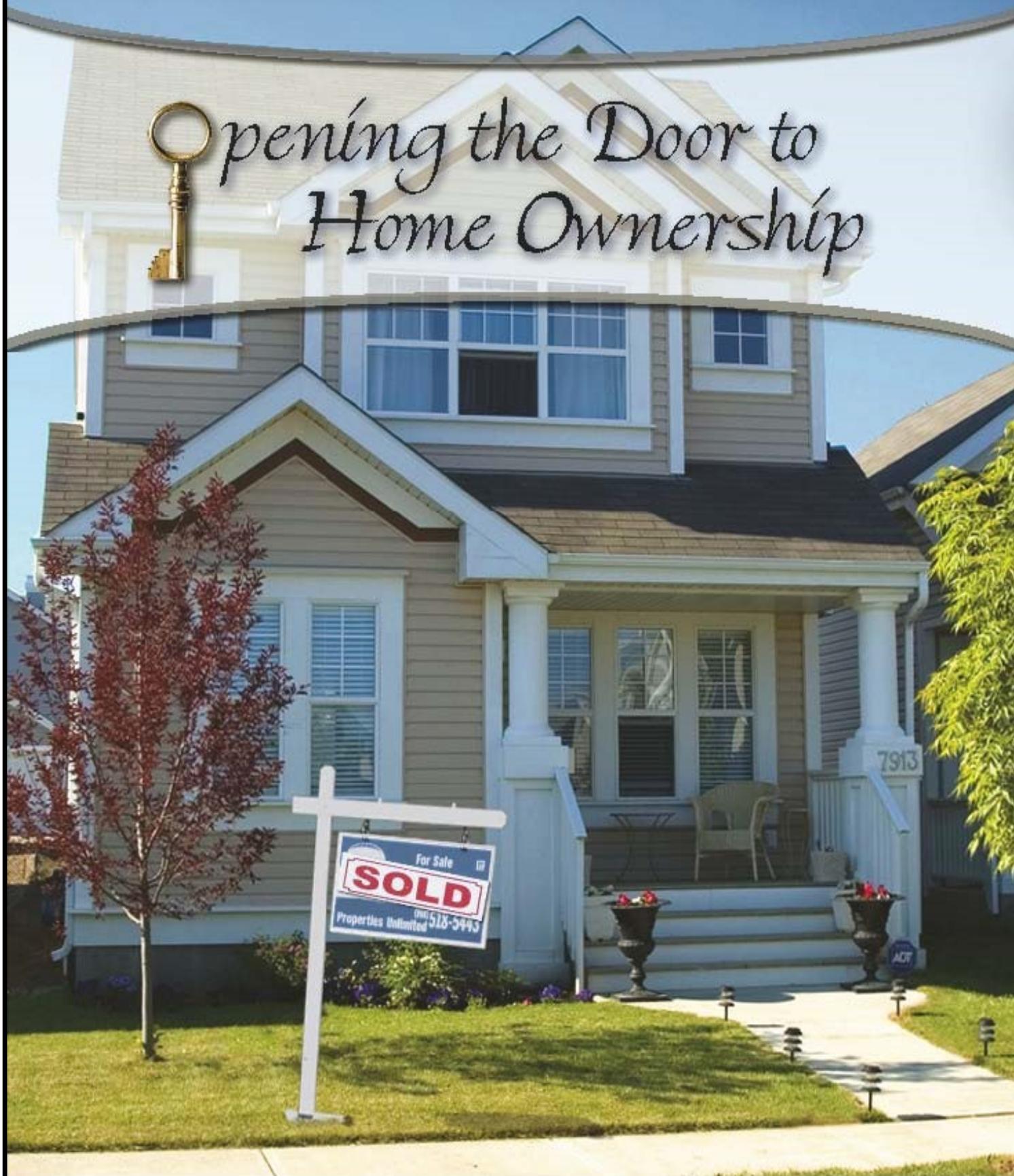




# *Opening the Door to Home Ownership*



The Housing Education Coalition of Utah (HECU) would like to thank the following agencies for assisting in the creation of this statewide curriculum.

AAA Fair Credit Foundation  
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Utah Homebuyer Education Coalition  
Utah Housing Coalition  
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Utah State University: Housing and Financial Counseling

Workbook Compiled by:



Rachel Dayton & Stacy Abbott  
revised by Ellie Hansen

# Table of Contents

<b>Introduction</b>	<b>4</b>
The Home Buying Process	
<b>Section 1: Preparing To Purchase Your Home</b>	<b>5</b>
Budgeting and Goal Setting	6- 14
Saving	15-16
Ways to Make Money Management Easier	17
Credit	18-26
Housing Sustainability	27-29
Home Ownership Readiness	30-31
Housing Needs Checklist	32
<b>Section 2: Financing Your Home Purchase</b>	<b>33</b>
Loan Approval Process	34
Mortgage Types	35-36
Loan Comparison Sheet	37
Mortgage Application Checklist	38
Predatory Lending	39-40
Laws That Protect: TILA-RESPA and Fair Housing	41
Sample Documents: Loan Estimate and Closing Disclosure	42-49
When a Loan Application is Rejected	50
Avoid Pitfalls	51
Case Study—Future Home Purchase	52
<b>Section 3: Choosing Your Home</b>	<b>53</b>
Working with a Real Estate Agent	54-56
Home Inspections and Safety Considerations	57-61
Crossword: Choosing Your Home	62
<b>Section 4: Becoming a Homeowner</b>	<b>63</b>
Homeowners Insurance	64-66
The Closing Process	67-68
Real Mortgage Costs	69
Becoming a Homeowner Word Scramble	70
<b>Section 5: Life as a Homeowner</b>	<b>71</b>
Protecting Your Investment	72
Physical Considerations	73-78
Investing In Your Neighborhood	79
Financial Considerations	80-82
<b>Appendix</b>	<b>83</b>
Note Pages	85-86
Glossary	87-92

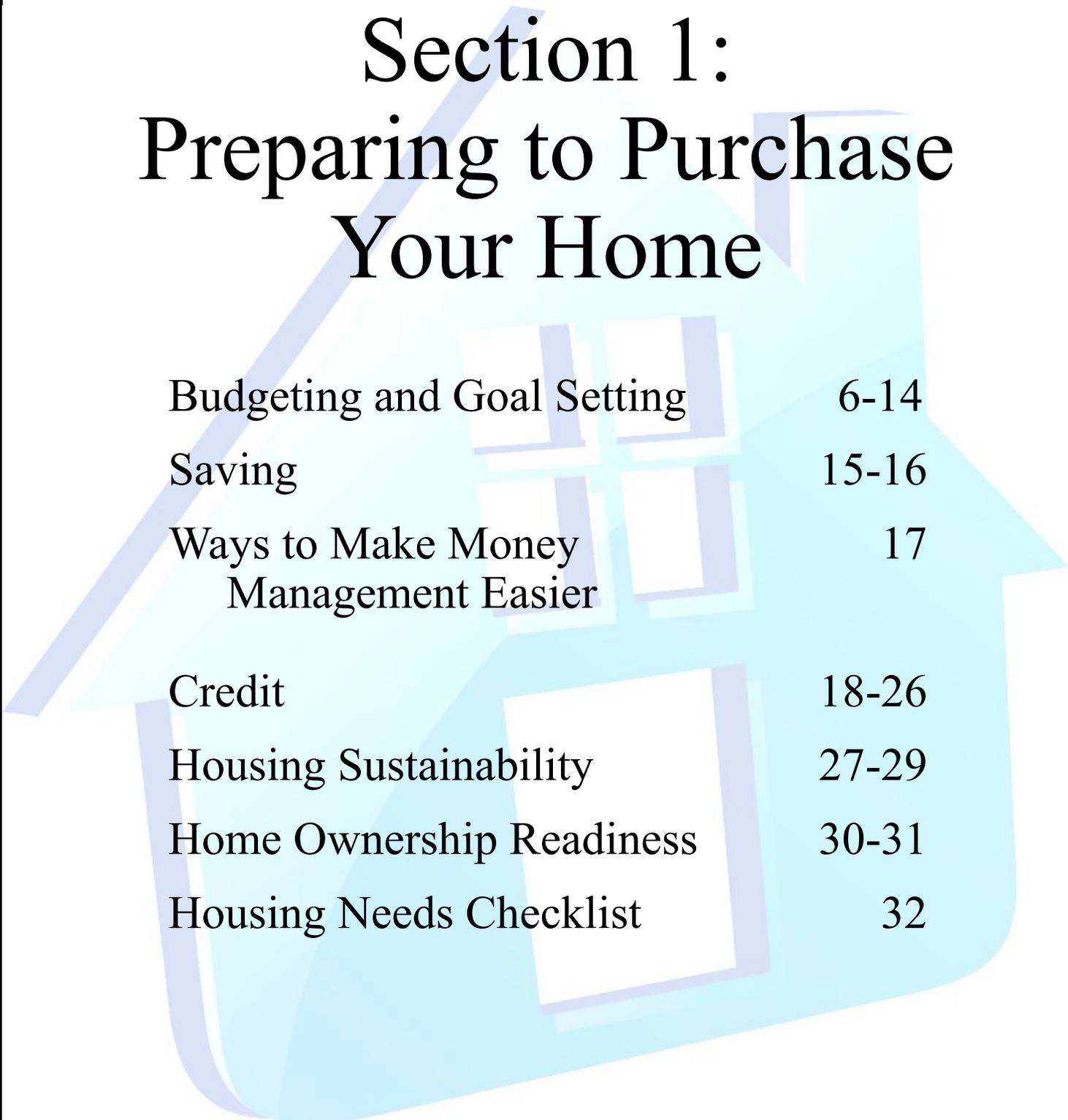
# The Home Buying Process

Buying a home, whether its your first home or whether you've purchased a couple times, is an exciting, intimidating, confusing, and often overwhelming process. The purpose of this course is to give you the knowledge and tools necessary to make the process a little easier so it can be enjoyable and you can feel secure in the decisions you've made.

A home is the largest purchase and investment most people will ever make and its not a simple process. But we'll begin with the big picture so as you learn about each step, you'll know just where it fits into the overall process of buying a home.

## Steps in Purchasing a Home

1. Attend a Homebuyer Education series.
2. Determine how much you can afford to spend.
  - Adjusting your budget
  - Cleaning up your credit
  - Saving for down payment and closing costs
3. Shop loan products and lenders—compare interest rates and closing costs with Loan Estimates.
4. Apply for your chosen loan and obtain a pre-approval.
5. Look into local homebuyer assistance programs.
6. Call a real estate agent to discuss what type of home will meet your needs—contract their services.
7. Shop for an affordable home.
8. Make an offer contingent upon the inspection, appraisal, clear title, and receiving a loan.
9. Schedule a home inspection.
10. Contact the lender with property information to start the loan approval process.
11. Buy homeowners insurance and have additional inspections.
12. Review the closing disclosure three days before closing
13. Attend closing. Sign the papers. Bring a cashiers check for closing costs.
14. Get the key and MOVE IN!



# Section 1: Preparing to Purchase Your Home

Budgeting and Goal Setting	6-14
Saving	15-16
Ways to Make Money Management Easier	17
Credit	18-26
Housing Sustainability	27-29
Home Ownership Readiness	30-31
Housing Needs Checklist	32

# Budgeting: Creating a Spending Plan

## Budgeting Steps

### 1. Set Goals

- S– Specific
- M–Measureable
- A–Attainable
- R–Relevant
- T–Time-Bound

### 2. Gather Information

- Get all your financial documents together
- List all Income and all Fixed Expenses
- Create a Creditors List

### 3. Track Variable Expenses

- Look at where all your money went for the last month.

### 4. Choose a Budgeting Method

- Computer Spreadsheet
- Divided Checkbook Register
- Envelopes

### 5. Tell Your Money Where To Go

- Set a monetary limit for each spending category.
- The Step-Down Principle

### 6. Implement

- Go Do It! Live the dream!

### 7. Evaluate

- “Budgeting” is an ongoing process, not a one-time event.



## What Makes a Budget Succeed?

- Sufficient time spent on it
- It is in line with your goals, priorities, and values
- Good tracking of all spending
- Positive attitude and determination
- Good communication with spouse/family
- Good saving habits, pay yourself first
- Enough personal allowance
- Preparation for the unexpected by looking at the whole year
- Using a system that works for YOU!

*Budgeting is telling your money where to go  
instead of wondering where it went.*

# Spending Plan Questionnaire

Here are some questions to think about as you work on your goals and budget.

1. What are the biggest items on your budget?

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2. How much are you saving each month on your current budget?

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3. How could you save more money? What expenses could you cut or reduce?

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4. In what ways do you see your financial picture changing in the next year?

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5. How would you like to see your financial picture change in the next five years?

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# Goals

*Setting financial goals gives your spending plan direction and focus*

## S.M.A.R.T Goals:

**Specific** - Instead of *pay off debts*, a more specific goal would be *put an extra \$50 toward credit card for 1 year*. Also specify how the goal will be accomplished, step by step.

**Measurable** - Define the success, how will you know if you've succeeded if your goal is *get in shape*? At what point are you *in shape*? Set target dates for steps within goal.

**Attainable** - Make sure your goal can be achieved but still makes you stretch, you should be both **WILLING** and **ABLE** to do it.

**Relevant** - Achieving this goal should bring you closer to where you actually want to be.

**Time Bound** - A specific completion date creates a sense of urgency to get it done!

Setting Goals Worksheet						
	By When	Cost	Current Savings	Savings Needed	How Many Pay Periods	How Much Per Pay Period
<b>Short-term goals</b> (within one year)						
a.						
b.						
c.						
d.						
<b>Long-term goals</b>						
a.						
b.						
c.						
d.						





# Budgeting Methods

## Spreadsheet or Computer Method:



If you work best on the computer or with a pen and paper, the Spreadsheet Method may be best for you.

A worksheet called “Monthly Spending Planner” has been provided in the packet you were given. It has pre-determined categories that you can use to build your budget.

If you’d like to customize a budget spreadsheet, Excel works well and allows you to make your own categories and format it to your liking. Make sure, no matter which way you choose to do it, that your system has a place for categories, the planned amount, and the actual amount you ended up spending. There are pre-made budget sheets you can download from the internet that are free to use also, if making your own seems too difficult or time consuming.

## Budgeting Apps:

Mint: One of the oldest and best-known budgeting apps. It will automatically categorizes transactions from linked credit and debit cards and tracks them against a budget you can adjust and customize to your needs. Receive alerts when you go over budget, track spending by category, or look at your overall cash flow to get a broad picture of where your money goes each month.

PocketGuard: This app can help guard you against spending too much. One of the easiest apps to set up and connect your bank accounts, it tracks how much you're earning, spending on recurring bills and everyday expenses, and tracks deposits into your savings account throughout a period. PocketGuard looks out for recurring bills from phone, TV and Internet companies, for example, and helps you find a better deal on your monthly service costs. Not only does it help you track your budget, it helps you lower your spending.

EveryDollar: This budgeting app that helps users track their spending and plan for purchases. With the free version of the app, you can create a transaction each time they spend money to account for it in their budget. To make your experience smoother, upgrading to EveryDollar Plus (billed annually for \$129.99) allows you to connect your bank account and expenses.

GoodBudget: Based on the envelope system in which you portion out your monthly income toward specific spending categories. You can access the same account with multiple devices, so partners and family members can share a budget. Goodbudget doesn’t have you sync bank accounts. You manually add account balances, as well as cash amounts and debts. With income entered, you assign money toward spending categories, called envelopes. The free version allows one account, two devices and limited envelopes. The Plus version, which is \$6 per month or \$50 annually, offers unlimited envelopes and accounts, up to five devices and other perks.

## Envelope Method:

If you prefer to use cash, are more careful with your spending when using cash, or have trouble writing down all your purchases, this method may prove very helpful. It is usually more effective if used along with another method since envelopes are really only effective with variable expenses.

Start by designating each envelope a certain expense category, ie: food, clothing, gas, entertainment, etc. Then decide how much to allocate to each category. Put that amount in each envelope. When all the money in one category/envelope is gone, stop spending!



# At-A-GLANCE BUDGETING WORKSHEET

Version: Two Paychecks Per Month -5 columns

Month: \_\_\_\_\_

## Fixed Expenses & Bills

*List regular bills below which occur each month--Decide which bills will be paid by paycheck 1 or 2.*

Paycheck #1 \$ \_\_\_\_\_

Paycheck #2 \$ \_\_\_\_\_

Expense Name	Amt.	Date Paid		Expense	Amt.	Date Paid
Total: \$ _____				Total: \$ _____		

## Variable Expenses

*Label each column with an expense that may change each month. Write in a limit for that category.*

	Groceries				
	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
TOTAL:	_____	_____	_____	_____	_____
	\$ _____	\$ _____	\$ _____	\$ _____	
TOTAL:	_____	_____	_____	_____	
					Total Income: _____
					\$ _____
					Total Expenses: _____
					\$ _____
					<b>End Month Total</b> _____
					\$ _____

Created by Shara Young, AFC Comments/Feedback welcome at [sharayoung@juno.com](mailto:sharayoung@juno.com)



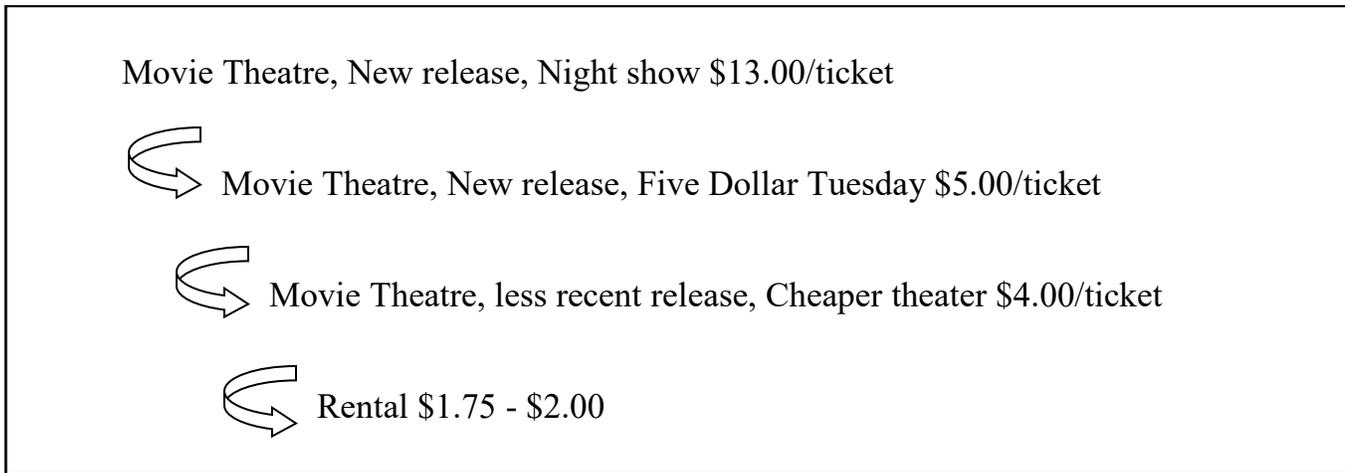
## Monthly Spending Plan

Housing Financial Counseling  
 At the Family Life Center  
 493 North 700 East  
 Logan, Utah 84321  
 Phone: 435-797-7224

Monthly Expense	Current	Post Purchase	Monthly Expense	Current	Post Purchase
<b>Housing</b>			<b>Personal</b>		
Rent or mortgage	\$	\$	Barber or beauty shop	\$	\$
Heating (gas or oil)	\$	\$	Toiletries	\$	\$
Electricity	\$	\$	Children's allowances	\$	\$
Water, sewage and trash service	\$	\$	Tobacco and liquor products	\$	\$
Telephone (landlines and cell phones)	\$	\$	<b>Entertainment</b>		
Renters Insurance	\$	\$	Movies, sporting events, etc.	\$	\$
Home maintenance and furnishings	\$	\$	Video rentals	\$	\$
Cleaning Supplies	\$	\$	Internet Service	\$	\$
Lawn Service	\$	\$	Cable/satellite TV	\$	\$
<b>Transportation</b>			Gambling and lottery tickets	\$	\$
Gas	\$	\$	Fitness or social clubs	\$	\$
Car Payment	\$	\$	Hobbies or crafts	\$	\$
Car Payment	\$	\$	<b>Miscellaneous</b>		
Car insurance	\$	\$	Pet care and supplies	\$	\$
<b>Food</b>			Banking and money order fees	\$	\$
Groceries	\$	\$	Postage	\$	\$
School Lunches	\$	\$	Pictures and photo processing	\$	\$
Work-Related (lunches and snacks)	\$	\$	Other	\$	\$
Eating Out	\$	\$	<b>Debts</b>		
<b>Insurance</b>			Student loan	\$	\$
Health (if not payroll deducted)	\$	\$	Credit card (monthly minimum)	\$	\$
Life	\$	\$	Credit card (monthly minimum)	\$	\$
<b>Medical</b>			Credit card (monthly minimum)	\$	\$
Doctor	\$	\$	Medical bills	\$	\$
Dentist	\$	\$	Personal loan	\$	\$
Prescriptions	\$	\$	<b>Other</b>		
<b>Childcare</b>			Other	\$	\$
Childcare or babysitters	\$	\$	Other	\$	\$
Child support or alimony	\$	\$	<b>Total Monthly Expenses</b>		
Other	\$	\$		\$	\$
<b>Clothing</b>			<b>Income</b>		
Clothing	\$	\$	Monthly Net Income	\$	\$
Laundry and dry cleaning	\$	\$	Monthly Net Income	\$	\$
<b>Donations</b>			Other	\$	\$
Religious or charity	\$	\$	<b>Income Total</b>		
<b>Education</b>				\$	\$
Books, papers and supplies	\$	\$	<b>Budget Totals</b>		
Newspapers and magazines	\$	\$	Total Monthly Income	\$	\$
Lessons ( <i>sports, dance, music</i> )	\$	\$	Total Monthly Expenses	\$	\$
<b>Savings</b>			<b>Amount Left Over</b>		
Emergency	\$	\$		\$	\$
Revolving	\$	\$	<b>Total Monthly Expenses</b>		
Down Payment	\$	\$		\$	\$
Retirement	\$	\$	<b>Amount Left Over</b>		

# Step-Down Principle

The Step-Down Principle is a simple tool for reducing expenses. It works just as it sounds. The purpose is to take a step down from one's typical purchasing habits. This principle can be applied to many expense areas such as: clothing, food, entertainment, school supplies, hygiene items, and more. An example of the step down principle in regards to entertainment is shown below:



When applying the Step-Down Principle, one should take baby steps. It is not recommended to take more than a couple steps down at one time. The more drastic the change in one's spending habits, the less likely the person will be willing and able to stick to the new plan.

Practice: Try applying the Step-Down Principle on a category of your choice.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

# Saving Smart

There are three main types of savings:



**Emergency** – These funds should equal three to six times a household’s monthly expenses. This savings can provide relief for unexpected expenses such as illness, car repairs, and temporary unemployment.

**Revolving** – These funds are for irregular but expected expenses, such as car insurance, car registration, taxes, back to school, Christmas, birthdays, and vacations. (An example is given below)

**Long-Term** – These funds are for future contingencies such as the purchase of a home, weddings, education, and especially retirement.

## Savings Tips

1- Pay Yourself First! Savings should be first on a budget rather than last. If the money is put in a savings account before it can be used, it is not missed! Direct withdrawal from checking accounts or having a portion of income going directly to a savings or retirement account can help.

2- Set a goal today for each type of savings, and write them down. As an incentive to stick to a spending plan, many people also write their goals directly on their budget. Remember to make goals achievable and specific.

3- A large amount of money is NOT required to start saving. Start saving in small amounts, even \$10 a month, and work up from there.

4- Don’t feel the need to enter all of your expense information at once into a revolving savings chart, it can be quite overwhelming if you do. Just take small steps and work up to saving the necessary amounts.

## REVOLVING SAVINGS EXAMPLE

ITEM	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Birthdays		30		30				60		30			150
Christmas											300	200	500
Car registration		100											100
Car insurance			250						250				500
Oil changes	25			25			25			25			100
Kids’ sports teams				50		50			75				175
Back to School								500					500
Vacation			300										300
<b>TOTAL FOR YEAR</b>												<b>\$2,325.</b>	
Divide by 12 to see the monthly amount to save												<b>\$193.75</b>	

Take the total for the year (\$4,800) and divide it by 12 to get the monthly amount to save (\$400). This amount will then be set aside in a revolving savings account to be used throughout the year. Please note that it will take extra initial deposits or a larger monthly amount saved to build up this account.



# Ways To Make Money Management Easier

- Decide who pays bills and when they will pay them.
- Know when bills are due. Time your fixed payments, your rent or mortgage and your car loan payment to match your paycheck schedule.
- Ask if your utility companies offer “level billing payments” or an “average payment plan.” This divides your bills into 12 equal payments. It helps with managing your money because you know how much the payments will be even when you’re using a lot of heat or air conditioning.
- Open a checking account for paying your bills. This also gives you another way to see what you spend.
- Open a savings account for emergencies, not just to make your future goals. If something goes wrong. You’ll have money to fix it and pay your regular bills. Savings can help you avoid major problems that can wind up costing you more in the long run
- Consider selling a car. If you have a newer car with a high car payment, ask your-self how important the car is in relation to other goals. It may make sense to sell the car, buy an economy model and bank the difference.
- Check the interest you are paying on any loans you have. Then see if your local bank or credit union will refinance those loans at a lower rate.
- Stick to the plan. Once you and your family have agreed on a spending plan, you owe it to each other to stick with it.

## Controlling Your Day-To-Day Spending

- Carry Written reminders of your goals with you. When you are about to buy something, read your goals. Then decide whether that purchase will help you get closer to your dreams or goals.
- Carry as little cash as possible, and don’t shop just for something to do. Avoid frequent trips to the automatic teller machine (ATM) for pocket change, as it adds up quickly.
- Use direct deposit if your employer offers it. Your paycheck will automatically be deposited in your bank account
- Buy only what you need. Do not buy items just because they are “on sale” or just because you have a coupon.
- Most important of all, try to pay with cash, a check or a debit card instead of a credit card. Using a credit card adds a finance charge to the cost of your purchase if you do not pay off the entire bill. Debit cards, unlike credit cards, withdraw money directly from your checking account. Because it is your own money, there is no interest. But, debit cards do immediately deduct funds from your checking account. You should note in your checkbook each time you use your debit care, write a check or withdraw money from an ATM. Then you won’t accidentally overdraw your account.

# Your Credit Report

## What is a credit report?

A credit report is a history of what you have borrowed and how you have repaid your debts. Credit bureaus collect information from creditors on consumer bill-paying habits. Companies obtain credit reports when consumers apply for a credit card or loan. Companies report the ongoing status of loans to the three main credit bureaus, which are Experian, Equifax, and TransUnion. Consumers, by law have a right to know what is on their credit report and to correct mistakes. Every consumer can order his/her own credit report for free once a year to review it for mistakes.

## What is included on a credit report?

### ◆ Identifying Information:

Name, previously used names, current and previous addresses, year of birth, Social Security number, current and previous places of employment, etc.

### ◆ Public Records:

Any public records (bankruptcies, judgments, courthouse records involving money, tax liens, etc.) or collection accounts are reported to the credit bureaus. In some states, items such as overdue child support are also reported. Bankruptcy information can remain on a credit report for up to 10 years; unpaid tax liens can remain on a credit report for up to 15 years; other public record information can remain on a credit report for seven years.

### ◆ Credit histories:

A credit history includes the name and account number of each creditor who makes a report on a consumer's credit repayment history. Also included in this section are credit limits, date the account was opened, current balance, monthly payment amount, payment frequencies, and history of on-time or late payments. The report also states if the account is a joint account or if there is anyone else responsible for paying the creditor.

### ◆ Credit inquiries:

Every time a credit provider runs a credit check on a consumer, a record of the inquiry is made. This information interests creditors because it reveals to them the consumer's recent credit activity. When there are multiple inquiries of the same type (ether auto, mortgage, or student loan) within a 30- to 45-day period, for FICO scoring purposes, those inquiries are only counted as one inquiry in how they affect the credit score. Inquiries that the consumer makes, for example checking their own credit, will not negatively affect their credit score.

### ◆ Consumer statement:

If a dispute is not resolved to the consumer's satisfaction, the consumer may write a 100 word or less statement explaining the reason why he/she believes the record is inaccurate, this will be added to his/her credit report. The consumer may also write a statement that will be placed in his/her permanent file at the credit bureau. Creditors can also report temporary dispute statements when the consumer challenges the status of an account. Once the dispute is resolved, the statement will no longer be on the credit report.

## How to send for a credit report

The Fair and Accurate Credit Transactions Act (FACTA) makes it possible for consumers to get a free credit report annually from the three main credit bureaus. The reports are free, however they do not include a credit score; scores can be purchased for a small fee. Request forms are found at [www.annualcreditreport.com](http://www.annualcreditreport.com), and can be ordered through the mail, by phone, or through the internet. It is very important for the consumer to know what is on their credit report, and to correct any wrong information. Incorrect information may cause the consumer to be denied credit, employment, housing, or insurance.

\*If requesting a free credit report from the website above, be sure that you enter in the web address correctly, as you will be entering confidential information.

The Fair Credit Reporting Act gives every consumer the right to see information contained on their credit report. If the consumer would like to see additional copies of their credit report, beyond the three provided by FACTA, they can be obtained for a small fee.

**Note:** When a consumer is denied credit because of information contained on their credit report, the company that denied them credit must give them certain information. This information is usually given in the form of a denial letter. The letter should state the credit bureau from which they receive information and must indicate that the consumer has 60 days to order a free credit report from that particular credit bureau.

### **Correct any mistakes on credit reports**

It is important for consumers to examine their credit report carefully. Federal law allows consumers to challenge any inaccuracies and correct their file if they find any outdated or inaccurate information.

- ◆ **Outdated information:** Negative credit information—such as late payments, delinquent accounts, and repossessions—will remain on your credit report for up to seven years. Bankruptcy will be on your report for up to ten years. Any information that is outdated can be removed.
- ◆ **Inaccurate information from a creditor:** Mistakes may appear on the credit report. A creditor may have reported a late payment when in fact it was on time. Clear up the problem with the creditor first, and request that the company notify all the credit bureaus they report to about the correction. Then make sure the correction has been made; this will require reordering the credit report.
- ◆ **Other:** Information about another person, who has a similar name, will appear on a credit report. Request that the credit bureau investigate and correct any wrong information.

### **What is a credit score?**

A credit score is a number that summarizes your credit history, much like a GPA summarizes a school report card. The scoring system is designed to predict the likelihood of responsible repayment on future obligations. Scores can range from 300 to 850. Many lenders use credit scores to decide the likelihood of the consumer to make payments on time. Credit scores can also be called “risk scores.” This helps the lender predict the risk that the loan will not be repaid. Credit scores can be affected by many elements such as: type and age of accounts, total debt, recent inquiries, and the number and severity of late payments.

### **Poor credit ratings**

Each consumer makes his/her own credit rating, not credit bureaus or creditors. Accurate negative information such as late payments, non-payments, repossessions, liens, or bankruptcy cannot be erased. Be aware of credit repair scams that make claims such as: “Bad Credit? No Credit? No Problem!” Companies cannot remove accurate information from a credit report. These companies accept payments for a service they cannot provide. If help is needed repaying creditors, managing debt, or creating a personal budget, contact a nonprofit organization that provides free or low-cost help to consumers. To locate a local HUD approved counseling agency, go to [www.hud.gov](http://www.hud.gov), click on *resources*, then *HUD approved housing counseling agencies*.

### **Improving credit ratings**

Every consumer can improve their credit rating. To do this, pay all bills on time and at least the minimum amount every month. If you have collections or judgments, pay those first. Although there is no quick fix for a poor rating, the best time to begin improving a credit rating is now.

### **Stop Unwanted Credit Solicitation**

- To opt out of pre-approved credit card offers, call 1-888-567-8688 or visit [www.optoutprescreen.com](http://www.optoutprescreen.com)
- To reduce telemarketing calls, call 1-888-382-1222, or visit [www.donotcall.gov](http://www.donotcall.gov)
- For additional strategies to cut down on unwanted solicitations, visit [www.privacyrights.org](http://www.privacyrights.org)

# Example Credit Report:



## Online Personal Credit Report from Experian for

Experian credit report prepared for  
**JOHN Q CONSUMER**  
 Your report number is  
**1562064065**  
 Report date:  
**01/24/2005**

1

- Index:
- [Potentially negative items](#)
  - [Accounts in good standing](#)
  - [Requests for your credit history](#)
  - [Personal information](#)
  - [Important message from Experian](#)
  - [Contact us](#)

2

### Report number:

You will need your report number to contact Experian online, by phone or by mail.

### Index:

Navigate through the sections of your credit report using these links.

Experian collects and organizes information about you and your credit history from public records, your creditors and other reliable sources. Experian makes your credit history available to your current and prospective creditors, employers and others as allowed by law, which can expedite your ability to obtain credit and can make offers of credit available to you. We do not grant or deny credit; each credit grantor makes that decision based on its own guidelines.

## Potentially Negative Items

3

[back to top](#)

### Public Records

Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcy, also may appear with your credit items listed later in this report.

#### MAIN COUNTY CLERK

<b>Address:</b> 123 MAINTOWN S BUFFALO , NY 10000	<b>Identification Number:</b> 1	<b>Plaintiff:</b> ANY COMMISSIONER O.
<b>Status:</b> Civil claim paid.	<b>Status Details:</b> This item was verified and updated on 06-2001.	
<b>Date Filed:</b> 10/15/2000	<b>Claim Amount:</b> \$200	
<b>Date Resolved:</b> 01/04/2001	<b>Liability Amount:</b> NA	
<b>Responsibility:</b> INDIVIDUAL		

### Potentially negative items:

Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for security), account status, type and terms of the account and any other information reported to Experian by the creditor. Also includes any bankruptcy, lien and judgment information obtained directly from the courts.

### Status:

Indicates the current status of the account.

## Credit Items

For your protection, the last few digits of your account numbers do not display.

#### ABCD BANKS

<b>Address:</b> 100 CENTER RD BUFFALO, NY 10000 (555) 555-5555	<b>Account Number:</b> 1000000....	
<b>Status:</b> Paid/Past due 60 days.		
<b>Date Opened:</b> 10/1997	<b>Type:</b> Installment	<b>Credit Limit/Original Amount:</b> \$523
<b>Reported Since:</b> 11/1997	<b>Terms:</b> 12 Months	<b>High Balance:</b> NA
<b>Date of Status:</b> 01/1999	<b>Monthly Payment:</b> \$0	<b>Recent Balance:</b> \$0 as of 01/1999
<b>Last Reported:</b> 01/1999	<b>Responsibility:</b> Individual	<b>Recent Payment:</b> \$0
<b>Account History:</b> 60 days as of 12-1998 30 days as of 11-1998		

4



If you believe information in your report is inaccurate, you can dispute that item quickly, effectively and cost free by using Experian's online dispute service located at:

[www.experian.com/disputes](http://www.experian.com/disputes)

Disputing online is the fastest way to address any concern you may have about the information in your credit report.

**MAIN COLL AGENCIES**

<b>Address:</b> PO BOX 123 ANYTOWN, PA 10000 (555) 555-5555	<b>Account Number:</b> 0123456789	<b>Original Creditor:</b> TELEWISE CABLE COMM.
--	--------------------------------------	---

**Status:** Collection account. \$95 past due as of 4-2000.

<b>Date Opened:</b> 01/2000	<b>Type:</b> Installment	<b>Credit Limit/Original Amount:</b> \$95
<b>Reported Since:</b> 04/2000	<b>Terms:</b> NA	<b>High Balance:</b> NA
<b>Date of Status:</b> 04/2000	<b>Monthly Payment:</b> \$0	<b>Recent Balance:</b> \$95 as of 04/2000
<b>Last Reported:</b> 04/2000	<b>Responsibility:</b> Individual	<b>Recent Payment:</b> \$0

**Your statement:** ITEM DISPUTED BY CONSUMER

**Account History:**  
Collection as of 4-2000

**Accounts in good standing:**

Lists accounts that have a positive status and may be viewed favorably by creditors. Some creditors do not report to us, so some of your accounts may not be listed.

**Accounts in Good Standing**

5

[back to top](#)

**AUTOMOBILE AUTO FINANCE**

<b>Address:</b> 100 MAIN ST E SMALLTOWN, MD 90001 (555) 555-5555	<b>Account Number:</b> 12345678998....
---	---

**Status:** Open/Never late.

**Type:**

Account type indicates whether your account is a revolving or an installment account.

<b>Date Opened:</b> 01/2000	<b>Type:</b> Installment	<b>Credit Limit/Original Amount:</b> \$10,355
<b>Reported Since:</b> 01/2000	<b>Terms:</b> 65 Months	<b>High Balance:</b> NA
<b>Date of Status:</b> 08/2001	<b>Monthly Payment:</b> \$210	<b>Recent Balance:</b> \$7,984 as of 08/2001
<b>Last Reported:</b> 08/2001	<b>Responsibility:</b> Individual	<b>Recent Payment:</b> \$0

6

**MAIN**

<b>Address:</b> PO BOX 1234 FORT LAUDERDALE, FL 10009	<b>Account Number:</b> 1234567899876
---	---

**Status:** Closed/Never late.

<b>Date Opened:</b> 03/1991	<b>Type:</b> Revolving	<b>Credit Limit/Original Amount:</b> NA
<b>Reported Since:</b> 03/1991	<b>Terms:</b> 1 Months	<b>High Balance:</b> \$3,228
<b>Date of Status:</b> 08/2000	<b>Monthly Payment:</b> \$0	<b>Recent Balance:</b> \$0 /paid as of 08/2000
<b>Last Reported:</b> 08/2000	<b>Responsibility:</b> Individual	<b>Recent Payment:</b> \$0

**Your statement:**  
Account closed at consumer's request

**Requests for Your Credit History**

**7**

[back to top](#)

**Requests Viewed By Others**

We make your credit history available to your current and prospective creditors and employers as allowed by law. Personal data about you may be made available to companies whose products and services may interest you.

The section below lists all who have requested in the recent past to review your credit history as a result of actions involving you, such as the completion of a credit application or the transfer of an account to a collection agency, mortgage or loan application, etc. Creditors may view these requests when evaluating your creditworthiness.

**HOMESALE REALTY CO**

<b>Address:</b> 2000 S MAINROAD BLVD STE ANYTOWN CA 11111 (555) 555-5555	<b>Date of Request:</b> 07/16/2001
<b>Comments:</b> Real estate loan on behalf of 1000 COPRORATE COMPANY. This inquiry is scheduled to continue on record until 8-2003.	

**ABC BANK**

<b>Address:</b> PO BOX 100 BUFFALO NY 10000 (555) 555-5555	<b>Date of Request:</b> 02/23/2001
<b>Comments:</b> Permissible purpose. This inquiry is scheduled to continue on record until 3-2003.	

**ANYTOWN FUNDING INC**

<b>Address:</b> 100 W MAIN AVE STE 100 INTOWN CA 10000 (555) 555-5555	<b>Date of Request:</b> 07/25/2000
<b>Comments:</b> Permissible purpose. This inquiry is scheduled to continue on record until 8-2002.	

**Requests Viewed Only By You**

The section below lists all who have a permissible purpose by law and have requested in the recent past to review your information. You may not have initiated these requests, so you may not recognize each source. We offer information about you to those with a permissible purpose, for example, to:

- other creditors who want to offer you preapproved credit;
- an employer who wishes to extend an offer of employment;
- a potential investor in assessing the risk of a current obligation;
- Experian or other credit reporting agencies to process a report for you;
- your existing creditors to monitor your credit activity (date listed may reflect only the most recent request).

We report these requests **only to you** as a record of activities. We **do not** provide this information to other creditors who evaluate your creditworthiness.

**MAIN BANK USA**

<b>Address:</b> 1 MAIN CTR AA 11 BUFFALO NY 10000	<b>Date of Request:</b> 08/10/2001
---	---------------------------------------

**MAINTOWN BANK**

<b>Address:</b> PO BOX 100 MAINTOWNS DE 10000 (555) 555-5555	<b>Date of Request:</b> 08/05/2001
---	---------------------------------------

**ANYTOWN DATA CORPS**

<b>Address:</b> 2000 S MAINTOWN BLVD STE INTOWN CO 11111 (555) 555-5555	<b>Date of Request:</b> 07/16/2001
--	---------------------------------------

**Requests for your credit history:**

Also called "inquiries", requests for your credit history are logged on your report whenever anyone reviews your credit information. There are two types of inquiries.

**Requests viewed by others**

Inquiries resulting from a transaction initiated by you. These include inquiries from your applications for credit, housing or other loans. They also include transfer of an account to a collection agency. Creditors may view these items when evaluating your creditworthiness.

**Requests viewed only by you**

Inquiries resulting from transactions you may not have initiated but that are allowed under the FCRA. These include preapproved offers, as well as for employment, investment review, account monitoring by existing creditors, and requests by you for your own report. These items are shown only to you and have no impact on your creditworthiness or risk scores.

## Personal Information

8

The following information is reported to us by you, your creditors and other sources. Each source may report your personal information differently, which may result in variations of your name, address, Social Security number, etc. As part of our fraud-prevention program, a notice with additional information may appear. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address.

### Names:

JOHN Q CONSUMER  
JONATHON Q CONSUMER  
J Q CONSUMER

**Address:** 123 MAIN STREET  
ANYTOWN, MD 90001-9999

**Type of Residence:** Multifamily

**Geographical Code:** 0-156510-31-8840

9

### Social Security number variations:

999999999

**Address:** 555 SIMPLE PLACE  
ANYTOWN, MD 90002-7777

**Type of Residence:** Single family

**Geographical Code:** 0-176510-33-8840

### Year of birth:

1954

**Address:** 999 HIGH DRIVE APT 15B  
ANYTOWN, MD 90003-5555

**Type of Residence:** Apartment complex

**Geographical Code:** 0-156510-31-8840

### Employers:

ABCDE ENGINEERING CORP

### Telephone numbers:

(555) 555 5555 Residential

### Personal information:

Personal information associated with your history that has been reported to Experian by you, your creditors and other sources.

May include name and Social Security number variations, employers, telephone numbers, etc. Experian lists all variations so you know what is being reported to us as belonging to you.

### Address information:

Your current address and previous address(es)

### Personal statement:

Any personal statement that you added to your report appears here.

## Your Personal Statement

10

No general personal statements appear on your report.

## Important Message From Experian

[back to top](#)

By law, we cannot disclose certain medical information (relating to physical, mental, or behavioral health or condition). Although we do not generally collect such information, it could appear in the name of a data furnisher (i.e., "Cancer Center") that reports your payment history to us. If so, those names display in your report, but in reports to others they display only as MEDICAL PAYMENT DATA. Consumer statements included on your report at your request that contain medical information are disclosed to others.

Note - statements remain as part of the report for 2 years and display to anyone who has permission to review your report.

## Contacting Us

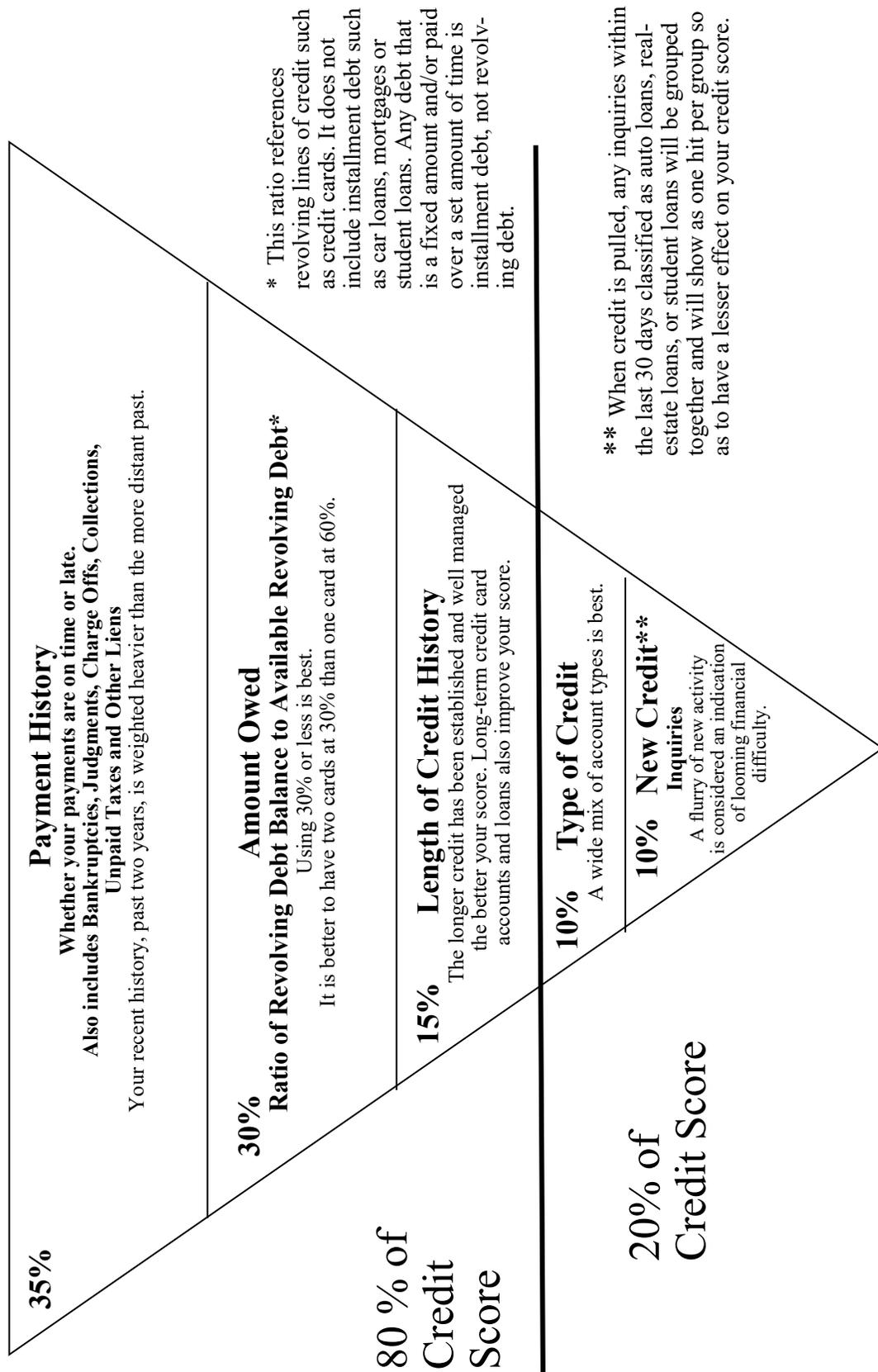
[back to top](#)

Contact address and phone number for your area will display here.

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# Credit Scoring Pyramid

All factors are weighed by recency, frequency and severity



Adapted from: *Neighborhood Reinvestment Training 2004, Experian 2004 and Fair Isaacs and thismatter.com/money; money.cnn.com ("6 Ways to Kill Your Credit Score")*

# How to Improve Your Credit Score



## Pay your bills on time

Payment history is the single most important factor in determining your credit score. Since recent history carries more weight than what happened five years ago, getting in the habit of making on-time payments is an incredibly powerful way to start rebuilding your credit rating. Experts recommend that you pay your mortgage first.

Likewise, delinquent payments can devastate your score. Missing even one payment can knock 50 to 100 points off a good score. Skipping payments for a single month on all your bills can lower your number from a respectable 707 to a dismal range of 562 to 632, according to a new credit score simulator at MyFico.com.

**TIP:** The best way to avoid late payments is to put as many of your bills on automatic payments as possible. Mortgage lenders, utilities and phone service providers are happy to take their payments directly from your checking account each month. Online bill-payment systems are another way to ease the monthly check-writing chore, and many provide reminder services so you don't forget a bill. Quicken® and Money® have good reminder features, as well.

## Pay down your debts—and consider charging less

Lenders like to see plenty of breathing room between the amount of debt reported on your credit cards and your total credit limits. The more debt you pay off, the wider that gap and the better your credit score.

What many people don't know is that even if you pay your balance in full monthly, your high balance for the month is reported to the credit bureau. So charging less, even if you pay your balance in full monthly, can also improve your score.

**TIP:** If you plan to apply for a car loan or another credit account in the next year, start paying down your balances now. Take any unused cash and put it towards the account with the highest interest. Pay it off, and then start on the next one. Use your income tax return and apply it towards paying off your charge account. Pay them off and then start putting the extra cash into a savings account. You would be surprised at how much you can save over a short period of time.

## Don't close old, paid-off accounts

Experts used to tell people to close accounts they weren't using. Now here's the word from Craig Watts of Fair Isaac's Consumer Affairs office: "Closing accounts can never help your score, and often hurt." Shutting down credit accounts lowers the total credit available to you and makes any balances you have loom larger in credit score calculations. If you close your oldest accounts, it can actually shorten the length of your reported credit history and make you seem less credit-worthy.

If you don't use your cards much and your score is already high, the damage caused by shutting down more recent unused accounts will be minimal and may be well worth the peace of mind.

**TIP:** Keep all this in mind the next time a department store clerk offers you a 10% discount for signing up for a new card. Each new account can put a small ding on your credit score, and offer a new opportunity for credit thieves. Since closing accounts can hurt, it's better to apply only for credit you really need.

Resource: Beef up your credit score in 5 steps, Executive Reporting Services, A First American Company

**\*A free place to see your credit score, and receive updates on it, is from the app called Nerd-Wallet. Linking your bank and credit accounts allow you to use the budgeting features the app has also.**

# Credit Crunch Self-Evaluation

Look at the following warning signs about debt load. These signals can help you determine if you are controlling your debts or if your debts are controlling you.

Answer the following questions with a “yes” or “no” by placing an X in the appropriate column for each question. Then, add up the totals for each column to see how well you are managing your debts.

<b>Debt Warnings</b>	<b>Yes</b>	<b>No</b>
1. Does your monthly creditor debt (excluding your house payment) exceed 20% of your take home pay?		
2. Have you started to delay making debt payments that you once paid promptly?		
3. Are you near, at, or over the limit on your lines of credit?		
4. Are you always late paying your bills?		
5. Do you often pay late penalties on payments?		
6. Are you paying half your bills one month and half the next?		
7. Are you paying bills with money you had set aside for something else?		
8. Are you borrowing money, using cash advances, or visiting payday lenders to pay this month's bills?		
9. Do you find it necessary to write post-dated checks?		
10. Do you often worry that credit card transactions will be declined?		
11. Is your savings cushion inadequate or non-existent?		
12. Do you put off medical and dentist visits because you can't afford them?		
13. Have you canceled auto, medical, or life insurance to make ends meet?		
14. Are you living beyond your means?		
15. Do you take out a new loan before the old one is paid off?		
16. Must you rely on overtime pay just to pay monthly bills and living expenses?		
17. Are your creditors closing your revolving charge accounts?		
18. Do you frequently worry about money?		
19. Are you borrowing money to pay for regular household expenses such as rent, food, clothing, gas or insurance?		
20. Are creditors sending overdue notices?		
21. Would it take more than two years to pay off all outstanding debts (excluding your housing payment)?		
22. Do you pay only your minimum monthly payments or less?		
23. Is the portion of your income used to pay debts rising?		
24. Have you stopped putting money in a savings account on a regular basis?		
25. Are this month's credit balances even larger than they were last month?		
26. Do you make payments on credit cards every month, but find that your bills never go down?		
27. Are you afraid to add up the total amount of debt that you owe?		
<b>Total</b>		

# Mortgage Basics



## Qualifying Ratios:

When a lender looks at your loan application, they look at what you earn, how much debt you currently have, and how much additional debt you want to take on with a new house payment. They will determine how large of a loan amount you will qualify for with **qualifying ratios**, called the **housing ratio** and the **debt-to-income ratio**.

The **Housing Ratio** (front end ratio) calculates how much of your gross monthly income will be taken up by your house payment. Every lender and every loan has different limits on how high this ratio can be but it is usually no more than 30%, meaning no more than 30% of your before-tax income should go to your house payment.

The **Debt-to-Income Ratio** (back end ratio) calculates how much of your gross monthly income will be taken up by your house payment plus all your other debt payments. Again, every lender and every loan has different limits but its usually around 40%. So, no more than 40% of your before-tax income should go to your house payment plus all your other debt payments.

It is important to apply an estimated house payment to your monthly budget to make sure you can really afford to make that payment, not just take the word of the lender.

## What's in a Mortgage Payment?

A house payment is more than just your loan payment. Surprised? Most loans require that you pay your property taxes, homeowners insurance, and mortgage insurance in monthly installments along with the loan portion of your payment. The parts that make up a house payment are commonly referred to with the acronym, PITI. Following are the parts of a house payment:

- Principle:** The portion of your payment that goes to paying down the balance on your loan.
- Interest:** The cost of borrowing money.
- Taxes:** Property taxes are due once a year. Most loans require that you pay your property taxes monthly into an escrow account, which is then used to pay your property taxes when due.
- Insurance:** Homeowners Insurance (also called hazard insurance) is usually also paid into then taken out of an escrow account. This portion of your house payment could also include PMI (Private Mortgage Insurance) which is required at the beginning of many loans.

The Taxes and Insurance portion of a house payment usually make up 20% or more of the total house payment. It is important to ask your lender if the payment amount you were quoted includes the full PITI or if it is just the PI portion (just the loan payment). If you've been given just the PI, you'll need to add an additional 20% to it before plugging it into your proposed budget.

**REMEMBER:** Use your budget as a guide. Only take on a mortgage payment that is **comfortable** and still allows you to meet **all** your financial obligations.

# MORTGAGE SUSTAINABILITY

Calculate the amount of mortgage payment you can sustain

*Example\**

(1) Gross Monthly Income ( <b>A</b> , reverse side)	<u>\$2,500</u>	(1)\$ _____
(2) Total Gross Monthly Income x <input style="width: 40px; height: 20px;" type="text"/> % (Housing ratio)	<u>\$775</u>	(2)\$ _____
(3) Total Gross Monthly Income x <input style="width: 40px; height: 20px;" type="text"/> % (Debt-to-Income ratio)	<u>\$1,075</u>	(3)\$ _____
(4) Total Monthly Debt Payment ( <b>B</b> , reverse side)	<u>\$270</u>	(4)\$ _____
(5) Subtract Line (4) from Line (3)	<u>\$805</u>	(5)\$ _____

**Maximum Mortgage Loan Payment Allowed (PITI)**

(6) Enter whichever is less, Line (2) or Line (5)

<u>\$775</u>	(6)\$ _____
--------------	-------------

**Escrows\*\***

(7) Multiply Line (6) by 20% (estimated taxes and insurance\*)

\$155 (7)\$ \_\_\_\_\_

\*\*Private mortgage insurance and Home Owner Association fees may not be included when calculating taxes and insurance.

(8) Subtract Line (7) from Line (6) (maximum principal and interest payment allowed)

\$620 (8)\$ \_\_\_\_\_

(9) Divide Line (8) by \_\_\_\_\_ factor from table (**C**, reverse side)

\$138.08 (9)\$ \_\_\_\_\_

**Maximum Mortgage Loan Amount**

(10) Multiply Line (9) by \$1,000

<u>\$138,085</u>	(10)\$ _____
------------------	--------------

*If you have chosen a loan product complete the following:*

**Down Payment**

(11) Multiply line (10) by \_\_\_\_\_ % required for a down payment (3.5%)

\$4,832 (11)\$ \_\_\_\_\_

**Maximum Purchase Price (Price of the home)**

(12) Add line 10 and Line 11

\$142,917 (12)\$ \_\_\_\_\_

(13) **Closing Costs** - Multiply line (10) by 3%

\$4,144.50 (13)\$ \_\_\_\_\_

\*The example uses a monthly income of \$2500, ratios of 31/43, a monthly debt payment of \$270 for a 30 year loan with a 3.5% interest rate and a LTV of 96.5%.

# MORTGAGE SUSTAINABILITY

## A) Calculate Gross Monthly Income:

Hourly:	\$ _____ X _____ X 52 weeks / 12 months	= \$
	Hourly rate # hours per week	
Weekly:	\$ _____ X 52 weeks / 12 months	= \$
	Pay before deductions	
Biweekly:	\$ _____ X 26 weeks / 12 months	= \$
	Pay before deductions	
Twice a Month	\$ _____ X 2	= \$
	Pay before deductions	
Once a Month	\$ _____	= \$
	Pay before deductions	
Irregularly	\$ _____ / 12 months	= \$
	Income from last years tax return before deductions	

## C) Interest Factor Table

Monthly payment (principal and interest only) for each \$1,000 of a mortgage loan

Interest Rate	15 year loan	20 year loan	30 year loan
1.00	5.98	4.59	3.21
1.50	6.20	4.82	3.45
2.00	6.43	5.05	3.69
2.50	6.66	5.29	3.95
3.00	6.90	5.54	4.21
3.50	7.14	5.79	4.49
4.00	7.39	6.05	4.77
4.50	7.64	6.32	5.06
5.00	7.91	6.60	5.37
5.50	8.18	6.88	5.68
6.00	8.44	7.17	6.00
6.50	8.72	7.46	6.33
7.00	8.99	7.76	6.66
7.50	9.28	8.06	7.00
8.00	9.56	8.37	7.34
8.50	9.85	8.68	7.69
9.00	10.14	8.99	8.04

## B) Monthly Consumer Debt Payments:

(Installment debts with 10+ months remaining)

\$ \_\_\_\_\_ Auto Loans

\$ \_\_\_\_\_ Credit Cards

\$ \_\_\_\_\_ Student Loans (even if in deferment)

\$ \_\_\_\_\_ Medical Debt

\$ \_\_\_\_\_ Child Support / Alimony

\$ \_\_\_\_\_ Other Loans \*

\$ \_\_\_\_\_ Total Monthly Debt Payment

(\*Although lenders do not include family loans or charitable contributions these items should be considered when calculating monthly debt payments.)

## Mortgage Information

Mortgage Type	Ratios	Mortgage Insurance (30 year term)	Loan-to-Value
FHA	31/43	1.75 upfront MIP MIP for 30Y, from 85 to 105 bps monthly	96.5%
Utah Housing	31/43	Depending on program	Varies
USDA	29/41	3.5% upfront	100%
VA	41	No insurance, but funding fee	100%
Conventional	28/45*	Varies by lender - estimates 95% LTV: 0.74 90% LTV: 0.52 85% LTV: 0.32 80% LTV: 0	Varies by lender; Mortgage insurance will cost more as LTV increases.

# Homeownership Readiness Self-Quiz

**This quiz is a chance for you to reflect inward, think about what's important to you, and maybe discover some ways you could bring yourself closer to security and comfort in homeownership.**

1. What are your top motivations for wanting to own a home? Why is it important to you?

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2. Do you have steady income and stable employment (at least two years)? Yes or No

3. Do you plan on staying in the same area for at least 3 to 5 years? Yes or No

4. Have you created a budget so you realistically know how much you can comfortably afford to pay for housing? Yes or No

5. Do you have an established credit history or records of payment to previous landlords and utility companies? Yes or No

6. Do you pay your bills on time, including your landlord? Yes or No

7. Do you have enough money saved for: Yes or No  
Down Payment? Yes or No  
Closing Costs? Yes or No  
Cash Reserve? Yes or No

8. Is your debt low enough not to limit your ability to qualify for a mortgage? Yes or No

9. Have you already been pre approved by a lender so you know how much you'll be allowed to borrow toward the purchase of a home? Yes or No

10. Have you explored at least 3 financing options? Their benefits and requirements? Yes or No

11. Have you decided on what home features are important to you (and your spouse)? Yes or No

12. Are you ready and willing to make the necessary sacrifices to get into a home? Yes or No

From the topics above, what are some areas that you feel you could become more prepared in?

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# Are We Ready to Buy a Home?

## Advantages to Homeownership:

- Privacy
- Possible tax advantages, deducting interest and/or property taxes
- May remodel or customize your home
- Fixed mortgage payments
- Its an investment, your money is going toward you owning something
- Stability & sense of pride in the community
- Better credit rating
- Potential for home to increase in value
- More space for family members and activities

## Disadvantages to Homeownership:

- Responsible for all maintenance and repairs
- Big commitment in time, emotions, and money
- Long-term financial commitment
- Must pay down payment and closing costs
- A mortgage usually means a higher housing payment (compared to rent) which may limit money for other purchases or activities
- Decreased mobility
- Potential for home to decrease in value, may take a loss if you need to sell it
- Must pay property taxes and insurance

## Top 10 Mistakes of First-Time Home Buyers

- Timing problems
- Looking at homes you can't afford
- Buying the wrong sized home
- Buying in a neighborhood you know nothing about
- Operating on a first-house-is-best theory
- Buying a property difficult to resell
- Overextending your budget
- Being indecisive
- Choosing the wrong mortgage
- Under-insuring the property



Adapted from "100 Questions Every First Time Home Buyer Should Ask" by Ilyce R. Glink

# Housing Needs vs. Wants Checklist

Features	Want	Need
<b>Location</b>		
In Particular School District		
Near Schools		
Neighborhood		
Public Transportation		
Churches and organizations		
Quiet		
Parks and Recreation		
Near Friends and Family		
Near Work		
Near Shopping		
Near Hospital		
Other		
Other		
<b>Style</b>		
Older		
Newer		
Traditional		
Contemporary		
Two-story		
Split-level		
Detached		
Multifamily		
Condo		
Manufactured		
Other		
Other		
<b>Mechanical Systems</b>		
Forced air heat		
Radiators		
Central air conditioning		
Natural Gas		
Electric Heating		
Energy Star rated		
Other		
Other		

Features	Want	Need
<b>Interior</b>		
Minimum Size of Home		
Number of bedrooms		
Number of bathrooms		
Kitchen size		
Kitchen appliances		
Living/Family room		
Dining room		
Laundry room		
Study/Office		
Mud Room		
Finished basement		
Hardwood floors		
Carpets		
Fireplace		
Ceiling Fans		
Closet space and storage		
Vaulted Ceilings		
Wired for Cable, etc.		
Water Softener		
Other		
Other		
<b>Exterior</b>		
Brick		
Stucco		
Wood siding		
Vinyl siding		
Landscaping		
Porch		
Deck		
Large yard		
Fenced Yard		
Garage		
Driveway		
Swimming Pool		
Other		

# Section 2: Financing Your Home Purchase

Loan Approval Process	34
Mortgage Types	35-36
Loan Comparison Sheet	37
Mortgage Application Checklist	38
Predatory Lending	39-40
Laws That Protect	41
Sample Documents	42-49
If a Loan Application is Rejected	50
Avoid Pitfalls	51
Case Study—Future Home Purchase	52

# Loan Approval Process

## 1. Prepare to meet the lender by...

- Building credit, saving for the down payment and closing costs, and knowing the family spending patterns. Gather all financial statements needed such as bank accounts, pay stubs, and W-2's.

## 2. Shop for a lender...

- Ask friends or family for a recommendation.
- Make sure the lender works well with the borrower.
- Compare loan products among at least 3 different lenders using the mortgage comparison checklist provided in this book. Remember to compare APR 's quoted by each lender. The APR is a good, uniform way to compare the costs of different loans, as it includes all fees.
- The buyer will also receive a Loan Estimate three business days after application. The Loan Estimate will prove an estimate of the fees associated with closing on the loan and the Annual Percentage Rate (APR) for the loan.

## 3. Once the lender and the home have been chosen...

- The lender will send the application papers (including all paystubs, taxes, bank statements, etc.) to the loan processor to ensure that everything is in order for the underwriter.
- The lender will also order an appraisal of the house.

## 4. Then the loan application will be sent to the underwriter...

- Generally the application is processed by an automatic computer underwriting system. The underwriter evaluates the case and decides whether or not the borrower should receive the loan.
- If the underwriter approves the loan, the closing papers can be prepared.
- If the underwriter does not approve the loan, then changes will be suggested and must be made for the loan to be approved. Changes may consist of repairing credit, increasing income and savings, or lowering debt.

## 5. Next, prepare for closing...

- The settlement agent will prepare necessary documents such as the title search , survey, deed, and Closing Disclosure. The Closing Disclosure will be provided to the borrower 3 business days before closing for the borrower to review. This is the time to ensure that everything is in accordance to what was quoted.

## 6. Attend closing...

- Attend closing, sign all of the necessary documents and pay the closing fees. The paper work will take a few days to process, and then the borrower will be the new owner of the home!

# Mortgage Types

## Conventional Loans

Conventional loans are made by individual banks, credit unions, and mortgage companies. They set their own rates and qualification criteria and are usually reserved for the most creditworthy borrowers. Most conventional loans conform to guidelines established by Fannie Mae and Freddie Mac which allow them to sell the loans after closing. There is often a great deal of flexibility in the loan requirements of conventional loans since individual lenders are making their own decisions on them. Any conventional loan with less than a 20% down payment will be required to have private mortgage insurance (PMI) to protect the lender in case you fail to make your mortgage payments. It is typical for most conventional loans to require at least a 5% down payment.

## Government-Insured Loans

Government-insured loans, like they sound, are insured by a government agency. You still apply for most of them through a regular lender but the government agency sets the rules and policies on what it takes to qualify for that kind of loan. Many of the loan products are designed for first time homebuyers or will accept alternate credit, making it possible for more people to qualify to purchase a home.

**FHA Loans** require a down-payment of 3.5% but will allow those funds to be gifted to you. There is an upfront and monthly mortgage insurance premium (MIP) for a minimum of 11 years up to the life of the loan.. Debt ratios are 31/43 and there are maximum amounts you can borrow.

**VA Loans** are for veterans and active-duty military personnel. No down payment is required and there is only a back-end ratio of 41%. There are variations in the benefits and fees based on length of service.

**Rural Housing Service Loans** are available only in rural areas. They have low or no down payments and flexible qualifying guidelines. There are income limits for these loans and are intended for low to moderate income buyers.

**Utah Housing Corporation** offers a first-time homebuyer program which couples a 2nd mortgage with a FHA loan. The second mortgage finances the 3 1/2% down payment required by the FHA as well as all closing costs, making it a no closing cost, no down payment loan, very desirable when the borrower has no money saved.

## Fixed-Rate Mortgages

A loan in which the interest rate, and therefore the Principal and Interest (PI) portion of payment amount, doesn't change. It will fully amortize, or pay off completely, within the set number of years, usually 15, 20, or 30 years. Fixed-rate mortgages are good for those who plan on living in the home for a while, like the predictability of a consistent payment amount, or are worried about the potentially negative risks involved with an adjustable rate mortgage.

## Adjustable-Rate Mortgages (ARMs)

A loan where the interest rate, and therefore the monthly payment, can vary or adjust up or down. The initial interest rate is usually lower than on a fixed-rate mortgage to be enticing to the borrower and they also have 15 or 30 year terms. The primary advantage of an ARM loan is that you get a lower initial interest rate and lower initial payment in return for taking a chance with future interest rate adjustments. Having lower initial payments makes it easier to qualify for an ARM loan since they're only calculating into your budgeting ratios the smaller payment amount. But beware, an adjustable rate mortgage is only advisable if you EXPECT, not just hope for, an increase in income or plan on moving before it adjusts, but even that has the potential to backfire since house values and employment are unpredictable factors.

# If You're Considering an Adjustable Rate Mortgage . . .

Mortgages, to begin with, are a complicated thing to understand. Adjustable Rate Mortgages throw in even more confusion for most borrowers because they have so many additional factors. ARMs adjust every one, three, or five years depending on the type of ARM you have as well as market conditions and rates. A few additional definitions may come in handy.

**Adjustment period:** ARMs are usually referred to with a series of numbers before them, like a 3/1 ARM or a 7/1 ARM. These numbers make reference to the adjustment period. The first number tells you the number of years that the ARM will stay at the fixed initial rate (so 3 or 7 years in the previous examples). The second number tells you the adjustment period, how often after the initial period the rate can adjust. In both the examples above, they have a 1-year adjustment period after their initial period. So after the first 3 or 7 years, the interest rate will adjust once a year, increasing or decreasing the payment once a year.

**Caps:** Limits placed on how much an interest rate can fluctuate. The “adjustment cap” is the limit on how much the interest rate can change at each adjustment period. The “lifetime cap” is the limit on how much the rate can change over the life of the mortgage. Caps can limit increases by either a dollar amount or a percentage. The most common interest rate caps specify a 1% to 3% maximum rate increase per adjustment and a 4% to 6% maximum rate increase per lifetime. Make sure to know and understand what caps are listed on your loan as well as how they will translate to your actual payment before agreeing to an Adjustable Rate Mortgage.

**Index:** The interest rate on an ARM is tied to an index, a national interest rate indicator that is tied to happenings in the stock market and US economy. A common index used is the One-Year U.S. Treasury Bill Index. When the index increases, your interest rate increases, up to the amount allowed by your adjustment or lifetime cap. So just as the stock market has highs and lows but historically is always increasing, your loan which is tied to the economy, will have highs and lows but will most likely be moving in an upward pattern.

**Margin:** The amount the lender adds to an index to determine the interest rate on an Adjustable Rate Mortgage. It represents the lender's cost and profit for doing business. The size of the margin will vary depending on the index used. Once the lender has specified the margin (once you've signed loan documents at closing) the margin will remain fixed. For example if your margin is 2% and the index is currently at 4.5%, your interest rate will be 6.5% (2% higher than the 4.5% index). If the index increases over the following year to 5.65%, when your loan adjusts, your new interest rate will be 7.65% (2% higher than 5.65% index) and your new payment will be re-calculated based on the higher interest rate. The margin is a critical factor to consider when comparing ARMs because it can have a significant impact on your monthly payments.

There are significant draw-backs to ARMs for lower income buyers. They are more attractive because they increase your buying power and let you get the more expensive home you were hoping for, but when the rates adjust and the payment becomes more than can be handled financially, many borrowers find themselves unable to make their payments.

If you are considering an Adjustable Rate Mortgage, be sure that you are either guaranteed an increased income before the adjustment period or that you anticipate the maximum adjustment and budget for that higher payment amount now. Many get an ARM because they anticipate moving or refinancing before adjustment. However, many of these people find themselves living there longer than anticipated or unable to qualify for a refinance loan when that time comes.

Approach an adjustable rate mortgage with great caution, planning, and understanding. Feel free to ask you housing counselor to clarify any questions you may have about your Adjustable Rate Mortgage.

*Adapted from the US Department of Housing and Urban Development's "The Homebuyer Education and Learning Program Guide" pp. 56-57.*

# Mortgage Loan Comparison Sheet

Use this worksheet to help compare lenders and their loan products. Categories in **bold** can be found on the Good Faith Estimate.

	Lender 1	Lender 2	Lender 3
Name of Lender			
Name of Loan Officer			
Phone Number			
Date			
<b>Basic Information on the Loan</b>			
Loan program			
<b>Loan amount requested</b>			
<b>Type of mortgage</b> ( <i>fixed-rate, adjustable-rate or other</i> )			
Minimum down payment required			
<b>Loan term</b>			
<b>Interest rate</b>			
Annual percentage rate			
<b>Points</b>			
Monthly mortgage insurance premiums			
How long mortgage insurance must be kept			
Estimated monthly escrow for taxes and hazard insurance			
Ratios			
<b>Estimated monthly payment (PITI, MI)</b>			
<b>Fees (Different lenders have different names for fees and may charge different fees)</b>			
<b>Origination fee</b>			
<b>Title Insurance Services</b>			
<b>Owner's Title Insurance</b>			
<b>Appraisal fee</b>			
<b>Government Recording Fees</b>			
<b>Transfer Taxes</b>			
<b>Other fees</b>			
<b>Other Loan Considerations</b>			
<b>Prepayment penalties</b>			
Is there a prepayment penalty?			
How much is the penalty?			
How long does the penalty period last?			
<b>Rate lock-in</b>			
Is the rate lock-in in writing?			
Is there a fee?			
When does lock-in occur?			
How long will the lock-in last?			
<b>Adjustable-Rate Loan Considerations</b>			
What is the initial rate?			
How long does the initial rate last?			
How frequently does the rate change after the initial period?			
What are the rate caps for the first adjustment, each adjustment after that and over the life of the loan?			
What index will be used?			
What is the margin?			
What could be the highest monthly payment?			
Can the loan be converted to a fixed-rate?			
Cost of conversion option			

# Mortgage Application Checklist



When applying for a mortgage loan you may be required to bring some of the following documents:

## To Verify Income (Capacity):

- W-2 forms for the last 2 years
- Pay stubs from the last 30 days with year-to-date income information
- Federal tax returns for the last 2 years
- If self-employed:
  - Year-to-date Profit and Loss Statement
  - Corporate or Partnership Tax returns
- Pension Award Letter if retired
- Social Security Award letters (if receiving Social Security)
- The lender will have you sign Authorization to Release Information so they can send a Verification of employment to all employers.

## To Verify Assets (Capital):

- Bank statements for 2 to 3 months
- Stock, mutual fund, bond, etc. statements for 2 to 3 months
- Latest retirement statements (401k, etc.)
- Explanations for large for large sum deposits
- HUD-1 Statement from the recent sale of a home or a home that may be selling
- If receiving gift money:
  - Letter establishing monetary gifts as gift money
  - Copy of checks used for gift money
  - Statement showing the gift money was deposited in an account

## To Determine Creditworthiness (Character):

- Lender will have you sign an authorization to pull a credit report.
- Landlord's name, address, and phone number
- Debt information: credit card and loan numbers, contact information for the creditors
- Explanations for any of the following that may be found on the credit report:
  - Late payments
  - Credit inquiries
  - Collections
  - Liens
  - Judgments
- Bankruptcy papers (if filed within the last 7 years)

To evaluate Collateral, the lender will order an appraisal of the property.

## Other documents to bring:

- Purchase Agreement (if you've already made an offer on a home)
- Divorce settlement papers
- Social Security card

# Predatory Lending



## What is Predatory Lending?

“Imposing unfair and abusive loan terms on borrowers” (FDIC)

“Unfair, deceptive, or fraudulent practices of some lenders during the loan origination process” (Wikipedia)

“The practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, or systematically violating those terms in ways that make it difficult for the borrower to defend against” (investordictionary.com)

## Possible Warning Signs of Predatory Lending:

Underwriting that ignores the borrower’s ability to repay

Excessive Loan to Value Ratios (100%+)

Excessively high interest rates or fees

Balloon payments

High pre-payment penalty fees

Financing in fees and closing costs

Adding charges or services you don’t need

Loan Flipping- Encouraging repeated refinancing

Rushed Closings- Encouraging borrowers to sign before reading or before paperwork is filled out

Negative Amortization or Interest-only

The terms at closing are different than you expected or were promised

## Predatory Lenders may use high-pressure sales tactics like:

“Rescuing” a homeowner from foreclosure

Making loans in conjunction with home improvement contracts

Door to door, internet, or telephone solicitations

Limited time offers

## Predatory lending can also be found in:

Payday Loans/Check Cashing

Overdraft loans with high fees

Title loans

Second Mortgages and Home Equity Lines of Credit



## **A word about Payday Loans, Check Advance Loans, and Title Loans:**

These kinds of loans prey on those who are strapped for cash. Even when repaid correctly they can cost WAY more than a regular loan. And if you have difficulty repaying them, the fees and interest rates can end up pushing the APR up over 1000%! There are many better options than high-risk loans from less than scrupulous companies. Consider: looking to a reputable bank or credit union for an overdraft on your checking or a short-term loan, borrowing from a friend or family member, getting a cash advance on a credit card, or best of all, talk to a financial counselor who can help you look at your budget and find ways to spend less and start saving for emergencies.

## **How to Protect Yourself From Predatory Loans**

Become informed and educated by coming to a Home Ownership class!

Be cautious

Especially if someone is calling or comes to your door offering a loan. Most legitimate businesses don't solicit business over the phone or door-to-door.

Remember the old saying . . .

If it sounds too good to be true, it probably is!

Predatory lenders don't care about you, just your money or asset!

Shop around (locally)

Local banks and credit unions often have better interest rates.

Ask yourself, "If I can't get a loan locally, why is this company who knows nothing about me, willing to give me a loan?"

Ask questions

Make sure you know the fee in dollars as well as APR.

Any portion of the loan terms you don't understand you have a right to clarify before signing.

Never act immediately

Take some time, overnight or a couple days, before you decide on a particular loan and make sure you know what your other options are.

Be wary of limited-time offers and up-front fees.

Avoid balloon payments and prepayment penalties

A balloon payment makes the low payments on a loan look very attractive but cause big problems when it comes due.

There are plenty of loans out there with no pre-payment penalties, there's no reason to have to get a loan that penalizes you for paying it off more quickly.

Read carefully before signing

Don't sign unless you understand and never sign if anything is left blank.

Know what you're paying for

Get an itemized receipt so you know exactly what is going to principle, interest, and fees.

Don't be afraid to walk away from a bad deal.

## **Remember:**

The Right of Rescission: On home equity loans and refinances, but not a first mortgage, you have 3 days to change your mind and cancel the loan without any penalties.

If you think you may have been a victim of a predatory or fraudulent loan, contact the Federal Trade Commission, your state Attorney General's office, or a HUD housing counseling agency..



# Laws That Protect



## TILA-RESPA

Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (Regulation X) and the Truth In Lending Act (Regulation Z) were designed to protect consumers in real estate transactions by requiring that certain information be disclosed throughout the home buying process. This allows the consumer to better understand real estate transactions, and avoid possible mistakes. For more information regarding the regulations go to <http://www.consumerfinance.gov/knowbeforeyouowe/>.

The following items are required to be disclosed under TILA-RESPA Integrated Disclosure:

Received within 3 business days after the loan application:

1. Information Booklet: contains information on real estate settlement services.
2. Loan Estimate: General information, loan terms, projected payments, and costs at closing
3. Mortgage Servicing Disclosure Statement: informs the borrower if the lender intends to keep the loan or if they plan to transfer it to a different lender.

Three business days before closing:

1. Closing Disclosure: discloses the loan terms, projected payments, costs at closing, loan costs, other costs, calculating cash to close, summaries of transactions, loan disclosures, loan calculations, disclosures, and contact information

At closing:

1. Closing Disclosure: shows the actual charges to be paid by both the buyer and the seller
2. Initial Escrow Transaction: itemizes the estimated taxes, insurance premiums, and other charges that must be paid from the escrow account during the first year of the loan.
3. Lead-Based Paint Disclosure: if built before 1978

After closing:

1. Annual Escrow Loan Statement: discloses all escrow payments and deposits that were made throughout the year, indicates any shortages or surpluses in the escrow account and how they can be remedied.
2. Servicing Transfer Statement: will be sent to the borrower of the loan if the loan is transferred to a different lender.

## Fair Housing Act

Utah and Federal Fair Housing Laws prohibit discrimination based on:

- Race
- Color
- National Origin
- Religion
- Sex
- Familial Status
- Disability
- Sexual Orientation
- Gender Identity
- Source of Income (Utah only)

\*If you feel you have been discriminated against visit [www.hud.gov](http://www.hud.gov) or [www.laborcommission.utah.gov](http://www.laborcommission.utah.gov) to file a complaint.

Source: [https://laborcommission.utah.gov/divisions/AntidiscriminationAndLabor?x\\_what\\_is\\_housing\\_discrimination.html](https://laborcommission.utah.gov/divisions/AntidiscriminationAndLabor?x_what_is_housing_discrimination.html)

Adapted from *Essentials of Real Estate Finance, 10th Edition* by David Sirota

# FICUS BANK

4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

## Loan Estimate

**DATE ISSUED** 2/15/2013  
**APPLICANTS** Michael Jones and Mary Stone  
 123 Anywhere Street  
 Anytown, ST 12345  
**PROPERTY** 456 Somewhere Avenue  
 Anytown, ST 12345  
**SALE PRICE** \$180,000

**LOAN TERM** 30 years  
**PURPOSE** Purchase  
**PRODUCT** Fixed Rate  
**LOAN TYPE**  Conventional  FHA  VA  \_\_\_\_\_  
**LOAN ID #** 123456789  
**RATE LOCK**  NO  YES, until 4/16/2013 at 5:00 p.m. EDT  
*Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 3/4/2013 at 5:00 p.m. EDT*

Loan Terms	Can this amount increase after closing?	
<b>Loan Amount</b>	\$162,000	<b>NO</b>
<b>Interest Rate</b>	3.875%	<b>NO</b>
<b>Monthly Principal &amp; Interest</b> <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	<b>NO</b>
<b>Does the loan have these features?</b>		
<b>Prepayment Penalty</b>	<b>YES</b> • As high as \$3,240 if you pay off the loan during the first 2 years	
<b>Balloon Payment</b>	<b>NO</b>	

Projected Payments	Years 1-7		Years 8-30	
<b>Payment Calculation</b>				
Principal & Interest	\$761.78		\$761.78	
Mortgage Insurance	+	82	+	—
Estimated Escrow <i>Amount can increase over time</i>	+	206	+	206
<b>Estimated Total Monthly Payment</b>	<b>\$1,050</b>		<b>\$968</b>	
<b>Estimated Taxes, Insurance &amp; Assessments</b> <i>Amount can increase over time</i>	\$206 a month	<b>This estimate includes</b> <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>		<b>In escrow?</b> <b>YES</b> <b>YES</b>

Costs at Closing		
<b>Estimated Closing Costs</b>	\$8,054	Includes \$5,672 in Loan Costs + \$2,382 in Other Costs – \$0 in Lender Credits. See page 2 for details.
<b>Estimated Cash to Close</b>	\$16,054	Includes Closing Costs. See Calculating Cash to Close on page 2 for details.

Visit [www.consumerfinance.gov/mortgage-estimate](http://www.consumerfinance.gov/mortgage-estimate) for general information and tools.

## Closing Cost Details

### Loan Costs

<b>A. Origination Charges</b>	<b>\$1,802</b>
.25 % of Loan Amount (Points)	\$405
Application Fee	\$300
Underwriting Fee	\$1,097

<b>B. Services You Cannot Shop For</b>	<b>\$672</b>
Appraisal Fee	\$405
Credit Report Fee	\$30
Flood Determination Fee	\$20
Flood Monitoring Fee	\$32
Tax Monitoring Fee	\$75
Tax Status Research Fee	\$110

<b>C. Services You Can Shop For</b>	<b>\$3,198</b>
Pest Inspection Fee	\$135
Survey Fee	\$65
Title – Insurance Binder	\$700
Title – Lender's Title Policy	\$535
Title – Settlement Agent Fee	\$502
Title – Title Search	\$1,261

<b>D. TOTAL LOAN COSTS (A + B + C)</b>	<b>\$5,672</b>
--	----------------

### Other Costs

<b>E. Taxes and Other Government Fees</b>	<b>\$85</b>
Recording Fees and Other Taxes	\$85
Transfer Taxes	

<b>F. Prepays</b>	<b>\$867</b>
Homeowner's Insurance Premium ( 6 months)	\$605
Mortgage Insurance Premium ( months)	
Prepaid Interest ( \$17.44 per day for 15 days @ 3.875%)	\$262
Property Taxes ( months)	

<b>G. Initial Escrow Payment at Closing</b>	<b>\$413</b>
Homeowner's Insurance \$100.83 per month for 2 mo.	\$202
Mortgage Insurance per month for mo.	
Property Taxes \$105.30 per month for 2 mo.	\$211

<b>H. Other</b>	<b>\$1,017</b>
Title – Owner's Title Policy (optional)	\$1,017

<b>I. TOTAL OTHER COSTS (E + F + G + H)</b>	<b>\$2,382</b>
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<b>J. TOTAL CLOSING COSTS</b>	<b>\$8,054</b>
D + I	\$8,054
Lender Credits	

### Calculating Cash to Close

Total Closing Costs (J)	\$8,054
Closing Costs Financed (Paid from your Loan Amount)	\$0
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Funds for Borrower	\$0
Seller Credits	\$0
Adjustments and Other Credits	\$0
<b>Estimated Cash to Close</b>	<b>\$16,054</b>

## Additional Information About This Loan

LENDER Ficus Bank  
 NMLS/\_\_\_ LICENSE ID  
 LOAN OFFICER Joe Smith  
 NMLS/\_\_\_ LICENSE ID 12345  
 EMAIL joesmith@ficusbank.com  
 PHONE 123-456-7890

MORTGAGE BROKER  
 NMLS/\_\_\_ LICENSE ID  
 LOAN OFFICER  
 NMLS/\_\_\_ LICENSE ID  
 EMAIL  
 PHONE

### Comparisons

Use these measures to compare this loan with other loans.

<b>In 5 Years</b>	<b>\$56,582</b> Total you will have paid in principal, interest, mortgage insurance, and loan costs. <b>\$15,773</b> Principal you will have paid off.
<b>Annual Percentage Rate (APR)</b>	<b>4.274%</b> Your costs over the loan term expressed as a rate. This is not your interest rate.
<b>Total Interest Percentage (TIP)</b>	<b>69.45%</b> The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

### Other Considerations

- Appraisal** We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.
- Assumption** If you sell or transfer this property to another person, we  
 will allow, under certain conditions, this person to assume this loan on the original terms.  
 will not allow assumption of this loan on the original terms.
- Homeowner's Insurance** This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
- Late Payment** If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
- Refinance** Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
- Servicing** We intend  
 to service your loan. If so, you will make your payments to us.  
 to transfer servicing of your loan.

### Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature \_\_\_\_\_

Date \_\_\_\_\_

Co-Applicant Signature \_\_\_\_\_

Date \_\_\_\_\_

# Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

## Closing Information

**Date Issued** 4/15/2013  
**Closing Date** 4/15/2013  
**Disbursement Date** 4/15/2013  
**Settlement Agent** Epsilon Title Co.  
**File #** 12-3456  
**Property** 456 Somewhere Ave  
 Anytown, ST 12345  
**Sale Price** \$180,000

## Transaction Information

**Borrower** Michael Jones and Mary Stone  
 123 Anywhere Street  
 Anytown, ST 12345  
**Seller** Steve Cole and Amy Doe  
 321 Somewhere Drive  
 Anytown, ST 12345  
**Lender** Ficus Bank

## Loan Information

**Loan Term** 30 years  
**Purpose** Purchase  
**Product** Fixed Rate  
**Loan Type**  Conventional  FHA  
 VA  \_\_\_\_\_  
**Loan ID #** 123456789  
**MIC #** 000654321

Loan Terms	Can this amount increase after closing?	
<b>Loan Amount</b>	\$162,000	<b>NO</b>
<b>Interest Rate</b>	3.875%	<b>NO</b>
<b>Monthly Principal &amp; Interest</b> <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	<b>NO</b>
<b>Does the loan have these features?</b>		
<b>Prepayment Penalty</b>	<b>YES</b> • As high as \$3,240 if you pay off the loan during the first 2 years	
<b>Balloon Payment</b>	<b>NO</b>	

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$761.78	\$761.78
Mortgage Insurance	+ 82.35	+ —
Estimated Escrow <i>Amount can increase over time</i>	+ 206.13	+ 206.13
<b>Estimated Total Monthly Payment</b>	<b>\$1,050.26</b>	<b>\$967.91</b>
<b>Estimated Taxes, Insurance &amp; Assessments</b> <i>Amount can increase over time See page 4 for details</i>	\$356.13 a month	<b>This estimate includes</b> <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Homeowner's Association Dues <i>See Escrow Account on page 4 for details. You must pay for other property costs separately.</i>
		<b>In escrow?</b> <b>YES</b> <b>YES</b> <b>NO</b>

Costs at Closing	
<b>Closing Costs</b>	\$9,712.10 Includes \$4,694.05 in Loan Costs + \$5,018.05 in Other Costs – \$0 in Lender Credits. See page 2 for details.
<b>Cash to Close</b>	\$14,147.26 Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

## Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
<b>A. Origination Charges</b>	<b>\$1,802.00</b>				
01 0.25 % of Loan Amount (Points)	\$405.00				
02 Application Fee	\$300.00				
03 Underwriting Fee	\$1,097.00				
04					
05					
06					
07					
08					
<b>B. Services Borrower Did Not Shop For</b>	<b>\$236.55</b>				
01 Appraisal Fee to John Smith Appraisers Inc.					\$405.00
02 Credit Report Fee to Information Inc.		\$29.80			
03 Flood Determination Fee to Info Co.	\$20.00				
04 Flood Monitoring Fee to Info Co.	\$31.75				
05 Tax Monitoring Fee to Info Co.	\$75.00				
06 Tax Status Research Fee to Info Co.	\$80.00				
07					
08					
09					
10					
<b>C. Services Borrower Did Shop For</b>	<b>\$2,655.50</b>				
01 Pest Inspection Fee to Pests Co.	\$120.50				
02 Survey Fee to Surveys Co.	\$85.00				
03 Title – Insurance Binder to Epsilon Title Co.	\$650.00				
04 Title – Lender’s Title Insurance to Epsilon Title Co.	\$500.00				
05 Title – Settlement Agent Fee to Epsilon Title Co.	\$500.00				
06 Title – Title Search to Epsilon Title Co.	\$800.00				
07					
08					
<b>D. TOTAL LOAN COSTS (Borrower-Paid)</b>	<b>\$4,694.05</b>				
Loan Costs Subtotals (A + B + C)	\$4,664.25	\$29.80			
<b>Other Costs</b>					
<b>E. Taxes and Other Government Fees</b>	<b>\$85.00</b>				
01 Recording Fees Deed: \$40.00 Mortgage: \$45.00	\$85.00				
02 Transfer Tax to Any State			\$950.00		
<b>F. Prepays</b>	<b>\$2,120.80</b>				
01 Homeowner’s Insurance Premium ( 12 mo.) to Insurance Co.	\$1,209.96				
02 Mortgage Insurance Premium ( mo.)					
03 Prepaid Interest ( \$17.44 per day from 4/15/13 to 5/1/13 )	\$279.04				
04 Property Taxes ( 6 mo.) to Any County USA	\$631.80				
05					
<b>G. Initial Escrow Payment at Closing</b>	<b>\$412.25</b>				
01 Homeowner’s Insurance \$100.83 per month for 2 mo.	\$201.66				
02 Mortgage Insurance per month for mo.					
03 Property Taxes \$105.30 per month for 2 mo.	\$210.60				
04					
05					
06					
07					
08 Aggregate Adjustment	- 0.01				
<b>H. Other</b>	<b>\$2,400.00</b>				
01 HOA Capital Contribution to HOA Acre Inc.	\$500.00				
02 HOA Processing Fee to HOA Acre Inc.	\$150.00				
03 Home Inspection Fee to Engineers Inc.	\$750.00			\$750.00	
04 Home Warranty Fee to XYZ Warranty Inc.			\$450.00		
05 Real Estate Commission to Alpha Real Estate Broker			\$5,700.00		
06 Real Estate Commission to Omega Real Estate Broker			\$5,700.00		
07 Title – Owner’s Title Insurance (optional) to Epsilon Title Co.	\$1,000.00				
08					
<b>I. TOTAL OTHER COSTS (Borrower-Paid)</b>	<b>\$5,018.05</b>				
Other Costs Subtotals (E + F + G + H)	\$5,018.05				
<b>J. TOTAL CLOSING COSTS (Borrower-Paid)</b>	<b>\$9,712.10</b>				
Closing Costs Subtotals (D + I)	\$9,682.30	\$29.80	\$12,800.00	\$750.00	\$405.00
Lender Credits					

### Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Loan Estimate	Final	Did this change?
Total Closing Costs (J)	\$8,054.00	\$9,712.10	<b>YES</b> • See <b>Total Loan Costs (D)</b> and <b>Total Other Costs (I)</b>
Closing Costs Paid Before Closing	\$0	– \$29.80	<b>YES</b> • You paid these Closing Costs <b>before closing</b>
Closing Costs Financed (Paid from your Loan Amount)	\$0	\$0	<b>NO</b>
Down Payment/Funds from Borrower	\$18,000.00	\$18,000.00	<b>NO</b>
Deposit	– \$10,000.00	– \$10,000.00	<b>NO</b>
Funds for Borrower	\$0	\$0	<b>NO</b>
Seller Credits	\$0	– \$2,500.00	<b>YES</b> • See Seller Credits in <b>Section L</b>
Adjustments and Other Credits	\$0	– \$1,035.04	<b>YES</b> • See details in <b>Sections K and L</b>
<b>Cash to Close</b>	<b>\$16,054.00</b>	<b>\$14,147.26</b>	

### Summaries of Transactions

Use this table to see a summary of your transaction.

#### BORROWER'S TRANSACTION

<b>K. Due from Borrower at Closing</b>	<b>\$189,762.30</b>
01 Sale Price of Property	\$180,000.00
02 Sale Price of Any Personal Property Included in Sale	
03 Closing Costs Paid at Closing (J)	\$9,682.30
04	
<b>Adjustments</b>	
05	
06	
07	
<b>Adjustments for Items Paid by Seller in Advance</b>	
08 City/Town Taxes to	
09 County Taxes to	
10 Assessments to	
11 HOA Dues 4/15/13 to 4/30/13	\$80.00
12	
13	
14	
15	
<b>L. Paid Already by or on Behalf of Borrower at Closing</b>	<b>\$175,615.04</b>
01 Deposit	\$10,000.00
02 Loan Amount	\$162,000.00
03 Existing Loan(s) Assumed or Taken Subject to	
04	
05 Seller Credit	\$2,500.00
<b>Other Credits</b>	
06 Rebate from Epsilon Title Co.	\$750.00
07	
<b>Adjustments</b>	
08	
09	
10	
11	
<b>Adjustments for Items Unpaid by Seller</b>	
12 City/Town Taxes 1/1/13 to 4/14/13	\$365.04
13 County Taxes to	
14 Assessments to	
15	
16	
17	
<b>CALCULATION</b>	
Total Due from Borrower at Closing (K)	\$189,762.30
Total Paid Already by or on Behalf of Borrower at Closing (L)	– \$175,615.04
<b>Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower</b>	<b>\$14,147.26</b>

#### SELLER'S TRANSACTION

<b>M. Due to Seller at Closing</b>	<b>\$180,080.00</b>
01 Sale Price of Property	\$180,000.00
02 Sale Price of Any Personal Property Included in Sale	
03	
04	
05	
06	
07	
08	
<b>Adjustments for Items Paid by Seller in Advance</b>	
09 City/Town Taxes to	
10 County Taxes to	
11 Assessments to	
12 HOA Dues 4/15/13 to 4/30/13	\$80.00
13	
14	
15	
16	
<b>N. Due from Seller at Closing</b>	<b>\$115,665.04</b>
01 Excess Deposit	
02 Closing Costs Paid at Closing (J)	\$12,800.00
03 Existing Loan(s) Assumed or Taken Subject to	
04 Payoff of First Mortgage Loan	\$100,000.00
05 Payoff of Second Mortgage Loan	
06	
07	
08 Seller Credit	\$2,500.00
09	
10	
11	
12	
13	
<b>Adjustments for Items Unpaid by Seller</b>	
14 City/Town Taxes 1/1/13 to 4/14/13	\$365.04
15 County Taxes to	
16 Assessments to	
17	
18	
19	
<b>CALCULATION</b>	
Total Due to Seller at Closing (M)	\$180,080.00
Total Due from Seller at Closing (N)	– \$115,665.04
<b>Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller</b>	<b>\$64,414.96</b>

## Additional Information About This Loan

### Loan Disclosures

#### Assumption

If you sell or transfer this property to another person, your lender

- will allow, under certain conditions, this person to assume this loan on the original terms.
- will not allow assumption of this loan on the original terms.

#### Demand Feature

Your loan

- has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.
- does not have a demand feature.

#### Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

#### Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- may have monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- do not have a negative amortization feature.

#### Partial Payments

Your lender

- may accept payments that are less than the full amount due (partial payments) and apply them to your loan.
- may hold them in a separate account until you pay the rest of the payment, and then apply the full payment to your loan.
- does not accept any partial payments.

If this loan is sold, your new lender may have a different policy.

#### Security Interest

You are granting a security interest in  
456 Somewhere Ave., Anytown, ST 12345

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

#### Escrow Account

For now, your loan

- will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: <i>Homeowner's Insurance</i> <i>Property Taxes</i>
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: <i>Homeowner's Association Dues</i>  You may have other property costs.
Initial Escrow Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Escrow Payment	\$206.13	The amount included in your total monthly payment.

- will not have an escrow account because  you declined it  your lender does not offer one. You must directly pay your property costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

#### In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

### Loan Calculations

<b>Total of Payments.</b> Total you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.	\$285,803.36
<b>Finance Charge.</b> The dollar amount the loan will cost you.	\$118,830.27
<b>Amount Financed.</b> The loan amount available after paying your upfront finance charge.	\$162,000.00
<b>Annual Percentage Rate (APR).</b> Your costs over the loan term expressed as a rate. This is not your interest rate.	4.174%
<b>Total Interest Percentage (TIP).</b> The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.46%



**Questions?** If you have questions about the loan terms or costs on this form, use the contact information below. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at [www.consumerfinance.gov/mortgage-closing](http://www.consumerfinance.gov/mortgage-closing)

### Other Disclosures

#### Appraisal

If the property was appraised for your loan, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.

#### Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- what is a default on the loan,
- situations in which your lender can require early repayment of the loan, and
- the rules for making payments before they are due.

#### Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and have to pay any debt remaining even after foreclosure. You may want to consult a lawyer for more information.
- state law does not protect you from liability for the unpaid balance.

#### Refinance

Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

#### Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

### Contact Information

	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
<b>Name</b>	Ficus Bank		Omega Real Estate Broker Inc.	Alpha Real Estate Broker Co.	Epsilon Title Co.
<b>Address</b>	4321 Random Blvd. Somecity, ST 12340		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
<b>NMLS ID</b>					
<b>ST License ID</b>			Z765416	Z61456	Z61616
<b>Contact</b>	Joe Smith		Samuel Green	Joseph Cain	Sarah Arnold
<b>Contact NMLS ID</b>	12345				
<b>Contact ST License ID</b>			P16415	P51461	PT1234
<b>Email</b>	joesmith@ ficusbank.com		sam@omegare.biz	joe@alphare.biz	sarah@ epsilontitle.com
<b>Phone</b>	123-456-7890		123-555-1717	321-555-7171	987-555-4321

### Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature

Date

Co-Applicant Signature

Date

# If a Loan Application is Rejected

## When Credit is Denied

- Ask the lender the reason for the denial. The lender is required to give the borrower a written reason for the denial. Anyone denied credit due to the information on their credit report is entitled to one free credit report from the bureaus where their credit history was retrieved.
- Ask the lender what needs to be improved to increase the chances of the loan being approved.
- Do not assume that one rejection means rejection from another lender.
- The borrower should continue building and improving their credit. It can take from six months to two years of on time payments to rebuild a credit record.

## Reasons for Loan Rejection

- Poor credit
  - Credit must be good for at least one year.
  - Credit report may have incorrect information. Write a dispute letter asking the bureau to investigate.
  - Repay debts, and bring debts current.
- Inadequate income or down payment
  - Make adjustments to the household budget to allow for more savings that could be used for the down payment.
  - Get a second job. This is a good way to earn the extra money needed for down payment or closing costs.
  - Increase income. Any increase in income that is made to qualify for a loan will need to be maintained throughout the life of the loan or the borrower may default on the loan. Monthly payments are based on the borrower's ability to pay. If a second income makes the loan possible, the second income will also be necessary to make the monthly payments.
  - Wait until sufficient income can be achieved (raise, graduate from school etc.).
- Insufficient funds
  - Ask seller to pay closing costs, or consider a buydown.
  - Use a monetary gift from a family member.
  - Implement a budget that includes a plan to save money for the home purchase.
- Too much debt
  - Pay off or greatly reduce debts, then reapply.
  - If close to paying off debts, explain this to the lender.
- House is rejected
  - House may have been unable to get a clear title.
  - House appraisal was lower than the asking price.
  - House may need major repairs.

## Other Options to Consider

- Non conforming or subprime loans - For borrowers with poor credit, these loans have higher interest rates and can have prepayment penalties. If the borrower intends to use a subprime loan and then later plans to refinance at a better interest rate, a prepayment penalty may be applicable. Some subprime loans can be predatory. For more information see the Predatory Lending and Payday Loans section of this handbook.
- If the borrower feels they have been denied credit in a discriminatory manner, there are laws to protect them. The Equal Credit Opportunity Act and the Fair Housing Act protect consumers against discrimination.

# Avoid Pitfalls

WHAT NOT TO DO	WHY?
Don't sign documents where important details are left blank or documents you don't understand	You are agreeing to repay a substantial amount of money over an extended period of time. Make sure you know what you are getting into and protect yourself from fraud.
Don't assume you are on your own.	HUD-approved housing counselors can help you navigate the process and find programs available to help first-time homebuyers.  You can find a HUD-approved housing counselor in your area at <a href="http://consumerfinance.gov/find-a-housing-counselor">consumerfinance.gov/find-a-housing-counselor</a> or call HUD's interactive voice system at (800) 569-4287
Don't take on more mortgage than you want or can afford	Make certain that you want the loan that you are requesting and that you are in a position to live up to your end of the bargain.
Don't count on refinancing, and don't take out a loan if you already know you will have to change it later.	If you are not comfortable with the loan offered to you, ask your lender if there is another option that works for you. Keep looking until you find the right loan for your situation.
Don't fudge numbers or documents.	You are responsible for an accurate and truthful application. Be upfront about your situation. Mortgage fraud is a serious offence.
Don't hide important financial information.	Hiding negative information may delay or derail your loan application.

Resource: Your Home Loan Toolkit, pg. 14

[http://files.consumerfinance.gov/f/201503\\_cfpb\\_your-home-loan-toolkit-web.pdf](http://files.consumerfinance.gov/f/201503_cfpb_your-home-loan-toolkit-web.pdf)

# Case Study – Future Home Purchase

Sammy and Sally Spender earn \$33,000 a year. They currently have approximately \$1,000 in their savings account. They do not contribute to their account on a regular basis. They have a family budget but rarely have money to put into savings at the end of the month. They have always made their credit payments on time and are currently on time with their rent and utility payments. They have one child and are thinking of having another within a year. Below are the details of their regular monthly expenses:

Rent: \$550	Magazines: \$20
Utilities: \$120	Gym Membership: \$50
Telephone: \$100	Entertainment: \$100
Cell Phone: \$80	Clothing: \$150
Car Insurance: \$100	Visa: \$30 (\$2000 balance)
Cable TV: \$55	Internet Access: \$20
Medical Bills: \$50 (\$500 balance)	Vacation: \$2000 (per year)
Groceries: \$350	Miscellaneous: \$20
Eating Out: \$250	Car Payment: \$150 (\$2100 balance)
Gasoline: \$100	Allowances: \$40
Child Care: \$200	Movie Rentals: \$15

**Monthly Income** \_\_\_\_\_

**Estimated Monthly Expenses** \_\_\_\_\_

Using the information presented in Section 1 and 2 of the workbook, help Sammy and Sally Spender prepare for purchasing a home in the future by answering the following questions.

1. What budgeting methods could they implement?

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2. In what areas could they apply the step-down principle to decrease expenses?

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3. Sally and Sammy would like to improve their credit score, using the Credit Scoring Pyramid in Section 1 explain how this could be done.

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4. According to the Housing & Debt-to-Income ratios, what would be an affordable house payment for the Spenders?

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5. What should Sally & Sammy consider as they are shopping for a mortgage?

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# Section 3: Choosing Your Home

Working with a Real Estate Agent	54-56
Home Inspections	57-61
Crossword: Choosing Your Home	62

# Working with a Real Estate Agent

## Real Estate Professionals

An important member of your homebuying team is a real estate agent or realtor who will not only help you locate a home that fits your needs and budget but more importantly, will make sure the proper documents get submitted in the right way and in a timely manner. They are a wealth of information and can help you negotiate your deal and protect your interests. They will save you time and sometimes money too. The best way to choose a real estate professional is to get recommendations from friends, family, and trusted professionals then interview more than one before choosing to work with them.

## So what's the difference between a real estate agent and a realtor?

- **Real Estate Agent:** A professional licensed by the state who has been specially trained to assist people to buy, sell, or rent houses, other buildings, and land.
- **Realtor:** A licensed real estate agent who is a member of the National Association of Realtors (NAR) and subscribes to their code of ethics on the local, state, and national levels. The NAR also acts as a policing entity so that if you ever have a problem with a Realtor acting unethically you can file a complaint against them. So hiring a Realtor vs. a Real Estate Agent doesn't necessarily give you a higher level of service, it just gives you more protection and ideally, more peace of mind.

Realtors and Real Estate Agents usually work under the supervision of a Real Estate Broker, a person or company who has been licensed by their state to own and operate a real estate agency.

## Who do Real Estate professionals work for and how are they paid?

In most real estate transactions there are two agents involved, a seller's agent and a buyer's agent.

- **Seller's Agent (or Listing Agent):** The real estate professional who has a contract with the seller of a house to market the property for sale and represent the seller when offers are made. A listing agent legally represents the seller and is required to get the best terms and conditions for the seller. A listing agent is paid by the seller from the proceeds of the sale, which is usually a percentage of the purchase price.
- **Buyer's Agent:** The real estate professional who legally represents the buyer and is required to get the best terms and conditions for the buyer. Their job is to show you homes that fit your wants and help you negotiate a purchase agreement. A buyer signs a buyer-broker agreement covering a specific time frame that designates the real estate agent as their agent and lays out the terms of the contract as well as payment. Buyer's agents are typically paid by splitting the sales commission with the listing agent.
- **Dual Agents:** A real estate professional who legally represents both the buyer and the seller in a single real estate transaction. Usually, both parties have to consent to this.

## What your Real Estate Professional should do for you

Remember, your agent works for you while you're under contract. Don't be afraid to ask for explanations or further help. It's their job. Here are the responsibilities of your buyer's agent:

- Talk to you about what you want in a house
- Give you information about the neighborhood in which you want to buy a home
- Recommend lenders to help you get pre-qualified or pre-approved so you can know how much you can afford to spend
- Research all the homes available in your price range with the features you want
- Give you copies of listing sheets that describe houses that fit your needs
- Take you to see homes that interest you
- Help you determine how much houses are worth by giving you information about comparable homes that have sold recently
- Help you prepare the purchase offer in a way that will protect you and is also attractive to the seller
- Negotiate with the seller to get the best price for you
- Refer you to other professionals including appraisers, home inspectors, title companies
- Explain all the legal paperwork to you so you understand what you are signing

# Real Estate Terms & Definitions

**Buyer Broker Agreement:** The contract signed by either a seller and real estate professional or a buyer and a real estate professional. The buyer or seller agrees to hire that certain real estate professional as their contracted agent. It lays out the details of the contract as well as how the agent will get paid for their services.

**Real Estate Purchase Contract:** Commonly known as *making an offer*, a purchase contract proposes to the seller a certain purchase price as well as certain conditions of the offer and is usually contingent upon the inspection, appraisal, clear title, and receiving a loan. The seller can accept, counter offer, or reject the offer.

**Seller's Property Condition Disclosure:** A document furnished to a prospective buyer that discloses all known faults and conditions of the home. Must be given to the prospective buyer within a certain number of days after an accepted offer.

**Buyer Due Diligence Checklist:** By a certain date, which was laid out in the original purchase contract, buyers must review and sign that they have reviewed, all information that has been submitted about the home and that they have conducted their own research about the home and it's surroundings and they feel comfortable with it.

**Contingencies:** Events that must happen before you or the seller can complete the purchase. If contingencies are not satisfactorily taken care of before the closing the sale is cancelled and the buyer gets their earnest money back. Typical contingencies are securing financing, sufficient appraisal, the sale of a current home, clear title, or a clear home inspection.

**Earnest Money:** Money included with a purchase contract to demonstrate good faith in following through with purchase contract agreements. This is usually less than 3% of the purchase price.

**Counter Offers:** Once a purchase contract, or offer, has been submitted to the seller, they have the opportunity to propose revisions to the contract. Both sellers and buyers can counter offer until mutual agreement has been reached.

**Final Walk-Through:** No more than 7 days before closing, the buyer has the right and responsibility to go back through the home to make sure it is in the condition agreed upon when the purchase contract was written.

**Consequences of Not Keeping Deadlines Established in Purchase Contract:** If you have not met a contingency by the deadline your real estate agent will need to help you add an addendum to the contract. If no addendum is completed you have breached the contract and it is automatically cancelled and the seller keeps the earnest money.

**Walking Away from a Purchase Contract:** As a buyer you can walk away from a purchase contract for no contracted reason but you will lose your earnest money. A seller can walk away from a purchase contract but they must pay you back your earnest money and match the same amount with their own funds.

# Prospective Agent Worksheet

It is possible to buy a home without the help of a real estate professional, but your choices of homes may be limited. Since most homes are listed with an agent, you could only choose from homes that are *For Sale by Owner*. If you do choose to buy without the assistance of a professional consider hiring a real estate attorney to review and prepare your documents and you will want an independent appraisal to make sure the house is worth the asking price.

## Finding an Agent

Start with asking friends, family, or trusted professionals who they would recommend or had good experiences working with. If you are moving to a new city there are services to match buyers with agents or you could visit a local broker's office and the principle broker could recommend someone just right for you. Always interview more than one agent. You can check their professional record by contacting the state real estate commission or a local Association of Realtors.

Name of Company			
Phone Number			
Managing Broker			
Agent's Name			
Number of years they've sold real estate full-time			
Well informed about target community?			
Did they pay attention to my concerns?			
Comfort level. Would I feel comfortable working with them?			
References			
Other Notes			

# Home Inspections

You've found your home, the offer has been accepted, excitement is building, but there's still a lot to do before you're ready for closing and ready to move in. Once you bring your lender the accepted Purchase Agreement, they can really start to do their part of the job. They have appraisals and title reports to order, verifications, underwriting and other documents to prepare. They will stay busy right up until the day of closing making sure everything is in order and ready for you to move in. But there are a few things you'll need to be doing as well, specifically, getting a home inspection (and any other required or recommended inspections) and choosing a homeowner's insurance policy, not to mention packing your belongings.

## The Home Inspection

Schedule your home inspection soon after your offer has been accepted. If the owner is still living in the home you'll have to coordinate that with them. It is important to be present during the inspection so you can ask questions. Within a few days after the inspection you'll receive 2 copies of the inspection report. These are VERY informative documents that you'll want to always keep.

Home inspections include an examination of:

- Heating system and Air Conditioning unit
- Plumbing and electrical systems
- Roof and Attic
- Walls, floors, windows, doors
- Foundation and all visible structures

An inspection will:

- Point out the need for repairs now or in the future
- Help you determine if the cost of those repairs are worth what you're paying for the home
- Educate you about features of the home you may have missed
- Help you make an educated decision on the biggest investment you may ever make

If the report reveals problems you have 2 choices:

1. Negotiate the purchase price or terms. The seller may be willing to adjust the price or have the defect repaired.
2. Most purchase contracts have a contingency to withdraw the offer without losing your earnest money if a problem is revealed by an inspection.

A home inspection will usually cost between \$300 and \$500 and will usually be required by your lender, but even if it is not required it's always a good idea to get one. The best way to find a home inspector is by word of mouth: friends, family, neighbors, your lender, even your real estate agent. Make sure to interview them before requesting their services. **Important:** In Utah, home inspectors are not required to be licensed or certified. This is why it is important to shop around and ask real estate agents or lenders for their recommendations on who you will have inspecting your home. Refer to page 59 for ten important questions to ask your home inspector .

## CAUTION—Your Action is Required Soon

U.S. Department of Housing  
and Urban Development  
Federal Housing Administration (FHA)



OMB Approval No: 2502-0538  
(exp. 06/30/2021)

# For Your Protection: Get a Home Inspection

## You must make a choice on getting a Home Inspection. It is not done automatically.

You have the right to examine carefully your potential new home with a professional home inspector. But a home inspection is not required by law, and will occur only if you ask for one and make the arrangements. You may schedule the inspection for before or after signing your contract. You may be able to negotiate with the seller to make the contract contingent on the results of the inspection. For this reason, it is usually in your best interest to conduct your home inspection as soon as possible if you want one. In a home inspection, a professional home inspector takes an in-depth, unbiased look at your potential new home to:

- ✓ Evaluate the physical condition: structure, construction, and mechanical systems;
- ✓ Identify items that need to be repaired and
- ✓ Estimate the remaining useful life of the major systems, equipment, structure, and finishes.

## The Appraisal is NOT a Home Inspection and does not replace an inspection.

An appraisal estimates the market value of the home to protect the lender. An appraisal does not examine or evaluate the condition of the home to protect the homebuyer. An appraisal only makes sure that the home meets FHA and/or your lender's minimum property standards. A home inspection provides much more detail.

## FHA and Lenders may not Guarantee the Condition of your Potential New Home

If you find problems with your new home after closing, neither FHA nor your lender may give or lend you money for repairs. Additionally, neither FHA nor your lender may buy the home back from you. Ask a qualified home inspector to inspect your potential new home and give you the information you need to make a wise decision.

## Your Home Inspector may test for Radon, Health/Safety, and Energy Efficiency

EPA, HUD and DOE recommend that houses be tested and inspected for radon, health and safety, and energy efficiency, respectively. Specific tests are available to you. You may ask about tests with your home inspector, in addition to the structural and mechanical systems inspection. For more information: Radon -- call 1-800-SOS-Radon; Health and Safety -- see the HUD Healthy Homes Program at [www.HUD.gov](http://www.HUD.gov); Energy Efficiency -- see the DOE EnergyStar Program at [www.energystar.gov](http://www.energystar.gov).

## Selecting a Trained Professional Home Inspector

Seek referrals from friends, neighbors, other buyers, realtors, as well as local listings from licensing authorities and local advertisements. In addition, consult the American Society of Home Inspectors (ASHI) on the web at: [www.ashi.org](http://www.ashi.org) or by telephone at: 1-800-743-2744.

I / We (circle one) have read this document and understand that if I/we wish to get a home inspection, it is best do so as soon as possible. The appraisal is not a home inspection. I/we will make a voluntary choice whether to get a home inspection. A home inspection will be done only if I/we ask for one and schedule it. Your lender may not perform a home inspection and neither FHA nor your lender may guarantee the condition of the home. Health and safety tests can be included in the home inspection if I/we choose.

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_  
(Signed) Homebuyer

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_  
Date

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_  
(Signed) Homebuyer

\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_  
Date

Public reporting burden for this collection is estimated to average 30 minutes to review the instructions, find the information, and complete this form. This agency cannot conduct or sponsor a collection of information unless a valid OMB number is displayed. You are not required to respond to a collection of information if this number is not displayed. Valid OMB numbers can be located on the OMB Internet page at <http://www.whitehouse.gov/library/omb/OMBINVC.html> - HUD if desired you can call 1-800-827-1000 to get information on where to send comments or suggestions about this form.



HUD-92564-CN (expiration)

# Ten Important Questions to Ask Your Home Inspector

## **1. What does your inspection cover?**

The inspector should ensure that their inspection and inspection report will meet all applicable requirements in your state if applicable and will comply with a well-recognized standard of practice and code of ethics. You should be able to request and see a copy of these items ahead of time and ask any questions you may have. If there are any areas you want to make sure are inspected, be sure to identify them upfront.

## **2. How long have you been practicing in the home inspection profession and how many inspections have you completed?**

The inspector should be able to provide his or her history in the profession and perhaps even a few names as referrals. Newer inspectors can be very qualified, and many work with a partner or have access to more experienced inspectors to assist them in the inspection.

## **3. Are you specifically experienced in residential inspection?**

Related experience in construction or engineering is helpful, but is no substitute for training and experience in the unique discipline of home inspection. If the inspection is for a commercial property, then this should be asked about as well.

## **4. Do you offer to do repairs or improvements based on the inspection?**

Some inspector associations and state regulations allow the inspector to perform repair work on problems uncovered in the inspection. Other associations and regulations strictly forbid this as a conflict of interest.

## **5. How long will the inspection take?**

The average on-site inspection time for a single inspector is two to three hours for a typical single-family house; anything significantly less may not be enough time to perform a thorough inspection. Additional inspectors may be brought in for very large properties and building.

## **6. How much will it cost?**

Costs vary dramatically, depending on the region, size and age of the house, scope of services and other factors. A typical range might be \$300—\$500, but consider the value of the home inspection in terms of the investment being made. Cost does not necessarily reflect quality. HUD does not regulate home inspection fees.

## **7. What type of inspection report do you provide and how long will it take to receive the report?**

Ask to see samples and determine whether or not you can understand the inspector's reporting style and if the time parameters fulfill your needs. Most inspectors provide their full report within 24 hours of the inspection.

## **8. Will I be able to attend the inspection?**

This is a valuable educational opportunity, and an inspector's refusal to allow this should raise a red flag. Never pass up this opportunity to see your prospective home through the eyes of an expert.

## **9. Do you maintain membership in a professional home inspector association?**

There are many state and national associations for home inspectors. Request to see their membership ID, and perform whatever due diligence you deem appropriate.

## **10. Do you participate in continuing education programs to keep your expertise up to date?**

One can never know it all, and the inspector's commitment to continuing education is a good measure of his or her professionalism and service to the consumer. This is especially important in cases where the home is much older or includes unique elements requiring additional or updated training.

# Additional Inspections to Consider

## What is Radon?

An odorless, tasteless gas. Occurs from natural radioactive decay of uranium and radium in the soil.

## Health Effects

Radon is the second leading cause of lung cancer in the United States today (behind smoking).

## How does radon enter your home?

It can come from well water, natural gas, and, in rare cases, some building materials.

All three of these conditions must be present to have a radon problem:

1. There must be uranium in the soil.
2. Pathways for radon to enter indoors must be present (holes, cracks, plumbing, and sumps).
3. Air pressure indoors must be lower than in the surrounding soil.

Use test kits that say “meets EPA requirements.” They are relatively inexpensive. If high levels of radon are found, a second, longer test is recommended to give more accurate information about radon in the home.

## Reducing radon problems in your home:

There are a variety of things that can be done to reduce radon such as:

- Plugging all the leaks – such as caulking cracks in basement walls
- Changing the ventilation patterns of your home so that radon isn’t drawn inside
- Testing the well water.

## Mold: Health Effects

Inhaling or touching mold or mold spores may cause allergic reactions in sensitive individuals. Allergic responses include hay fever-type symptoms, such as sneezing, runny nose, red eyes, and skin rash (dermatitis). Allergic reactions to mold are common. They can be immediate or delayed.

Molds can also cause asthma attacks in people with asthma who are allergic to mold. In addition, mold exposure can irritate the eyes, skin, nose, throat, and lungs of both mold-allergic and non-allergic people.

## Where is Mold?

It usually can be seen or smelled, it has a musty odor. Inspect for mold where ever there are water stains, standing water, or moist surfaces. Damp carpets, walls feeling cold to the touch, and areas where there is poor ventilation may have mold growth.

## Ways to control mold

- Clean, disinfect (with 1 cup of chlorine bleach per gallon of water), and quickly dry surfaces.
- Prevent standing water, such as in basements or the drip pans of refrigerator and air conditioners.
- Fix leaks and seepage problems immediately.
- Dispose of wet carpeting and other damp fabric furnishings.
- Use fans that exhaust to the outside when bathing, showering, or cooking.
- Vent all combustion appliances to the outside.
- Increase air circulation by opening closet doors and moving furniture away from walls.
- Limit the use of humidifiers.

## What is Asbestos?

Asbestos is a mineral fiber that can be positively identified only with a special type of microscope. In the past, asbestos was added to a variety of products to strengthen them and to provide heat insulation and fire resistance.

## Health effects

- Respiratory problems
- Lung diseases
- Asbestosis: cancer of lungs

## Where is Asbestos Typically Found?

- Insulation around pipes and duct wrap
- Vinyl floor tiles and spackling
- Roof and siding shingles
- Floor tiles
- Sound proofing materials
- Heating ducts and flues
- Textured ceilings and decorative finishes

## Detecting Asbestos

- Special testing is needed – contact your local health department for more information.

## Reducing Your Asbestos Risk

- If it is in good condition – Leave It Alone!
- Have laboratory test done to confirm/deny the presence of asbestos.
- If it is damaged or disintegrating – seal, cover, or enclose it.
- Have removal and major repair done by people trained and qualified in handling asbestos. It is highly recommended that sampling and minor repair also be done by asbestos professionals.

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**What is Meth Residue?**

Residue left on the surfaces of a home where the drug Methamphetamine has been used or manufactured.

**Health Effects**

Respiratory problems, seizures, and kidney problems.

**Warning signs that a property may have meth residue:**

- Strong smell of urine, or unusual chemical smells like ether, ammonia or acetone
- Bottles or jars with rubber tubing attached and clear liquid with a white or red colored solid on the bottom. Glass cookware or frying pans containing a powdery residue.
- An unusually large number of cans of camp fuel, paint thinner, acetone, starter fluid.
- Large amounts of lithium batteries, especially ones that have been stripped.

In order for a health department to accept test results, the test must be performed by a Certified Decontamination Specialist. Test kits obtained from home inspectors or home supply stores should only be used as a screening tool. Check with the health department over your county for additional specifics.

**If meth residue is found in the home:**

If meth residue is found, the home should not be occupied until it has been decontaminated according to state standards.

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**Lead Based Paint:**

Any home built before 1978 will be probably be required to have a lead-based paint inspection for loan approval. Lead paint was banned in 1978 but houses built into the mid1980's may still contain lead based paint.

An inspection will tell you if the home contains lead paint. A Risk Assessment will tell you whether there is lead paint in the home and how to remedy it.

**Lead Paint is a hazard** when it is damaged or in poor condition such as when it is cracked, peeling or chipping.

**Health Effects in Children**

Damage to the brain and nervous system, behavioral and learning difficulties, slowed growth, hearing problems, and headaches.

**Reducing Lead Paint Hazards:**

- Clean floors, window frames, and other surfaces weekly.
- Wash children's hands often
- Keep children from chewing on painted surfaces.
- Ensure children eat nutritious low fat meals high in iron and calcium
- Clean up any paint chips immediately, wear a dust mask
- Thoroughly rinse out sponges and mops after cleaning dusty areas.

**Health Effects in Adults**

Reproductive problems, high blood pressure, nerve disorders, memory, concentration problems, and muscle and joint pain.

**If lead paint is found:**

Do not sand, torch or scrape the paint. Lead paint should be removed by a certified abatement contractor.

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**Energy Efficiency**

For affordable housing to be truly affordable, it must be energy efficient. ENERGY STAR qualified homes save 15-20% on utilities over homes built to current energy code. Besides lower utility bills, ENERGY STAR qualified homes are more comfortable and contribute to a healthier environment.

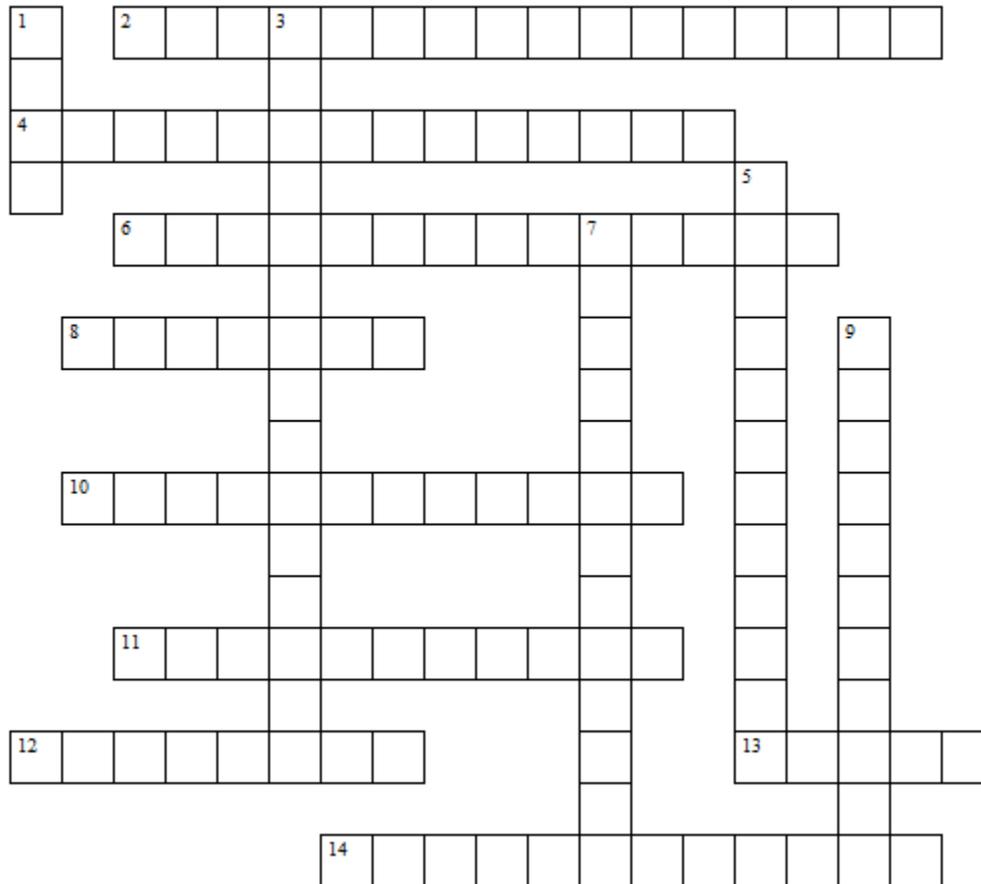
**Can an older home be made Energy Efficient?**

Although ENERGY STAR qualification is easiest to achieve with new home construction, older homes can be upgraded to qualify as ENERGY STAR. Rating costs and costs to upgrade an existing home to ENERGY STAR qualifying levels can be recaptured with help from utility rebates and any state and federal incentives.

**What does an ENERGY STAR home have that is different than a Non-energy star home?**

The EPA's ENERGY STAR designation is the best way to identify a home as energy efficient. ENERGY STAR homes have better insulation, higher efficiency heating and cooling equipment and appliances, efficient lighting and fewer leaks in ducts and walls.

# Crossword: Choosing Your Home

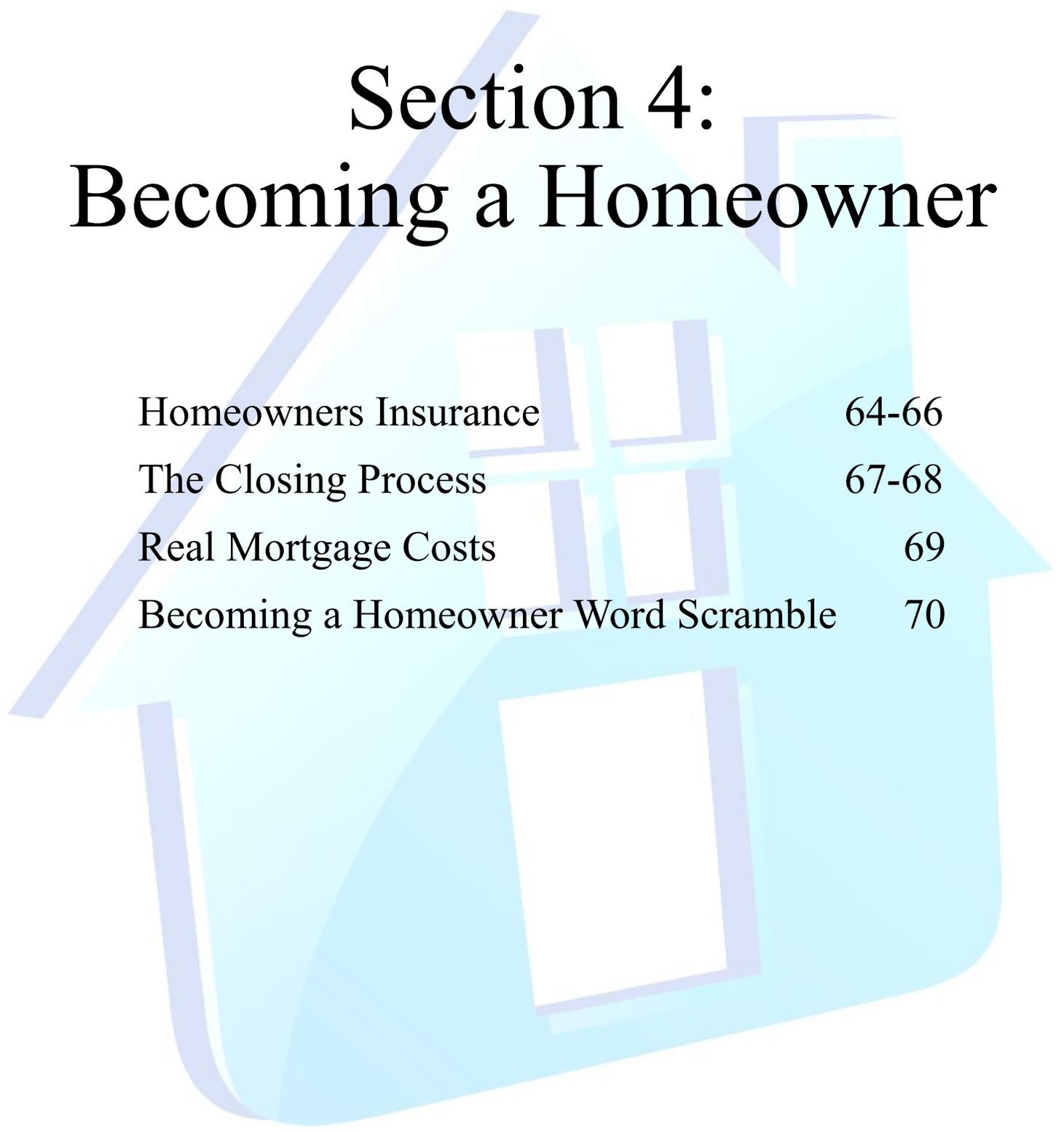


**Across:**

- 2. Upgrading insulation, appliances and lighting can improve
- 4. Homes built before 1978 should be tested for
- 6. Points out the need for repairs
- 8. Subscribes to a code of ethics for their profession
- 10. This person markets a property for sale
- 11. Assists the buyer in finding a property
- 12. Mineral fiber used in some insulation, shingles, and vinyl flooring
- 13. Odorless, tasteless gas that occurs from natural radioactive decay of uranium and radium in the soil
- 14. Money included with the purchase contract to demonstrate good faith in following through with the purchase

**Down:**

- 1. Damp carpets and areas with poor ventilation encourage this to grow
- 3. Licensed by the state to assist people in buying, selling or renting property
- 5. Done until a mutual agreement is reached between the buyer and seller
- 7. Securing financing, sufficient appraisal, clear title, satisfactory home inspection are all possible examples of
- 9. Found in homes where Methamphetamine has been produced or used



# Section 4: Becoming a Homeowner

Homeowners Insurance	64-66
The Closing Process	67-68
Real Mortgage Costs	69
Becoming a Homeowner Word Scramble	70

# Homeowners Insurance

## What is Homeowners Insurance?

It is a package policy that protects your home and your belongings from disasters. Also referred to as hazard insurance.

## Do I have to own Homeowner's Insurance?

- a. You are not required by law to have homeowner's insurance but if you financed your home with a mortgage the lender will most likely require you to have homeowner's insurance to protect their investment.
- b. If you live in a flood or earthquake area your lender may require you to purchase that type of insurance.
- c. Even if you own your home outright, it is a good idea to have homeowner's insurance to protect your investment.

If you have a mortgage and do not have insurance or let your policy lapse then the servicer will automatically *assign you* to one of their insurance providers which may be more expensive.

## Parts to a Homeowners policy:

A = Dwelling – the home and attached structures

The event that causes a loss must be *sudden and accidental*. You need enough coverage to rebuild the home if it were to burn to the ground. The ground isn't insured, but you must get insurance to cover the amount of the loan. i.e. if the land is \$50,000 and the building of the home is \$100,000 you have to get a policy to cover \$150,000. The "extra" is used on personal property etc. about 50-70% of the coverage is designated here.

B = Separate Structures – unattached shed, garage, fence and/or driveway

C = Personal Property – contents of home and outbuildings

\*Take an inventory of all your possessions. Video tape it or take pictures and keep in a safe place outside of the home (safety deposit box or agent's office etc). Remember to get the make and model of items. Coverage is usually limited to 75% of the value of the property. Some policies have specific limits for kinds of property.

Increase coverage for special items e.g. jewelry, musical instruments, collections or special equipment that would exceed the stated limit.

D = Loss of Use – pays for another place to live and extra expenses while displaced from your home

E = Personal Liability – Damage to personal or property of others for which you may be liable.

Liability or legal responsibility for any injuries and property damage that the owner or owner's family caused to other individuals and/or their property (e.g. a friend comes over and they break their arm falling down your stairs or their jacket gets ruined by your dog). It also pays for the court costs of defending yourself. Most policies start at \$100,000 but experts recommend \$300,000. No-fault medical coverage: pays for medical costs if someone gets injured at your home without a liability claim being filed against you.

F = Medical – pays for injuries to others on your property or because of your acts.

### Covered Perils

What disasters are you covered for? Check your policy to make sure you know what is covered!

1. Fire or lightning

2. Windstorm or hail

3. Explosion

4. Riot or civil commotion

5. Damage caused by aircraft

6. Damage caused by vehicles

7. Smoke

8. Vandalism or malicious mischief

9. Theft

10. Volcanic eruption

11. Falling object

12. Weight of ice, snow or sleet

13. Accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning, or automatic fire-protective sprinkler system, or from a household appliance.

14. Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot water heating system, an air conditioning or automatic fire-protective system.

15. Freezing of a plumbing, heating, air conditioning or automatic, fire-protective sprinkler system, or of a household appliance.

16. Sudden and accidental damage from artificially generated electrical current (does not include loss to a tube, transistor or similar electronic component)

All perils except flood, earthquake, war, nuclear accident, landslide, mudslide, sinkhole and others specified in your policy. Check your policy for a complete list of perils excluded.

### Umbrella Liability Insurance

Plugs holes in coverage that your auto, or homeowner's insurance may not cover. It's a good idea if you have a home business e.g. day care, or farming. It often comes in handy if you are sued, which often costs more than what your homeowners insurance covers.

### Saving on Insurance

- Burglar system, smoke alarms (ask your agent for more ways to save)
- Increase your deductible and lower your premium. This is a good idea when you can put enough into savings for just your deductible

### Two Basic Kinds of Insurance:

**Actual Cash Value Policy**—covers the cost of replacing the home minus depreciation. Depreciation is a loss in value of the home (if the value of your home increases don't forget to review your coverage every year and update it as needed)

**Replacement Cost Policy**—covers the full cost to repair or rebuild the home policies cover a certain percentage of the cost to rebuild your home exceeding your policy limit.

### **Flood Insurance**

Required if your home is located in a floodplain. Flood insurance covers flooding caused by natural disasters, overflowing rivers, an unusual and rapid accumulation of run off from rain or surface waters, mudflows, etc. It will not cover damages caused by a pipe breaking within your home.

### **Earthquake Insurance**

Regular homeowner's insurance doesn't cover any damage caused by an earthquake, so additional insurance or a rider on your current policy would need to be added.

### **Arranging Homeowners Insurance**

At least a week before closing, you'll need to choose an insurance agent and get your policy in place. Keep your policy up to date. Each January check in with your agent. After the holidays take an inventory of any new or expensive items you may have acquired. Also consider if the value on any of your personal property has increased (jewelry, home etc).

### **Renters Insurance**

While you are preparing to become a homeowner and are still renting, consider purchasing renters insurance. This policy covers your possessions and gives you liability coverage. Your landlord pays for insurance on the structure only (from the walls out).

### **Insurance Tips:**

Insurance is intended for big disasters. If spilling red juice on your carpet is a "disaster" consider fixing it your self. There is commonly a 3 strikes your out policy with insurance. After 3 claims you could be kicked off the insurance. Claims will make your premium's increase. So, make sure you only report those incidences that you can't financially cover yourself, or that make a large difference in your ability to live in the home.

Check policies and companies for any extras and a complete list of what will be covered. Do your homework and chose someone you feel comfortable working with and who is willing to give you a policy that meets your needs, not your neighbor's needs.

Adapted from: <http://www.state.il.us/ins?HomeInsurance/hometext.htm>, <http://www.iii.org/individuals/homei>, and Garman & Forgue, Personal Finance book

# Closing

Also referred to as Settlement. Closing is the day you've been waiting for. It's the day when the home finally and officially becomes yours. For both the buyer and the seller it involves signing several documents. In this region of the country, settlement usually occurs at a title company and is facilitated by a closing agent. The closing meeting is a serious and demanding meeting, you'll need to have your ears wide open and be free from distractions.

## Typical Documents You'll Sign at Closing:

**Loan Estimate:** Helpful to consumers in understanding the key features, costs and risks of the mortgage loan..

**Closing Disclosure:** Designed to be helpful to consumers in understanding all the costs of the transaction. The closing disclosure is provided to the consumer 3 business days before closing.

**Escrow Disclosure:** Itemizes estimated taxes, insurance premiums, and anything else that will be paid out of the escrow account in the first year.

**Assumption Disclosure:** Tells you whether or not the loan can be assumed.

**Purchaser and Seller Statement:** Buyer and seller acknowledge that there are no other outside agreements.

**Mortgage or Deed of Trust:** Gives the lender the right to the borrower's house if he/she does not repay the loan. Details how the loan is handled in making payments and in case of default.

**Note:** Where you promise to repay the loan. Details of the loan amount, payments, etc. By signing you accept and agree to the terms and conditions of the loan.

**Flood Zone Disclosure:** Discloses if your home was determined to be in a flood zone. And you promise that if your home is later determined to be in a flood zone that you will purchase flood insurance.

**Loan Application:** The loan application you filled out earlier with the lender will be signed if it hasn't already been.

**Warranty Deed:** The seller certifies that they have clear title to the home and they have the right to sell it.

**Lien Affidavit:** Lists all liens against the property or certifies that there are no liens against the property.

**Many other documents:** Before signing anything, make sure you understand what you're signing. Either read it yourself or ask the closing agent to explain it to you.

# Closing Costs

Closing Costs are the cost of getting a loan and they are reflected in the APR. Closing costs, also called Settlement Charges, are found on the second page of the Closing Disclosure. Compare the Closing Disclosure and the Loan Estimate and ask questions if you don't understand why its more or less on the Closing Disclosure than on your Loan Estimate. Closing costs tend to be about 2-4% of the loan amount but it pays to shop around for the best combination of mortgage terms and closing costs.

**Line A 01: Points:** If you're paying discount points to buy down the interest rate, that cost will be here.

**Line A 02: Origination Fee/Application Fee** These are fees for processing the mortgage application and preparing all your documents. It may be represented by a flat fee or a percentage of the mortgage.

**Line B 01: Appraisal Fee** Lenders want to make sure the property is worth at least as much as the mortgage amount. Professional property appraisers will compare the value of the house to that of similar properties in the neighborhood or community.

**Line B 02: Credit Report Fee** Lenders will require that the borrower and any co-borrower's credit be checked.

**Line B 03: Flood Certification** A flood certification determines if the property is in a floodplain and therefore if it will need to have flood insurance.

**Line C 03: Title Search and Title Insurance:** Lenders require a title search to ensure that the seller is the owner of the property and that the title is clear. A clear title means that there are no encumbrances on the title, such as liens (legal claims against a property) filed by creditors in an attempt to collect unpaid bills, as well as liens filed by the IRS for nonpayment of taxes. Any claims against the property must be paid before or at closing. Title insurance gives the buyer a marketable title which means that the insurance company will protect the lender or owner if there is a flaw in the title after the property has been purchased. Title insurance is a one time fee. (Lines 1102-1108 break down the title insurance services line by line)

**Line E 01: Government Recording Fees** These fees pay for the county clerk to record the deed and mortgage and change the property title.

**Line E 02: Transfer Taxes** Taxes are sometimes required to transfer the title and deed from the seller to the buyer.

**Line F 01: Homeowner's insurance:** Most lenders require that the borrower prepay the premium for at least 2 months, if not a whole year's worth, of homeowner's insurance.

**Line F 02: Mortgage Insurance Premium** If the down payment is less than 20%, lenders will require that private mortgage insurance (PMI) be purchased for the amount of the loan. This insures that the lender will recover their money if the buyer defaults on the loan. The insurance payments will continue until the borrower owns 20% of the house's equity.

**Line F 03: Daily Interest Charges** The first regular mortgage payment is usually due about six to eight weeks after closing. For example, if you close in August, your first regular payment will be in October. The October payment covers the cost of borrowing money for the month of September. Interest costs, however, start as soon as closing is completed. The lender will calculate how much interest is owed for the fraction of the month in which the borrower closes. For example, if closing was on August 25, interest would be owed for six days. This interest is due at closing.

**Line F 04: State and Local Fees** These can include mortgage taxes levied by the state as well as local government.

**Line H 05: Real Estate agent's commission** The seller usually pays the commission to both the buyer's and the seller's real estate agents. If one agent lists the property and another sells it, the total commission is usually split between the two. The real estate commission (total) is typically 6% of the sales price.

# Real Mortgage Costs

How does my payment really work? How can I save some money on my house payment?

All examples below are based on a \$130,000.00 Mortgage Loan, 6% Fixed Interest Rate for 30 Years

Payment Number	Interest	Total Interest	Principal	Balance	Total Payment
1 <sup>st</sup> Year 1 <sup>st</sup> Month	\$650.00	\$650.00	\$129.42	\$129,870.58	\$779.42
1 <sup>st</sup> Year 2 <sup>nd</sup> Month	\$649.35	\$1,299.35	\$130.06	\$129,740.52	\$779.42
1 <sup>st</sup> Year 3 <sup>rd</sup> Month	\$648.70	\$1,948.06	\$130.71	\$129,609.81	\$779.42
≈	≈	≈	≈	≈	≈
29 <sup>th</sup> Year 10 <sup>th</sup> Month	\$11.57	\$150,577.81	\$767.84	\$1,546.88	\$779.42
29 <sup>th</sup> Year 11 <sup>th</sup> Month	\$7.73	\$150,585.55	\$771.68	\$775.20	\$779.42
29 <sup>th</sup> Year 12 <sup>th</sup> Month	\$3.88	\$150,589.42	\$775.54	\$-0.34	\$779.42

**Even small efforts can pay off big when paying down your mortgage!**

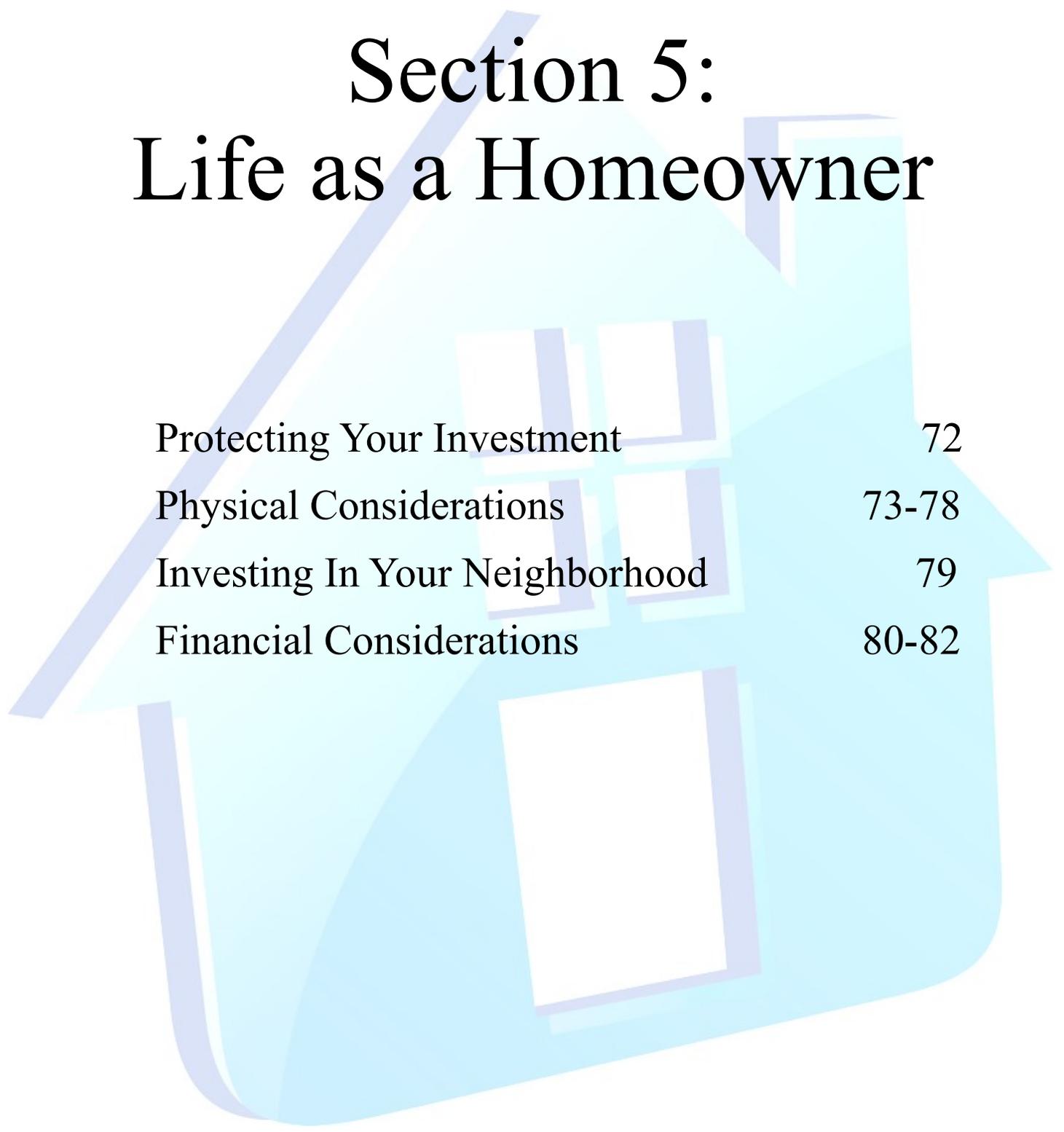
**Did you know?**

- If you were to apply **one extra payment** each year to the principle amount on the loan above, it would cut off approximately **5 ½ years** and save you approximately **\$32,000** in interest.
- If you were to apply an **extra twenty dollars** a month to the principle amount on the loan above, it would cut off approximately **2 years** and save you approximately **\$11,773** in interest.
- If you were able to get an **interest rate one percent lower** on the loan above, it would reduce your monthly payments by **\$82** and save you **\$29,357** in interest over the life of the loan.
- Compared to a thirty-year loan, if you obtained a fifteen-year loan with an interest rate one-half percent lower, the payments would be \$1,062 (only \$283 higher than a thirty-year loan at 6%). Over the life of the loan you would save **\$89,392** in interest and have the loan paid off in fifteen years versus thirty years.

**All of the above examples assume there is no prepayment penalty and the extra amount is applied directly toward the principal.**

*Adapted from Dr. Leona K. Hawks, USU Extension Housing Specialist and Tawnee McCay, AFC.*





# Section 5: Life as a Homeowner

Protecting Your Investment	72
Physical Considerations	73-78
Investing In Your Neighborhood	79
Financial Considerations	80-82

# Protecting Your Investment

You've dreamed, labored, saved, worried and finally have your home. You've earned it and now you have to protect it. Protecting your home (and your physical, emotional, and financial investment in it) is more than just changing locks or adding smoke detectors. Your home is an investment in:

- Shelter and protection for your family
- The life and health of your community
- Your financial future

The well-being of your family, your community, and your finances are all things worth working for. This section will help you learn how to protect all aspects of the investment you've made in your home.

## Getting To Know Your Home

Find out everything you can about your home both before you purchase it as well as after. You can get information about your home and community from the previous homeowner, the inspector who performed your inspection, your new neighbors, previous contractors who did work on it, city/county records, professional specialists. Before you buy your home, or shortly after, make sure you know the following information:

Where is the . . .

- Water and gas shut-off valves (and how do they work)
- Electrical panel or fuse box and master electrical shut-off (and how it works)
- Hot water heater thermostat
- Furnace (and how to change the filter, how it operates)
- Sprinkler system shut-off valve and control panel
- Sump pump and/or irrigation system if applicable

You should also know. . .

- The history of the home: When was it built? Who built it? Any remodels or improvements done? Have any of the major systems been changed or upgraded? What contractors did work on the home? Were any building permits issued?
- Are there wiring diagrams or blueprints of the home?
- Are any appliances or repairs still under warranty?
- When does the garbage get picked up and who do you contact for power, utilities, or heat service?
- How do you program thermostats or sprinkler systems?
- What seasonal maintenance did the seller usually do? How much did it usually cost? What companies did it?

## Moving In

A few tips before you pack your boxes.

- Moving is stressful, even when its exciting! Save yourself some stress and simplify your move by taking the time to go through your possessions before you pack them up and eliminating what you don't want or need anymore. The less clutter you bring into your new house, the more you'll be able to enjoy your new home.
- Even though you're anxious to start living in your new home, it may be worth your while to take the time to clean, paint, or complete minor repairs before you haul in your boxes. Tripping over boxes while trying to get a job done just increases stress and prevents you from enjoying the first few exciting days of your new home.

# Protecting Your Investment: Physical Considerations

Protecting your home itself and the people who live in it is a big job but also comes with a great deal of satisfaction. After all, you have been looking forward to being able to paint and repair and decorate your home exactly how you want it to be for a long time. That's one of the many rewards of homeownership. Its also one of the greatest responsibilities. However **if you take good care of your home it will take good care of you.**

For starters, keep your home clean and in good repair. Dirt and grime cause more wear and tear to the parts and pieces of your home. Keeping a clean home will lengthen the life of your carpets, paint, appliances, and furniture. Making small repairs early prevents large, costly repairs later. Always make safety related repairs a top priority.

## Home Safety

Every homeowner should have:

- Smoke Detectors: make sure you have enough and that they function properly
- Carbon Monoxide Detectors: one on each level of the home
- Fire Extinguishers
- List of emergency numbers by the phone
- A First-Aid Kit

General good safety practices:

- Make sure to change all door locks and get new keys IMMEDIATELY.
- Lock doors and windows when not home (when home too)
- Make sure you have good lighting outside-motion detectors or timers are a plus
- Stop your mail and newspapers when you go out of town
- Keep important documents in a fire-proof safe or a safe deposit box
- Some homeowners may want to consider a home alarm system, but it is costly

## Saving Energy

Here are some suggestions :

- Turn off lights and fans when not in use
- Don't let the water run
- Use smaller appliances such as toaster ovens instead of the oven, or bake multiple things at once
- Close doors and windows behind you
- Wear a sweater instead of turning up the heat, and vice versa for summer months
- Don't open the fridge or freezer until you know what you want
- Change faucets and shower heads to low-flow models
- Install attic fans or additional vents to let out the heat in the attic, helps with cooling
- Install and use ceiling fans in the summer
- Use compact fluorescent light bulbs
- Change the filters in the furnace regularly and have it serviced once a year, increases efficiency
- Turn down the thermostat by 10 degrees when away at work or at night and save 14%
- Turn down the water heater to 120 degrees
- Wash your clothing in cold water. It increases the life of your clothing too.
- Clean out the lint filter in the dryer every time
- Use kitchen and bathroom vent fans sparingly
- Start the dishwasher and washing machine only once you have a full load
- Close doors and turn off heat in unused rooms
- If you need new appliances, purchase energy efficient ones. Look for the Energy-Star Logo.

# Selecting Major Appliances

Major appliances are a necessity in all homes. If chosen well, they can save the buyer future unneeded expenses and provide effective long term use.

When shopping for a major appliance, consider the following:

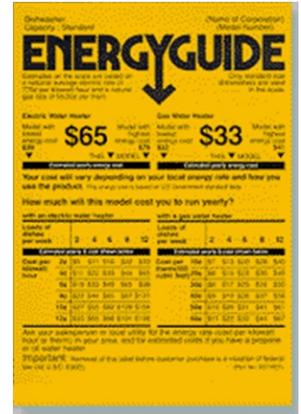
## Needs of the family

It is important to determine your family's needs before selecting the appliance. Do any family members have special needs? Is the family planning to grow with another child or get smaller as children leave? Determine what will be the most useful for the family and fit in the allotted space. Measure carefully.

## Energy Efficiency

Using energy efficient appliances can save a lot of money. When comparing competing models consider the estimated difference in energy cost. Appliances that look the same on the outside may have internal differences in the motor, compressor, and sensors that affect energy efficiency. On some appliances the initial purchase price may be more expensive; yet the operating cost may be less. Differences in operating cost will add up over the lifetime of the appliance. Savings in operating costs will continue year after year and may surpass the difference in the initial cost of the appliance.

To find out whether an appliance is energy efficient, refer to the yellow and black EnergyGuide label. This will specify the capacity (size), estimated annual energy consumption, estimated annual operating costs, and energy efficiency ratings of the appliance (how it compares in energy efficiency to other similar appliances). Also check for an Energy-Star Logo. The Energy-Star logo is only placed on appliances that are considered more energy efficient than the average comparable model.



Both the EnergyGuide and Energy-Star logo tests are done by labs independent from the manufacturer so consumers can be assured of unbiased information. Utility companies may offer significant rebates on energy efficient appliances and you may be eligible for federal tax credits for installing certain energy efficient appliances. For more information on Energy-Star visit [www.energystar.gov](http://www.energystar.gov)

## Warranty

A warranty may come with major appliances and are often part of the cost of the appliance. The manufacturer has to pay to have the warranty terms met. That cost is absorbed in the selling price of the appliance. A good warranty should provide protection that is useful for the consumer. Know what the warranty covers and does not cover as well as the terminology.

Questions to ask about the warranty:

- Is the entire appliance covered or only certain parts?
- How long is the warranty for the entire appliance or parts?
- Does the warranty include labor, or is that a separate fee?
- How are repairs handled? Does the responsibility fall on the dealer, service agency, or manufacturer?
- Who is responsible for parts, labor, shipping charges, and travel charges?
- What happens when the appliance must be removed from the home for repairs or is otherwise out of service? Is replacing it possible? Who oversees the replacement?

The warranty contract should be kept in a safe place along with the sales receipt. The model and serial number should also be recorded as well as a record of any repairs done on the appliance after the purchase. Records for all household appliances should be kept in the same place, for example, a clearly marked file folder.

## Features

Once the needs of the family have been identified, it will be easier to know what features are necessary or desirable. When looking for appliances, have the sales person demonstrate how to use each feature. It does not do any good to have useful features that you don't know how to control. Will extra features help the family, or will it just be more expensive? Only pay for features you want and will use.

Make sure it will fit in the space you have planned for it (and still be able to open and close it) and make sure that the type of plug it uses as well as it's power needs match the kind of outlet you have for it.

## Reliability

It is important to choose an appliance that will last and be reliable. Servicing an appliance can be expensive. It is better to take time and research which appliances offer the best quality and durability than to be tied to poor quality. Refer to *Consumer Reports* for ratings on appliances, and contact appliance repair firms for more information about particular appliances.

## Maintaining Appliances

Periodic servicing of larger appliances such as furnaces or air conditioners can lengthen the life of the appliance. Water quality can make a difference in boilers, water heaters, and water pumps. High acid or mineral content in water can be harder on appliances, and as a result, shorten their life span. For other appliances the following list will help lengthen the life span:

- Annually clean the coils on refrigerators.
- Air-conditioner filters should be changed on a monthly basis when in use.
- Washer fill hoses can be replaced every five years. If the house will be empty for an extended period of time, turn off the water to the house. Drain any hoses when temperatures will be below freezing.
- Clean the clothes dryer exhaust duct yearly and keep the filter clean.

## Life Expectancy and Replacement Cost of Major Appliances

### Installation

Will there be a problem with getting the appliance into the house? Don't forget to measure your doors too. Will

Appliance	Life Expectancy in Years	Replacement Cost
Gas Range	19	\$280 - \$1,050
Electric Range	17	\$300 - \$1350
Refrigerator	14 - 17	\$350 - \$2,000
Dryer	14	\$240 - \$650
Washer	13	\$260 - \$700
Dishwasher	10 - 12	\$240 - \$700
Water Heater	10	\$350 - \$800
Garbage Disposal	10	\$40 - \$200

there be a fee for delivery, installation, or any service calls?

Adapted from Dr. Leona K. Hawks Utah State University Extension Housing Specialist; C.J. Thompson, Montana Cooperative Extension Service; The Bay Area's News Station, retrieved December 2004 <http://www.kron4.com/global/story.asp?s=1638823>; "This Old House" by Cheryl Hays (2002) [http://www.cherylhays.com/how\\_long\\_stuff\\_last.htm](http://www.cherylhays.com/how_long_stuff_last.htm) and The Federal Trade Commission, retrieved May 2005 <http://www.ftc.gov/bcp/online/pubs/homes/applnces.htm>

# Want to save even more on your utilities?

Save the planet and some money too by making your home more energy efficient

No matter where you live, keeping your home warm or cool costs money, lots of money in fact. Heating or cooling your home typically takes up 56% of your utility bill. Anything you can do to reduce the number of times your furnace or air-conditioning unit has to switch on will make your wallet very happy.

The EPA's ENERGY STAR designation is the best way to identify a home as energy efficient. ENERGY STAR homes have better insulation, higher efficiency heating and cooling equipment and appliances, efficient lighting and fewer leaks in ducts and walls. Although ENERGY STAR qualification is easiest to achieve with new home construction, older homes can be upgraded to qualify as ENERGY STAR.

You can start by getting an energy audit. Often power or heating companies will offer free or low-cost energy audits. Someone will come test where in your home you lose the most heat (or cool) and what you can do to improve the energy efficiency of your home. You could also use the do-it-yourself energy audit tool on the Department of Energy website, [www.hes.lbl.gov](http://www.hes.lbl.gov)

Rating costs and costs to upgrade an existing home to ENERGY STAR qualifying levels can be recaptured with help from utility rebates and any state and federal incentives. For incentives currently available in Utah, see [www.dsireusa.org](http://www.dsireusa.org). For information on the ENERGY STAR home qualification program, see [www.energystar.gov](http://www.energystar.gov) or call the nonprofit Utah Energy Conservation Coalition. At 1-800-550-8322.

Some ideas are listed below to help you start thinking about energy efficiency.

## Insulation

Unless your home was designed with energy efficiency in mind, adding insulation can be a great way to save you some money on your monthly utilities. Insulation is rated and labeled with an "R-value". Generally, the higher the R-value, the more energy you can save. Building codes require minimum R-value levels for each area of your home. Making sure you meet and exceed those requirements will save you a headache in the future as well as make your home more comfortable. The attic is the best place to start. The Department of Energy has an online calculator to help you determine what's right for your home: [www.ornl.gov](http://www.ornl.gov) or visit [www.energysavers.gov](http://www.energysavers.gov) to learn more about insulation.

## Air Leaks

Air flows in and out of our homes carrying with it our carefully heated (or cooled) air and replacing it with the opposite, undesired type. The less or slower air flows in and out of our home, the less our heating and cooling systems will have to turn on.

- Caulk around windows, doors, air conditioning units, light fixtures, etc.
- Add weather stripping to exterior doors for a tighter seal when they're closed
- Replace old single-pane windows with new double or triple-paned windows preferably made with *Low-E* materials
- If you're not in the market or budget for replacing windows, try sealing them with plastic coverings specifically labeled for sealing windows. This adds another layer of insulation and slows air transfer
- Plant a tree. A well-placed tree will block sunlight and decrease your need for the air conditioner in the summer. It won't change air leaks but it will affect the temperature in your home.

## Furnace and Air Conditioners

Good maintenance not only prevents break-downs but it also increases energy efficiency.

- Replace filters at least every 3 months during use
- Make sure no flammable or combustible materials are near the furnace or water heater (safety)
- Make sure they get enough air, don't block louvered doors or vents
- Have your air ducts cleaned regularly—also helps with allergies
- Have the furnace and A/C unit inspected annually

*Adapted from "Saving Starts @ Home: The inside story on conserving energy" FTC publication 2006*

# Home Maintenance Checklist

## Foundation and Basement

Inspect for signs of termites or wood decay as well as cracks in the foundation

Check grading to assure that water will drain away from foundation

Check basement for dampness or leaking following wet weather, this is a sign that there may be cracks in foundation

## Doors & Windows

Check doors, windows and trim for chipping, cracked, or peeling paint

Check for broken or damaged windows and screens

Take down screens and clean them in warm soapy water

Lubricate window hardware

Check weather-stripping for damage and tightness of fit

Check caulking at doors, windows, and all other openings

## Exterior Walls

Check brick and rock work for cracks in the grout and loose joints

Check painted surfaces for chipping, cracked or peeling paint

Check siding and trim for damage or decay

Check all trim for tightness of fit at joints, caulk if needed

## Roof

Check for damaged or loose shingles. Replace them to avoid leaks and damage.

Check underside of roof where accessible, like in the attic, for water stains or dampness

Check for damaged flashings around vents and chimneys

Inspect gutters and downspouts for leaks or breaks

Clean out gutters. Make sure water flows freely away from the home

Check fascia and soffit for paint damage or decay

## Interior Surfaces

Check all finished surfaces (painted walls, moldings, etc.) for dirt, peeling or damaged paint, and required repairs

Check all caulking and grout in tile, around bathtubs, showers, and sinks

## Floors

Check for wear and damage particularly where one material meets another

Spot clean any carpet stains and consider professional cleaning

## Electrical System

Check condition of cords to all appliances and plugs

If any areas of your home have exposed wiring, replace at first sign of damage

Test all smoke detectors and replace batteries every 6 months

If fuses blow or breakers trip frequently, call an electrician to locate the cause and make repairs

## Heating and Cooling Systems

Clean or change air filters

Have systems checked by a qualified service person

Remove window air conditioners for the winter or put weather-proof covers on them

Clean dirt and dust from around furnaces, condensing units, grills and vents.

## Plumbing System

Check faucets, hoses, sinks, etc for leakage or corrosion

If your home has a septic system, have a service person check or service it

Check water heater for leakage, corrosion, or obstruction

## Appliances

Clean out dryer vent and hose, stove hood filters, and bathroom vent fan filters.

Inspect seals on fridge and freezer, clean coils

## Yard

Drain outside water lines and hoses before winter, including flushing sprinkler system lines to prevent freezing and damage

Clean out window wells and storm drains

Check driveways and sidewalks for cracks

Prune trees and shrubs, check for dead or rotting trees and insect infestation

Give your house a bath with a pressure washer, too much pressure could peel your paint though so pay attention

# Repairs and Remodeling

Making repairs are inevitable when you own a home. Many of the smaller repairs you can probably do yourself. However, make sure you have the time, experience, and tools to do a good job.

Here are some basic tools and supplies that every homeowner should have:

- Safety goggles and dust mask
- Hammer
- Screwdrivers (both straight head and Phillips)
- Tape measure
- Flashlight
- Plunger
- Pliers
- Wall scraper or putty knife
- Assorted nails, screws, etc
- Ladder
- Utility knife or box cutter
- Caulking gun
- Power drill
- Level

When a repair or remodel is larger than your ability to realistically accomplish yourself, you may need the help of a contractor or specialist. Before undertaking a major project consider the following:

1. Is this within the scope of your abilities or **should you hire a contractor?** Realistically evaluate your skills and the time it could take you to accomplish the task.
2. **Plan carefully, both practically and financially.**
  - Think first about the finished product so you can clearly plan what needs to be done. If you have multiple projects, rank them in order of importance and don't start a second project until you've completely finished the first.
  - Consider your budget. Will savings or a loan pay for the whole project at once or do you need to divide it into smaller pieces and pay for it out of your monthly budget?
  - Make sketches to scale or have a drafter draw up plans.
  - Check if your project will need a city building permit. Also check building codes to make sure to get it done right and so it will pass inspections.
  - Consider timing and weather. How long will the project take? How will it impact your life and your ability to live and function in your home? When should you start to have optimal weather for the work that needs to be done?
3. **Will it add value to your home?** Consider the homes around you. Your newly remodeled home should be worth about the same as the homes around you, it will decrease the value of your property to be the most expensive house on the street. And not all remodels add value, even if they cost a great deal and increase your comfort. Check with a real estate agent to see if the improvements you're planning will increase the resale value of your home.

If you need to work with a contractor the more you know, the better. Get recommendations from neighbors, friends, a local hardware store or a local non-profit for someone who is trustworthy, reliable and does good work. Interview at least 3 contractors and get references. Make sure they have liability insurance, ask for warranties or written guarantees for their work. Get a firm line-item bid from each of them and agree on payment arrangements. Never pay the full amount until the work is complete. Make sure to get a lien waiver on larger jobs that use subcontractors once you've given the first payment.

# Investing In Your Neighborhood

One way to protect your investment is by becoming involved in your community. Being an active member of your neighborhood and community will enable you to protect your home and your interests. City and state decisions could greatly affect your home, your street, your neighborhood, and the value of your property. Getting involved will let you have a say in decisions that affect you. Here are some suggestions that will help you get invested in your own neighborhood:

1. **Get to know your neighbors.** Introduce yourself and your family as soon as possible. Neighbors are a wealth of information, and usually more than willing to tell you all about your neighborhood. They can tell you about schools, parks, shopping, and community events. Knowing your neighbors not only helps you feel right at home but it also increases safety when a community knows each other and looks out for one another's homes and possessions.
2. **Get and read local newsletters.** Cities, towns, communities, and even neighborhoods often publish an area newsletter. They will be a wealth of knowledge on local events as well as zoning or school-board decisions that could affect you.
3. **Get information from your city offices** about programs, parks, events, sports and fairs.
4. **Show pride in ownership** by maintaining the exterior of your home. Keep the grass mowed and trimmed, flower beds weeded, rake up leaves so they don't blow in the neighbors yard, offer to help shovel sidewalks and driveways, and keep your car in the garage or driveway. All of these things improve the look of your neighborhood and show your neighbors that you care about them and about your neighborhood.
5. **Be a good neighbor.** Neighbors helping neighbors is the core of a stable community. It's a comfort to know that if you were ever in need of help a neighbor would be there. Be that good neighbor by introducing yourself and lending a hand and good neighbors will be there when you need support.



# Protecting Your Investment: Financial Considerations

## Managing Your Money for Homeownership

- **Know your loan.** Ask for clarification on any points you may not be clear on. Know when your payment adjusts if you have an Adjustable Rate Mortgage. Really read and come to understand your mortgage statements. Know where each part of your payment is going.
- **Make sure you have enough budgeted** to make your full monthly house payment (PITI). Evaluate your spending and make adjustments if your house payment is taking up more than 30% of your gross monthly income.
- **Know your financial priorities.** After food, your mortgage payment should be your first priority. Remember, the 3 basic survival needs for any living thing are **food, water, and shelter**. Always make those 3 things your top financial priorities. Shelter includes utilities and heat.
- **Revisit your budget**, regularly. Many things change financially when you become a homeowner. You already know that categories like house payment and utilities will undoubtedly increase but there are many added expenses you may not expect. Every homeowner experiences different expenses. Until you've lived there for a while you won't know exactly what expenses to expect. Here are some common ones.
  - Yard maintenance
  - Sprinkler system
  - Lawn fertilizer
  - Lawn mower & equipment
  - Care of trees and shrubs
  - Snow removal equipment
  - Pest control
  - Landscaping
  - Paint and painting supplies
  - Furnace filters
  - Purchase of appliances
  - Curtains or blinds
- **Every year save 1-3% of the purchase price of your home (broken down into 12 months) for repairs and maintenance.** Taking good care of your home can be very costly and even little things really add up. However if you anticipate these expenses and prepare for them, they won't break your budget or put you in debt. For example, if you bought your home for \$150,000, 2% of that purchase price would be \$3,000. So you'd want to save \$3,000 each year for home maintenance and repairs. In order to save up \$3,000 a year, you'd need to put \$250 into a savings account each month, or if you're paid twice a month you'd take \$125 from each check to put in that savings account. \$125 per paycheck is far more manageable than finding out your hot water heater broke while you were gone to work and now you not only have to find a way to pay for a new hot water heater (\$800) but you also have to pay to clean up the flooding it caused. If the money is already in a savings account, a small home disaster doesn't become a financial disaster as well.
- **Beware of credit temptation.** As a new homeowner you'll be inundated with offers: no payments no interest for 12 months, special financing for appliances, rent to own furniture, etc. But don't give into temptation. Financial experts recommend that **new homeowners should not take on any new debt for car loans, credit cards, or revolving credit for at least one year after closing. That includes running up existing credit cards!** It takes at least a year to adjust to your new mortgage payment along with all the other costs of owning a home.
- **Second mortgages and home equity lines of credit are loans that are offered in addition to the original mortgage.** Using one of these loans means making an additional monthly house payment and often require fees and closing costs. Some homeowners use these loans to repair or remodel their home. Others will use this money to take a vacation or further their education. There are usually less risky and less costly options to accomplish these goals.

- **Keep financial documents well filed and organized.** Both for tax purposes and insurance claims, you'll want to find a good system for organizing your documents. Make sure to keep:
  - All documents from the purchase of your home
  - Your homeowners insurance policy
  - Service contracts and owners manuals
  - Warrantees and receipts for appliances purchased
  - List of model numbers for all your appliances
  - Photos of exterior, interior, and major possessions
  - List of improvements or repairs done by you or a contractor
  - All documents from contractors on any work you've had done
  - Separate files for home financial records like bills to be paid, paid bills, family budgets, etc.
  - Tax returns already filed and documents to help in preparing next year's taxes
- **Understand and review your homeowner's policy.** Make sure you understand what you are and aren't covered for before you find yourself having to file a claim. Also make sure your coverage stays up with increases in the value of your home. Check to see if you have an inflation rider that will automatically increase your coverage with increases in value.
- **Only refinance if the new rate is 2% lower and you plan to live there at least 2 more years.** Refinancing your loan can have both benefits as well as drawbacks. Refinancing could be worthwhile if it is reducing your payment, reducing the amount of interest you'll pay, or moving you from an adjustable rate product to a more stable loan. However, even if it says no closing costs, you have to pay closing costs all over again. Any time you get a new loan, you pay closing costs, whether they're out of your own pocket or if they're tacked onto the total balance of your loan. Be cautious when you're considering refinancing and weigh all the benefits and drawbacks. Be careful of predatory lending. There are a lot of aggressive and "creative" refinancing tactics out there.

## Financial Stress

Every household experiences periods of financial stress. Use the following tools to prevent financial *stress* from becoming financial *distress*.

### Preventing Financial Distress

- Protect your credit rating by paying bills on time and keeping your debt as low as possible at all times
- Have a spending plan that includes saving money
- Prioritize your expenses
- Understand your obligations as a borrower, understand the terms of all your loans
- Know the signs of financial distress and where to receive help

### Signs of Financial Distress

- Over 20% of take-home pay is used for non-mortgage debt repayment
- Lose track of how much you actually owe, or don't want to know
- You have to use savings to meet your regular expenses
- Frequently borrow money
- Rely on overtime or non-fixed income
- Only able to make minimum payments

If you experience signs of financial distress or have trouble making your house payments contact a HUD Approved Housing Counseling Agency, keep in touch with your lender and don't ignore your mail. A foreclosure prevention specialist is willing and able to help you explore and evaluate various options.

# Refinancing



## What is Refinancing?

In mortgage refinancing, a new mortgage is obtained to pay off and replace an existing mortgage. Most often it is undertaken to receive better loan terms such as a lower interest rate. Once the refinance is complete, you will have a monthly payment and the home will be used as collateral for the loan. This means that missing payments on your new loan may result in foreclosure.

## Why you may be considering refinancing your home:

Refinancing can be used to:

- Gain a lower interest rate– If interest rates have dropped, it may be a good idea to refinance your loan to obtain a lower interest rate. The general rule for this is 2-3 percentage points. For example, If you have a mortgage with an interest rate of 5% and interest rates have dropped to 3%.
- Get rid of Mortgage Insurance Premiums– Some mortgage insurance premiums payments drop off once you get to a loan to value ration of 80% (equity of 20%). However, some loans must be refinanced to have this taken off.
- Change a loan term– You can refinance to extend your loan term, this will help to lower your payment. You can also refinance to shorten the loan term.
- Lower your payment– Whether this is because you lower your interest rate and/or get rid of your mortgage insurance premium
- Change loan type– You can refinance from an adjustable rate mortgage to a fixed rate mortgage.

### **Remember:**

**Refinancing a Mortgage is getting a new mortgage loan. You will have to pay closing costs for this new loan.**

*\*Warning\**

It is not advisable to consolidate non-secured debts in your mortgage. If you gain a home equity line of credit or home equity loan, it is advisable that you use this money to reinvest into the home. Finishing a basement, replacing the roof, and other repairs and upgrades add value to the home. However, these types of second mortgages are insured by your property and failure to pay on these loans will result in foreclosure of the mortgage.

*Adapted from "Personal Finance 13th Edition" Garman, Forgue, Johnson*

# Mortgage Delinquency Options

Mortgage servicers often have established programs to assist a mortgagor if they default on their loan.

An application for assistance must be made to the servicer. This application should include a hardship letter explaining the reason(s) for the delinquency and financial statements including a budget, tax returns, bank statements, and pay stubs. Contact your mortgage servicer to identify their application requirements.

**Potential Workout Options** – Options will vary by servicer and are sometimes combined.

- **Forbearance agreement:** Suspend or reduce the payment for a specific amount of time.
- **Temporary interest rate reduction:** If your financial problems are likely to last for a limited time, and you have a reasonable plan for increasing your income so that you can make full payments by a certain date, the lender may agree to temporarily reduce the interest rate on your loan.
- **Recasting missed payments:** Recasting involves excusing your present obligation to catch up on missed payments, and instead delaying your obligation to make those payments until the end of the loan term.
- **Permanent modification of loan terms:** Lenders may agree to a permanent interest rate reduction, extension of the loan's payment period, re-amortization, capitalization of arrears, cancellation of principle, or some combination.
- **Extension of the loan payment period:** A change in the loan term allows homeowners to repay the principle over a longer term, which reduces the monthly payment. This method will increase the total amount of interest paid over the life of the loan.
- **Capitalization of arrears:** The past-due amount is added to the principle balance before the interest rate is applied and the payment is recalculated. This may raise the payment slightly if no other alterations are made.
- **Reduction of principal balance:** When the loan amount is more than the value of the home (upside-down), you may be able to reduce your principal balance if you have legal claims against the lender.
- **Deferred junior mortgages:** Some lenders will only reduce their principal if they are allowed to keep a junior mortgage in the amount that the principle was reduced.
- **Pre-Foreclosure Sale/Short Sale:** The property is sold in anticipation of foreclosure. This option usually requires the lender's permission, and is an option after the home has already been listed for some time.
- **Deed-in-Lieu:** An agreement to turn the property over to the lender as an alternative to foreclosure.

**Contact a HUD approved counseling agency to assist you in evaluating your situation and making a plan to get caught up.** Find a local housing counseling agency at [www.hud.gov](http://www.hud.gov)

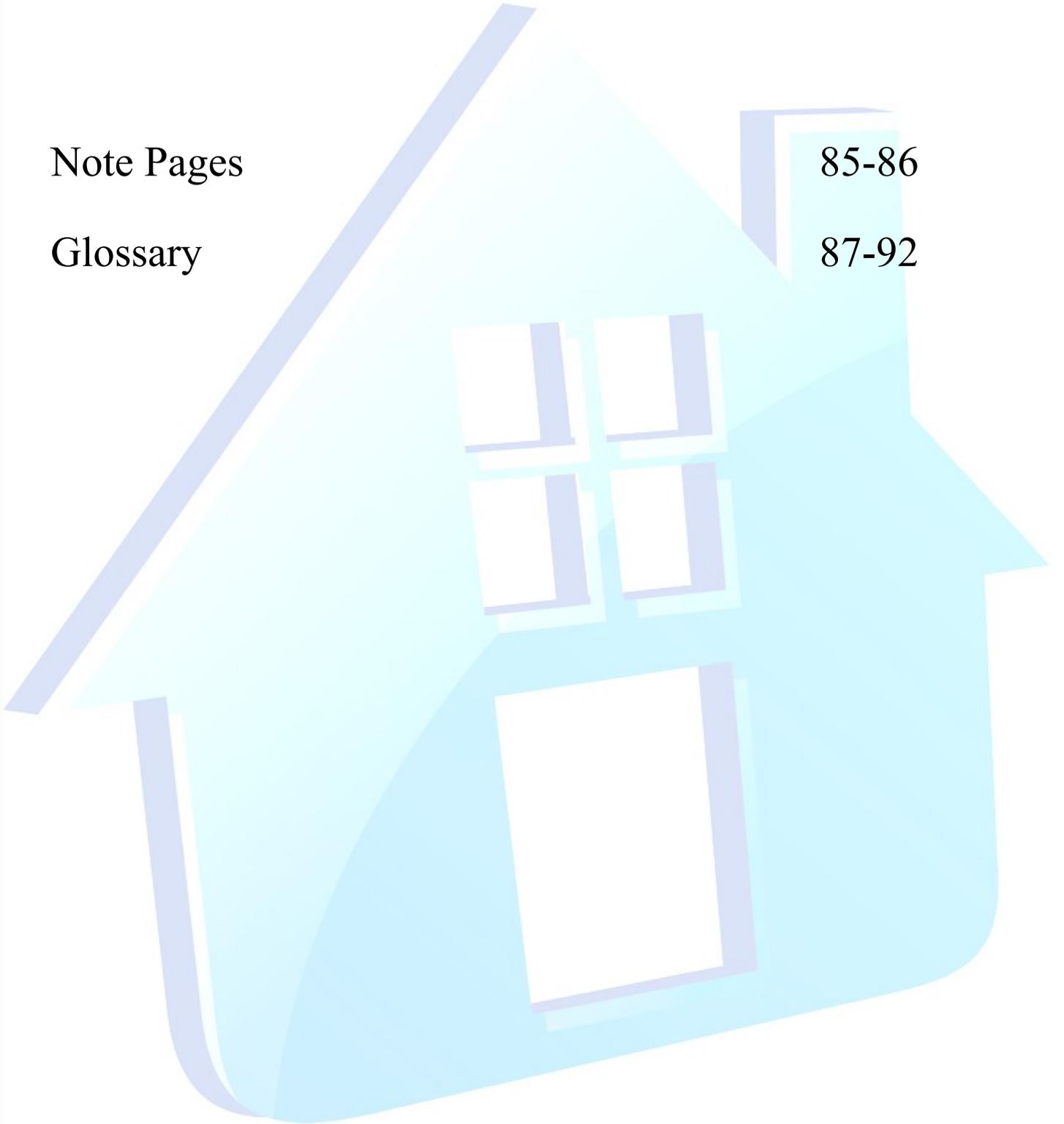
# Appendix A

Note Pages

85-86

Glossary

87-92







# Glossary of Terms

**Adjustable Rate Mortgage (ARM):** A loan in which the interest rate changes on a regular schedule based on a previously specified index and the lender's margin.

**Adjustment period:** On an adjustable rate mortgage, the amount of time designated between rate adjustments.

**Amortization:** The process of paying off a loan with regular payments over a fixed time period.

**Annual Percentage Rate (APR):** The cost of borrowing money expressed as a yearly rate. It includes the interest rate plus points and closing costs.

**Appraisal:** A professional opinion of the market value of the property.

**Appreciation:** An increase in the value of a home due to changes in market conditions, home improvements, or other factors.

**Assessed Value:** The value placed on a house by a public tax assessor for the purpose of determining property taxes.

**Assumable:** When a mortgage can be taken over (assumed) by the buyer when a home is sold.

**Automated Underwriting:** A computer-based method mortgage lenders use to process and approve or deny loan applications more quickly, using credit scores and other loan application data.

**Balloon Payment Mortgage:** A mortgage with fixed monthly payments based on a 30-year schedule of payments on which the entire balance of the loan comes due at the end of a set period, usually five, seven, or ten years.

**Buy-Downs:** Points a borrower pays in advance to lower the interest rate. Also called "discount points."

**Buyer Broker Agreement:** The contract signed by either a seller and real estate professional or a buyer and a real estate professional. The buyer or seller agrees to hire the certain real estate professional as their contracted agent. It lays out the details of the contract as well as how the agent will get paid for his/her services.

**Buyer Due Diligence Checklist:** A document that must be signed by the buyer of a home by a certain date, certifying that they have reviewed all information that has been submitted about the home and that they feel comfortable with it including the seller's disclosures, appraisal, financing, inspections, etc.

**Buyer's Agent:** The real estate professional who legally represents the buyer and is required to get the best terms and conditions for the buyer. Their job is to show you homes that fit your wants and help you negotiate a purchase agreement. A buyer signs a buyer-broker agreement covering a specific time frame that designates the real estate agent as their agent and lays out the terms of the contract as well as payment. Buyer's agents are typically paid by splitting the sales commission with the listing agent.

**Caps:** Limits placed on how much an interest rate can fluctuate on an Adjustable Rate Mortgage. The "adjustment cap" is the limit on how much the interest rate can change at each adjustment period. The "lifetime cap" is the limit on how much the rate can change over the life of the mortgage.

**Clear Title:** A title that is free of liens and legal questions about the ownership of the property.

**Closing:** The final step in the transfer of property ownership. A formal meeting (or meetings) with the buyer, seller, and a settlement agent where the buyer signs the mortgage and note, the seller receives payment

for the property, each pay closing costs as the title is transferred from the seller to the buyer. Also called “settlement.”

**Closing Costs:** The costs to get a loan and transfer title to a new owner. Also called “settlement costs.”

**Closing Disclosure:** A document which details the actual terms and costs of the transaction.

**Contingency:** A condition put in an offer to buy a home.

**Conventional Mortgage:** A loan made by for-profit lenders and not insured by the federal government.

**Counter Offer:** Once a purchase contract, or offer, has been submitted to the seller, they have the opportunity to propose revisions to the contract. Both sellers and buyers can counter offer until mutual agreement has been reached.

**Debt-to-Income Ratio:** The maximum percentage of a borrower’s gross monthly income that can be spent on the house payment and all other creditor debts. Also called “back-end ratio.”

**Deed:** A legal document conveying title to a property. Also called “grant deed” or “warranty deed.”

**Deed-In-Lieu:** An agreement where a delinquent borrower gives the lender the deed and the keys and moves out of the property in exchange for forgiveness of the loan. Also called a deed-in-lieu of foreclosure.

**Deed of Trust:** The same as the “mortgage” where a third party (the lender) holds the deed of the property as security until the buyer repays the loan. Also called a “trust deed.”

**Default:** Failure to meet financial obligations (make payments) which may result in the lender foreclosing on the property. A borrower is officially in default the day after a payment is due. Also called “delinquency.”

**Delinquency:** Late payment or non-payment of principal, interest, taxes, or insurance.

**Discount Points:** Points a borrower pays at or before closing to lower the interest rate of the loan.

**Down Payment:** The amount of cash a borrower pays toward purchasing a home.

**Dual Agents:** A real estate professional who legally represents both the buyer and the seller in a single real estate transaction. Usually, both parties have to consent to this.

**Due-on-Sale Clause:** A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

**Earnest Money:** Funds included with a purchase contract to demonstrate good faith in following through with purchase contract agreements. This is usually less than 3% of the purchase price.

**Easement:** A right of way giving people other than the owner access to or over property. Common easements are for power lines, water access, or to the city for future sidewalks.

**Energy-Star:** Logo used on most energy-efficient appliances.

**Equity:** Ownership interest in an asset after liabilities are deducted, or the part of the house the borrower owns.

**Escrow Account:** A special account set up by the lender to collect and hold a part of your monthly payments toward annual property taxes and homeowners insurance. Also called an “impound account”. Property taxes and homeowners insurance are due just once a year. Most lenders require that you pay for your

taxes and insurance in advance on a monthly basis. Your escrow payment is the TI part of PITI (Principle, Interest, Taxes, Insurance).

**Fair Housing Act:** A federal law that prohibits discrimination in housing and real estate transactions.

**FHA loan:** A mortgage that is insured by the Federal Housing Administration.

**Final Walk-Through:** No more than 7 days before closing, the buyer has the right and responsibility to go back through the home to make sure it's still in the same condition as when you wrote the purchase contract.

**First mortgage:** A mortgage that has priority over the claims of subsequent mortgages or liens for the same property in the event of default.

**Fixed-rate mortgage:** A mortgage in which the interest rate does not change over the life of the loan.

**Flood Insurance:** An insurance policy required by a lender if a buyer's house is located in a flood zone.

**Forbearance:** An agreement by the lender to allow a borrower who has missed a number of payments to "cure" their default by beginning again to make regular monthly payments as they are due together with partial payments on the arrears (the past-due amount).

**Foreclosure:** The legal process used to force the payment of a debt secured by collateral whereby the property is sold to satisfy the debt.

**Gross Income:** Money earned before taxes and other deductions.

**Hazard Insurance:** Insurance to protect the homeowner against physical damage to a property from fire, wind, vandalism, and other hazards. "Homeowner's insurance" includes hazard insurance as well as liability insurance and protection of the contents of the home.

**Home Equity Loan:** A loan based on the estimated equity in a home. The appraised value minus the amount owed gives the lender the amount of equity available to borrow against. A home equity loan uses the home as collateral and places a lien against the property just as a purchase mortgage does.

**Homeowner's Association:** A group of homeowners within a defined community, neighborhood, or complex who make decisions, pay to maintain and repair land and common areas, and/or enforce community rules and covenants.

**Homeowners Insurance:** An insurance policy on a house and its contents that combines liability coverage with hazard insurance.

**Home Warranty Policy:** An optional policy that can be purchased that protects homeowners for one year against the cost of repairing heating and cooling systems, plumbing, and major appliances.

**Home Inspection:** A professional opinion of the structural soundness of a property. Will include an inspection report with a great deal of valuable information on the defects as well as features of the home.

**Housing Ratio:** The maximum percentage of a borrower's gross monthly income that can be used to make the monthly mortgage payments. Also called the "front-end ratio."

**HUD:** Stands for the U.S. Department of Housing and Urban Development.

**Index:** A national interest rate indicator that is tied to happenings in the stock market and US economy that is used to calculate the interest rate on an ARM.

**Interest:** The cost of borrowing money.

**Interest Rate:** The percentage of the loan amount charged for a loan.

**Lien:** A legal claim by one party against the property of another as security for a debt.

**Listing Agent:** The real estate professional who has a contract with the seller of a house to market the property for sale and represent the seller when offers are made. A listing agent legally represents the seller and is required to get the best terms and conditions for the seller. A listing agent is paid by the seller from the proceeds of the sale, which is usually a percentage of the purchase price. Also referred to as the “seller’s agent.”

**Loan Estimate:** A document that discloses good-faith estimates of credit costs and transaction terms.

**Loan Modification:** An agreement between a lender and a delinquent borrower that changes the terms of the loan. Lenders may agree to a permanent interest rate reduction, extension of the loan's payment period, re-amortization, capitalization of arrears, cancellation of principle, or some combination.

**Loan Term:** The amount of time a borrower has to pay off a loan, typically 15, 20, or 30 years for a mortgage.

**Loan-to-Value Ratio (LTV):** A comparison of the loan amount to the appraised value of the home, expressed as a percentage.

**Margin:** The amount the lender adds to an index to determine the interest rate on an Adjustable Rate Mortgage.

**Mortgage:** A security agreement between a lender and a buyer in which the property is collateral for the loan. The mortgage gives the lender the right to collect payment on the loan and to foreclose if the loan obligations are not met.

**Mortgage Insurance:** An insurance policy required by the lender if a borrower puts less than 20% cash down when buying a home with a conventional or FHA loan, which protects the lender from loss in case of default. Also called “private mortgage insurance (PMI)” for conventional loans or “mortgage insurance premium (MIP)” for FHA loans.

**MLS (Multiple Listing Service):** A service within a given area that allows real estate professionals to submit listings and agree to attempt to sell all properties in the service.

**Negative Amortization:** Payment terms under which the borrower’s monthly payments do not cover the interest due and the loan balance subsequently increases.

**Net Income:** Money earned after taxes and other payroll deductions have been withdrawn.

**Note:** A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time that is secured by a mortgage and recorded in the public records along with the deed. Also called a “mortgage note” or “promissory note.”

**Origination Fee:** A fee, stated as a percentage of the mortgage amount, paid to a lender for submitting, processing, and evaluating a loan application.

**Partial Claim:** When a mortgage insurance company lends a delinquent borrower money to bring a loan current by making a second mortgage on the property.

**PITI:** Abbreviation for **P**rincipal, **I**nterest, **T**axes, and **I**nsurance, the 4 components of a house payment.

**Points:** A fee that is 1% of the loan amount. There are 2 kinds of points, discount points (see “discount points”) and origination points (see “Origination Fee.”)

**Pre-Approval:** A guarantee that a lender will lend a potential buyer a fixed amount of money as long as the borrower buys a home by a certain time and the house appraises for the amount of money for which the borrower has been approved.

**Predatory Lending:** An unethical type of lending that falls between appropriate risk-based pricing and blatant fraud and combines certain products, terms, prices, and practices.

**Pre-Foreclosure Sale:** When the lender allows a delinquent borrower to sell the house to avoid foreclosure.

**Prepayment:** Paying more each month than the amount of the mortgage loan payment with the intent to pay the loan off sooner and save money on interest charges.

**Prepayment penalty:** A fee charged on some loans if a loan is paid off before it is due.

**Pre-Qualification:** The process lenders use to calculate a potential buyer’s mortgage affordability based on unverified information, its not a guarantee you can get a loan from them, just an estimate.

**Principal:** The outstanding balance of a loan, not including interest and other charges.

**Private mortgage insurance (PMI):** Insurance that protects a lender against loss if a borrower defaults on the mortgage. Usually required on conventional loans when less than 20% has been paid as a down payment.

**Purchase Agreement:** Commonly known as “making an offer,” a purchase contract proposes to the seller a certain purchase price as well certain conditions of the offer and is usually contingent upon the inspection, appraisal, clear title, and receiving a loan. The seller can accept, counter offer, or reject an offer.

**Rate Lock-In:** Mortgage rates change daily. A lender may offer to “lock-in” the current interest rate during the time the loan is being processed. This allows you to complete the loan process knowing the exact interest rate you will be charged and protects you if the interest rates rise. Remember to ask if you can lock in and how long a lock-in will last.

**Real Estate Agent:** A professional licensed by the state who has been specially trained to assist people to buy, sell, or rent houses, other buildings, and land.

**Real Estate Purchase Contract:** Commonly known as “making an offer,” a purchase contract proposes to the seller a certain purchase price as well certain conditions of the offer and is usually contingent upon the inspection, appraisal, clear title, and receiving a loan. The seller can accept, counter offer, or reject an offer. Also know as a “purchase agreement.”

**RESPA (Real Estate Settlement Procedures Act):** A law that requires advance disclosures of closing costs and establishes procedures for closing mortgage loans.

**Realtor:** A licensed real estate agent who is a member of the National Association of Realtors (NAR) and subscribes to their code of ethics on the local, state, and national levels.

**Recording:** The process of making certain documents part of public record at the county recorders office.

**Second Mortgage:** A home loan that has rights subordinate to the rights of the first mortgage, in other

words, it is repaid after the first mortgage in case of foreclosure.

**Seller's Agent:** The real estate professional who has a contract with the seller of a house to market the property for sale and represent the seller when offers are made. A listing agent legally represents the seller and is required to get the best terms and conditions for the seller. A listing agent is paid by the seller from the proceeds of the sale, which is usually a percentage of the purchase price. Also referred to as the "listing agent."

**Seller's Property Condition Disclosure:** A document furnished to a prospective buyer that discloses all known faults and conditions of the home. Must be given to the prospective buyer within a certain number of days after an accepted offer.

**Short Sale:** When a bank agrees to accept less than the amount due on a mortgage loan in order to make the sale of the house possible. It may have some tax implications for the borrower.

**Survey:** A professional measurement of a property and the land around it.

**Sweat Equity:** Increase in property value or equity, due to labor or improvements by the owners.

**Title:** A legal document establishing the right of ownership in a property.

**Title Insurance:** Insurance to protect the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

**Trust Deed:** The same as the "mortgage" where a third party (the lender) holds the deed of the property as security until the buyer repays the loan. Also called a "deed of trust."

**Truth-In-Lending Act (TILA):** A federal law that requires creditors to give complete and accurate information about the cost of credit to consumers and the terms of repayment. It requires specific documents to be furnished and in a specific format.

**Underwriting:** The process of analyzing a borrower's finances in order to approve or deny a loan.

**VA Loan:** A loan that is guaranteed by the U.S. Department of Veterans Affairs.