the flexibility to plan to relocate within the next few years, renting is likely the smarter choice.

TAX ADVANTAGES

Renters do not receive any tax breaks related to their apartment, but homeowners are able to deduct at least a portion of their mortgage interest.

INDEPENDENCE

When you own a home, you are free to make whatever changes you wish [barring any exception from a homeowner association]. Such freedoms do not have to seek permission from a landlord if they wish to add a pet to their family.

UP-FRONT COSTS

Homeowners should be prepared to pay a down payment, closing costs and other fees when purchasing a home. For renters, the upfront costs are much lower—usually only consisting of a security deposit that might amount to one or two times the monthly rent charge.

EQUITY

Homeowners have the opportunity to build equity in their purchase—a huge benefit when it comes time to sell or if they wish to take advantage of a home equity loan. Renters, on the other hand, will not get back any of the money they pay for the use of their apartment.

UPKEEP

Leaky roof? Failing HVAC system? Broken water heater? As a homeowner, these are your problems—not a landlord's [although a home warranty could help you cover some of these costs.] If you don't feel capable of handling these potential situations or simply wish to avoid regular upkeep such as yardwork, an apartment is probably for you.

Mortgage Guidelines THAT MAKE "CENTS"

>> The true cost of homeownership goes far beyond a house's asking price. Be prepared to fork over thousands of additional dollars in interest, closing costs, repairs, renovations, maintenance, insurance, utilities and more. Not to mention, it will, of course, cost money to furnish your home as well. [People aren't lying when they say buying a home is likely the biggest purchase you'll ever make!]

Obviously, you'll want to ensure you can afford homeownership before you close on a mortgage. Here are some general rules to keep in mind:

- To keep your purchase affordable, make sure your total monthly housing payment [including your mortgage, homeowner's insurance, property taxes, etc.] doesn't exceed 28% of your gross monthly income [the amount you make before taxes are taken out.] If your annual household income is $90,000, for instance, divide that number by 12 to determine your gross monthly income. In this example, the gross monthly incomes is $7,500. Now multiply that number by 0.28 to determine your maximum monthly housing payment, which equals $2,100 in this scenario.
- Now that you know the maximum amount you should spend on your monthly housing payment, it's time to factor your total debt into the equation. Experts recommend that your total monthly debt payments [including your mortgage and any other debts such as an auto loan or student loan] should not go beyond 36% of your gross monthly income. So don't assume that if your annual household income is $90,000, you can automatically afford a total monthly housing payment of $2,100. Here's an example to help illustrate:

Based on the 36% rule [and assuming a $90,000 annual household income], the total amount of debt you should pay per month should max out at $2,700. If you pay $700 each month in other debts, then your total housing payment should not exceed $2,000 [to ensure you don't go above your $2,700 maximum]. Note that this is $100 less than the amount you might allow yourself to pay if you fail to take this second rule into account.

Here's how to do the calculation for your own situation: simply divide your annual household income by 12 and multiply that number by 0.36. Then, subtract from that number all your other monthly debt payments. The number you're left with is your maximum total housing payment per month.

THE LOW—DOWN ON DOWN PAYMENTS

One of the most important financial decisions you'll have to make early on in the home-buying process is determining how much of a down payment you can afford. Some lenders offer low or no down payment options, but putting down 20% of the home's purchase price is ideal.

TOP TIPS FOR SELECTING

A LENDER

>> With the considerable amount of money at stake when purchasing a home, it's worth your while to carefully select a reputable lender you can trust. Consider the following when making your decision:

Research rates What may seem like a minor difference in rates can amount to thousands of dollars in interest over the life of your loan. Most lenders will have similar mortgage rates, but it's still a good idea to double-check rates and compare.

Think beyond dollars Yes, interest rates are important. But so is choosing a lender that displays integrity and a commitment to meeting deadlines and communicates with you throughout the process.

Consider going local Online lenders are plentiful, but a local lender comes with the added benefit of knowing the neighborhoods, properties and real estate professionals in your area.

Ask for recommendations Friends and family members are a great place to start when it comes to learning about lenders in your area. Ask what they liked or didn't like about their experience.

At Community Bank, we genuinely care about our friends and neighbors—and that's why we hope you will consider us when choosing a mortgage provider. Our goal is to make your home-buying process as seamless, stress-free and affordable as possible.

Justin Giefer | NMLS #815771 | 507-385-4452

Andy Fischer | NMLS #912638 | 507-385-4492

Tyler Kietzer | NMLS #1402978 | 507-257-5126

LOAN OFFICERS

VS.

MORTGAGE BROKERS

If you've started researching the home-buying process, you've probably heard the terms "loan officer" and "mortgage broker". These professionals play similar roles but are fundamentally different.

A **LOAN OFFICER** is an individual who works directly for a bank or credit union and offers loans from the financial institution that employs them.

A **MORTGAGE BROKER** is not associated with a particular bank or credit union. Instead, they research loans from a number of different sources and enter into mortgage contracts with various lenders.

LEARN THE LINGO:

HOME FINANCING OPTIONS

WHAT'S WHAT?

PRE-QUALIFICATION VS. PRE-APPROVAL

Before beginning your house hunt, it's a good idea to get pre-qualified or pre-approved for a mortgage. Doing so will give you an idea of how much you can afford to spend, so you won't waste your time looking at houses that are out of your price range. Keep in mind, though, pre-qualifications and pre-approvals are two very different things.

Getting PRE-QUALIFIED simply means that a lender has provided you with an estimate of the mortgage amount you will likely qualify for. If you choose to purchase a home, you will still have to go through the actual mortgage application process at that time.

Getting PRE-APPROVED requires you to provide a lender with paperwork so they can verify your income, credit, etc. If that lender does decide to pre-approve you for a mortgage, it essentially means you are guaranteed to get a loan up to a specific amount [assuming no major financial changes occur] for a limited period of time.

>> WHEN IT COMES TO MORTGAGES, ONE SIZE DOES NOT FIT ALL.

Numerous options and programs exist, with different terms, features and benefits to suit various buyers. Be a well-informed consumer by familiarizing yourself with these common mortgage types.

Conventional / Fixed Rate Mortgage:	A fixed-rate mortgage features an interest rate that remains constant through the term of the loan. Most fixed-rate mortgages come with a term of either 15 or 30 years.
Adjustable-Rate Mortgage [ARM]:	Adjustable-rate mortgages typically start with a lower rate than fixed-rate mortgages, but after a few years the rate can begin to rise and will fluctuate periodically.
VA [Veterans Affairs] Loans:	VA loans offer up to 100% financing for military members and their families.
FHA [Federal Housing Administration] Loans:	FHA loans can help buyers receive financing even if they may not otherwise qualify for a mortgage. The FHA insures the lender for the mortgage amount—removing the risk associated with the borrower.
USDA [United States Department of Agriculture] Rural Development Loans:	These loans are available to rural residents who meet certain requirements, including the inability to be approved for traditional financing.
Balloon Loans:	A balloon loan is a mortgage in which a larger-than-normal outstanding balance must be paid at the end of the term.
Interest-Only Loans:	These loans offer borrowers a period of time when they pay interest only on their mortgage. [During the interest-only term, the borrower does not build any equity.] Once the interest-only term ends, the borrower starts to pay off the principal as well.

Selecting the mortgage option that works best for you will depend on a number of factors, including: how long you plan to stay in the home, if you're comfortable not knowing what your future payments might be and more. Work with your loan officer or mortgage broker to discuss your goals and lifestyle in relation to these different financing options. By carefully analyzing the pros and cons of each loan type, you can determine a financing option that best meets your needs.

THE 4 - 1 - 1 ON FINALIZING THE DEAL

Once you decide you want to make an offer on a house, the home-buying process goes into overdrive. Your real estate agent and lender will guide you through the final leg of your journey, but here's a high-level overview of what to expect.

Make an offer

Your real estate agent will look at comparable homes that have recently sold in the area to help you determine a fair offer price. Depending on the situation and type of home you are purchasing, you will want to consider including an inspection contingency and financing contingency with your offer. Also, remember that including a pre-approval or pre-qualification letter will persuade the seller to take your offer much more seriously.

Negotiate

After you make an offer, the seller can accept it, reject it or make a counteroffer. Keep in mind that closing costs can be negotiated, too. And, don't forget to double check which home features will be staying [like appliances, window treatments, etc.]

Sign the contract

After signing the contract, you must put down earnest money and apply for a mortgage if you haven't done so already. You will then want to have an inspector look at the home to detect any potential problems, and your lender will have the home appraised. You will also need to get homeowner's insurance, which will be required by your lender. For added peace of mind, you might also want to consider a home warranty. This is a contract that will cover repairs or replacements for major home appliances and systems, due to normal wear and tear.

Complete the final walkthrough and close on the home

Before closing, you will need to do a final walkthrough of the home to ensure its condition has not changed and that any features that were supposed to be included in the sale are still in place. Next, you will prepare your documents for closing. [Note: you will need to pay your down payment and closing costs via wire transfer or cashier's check.] Finally, you will attend the closing and sign the papers. Congratulations, you're now a homeowner!