HOMEOWNERSHIP

Pre-Homeownership

Education Course

Financial Pathways OF THE PIEDMONT

Improving Lives Through Financial Education and Coaching

Presented by Consumer Credit Counseling Services of Forsyth County Inc. dba as Financial Pathways of the Piedmont a HUD approved Housing Counseling Agency.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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MODULE 1

TITLE

Planning for Homeownership

LESSON PURPOSE

To introduce the fundamentals of the home buying process and the structure of home mortgages.

LEARNING OBJECTIVES

After completing Module 1, you will be able to:

- Assess your housing needs and discuss the advantages and disadvantages of homeownership.
- Discuss the factors to consider in deciding when to buy.
- Identify the most common types of mortgages and how they work.
- Identify the costs associated with buying a home and the components of the monthly mortgage payment.
- Estimate how much you can afford to pay.

SUMMARY

Module 1 begins with a discussion of the advantages and disadvantages of homeownership, stressing the importance of thinking about why you want to become a homeowner. We then describe the basic structure and types of mortgages and how they work. The various costs associated with homeownership are also reviewed so you can begin the process of determining how much you can afford.

PLANNING FOR HOMEOWNERSHIP

A home provides us with one of the basic necessities of life - shelter. The type of shelter we have affects the quality of our daily lives. It is the base from which we carry out our daily activities, where we spend time with family and friends, and relax at the end of the day. For many people, renting a home or apartment is the most satisfactory living arrangement. For others, owning a home is a great source of satisfaction and pride.

THE HOME BUYING DECISION

If you are thinking of buying a home, take some time to seriously consider the pros and cons of homeownership. You will need to be fully aware of the benefits, costs, and responsibilities of homeownership before you invest in a home. When deciding between owning and renting, there are two basic questions you should ask:

- Do I really want to own a home?
- Can I afford to buy and maintain a home?

First, ask yourself why you want to buy a house. What are your present and future housing needs? What do you like or dislike about renting? Do you like the idea of putting down roots and gaining homeowner status in your community? Do you feel that owning a home would improve your quality of life?

Read this discussion about the advantages and disadvantages of homeownership, and then answer the questions in Worksheet 1.1, Do I Really Want to Own a Home?

FINANCIAL BENEFITS OF HOME OWNERSHIP

1. The home is an investment which can, and usually does, increase in value over time. What's more, it's the only investment you can live in at the same time! As you make payments, over the years, you are building equity. If you sell your home, this equity is like a cash reserve that can be used to buy another home. The equity can be borrowed against to help make home improvements, help pay for your children's college expenses, or to help finance the purchase of cars or other large items. Therefore, owning a home is a major source of savings for the average American household.

2. There are also substantial tax benefits to owning a home. Mortgage interest and real estate taxes are deductible from your income tax liability. Depending on your tax bracket, in many states, homeowners will save up to 40 cents in federal and state income taxes for every dollar spent on mortgage interest and property taxes.

OTHER BENEFITS OF OWNING A HOME

1. A home generally provides more space; you can adjust the living space and decorate the house to suit your needs and tastes. As a homeowner, you have the ability to make structural and cosmetic changes to the home whenever you wish.

2. Home owners generally have a greater feeling of involvement in the community as a property owner. Home ownership fosters a feeling of permanence and helps you establish roots in the community.

3. A home provides greater feelings of independence and privacy. You won't have to deal with a landlord or other tenants . You may also have more privacy, depending upon the type and location of the house you choose.

DISADVANTAGES OF HOMEOWNERSHIP

Although there are many advantages to homeownership, there are also certain disadvantages to owning a home that you should consider.

1. The initial costs associated with buying a home are greater than the amount of a rental deposit. Depending on where you live, owning a home can be more expensive than paying rent.. As a prospective homebuyer, you must be able to make a down payment and pay closing costs. As a homeowner, you must also pay property taxes, homeowner’s insurance, and utility and maintenance costs on a monthly basis. These items will be discussed more fully later, but for now, you need to be aware of the additional costs of homeownership so that you can make an informed decision about purchasing a home.

2. Home ownership involves a long-term financial commitment to pay monthly mortgage payments, typically over a 30-year period. Your money is invested for a long time in your home and cannot be spent on other things. Also, you will find that equity builds slowly. During the first 10 to 15 years of the 30-year mortgage, for example, most of your mortgage payment is applied toward paying off the interest.

3. One major financial risk of homeownership is the possibility of foreclosure. If you fail to make your mortgage payments, the lender has the right to repossess and sell your house.

4. A house can lose value if not properly maintained. The quality of the neighborhood as well as the property values can decrease if you or your neighbors are not maintaining your homes. Once you become a homeowner, there is no landlord to call for repairs; it becomes your responsibility. If you allow the house to fall into disrepair, it will be hard to get your money back when you want to sell it. The ongoing maintenance of a house and yard takes time, energy, and money. For some people, puttering around the house and yard are rewarding and enjoyable activities; for others, it is a hassle. What about you?

5. When you own a home, it is much more difficult to move - you can't just pick up and go. It generally takes time (and expenses) to sell a home. If you anticipate frequent changes in employment or in family circumstances, owning a home may curtail your mobility.

BENEFITS AND COSTS OF RENTING

The advantages and disadvantages of renting are much simpler to determine than those for owning a home. It generally costs less to rent than to own. There is no large initial investment required when renting other than a security deposit. Renters are usually required to pay a security deposit on the unit before they move in, but this money is returned if the house or apartment is left clean and in good repair.

The monthly cost of renting includes only the rent plus utility payments (if made separately).

There are currently no special financial benefits, like tax deductions, that a renter can take. Likewise, the renter doesn't share in any appreciation in value of the rental unit (the landlord gets all of this). However, many people feel that paying rent is like "pouring money down the drain - there's nothing to show for it except rent receipts." The primary advantage to renting is mobility. You are free to move from place to place (within the requirements of your lease). Another advantage is that your landlord is primarily responsible for repairs and maintenance.

Once you’ve thought about the advantages and disadvantages of homeownership and asked yourself why you want to become a homeowner, the next step in the home buying decision process is to determine your affordability. First, we'll take a look at how mortgages work so you'll have a better understanding of what's involved in financing a home. Then, we'll discuss the typical costs of homeownership and how to determine if you are prepared to meet these costs.

HOW MORTGAGES WORK

THE STRUCTURE OF MORTGAGES

Most of us cannot afford to pay cash for a home, so we borrow the money from various types of lending institutions that offer home loans. A mortgage is simply a big loan which a buyer uses to purchase a home. The lender gives the buyer the money now, and the buyer repays the loan over a number of years.

Most of these loans are **amortized,** which means that borrowers repay the amount of the loan, called the **principal,** over a specified period of time. This gradual reduction in the amount of the principal through periodic payments, usually monthly, is called **amortization.** The length of time given to repay, or amortize, the loan is called the **loan term.**

In addition to repaying the principal, you will also pay **interest** on the loan. Interest is simply the cost of borrowing money. The interest on a home loan is similar to interest you've probably paid on car loans or on the balances of your charge cards.

THE DOCUMENTS

One of two documents, the **mortgage** or the **deed of trust,** pledges the property you are buying as security for the loan. These documents state all the conditions you have agreed to (interest rate, length of term, etc.). The **promissory note** is another document that goes along with the deed of trust or the mortgage. When you sign this note, you are promising to repay the loan. If you fail to meet these obligations, the lender has the right to sell your house to pay off the debts **(foreclosure).** This threat of foreclosure is the major reason all potential homebuyers should fully understand the costs of homeownership and what they can afford, before they enter the housing market.

TYPES OF MORTGAGES

There are numerous kinds of mortgages available to the buyer, and there are many different sources of mortgage loans. Typically, loans are available at commercial banks, savings and loans, savings banks, credit unions, and mortgage companies. These lending institutions offer a wide variety of mortgage products, but the most common type of loan is the **fixed-rate** mortgage. The main feature of this type of mortgage is that the interest rate and the amount of the payment remain the same over the term of the loan, usually 15 or 30 years. If you obtain a loan with a 5 percent interest, the rate will still be 5 percent when you make the last payment or sell the house, unless you arrange for some kind of change yourself, such as refinancing.

We will discuss the different types of mortgages in greater detail in Module 5. Because of its greater simplicity, the fixed-rate mortgage will be used in the discussion which follows regarding the costs of homeownership.

THE COSTS OF HOMEOWNERSHIP

There are basically two types of costs:

- One-time, or up-front costs
- Periodic, or monthly costs

UP-FRONT COSTS | DOWNPAYMENT

1. **DOWN PAYMENT**

   Mortgage lenders generally require borrowers to make an initial payment toward the price of the home. The amount of the down payment required depends on the type of mortgage. Down payment requirements vary among lenders, ranging from as little as 3.5 percent (or less) to 20 percent (or more). The size of your down payment affects the total amount you will need to borrow.

   To make a 3.5 percent down payment toward the purchase of a $100,000 house, you would need $3,500., leaving $96,500 for you to borrow and pay off over time.

   $100,000 x .035 = $3,500 down payment

   $100,000 - $3,500 = $96,500 loan

   To make a 20 percent down payment on a $100,000 house, you would need $20,000. You would be borrowing $80,000.

   $100,000 x .20 = $20,000 down payment

   $100,000 - $20,000 = $80,000 loan

2. **CLOSING COSTS**

   Closing costs are fees that must be made to complete the transfer of the property from the seller to the buyer. Closing costs include items such as the survey, attorney fees, title search, and advance tax and insurance payments. All these payments must be made at the time the house is bought (at closing).
   Closing costs may vary, but are usually 3 to 5 percent of the mortgage loan amount. If your loan is $100,000, your closing costs would be expected to fall between $3,000 and $5,000.

If we add the $3,000 for closing costs to the 3.5 percent down payment of $3,500, the up-front costs of buying the home total $6,500.

1 $3,000 + $3,500 = $6,500 1

3. MOVING AND SETTLING-IN COSTS

There will be some costs associated with moving into your new home, even if you move yourself rather than hiring a professional moving company. There are also likely to be costs for new purchases such as appliances, and fix-ups such as painting, etc. The amount of these moving and settling-in costs will vary according to how far you're moving and how much repair work needs to be done.

MONTHLY COSTS

MONTHLY MORTGAGE PAYMENT

The monthly payment made to the lender consists of four parts: the principal and interest, (called the P & I payment), and the property taxes and insurance, (called the T & I payment). Together, these four parts of the monthly mortgage payment are called the PITI payment.

P = Principal (amount you borrow)
= **Interest** (the cost of borrowing money)
T = Taxes (taxes charged by local government)
= **Insurance** (home owner's hazard insurance and mortgage insurance)

THE P & I PAYMENT

The amount of the principal and interest that you pay each month depends upon:

- The amount you borrow (Principal)
- The interest rate (Interest)
- The length of time given to repay the loan (Term)

The following chart shows how differences in the interest rate and the loan term affect the monthly P&I payment.

Loan Amount	Interest Rate	Term	P&I Payment
$100,000	8%	15-year	$956
$100,000	8%	30-year	$734
$100,000	10%	15-year	$1,075
$100,000	10%	30-year	$878

As you can see, the monthly P&I is lower when the interest rates are lower. This is due to a lower amount of interest being charged each month. The monthly P&I is also lower when the term is longer. This is because a larger payment is required to pay off the loan in a shorter time period.

The following chart provides an additional illustration of how monthly payments for principal and interest vary according to the interest rate and loan amount. This chart also shows how these payments are calculated.

PRINCIPAL AND INTEREST (30-year)							
Loan Amount	**Interest Rate**						
	6%	7%	**8%**	**9%**	**10%**	**11%**	**12%**
$50,000	300	333	367	402	439	476	514
$55,000	330	366	404	443	483	524	566
$60,000	360	399	440	483	527	571	617
$65,000	390	432	477	523	570	619	669
$70,000	420	466	514	563	614	667	720
$75,000	450	499	550	603	658	714	771
$80,000	480	532	587	644	702	762	823
$85,000	510	566	624	684	746	809	874
$90,000	540	599	660	724	790	857	926
$95,000	570	632	697	764	834	905	977
$100,000	600	665	734	805	878	952	1,029
$110,000	660	732	807	885	965	1,048	1,132
$120,000	720	798	880	966	1,053	1,143	1,234
$130,000	780	865	954	1,046	1,141	1,238	1,337
$140,000	840	931	1,027	1,126	1,229	1,333	1,440
$140,000	900	998	1,101	1,207	1,316	1,428	1,543
$150,000	960	1,064	1,174	1,287	1,404	1,524	1,646
$170,000	1020	1,131	1,247	1,368	1,492	1,619	1,749
$180,000	1,080	1,198	1,321	1,448	1,580	1,714	1,852
$190,000	1,140	1,264	1,394	1,529	1,667	1,809	1,954
$200,000	1,200	1,330	1,470	1,610	1,755	1,905	2,060

To use the Principal and Interest chart, select the loan amount in the left column, then locate the interest rate on the top row. Where the loan amount and interest rate intersect is the amount of principal and interest you would pay. You can calculate the payment yourself by multiplying the factor, or multiplier, listed below the interest rate times the loan amount.

Example 1: The monthly P&I on a $50,000 loan at 8% would be $367, calculated as follows:

.00734 x $50,000 = $367

Example 2: The monthly P&I on a $65,000 loan at 9% would be $523.25, calculated as follows:

.00805 x $65,000 = $523.25

THE T&I PAYMENT

The remaining portion of your mortgage payment is for taxes and insurance. Lenders generally place this portion of your monthly mortgage payment into an **escrow** account, and then they pay them for you on the due date. This saves you from having to make the payments directly, and it also means that the lender won't have to worry about them going unpaid. If you make a larger down payment, 20% for example, you may not be required to escrow the payments for taxes and insurance.

There are three types of insurance:

Hazard Insurance: It protects the lender against the loss of their investment in case of damage such as fire. If the insurance is not part of your monthly payment, you must prove to the lender that you have bought it separately.

Mortgage Insurance: Most first-time home-buying programs require mortgage insurance if the down payment is under 20% of the loan amount. This insurance protects the lender in case the buyer does not meet his mortgage payments, and defaults on the loan. The premium(s) for mortgage insurance are paid by the borrower - either up front or over time. Ask your lender for details about mortgage insurance requirements and get estimates of insurance premiums.

Mortgage Life Insurance: This is a decreasing term policy that would pay the lender the balance due on the mortgage loan if you die before paying off the mortgage. If you already have sufficient life insurance to cover the mortgage payoff, let your lender know. This insurance is expensive and it should **not** be mandatory.

OTHER

In addition to the T&I payment mentioned above, you may have other monthly fees. For example, if you purchase a condominium, you may be required to pay a homeowner association (HOA) fee.

OPERATING AND MAINTENANCE COSTS

These are monthly costs for heating and cooling, electricity, repairs and maintenance on the home. Utility costs are an obligation you must meet every month. Also, it is important that you also set approximately 2% of your home's value aside for unexpected upkeep and maintenance costs. For example, if you the value of your home is $100,000, you'll need to save $2,000 annually.

HOW MUCH CAN YOU AFFORD?

Now that you are familiar with the types of costs you will have as a homeowner, you will want to figure out how much you can afford. There's a standard rule of thumb that says you can afford a house that costs up to two and one-half times your annual gross income. Your annual gross income includes the amount you make before taxes are deducted, and it also includes the annual gross income of your spouse or other co-borrower. As an example, if you (and any co-borrower) have a joint annual income of $40,000, you could afford to pay up to $100,000 for a home.

$40,000 x 2.5 = $100,000

Unfortunately, it's usually not that simple to determine how much you can afford. From a lender's viewpoint, the amount you can afford must be measured more precisely. A more precise measure of how much you can afford is directly related to the funds you have available for a down payment and how much lenders are willing to loan you, based on your income and your financial debts and obligations.

Lenders use underwriting guidelines to determine eligibility for a loan, and these underwriting guidelines affect how much you can borrow. Although these underwriting guidelines vary among lenders, there are certain aspects that are common to all. These common factors are:

- Funds available for the down payment
- Income available for housing costs

FUNDS AVAILABLE FOR THE DOWN PAYMENT

In our earlier discussion of the down payment as one of the major up-front costs you'll have in purchasing a home, we explained how the amount of this down payment makes a difference in the amount you borrow. This is important because of the **loan-to-value ratio** guidelines that lenders use.

If the lender's loan-to-value ratio is 97%, that means that they will loan you 97% of the sales price or appraised value (whichever is less). You would then have to make a 3% down payment. For example, if you wish to purchase a $100,000 home and the lender's loan-to-value ratio is 97%, you will have to make a down payment of $3,000.

$100,000 x .97 = $97,000

$100,000 - $97,000 = $3,000

The lender will want to verify that you have the approximate amount in savings or other assets for the up-front expenditures for the down payment and closing costs. Sources of funds for these expenses may include your checking and savings accounts, mutual funds, stocks and bonds, and - in some instances - gift funds. We'll talk more about how to determine your total assets in Module 2.

INCOME AVAILABLE FOR HOUSING COSTS

In determining how much you can afford on a monthly basis for the PITI payment, lenders work with standard ratios. These ratios set limits on how much of your monthly income can be applied to housing costs. The purpose of these ratios is to make sure that borrowers don't go too deeply into debt when purchasing a house. It's important to have enough money each month for other expenses such as food, clothing, and medical care, and still be able to make your mortgage payment.

Different types of loans have different qualifying ratios. For example, conventional mortgages have traditionally used a 28/36 ratio. This 28/36 ratio means that your PITI payment may not exceed 28% of your gross monthly income and that your PITI payment plus all other debts may not exceed 36% of your gross monthly income. FHA loans are based on a 31/43 ratio. This means that your PITI payment may not exceed 31% of your gross monthly income and that your PITI payment plus all your other debts may not exceed 43% of your gross monthly income. Some of the affordable housing programs offered by lenders use a 33/38 ratio.

The Qualifying Ratios Chart on the following page shows the PITI payments for traditional, FHA, and typical affordable housing program mortgages. The following examples using FHA ratios illustrate how this works.

1. The first ratio (31%) uses your gross monthly income to determine how large a PITI payment you may qualify for (using gross monthly income of $1,800 in this example). This ratio is often referred to as the **housing costs to income ratio.**

$1,800 x .31 = $558 (maximum PITI payment)

2. The second ratio (43%) uses your gross monthly income to determine how much of your income can be spent on the PITI payment plus your other existing debts. This ratio is often referred to as the **total debt to income ratio.**

$1,800 x .43 = $774 (maximum PITI payment)

QUALIFYING RATIOS

This chart provides examples of three types of lending programs and the different qualifying ratios that are used. The amount in the PITI column represents the maximum payment for principal, interest, taxes, and insurance. The amount in the Total Debt column represents the maximum for the PITI payment plus all other monthly debts. Note that programs with higher ratios permit a higher proportion of your income to go toward housing and other debts.

Gross Monthly Income	Gross Annual Income	Conventional		FHA		Affordable Housing Initiatives	
		PITI	Total Debt	PITI	Total Debt	PITI	Total Debt
		28%	36%	31%	43%	33%	38%
1,200	14,400	336	432	372	516	396	456
1,300	15,600	364	468	403	559	429	494
1,400	16,888	392	504	434	602	462	532
1,500	18,000	420	540	465	645	495	570
1,600	19,200	448	576	496	688	528	608
1,700	20,400	476	612	527	731	561	646
1,800	21,600	504	648	558	774	594	684
1,900	22,800	532	684	589	817	627	722
2,000	24,000	560	720	620	860	660	760
2,200	26,400	616	792	682	946	726	836
2,400	28,800	672	864	744	1032	792	912
2,600	31,200	728	936	806	1118	858	988
2,800	33,600	784	1,008	868	1204	924	1,064

Now, let's look at how the amount of your non-housing debts influence these ratios. These two ratios - 31% and 43% - must work together. If your debts are excessive, the amount of your gross monthly income that can be applied to housing costs may be reduced. Following are examples.

Example 1: Jane and John are considering purchasing a home. Their monthly income is $1,800. The calculations in the FHA examples above show that their maximum PITI payment is $558. Would they meet this 31% qualifying guideline? The monthly principal and interest payment is $400. The monthly payment for property taxes is $70. The monthly payment for hazard insurance is $30.

<u>$400 + $70 + $30 = $500</u>

<u>$500 + $1,800 = 28%</u>

In this example, Jane and John would qualify under the first ratio, since their PITI payment is less than 31%. Jane and John also owe $230 in other debts. Under these FHA guidelines, their PITI payment plus all other debts must not exceed 43% of their gross monthly income. Do they meet this second guideline?

<u>$500 + $230 = $730</u>

<u>$730 + $1,800 = 41%</u>

In this example, Jane and John would qualify, since their PITI payment plus all other debts under 43%.

Example 2: Suppose Jane and John had monthly debts totaling $300. Would they still qualify?

<u>$500 + $300 + $800</u>

<u>$800 + $1,800 = 44%</u>

In this example, Jane and John would not qualify because their PITI payment plus all their other debts is more than 43%.

The next step in determining how much you can afford is to follow the procedures outlined above and apply them to your own financial situation. We'll continue this process in Module 2 by looking at your credit history and your household budget. Module 2 includes worksheets for calculating your total assets, gross monthly income, and monthly debts. These worksheets will then be used to fill out the pre-qualification worksheet, which helps you determine how much you can afford.

WORKSHEET 1.1
DO I REALLY WANT TO OWN A HOME?

Below are six areas that should be considered when deciding on whether to buy a home. Select only one statement in each group. This is not a test, so please answer honestly.

1. A. Being in debt does not bother me.
   B. The thought of having long-term debt is disturbing to me.

2. A. I enjoy working around the house and yard.
   B. I would much rather shop, go out to eat, or read a book than spend any time around the house or yard.

3. A. I feel more comfortable putting my money into relatively stable forms of savings and investments.
   B. I enjoy the excitement of speculative forms of savings and investments; I like having the chance for large gains.

4. A. I prefer finding a good job and staying with it.
   B. I prefer changing jobs from time to time, finding excitement in starting all over.

5. A. I prefer staying in one place and being committed to one community.
   B. I do not like being limited to one community or location for a long period of time.

6. A. I am able to handle the financial responsibility of mortgage payments now.
   B. I would be better off waiting until I can save more money or my financial situation improves.

Other questions to help you make the home buying decision.

1. Why is owning a home important to me?

2. What do I like about renting?

3. What do I dislike about renting?

MODULE 2

TITLE

Credit Analysis and Household Budgeting

LESSON PURPOSE

To provide guidance on how to plan and prepare for making the mortgage payments and other realistic homeownership and maintenance costs through effective money management and credit management practices.

LEARNING OBJECTIVES

After completing Module 2, you will be able to:

- Discuss the importance of a good credit record.
- Discuss the purpose and operations of credit reporting bureaus.
- Identify ways to solve credit problems.
- Develop an effective household budget and record keeping system.
- Develop a plan for paying up-front home purchase costs.
- Develop a plan for making mortgage payments and paying other homeownership and maintenance costs.

SUMMARY

In Module 2, you will learn why your credit history is important, how to establish credit and build a positive credit record, how to obtain and interpret your credit report, and how to solve credit problems. This session also emphasizes the importance of developing a realistic, effective household budget and record- keeping system to help you get control of current spending, set and reach savings goals for homeownership, plan for maintenance costs and future capital improvements, and meet unexpected homeownership obligations.

CREDIT ANALYSIS AND BUDGETING FOR HOME OWNERSHIP

In Module 1, we introduced the fundamentals of the home buying process and the basic concepts of real estate finance. We discussed the advantages and disadvantages of homeownership and general guidelines for determining if you are prepared to become a homeowner. Module 2 focuses on issues specific to the prospective homebuyers' credit history and household budgeting so they can determine how much they can afford.

A GUIDE TO CREDIT

THE PURPOSE AND FUNCTION OF CREDIT BUREAUS

Credit bureaus report information about your payment history on your existing and previous debts. Typically, each account is rated to indicate how you have repaid the obligation. Your credit report may reflect a credit score or a numerical score which is much like a rating for your entire credit history.

The purpose of the credit bureau system is to help businesses decide whether or not to grant credit to you. It is important to understand that credit bureaus do not make the decision to grant your request for credit. They merely provide information from their records concerning your credit history to the lender requesting that information. Lenders study those records - and other factors - and then decide whether or not to extend the credit you seek.

HOW TO OBTAIN AND CHECK YOUR CREDIT REPORT

You have the right to request a copy of the information in your credit file. If you have recently been denied credit, creditors are required by law to give you a written notice of that denial. That notice must include the name and address of the credit bureau that provided information about your credit history. You then have the right to contact that credit bureau and receive a copy of your credit report without charge.

If you have been denied credit, you should check your record promptly, to see if all the information in it is accurate. (In a large, nationwide system, there are unfortunately many errors, which will be considered the official record unless consumers speak up and request corrections.)

You can get a free copy of your credit report once every 12 months from each of the major credit agencies (Equifax, Experian, and TransUnion). Order online from AnnualCreditReport.com, the only authorized website for free credit reports, or call 1-877-322-8228. Again, there is no charge for this service. You should consider getting a copy of your report before you apply for a mortgage loan to be sure that the information in your record is correct. If you discover that your file contains fraudulent or negative information from a problem that has been resolved, you should be prepared to correct it before the lender sees the file so that you can minimize the negative effect.

CONSUMER PROTECTION UNDER THE FAIR CREDIT REPORTING ACT

If you believe your credit report contains one or more errors, the Fair Credit Reporting Act (FCRA) gives you the right to tell the credit bureau to contact the sources of information and ask them to correct the information. If the business that supplied the information insists that it is accurate, you have the right to require the credit bureau to put your statement (100 words or less) in the file so that future lenders see your side of the story. The following page provides a summary of your rights under the FCRA.

Para información en español, visite www.consumerfinance.gov/learnmore o escribe a la Consumer Financial Protection Bureau, 1700 G Street N.W., Washington, DC 20552.

A Summary of Your Rights Under the Fair Credit Reporting Act

The federal Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies. There are many types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records, and rental history records). Here is a summary of your major rights under FCRA. **For more information, including information about additional rights, go to www.consumerfinance.gov/learnmore or write to: Consumer Financial Protection Bureau, 1700 G Street N.W., Washington, DC 20552.**

- **You must be told if information in your file has been used against you.** Anyone who uses a credit report or another type of consumer report to deny your application for credit, insurance, or employment – or to take another adverse action against you – must tell you, and must give you the name, address, and phone number of the agency that provided the information.

- **You have the right to know what is in your file.** You may request and obtain all the information about you in the files of a consumer reporting agency (your "file disclosure"). You will be required to provide proper identification, which may include your Social Security number. In many cases, the disclosure will be free. You are entitled to a free file disclosure if:

    - a person has taken adverse action against you because of information in your credit report;
    - you are the victim of identity theft and place a fraud alert in your file;
    - your file contains inaccurate information as a result of fraud;
    - you are on public assistance;
    - you are unemployed but expect to apply for employment within 60 days.

  In addition, all consumers are entitled to one free disclosure every 12 months upon request from each nationwide credit bureau and from nationwide specialty consumer reporting agencies. See www.consumerfinance.gov/learnmore for additional information.

- **You have the right to ask for a credit score.** Credit scores are numerical summaries of your credit-worthiness based on information from credit bureaus. You may request a credit score from consumer reporting agencies that create scores or distribute scores used in residential real property loans, but you will have to pay for it. In some mortgage transactions, you will receive credit score information for free from the mortgage lender.

- **You have the right to dispute incomplete or inaccurate information.** If you identify information in your file that is incomplete or inaccurate, and report it to the consumer reporting agency, the agency must investigate unless your dispute is frivolous. See www.consumerfinance.gov/learnmore for an explanation of dispute procedures.

- **Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information.** Inaccurate, incomplete, or unverifiable information must be removed or corrected, usually within 30 days. However, a consumer reporting agency may continue to report information it has verified as accurate.

- **Consumer reporting agencies may not report outdated negative information.** In most cases, a consumer reporting agency may not report negative information that is more than seven years old, or bankruptcies that are more than 10 years old.

- **Access to your file is limited.** A consumer reporting agency may provide information about you only to people with a valid need – usually to consider an application with a creditor, insurer, employer, landlord, or other business. The FCRA specifies those with a valid need for access.

- **You must give your consent for reports to be provided to employers.** A consumer reporting agency may not give out information about you to your employer, or a potential employer, without your written consent given to the employer. Written consent generally is not required in the trucking industry. For more information, go to www.consumerfinance.gov/learnmore.

- **You may limit "prescreened" offers of credit and insurance you get based on information in your credit report.** Unsolicited "prescreened" offers for credit and insurance must include a toll-free phone number you can call if you choose to remove your name and address form the lists these offers are based on. You may opt out with the nationwide credit bureaus at 1-888-5-OPTOUT (1-888-567-8688).

- The following FCRA right applies with respect to nationwide consumer reporting agencies**:**

  CONSUMERS HAVE THE RIGHT TO OBTAIN A SECURITY FREEZE

  You have a right to place a "security freeze" on your credit report, which will prohibit a consumer reporting agency from releasing information in your credit report without your express authorization. The security freeze is designed to prevent credit, loans, and services from being approved in your name without your consent. However, you should be aware that using a security freeze to take control over who gets access to the personal and financial information in your credit report may delay, interfere with, or prohibit the timely approval of any subsequent request or application you make regarding a new loan, credit, mortgage, or any other account involving the extension of credit.

  As an alternative to a security freeze, you have the right to place an initial or extended fraud alert on your credit file at no cost. An initial fraud alert is a 1-year alert that is placed on a consumer's credit file. Upon seeing a fraud alert display on a consumer's credit file, a business is required to take steps to verify the consumer's identity before extending new credit. If you are a victim of identity theft, you are entitled to an extended fraud alert, which is a fraud alert lasting 7 years.

A security freeze does not apply to a person or entity, or its affiliates, or collection agencies acting on behalf of the person or entity, with which you have an existing account that requests information in your credit report for the purposes of reviewing or collecting the account. Reviewing the account includes activities related to account maintenance, monitoring, credit line increases, and account upgrades and enhancements.

- **You may seek damages from violators.** If a consumer reporting agency, or, in some cases, a user of consumer reports or a furnisher of information to a consumer reporting agency violates the FCRA, you may be able to sue in state or federal court.

- **Identity theft victims and active duty military personnel have additional rights.** For more information, visit www.consumerfinance.gov/learnmore.

States may enforce the FCRA, and many states have their own consumer reporting laws. In some cases, you may have more rights under state law. For more information, contact your state or local consumer protection agency or your state Attorney General. For information about your federal rights, contact:

TYPE OF BUSINESS:	CONTACT:
1.a. Banks, savings associations, and credit unions with total assets of over $10 billion and their affiliates b. Such affiliates that are not banks, savings associations, or credit unions also should list, in addition to the CFPB:	a. Consumer Financial Protection Bureau 1700 G Street, N.W. Washington, DC 20552 b. Federal Trade Commission Consumer Response Center 600 Pennsylvania Avenue, N.W. Washington, DC 20580 (877) 382-4357
2. To the extent not included in item 1 above: a. National banks, federal savings associations, and federal branches and federal agencies of foreign banks b. State member banks, branches and agencies of foreign banks (other than federal branches, federal agencies, and Insured State Branches of Foreign Banks), commercial lending companies owned or controlled by foreign banks, and organizations operating under section 25 or 25A of the Federal Reserve Act. c. Nonmember Insured Banks, Insured State Branches of Foreign Banks, and insured state savings associations d. Federal Credit Unions	a. Office of the Comptroller of the Currency Customer Assistance Group 1301 McKinney Street, Suite 3450 Houston, TX 77010-9050 b. Federal Reserve Consumer Help Center P.O. Box 1200 Minneapolis, MN 55480 c. FDIC Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106 d. National Credit Union Administration Office of Consumer Financial Protection (OCFP) Division of Consumer Compliance Policy and Outreach 1775 Duke Street Alexandria, VA 22314
3. Air carriers	Asst. General Counsel for Aviation Enforcement & Proceedings Aviation Consumer Protection Division Department of Transportation 1200 New Jersey Avenue, S.E. Washington, DC 20590
4. Creditors Subject to the Surface Transportation Board	Office of Proceedings, Surface Transportation Board Department of Transportation 395 E Street, S.W. Washington, DC 20423
5. Creditors Subject to the Packers and Stockyards Act, 1921	Nearest Packers and Stockyards Administration area supervisor
6. Small Business Investment Companies	Associate Deputy Administrator for Capital Access United States Small Business Administration 409 Third Street, S.W., Suite 8200 Washington, DC 20416
7. Brokers and Dealers	Securities and Exchange Commission 100 F Street, N.E. Washington, DC 20549
8. Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations	Farm Credit Administration 1501 Farm Credit Drive McLean, VA 22102-5090
9. Retailers, Finance Companies, and All Other Creditors Not Listed Above	Federal Trade Commission Consumer Response Center 600 Pennsylvania Avenue, N.W. Washington, DC 20580 (877) 382-4357

THE IMPORTANCE OF A GOOD CREDIT HISTORY

Under the Fair Credit Reporting Act, credit bureaus are authorized to keep the information in your credit record and to issue a report when lenders ask for it - for seven years. This includes both the positive and the negative information about your history of paying bills and repaying loans. If you have filed for bankruptcy, that information will remain in your file for ten years.

When you are applying for a mortgage loan, a good credit history is extremely important. If you find that your record has a significant amount of accurate, negative information, your first challenge is to develop a plan for getting your credit situation under control. You want your record to show lenders that you pay your bills on time.

The three major credit bureaus are:

EQUIFAX	**EXPERIAN**	**TRANSUNION**
P.O. Box 740256	P.O. Box 4500	P.O. Box 2000
Atlanta, GA 30374	Allen, TX 75013	Chester, PA 19016
(888) 548.7878	(888) 397.3742	(800) 916-8800
www.equifax.com	www.experian.com	www.transunion.com

HOW TO SOLVE CREDIT PROBLEMS

Do not be taken in by Internet ads or posts from companies that promise to clean up your credit and improve your credit score. There are no quick fixes to a poor credit history. Your financial future depends on *your* ability to plan and control your use of credit. It requires time and commitment. Here are some important steps to take in solving past credit problems.

1. The most important guideline if you are having credit problems is to contact each creditor personally and explain your situation. Letting creditors know that you are concerned and that you want to work out a realistic plan to repay your debts is critical. Most lenders will cooperate if they believe you are serious about trying to honor your commitments. Making good faith payments can go a long way toward helping you rebuild a good credit history. A sample good faith letter is provided at the end of this Module.

2. If your credit report shows a pattern of late payments associated with specific problems such as a sudden illness or the loss of your job, you can write a letter of explanation to the credit bureau about the circumstances behind these late payments. This letter will become part of your report and will be given to creditors checking your report. An example of such a letter is included at the end of this Module.

3. If you have outstanding collections or judgments against you, take steps to pay them off. Contact the creditors and begin making regular payments, however small.

4. Credit problems from a previous marriage often present special challenges. If you cosigned a loan with your ex-spouse for a car, for example, and the payments are not made, these late payments will remain on the credit report of both spouses, even after the separation or divorce. You will continue to be held responsible for this debt until it is repaid.

5. Financial advisors agree that anyone with credit problems should try to solve those problems without filing for bankruptcy if at all possible - even if it takes several years. Remember, bankruptcy remains on your report for up to ten years.

6. If a family crisis or loss of income has caused a problem more serious than you can deal with by yourself, contact a non-profit credit counseling service. In some states, such an agency is the only service that is allowed to implement a debt management plan.

7. When working with a credit counselor, be totally honest. A credit counselor may ask you to provide detailed information about your financial situation - income, debts, and essential living expenses - and then help you work out a plan for repaying your debts. If your creditors agree to cooperate with this plan, the credit counselor will then ask you to bring/send the agreed amount of money each month and the agency will make the payments to your creditors. The credit counselor will also help you develop good habits of planning your spending and controlling your use of credit to reduce the chance of future financial problems.

IDENTITY FRAUD

According to Experian, consumers reported $907 million in fraud losses in 2017. This could be in part due to the Equifax data breach that affected approximately 143 million Americans. The effects of this cybersecurity breach are expected to impact Americans as well as Canadians and Great Britains for many years. Therefore, if you become a victim of identity fraud, take the following steps before you start on your homeownership journey:

1. Contact each of the major credit bureaus (Equifax, Experian, and TransUnion) and put a freeze or fraud alert on your credit report. There is no cost for freezing your account.
2. If any of the information on your report is fraudulent or inaccurate, use the below *Credit Dispute Form* to dispute the item.
3. Contact the creditor directly. For example, if your Visa card was fraudulently used, call the issuer of your Visa card and report it stolen.
4. Report it to the Federal Trade Commission (FTC) at IdentityTheft.gov or call 1-877-ID THEFT (877-438-4338).
5. File a Police Report. This report proves to your creditors that you are actually a victim, and you are not trying to commit fraudulent acts.
6. Contact the Social Security Administration if you believe that your number has been compromised. Contact the Social Security Administration at 1.800.269.0271 as well as the Internal Revenue Service at 1.800.829.0433.
7. If you believe that as a part of the fraud that your address was changed, contact the Postal Service.

Credit Report Dispute Form

Found inaccuracies in your report? If so, use this form to contact the credit bureau (Experian, Equifax, or TransUnion) that supplied the information. Simply follow the instructions provided, then mail the form to the appropriate credit bureau.

Instructions
1) Write the name and account number of the creditor in question under the Item in Dispute section.
2) Write in the reason for your dispute in the Reason for Dispute section.
3) Sign and mail to the appropriate credit bureau.

1. Contact Information

Name: ______________________________ Birth Date: ______________

Address: ____

City: ______________________________ State: __________ Zip: __________

Social Security Number: ______________________ Phone: ______________________

2. Dispute Information

Item in Dispute
Creditor: ______________________________ Account Number: ______________

This information is inaccurate because:
❍ This is not my account. ❍ I have never paid late.
❍ This account is in bankruptcy. ❍ This account is closed.
❍ I have paid this account in full. ❍ I paid this before it went to collection or before it was charged off.
❍ Other: ____

Item in Dispute
Creditor: ______________________________ Account Number: ______________

This information is inaccurate because:
❍ This is not my account. ❍ I have never paid late.
❍ This account is in bankruptcy. ❍ This account is closed.
❍ I have paid this account in full. ❍ I paid this before it went to collection or before it was charged off.
❍ Other: ____

Item in Dispute
Creditor: ______________________________ Account Number: ______________

This information is inaccurate because:
❍ This is not my account. ❍ I have never paid late.
❍ This account is in bankruptcy. ❍ This account is closed.
❍ I have paid this account in full. ❍ I paid this before it went to collection or before it was charged off.
❍ Other: ____

3. Sign and Mail

Signature: ______________________________________ Date: __________

Mail/call the appropriate credit bureau.

Experian
Call 1-888-397-3742 or visit www.experian.com/disputes.

Equifax
P.O. Box 740256
Atlanta, GA 30374

TransUnion
P.O. Box 2000
Chester, PA 19022

DEVELOPING AN EFFECTIVE BUDGET AND RECORD-KEEPING SYSTEM

Whether or not you have had credit problems in the past, any lender you ask for a mortgage loan will want you to fill out forms describing your financial situation in detail. If you or your family do not have a budget or spending plan for allocating your income or keep records of your spending and saving, you need to develop those habits before you apply for a mortgage loan.

You need to show that you and your family know how to manage money. You will be asked to demonstrate that you are prepared to provide the down payment and closing costs, to repay the loan, and to assume the estimated additional costs of homeownership, home maintenance and repairs.

Getting ready to apply for a loan helps you as well as the lender. Learning how to budget and keep records will protect you from making a major financial commitment that you can't afford. You don't want to spend every cent you have to get into a house and then find out that you can't afford it and have to give up your home.

A budget is simply a management tool - a flexible plan to help you get the greatest possible satisfaction out of how to use your income. If you have a negative attitude toward budgeting, then call it a spending plan or make up some other name that encourages you to master this technique and make your money work for you.

Budgeting and record-keeping are complementary processes - a series of related actions that can be used together to help you reach your financial goals. We have included budgeting worksheets in this Module that you can use as a guide, but you may need to personalize them so they work for you. If you truly want to become an effective money manager, you must be willing to give both time and serious thought to the process. Study the following six-step process as you develop your skills in planning and keeping records of both spending and saving. Worksheets 2.1 - 2.5 were designed to help you work through this process.

MAKING A BUDGET

STEP 1: SETTING GOALS

No two people have exactly the same goals, because each person has his or her own values, experiences and ways of looking at the world. It is important for families to talk about the goals of individual family members and then find ways to reach agreement on the ways family income will be used.

Most people think in terms of short-term financial goals - the things you want to be able to buy soon. But if you're thinking about buying a home, that is a major, long-term financial commitment. It may take quite a few years of saving in order to meet the costs of buying and maintaining a house.

Unless you and your family agree that you really want to own your own home, you are not likely to do the planning and saving necessary to make it happen. But you also need to look at other family goals. Think about, and talk about all of your short-term and long-term goals. Recognize that no one can have everything he wants - but consider how important the various goals are to each family member. Even if everyone agrees, remember that unforeseen events may make it necessary to revise your goals. Try not to let yourself want something so badly that you are unable to adjust if a change in your plans becomes necessary.

STEP 2: ESTIMATING INCOME

Do you know how much money came into your household during the past year? How many different sources of income there were, and how much income you received from each? What changes in income do you think will occur in the coming year? This figure is the foundation for a good budget, and it is important to make it as accurate as possible. A household budget usually looks at the coming year, but you also want to look at the reliability of your income in the years beyond if you're thinking about buying a home.

Most people think about income in terms of the amount left after deductions for taxes, Social Security, and other things such as health insurance have been made. This take home (net) pay is the amount actually available for current living expenses and saving for future goals. But if you're going to be applying for a mortgage loan, you need to realize that mortgage lenders make their calculations based on your before tax income or gross income. This is your income before any deductions. The Lender will compare the amount of debt you owe, your current level of spending and your pattern of saving to your gross income. To get ready for the time when you apply for a mortgage loan begin thinking in terms of gross income. (Use Worksheet 2.1, Gross Monthly Income, as a guide.) However, you know your expenses better than any mortgage lender; therefore, keep your net income in mind when considering how much you can afford.

STEP 3: ANALYZING RECENT SPENDING

If you already keep a record of your expenses, take time to study how you've been spending personal or family income over the past year or so. Try to get a sense of your average monthly expense for each category of spending. Reviewing previous spending patterns on a monthly basis helps you develop a plan for meeting the costs of homeownership.

Many people do not keep track of how they use their money. When asked to report on recent spending, very few of us can make an accurate account. If you are serious about planning and keeping track of your spending but don't really know how much you are currently spending, you might find it helpful to keep a detailed record for a month or two. Keep all receipts and make extra notes in your checkbook to help you remember what you bought.

Every budget and record-keeping book has its own way of listing the many categories of household spending and no single system makes sense to everyone. As you analyze your recent spending and prepare to develop a plan for future spending, take time to personalize the forms or create your own forms. You want a budget and record-keeping system that is user friendly - one that you and your family will use! Worksheet 2.2, Current Monthly Expenses, will help you calculate your monthly expenses.

If you are thinking of becoming a homeowner, it's particularly important that you keep track of all long- term debts (debts requiring more than six months to repay). Use Worksheet 2.3, Monthly Debt Expenses, to record all the monthly debt obligations you may have, such as car payments, credit cards, alimony or child support payments, other loans, etc. Include the total amount due and the monthly minimum due. If anything is overdue, make a special note of it.

STEP 4: PLANNING FUTURE SPENDING: CREATING A BUDGET

The reason for analyzing your recent spending (Step 3) is to help you remember all the things for which you currently use your money. You can then stop and consider whether or not you want to continue that pattern of spending as you develop a spending plan for the future. Think in terms of the fixed and flexible expenses you have every month (rent, car payment, health insurance) and be sure you include the items that only occur periodically (gifts, taxes, car insurance). Ask yourself how much of the money you spend is truly for necessities and where you could cut back in order to increase the amount you are able to save for future financial goals.

After you work out an average amount needed per month for each category of spending, you also need to work out one or more ways to protect the money you set aside, such as a cash reserve for periodic expenses (ex., savings account) and savings for emergencies or short-term goals (ex. money market account).

If you haven't already begun saving and investing for future, long-term financial goals, you want to develop the PYF habit - pay yourself first. Once you decide how much money you actually need for current living expenses and how much you think you can save, it is important to set that money aside at the beginning of each month. If you wait until the end of the month to see if the extra money is still there, chances are that it won't be.

MAKING YOUR BUDGET WORK

STEP 5: RECORD-KEEPING

If you develop a budget and then decide not to keep a record of your expenses, you've wasted your time. The reason for planning your spending is to help you gain control over how you use your money and to help you reach your own financial goals. If you don't take the time to keep receipts and make notes of how you use both cash and credit, you won't have the information you need to keep track of your finances.

To develop a record-keeping system, there are a few basic supplies you'll need. If you don't have a small metal filing cabinet for household use, a strong corrugated file box will do. Use manila folders, dividers or envelopes for storing invoices and receipts for each category of spending. Tossing receipts into a shoe box is better than throwing them away, but it's not the ideal system. In Module 7, we'll talk about the importance of keeping certain records for tax purposes. You'll need to safeguard certain records in order to take advantage of tax benefits of homeownership, so it's a good idea to establish a good record--keeping system now.

It's important for all family members to participate in selecting financial goals, in planning how to reach them and to share in the record-keeping. Children whose parents include them in appropriate money management activities will be more financially responsible when they become adults.

STEP 6: ANALYZING SPENDING RECORDS AND MAKING ADJUSTMENTS

The most important step in money management involves comparing actual spending to estimated spend-ing and figuring out the reasons for any differences. Try not to be discouraged if your plan and your spending are far apart. If you're really serious about becoming a master money manager, you can improve all the skills involved in budgeting, in shopping, in record-keeping, and in saving.

As you become more experienced, you will learn when to make adjustments in your budget, how to reduce unnecessary spending for things that are not significant to you, and how to set aside money for things that you do consider important. For example, if your cellphone bill seems excessive, talk to family members about getting a family mobile plan. If your gasoline bill seems too high, think about ways your family can reduce automobile usage to save money.

When you are confident in your budgeting skills and have developed the saving habit, you are ready to start planning ways to reach some of your long-term financial goals - such as buying a house. As you learn how to estimate the one-time costs and ongoing costs of homeownership, you will use your budgeting skill to help you determine when and whether you can achieve the goal of homeownership.

PLANNING FOR THE ONGOING AFFORDABILITY OF HOMEOWNERSHIP

In order to be sure that you can afford the house you want, you need to learn how to plan and save for the costs associated with the initial purchase and how to plan for the ongoing costs of homeownership, operation and maintenance.

SAVING AND INVESTING FOR THE ESTIMATED ONE-TIME COSTS OF BUYING A HOUSE

As we discussed in Module 1, the one-time, up-front costs of homeownership include the earnest money deposit and down payment, closing costs and moving and associated costs. Saving enough money for all these one-time costs should begin with a review of your current assets. What funds are available for these costs? How much more will you need to save? Worksheet 2.4, Available Cash and Assets, is designed to help you calculate your assets and the amount available for these costs.

Second, you need to find out about the various types of mortgages for which you might be eligible. We'll talk more about this in Module 5, Financing The Home Purchase. This module introduces many of the different loan programs that are available today and provides tips on how to shop for a mortgage. You can then calculate the down payment requirements under each plan for the type of house you would like to buy.

Looking at your current savings situation, calculate the highest figure you can handle that would include all of these one-time, start-up costs. If you are planning for the future, estimate the amount of savings you think you will need. Adjust your budget to include regular savings for this purpose and determine the date when you will have reached your goal.

ESTIMATING REALISTIC OWNERSHIP, OPERATING, AND MAINTENANCE COSTS FOR A SPECIFIC HOUSE

As discussed earlier, a mortgage lender expects you to know and use money management skills in handling household expenses. You must estimate and save enough money to meet the one-time costs associated with getting into a house. You must also estimate and budget for the ongoing costs of homeownership, which may require some extra study. Here are some money-management tips to get you started.

1. **MONTHLY AND ANNUAL OWNERSHIP COSTS**

   As previously discussed, the monthly mortgage payment consists of the Principal (P), Interest (I), Taxes (T), and Insurance (I). You'll recall that other costs may also be involved, such as mortgage insurance or association dues if you purchase a townhouse or condominium. How will you meet these expenses? How much money is available for housing expenses? Review your monthly expenses from Worksheet 2.2, taking another look at what your comfort zone is for housing expenses.

2. PLAN FOR THE ANNUAL RESPONSIBILITIES OF HOMEOWNERSHIP

Most lenders estimate the amount of property tax (T) that will be due to the local government each year and require you to pay a portion of that amount every month with your mortgage payment. An adjustment is made each year when the actual tax bill is submitted and a new estimate is made for the coming year.

Keep records of payments for use in filing deductions for mortgage interest on your federal and state income tax returns. If your taxes and insurance are not escrowed, you will need to include these items in your budget and pay them yourself. Consider opening a savings account specifically for these escrow expenses. Divide the total cost by 12 and deposit that amount into the account each month. For example, if your annual taxes and insurance is $1200, deposit $100 ($1200 /12 months) into your savings account every month.

3. BUDGETING FOR HOME OPERATING COSTS

In addition to the monthly PITI payment, you want to estimate the typical monthly costs of operating the house. This includes utilities and everything else associated with your family's use of the home.

Take time to study your family's current utility costs (if they are separate from your rent), and compare them to the estimates for the house you are looking at.

Think about the other kinds of operating cost you now have, such as the costs of house cleaning and the use of all appliances and equipment. Consider whether these costs might go up or down in the home you are considering buying.

Begin developing a spending plan that projects all of the expected changes in your housing and other costs if you buy the house you are considering.

4. BUDGETING FOR HOME MAINTENANCE AND REPAIRS

Estimating an appropriate amount of money to set aside for preventive maintenance and unavoidable home repairs can be difficult. In general, the older the house, the greater the costs. The type and quality of the structure, basic systems and appliances will also affect how much money to include in your budget. The recommended amount to set aside each year for routine maintenance and eventual repair costs is usually expressed in a range - somewhere between 1% and 5% of the market value of the house. This may seem like an enormous amount of money, but if you need major repairs for a roof or plumbing or storm windows, the money you've set aside will disappear in a hurry.

In estimating and budgeting an amount to set aside for a specific house, study the home inspection report and be sure to add appropriate amounts to your new budget.

Typical home maintenance expenses include:

- Interior maintenance costs, including the structure, its systems, appliances, and attached furnishings
- Exterior maintenance costs for both the house and yard
- Repairs for the house and its systems - cooling and heating (including fireplaces), plumbing, electrical

5. ACCEPTING LIMITATIONS AND MAKING DECISIONS YOU CAN AFFORD

The decision to buy a house - and the commitment to repay the mortgage loan and meet all the other costs of owning a home - is very serious. It is important to remember that there is no such thing as only one house in which you and your family can lead satisfying lives. It may be wise to purchase a less expensive starter home now so you can manage the costs comfortably. If your income later increases, you can sell it and buy another house.

HOW MUCH CAN YOU AFFORD?

At this point, you're ready to take another look at how much you can afford to pay for a house, using your own budget figures from the worksheets. Follow these simple steps in Worksheet 2.5, How Much Can You Afford.

First, the worksheet shows you how your income and current debt level fit within some of the more typical lending ratios. You will then calculate the maximum allowable principal and interest payment you could qualify for.

Once you've calculated how much you can pay each month for principal and interest, you can calculate how much house this will buy, using the amortization tables in this chapter.

In completing these worksheets, don't worry if your figures aren't exact. By going through this exercise, you'll be in a better position to estimate how much house you can afford and how much a lender is likely to allow you to borrow before you start shopping for a home. Once you find a house in your price range that you are considering buying, go through this exercise again.

If your study of money management for homeownership reveals that you cannot presently afford to buy a house, that is valuable information. If you still hope to buy a house someday, you have a choice. You can feel discouraged and defeated. Or you can accept the challenge to improve your credit record, to plan your spending and to become more skilled in budgeting and record-keeping and then look at the possibility of homeownership again in the future.

If your income and expenses simply won't permit homeownership, you can look for the best possible alternative housing situation. If you think that owning a home is a realistic goal for your future, you can begin saving for the costs. In the meantime, you can carefully shop for an affordable rental and commit to using money management skills to help you meet your goal of homeownership.

If you buy a house now, or you later buy one, if something happens that causes you to have trouble meeting your bills, remember the advice in this section: talk to all your creditors as soon as possible and work out a reasonable way to deal with the problem.

WHEN SHOULD YOU BUY?

You've thought about the pros and cons of homeownership and decided that homeownership is for you. You've worked through the financial planning process and determined that perhaps you can afford a house. The next question you may have is, "When should I buy?"

As you've probably noticed, sometimes there seem to be a lot of homes for sale and at other times there are very few homes on the market. When there are a lot of homes for sale, it generally means that home prices will be lower. Competition for buyers tends to drive prices down. When buyers have many homes to choose from, sellers are usually more willing to negotiate their sales price to attract a buyer. On the other hand, if there aren't many homes for sale, buyers may be willing to pay a higher price for what they want, so home prices increase. Home prices fluctuate depending on the economy.

And what about interest rates? The interest rate you pay makes a big difference in the amount you can afford to borrow for a house, so most people try to buy when rates are low. Interest rates are also affected by the economy and they can change rapidly. It can be risky to try and predict how much they will increase or decrease.

If interest rates or home prices increase after you buy, you'll be pleased to know that you have made a smart move. If rates fall a little, it probably wouldn't have made a tremendous difference in your monthly payment. However, if rates fall considerably (2% or more), you may want to refinance to get a lower rate.. (See Module 8 for a discussion of refinancing.)

If you're worried about whether you should buy this year or next, in the spring or fall, or whether you should wait longer for interest rates to decline further, consider this: *The best time to buy is when you decide you want to buy a house, when you know you can afford the cost and when you have found the house that suits your needs and financial situation.*

AMORTIZATION FACTORS

INTEREST RATE	30 YEARS	15 YEARS
6%	.00600	.00844
6.25%	.00615	.00857
6.5%	.00632	.00871
6.75%	.00649	.00886
7%	.00665	.00899
7.25%	.00682	.00913
7.5%	.00699	.00927
7.75%	.00716	.00941
8%	.00734	.00956
8.25%	.00751	.00970
8.5%	.00769	.00985
8.75%	.00787	.00999
9%	.00805	.01014
9.25%	.008 23	.01029
9.5%	.00841	.01044
9.75%	.00859	.01059
10%	.00878	.01075
10.25%	.00896	.01090
10.5%	.00915	.01105
10.75%	.00933	.01121
11%	.00952	.01137
11.25%	.00971	.01152
11.5%	.00990	.01168
11.75%	.01009	.01184
12%	.01029	.01200

EQUIFAX **Consumer Direct**

Your Personal Online Credit Profile - Sample

Personal Identification Information

Your Name Social Security Number 123-45-6789
Your Current Address Date of Birth Day Month Year
City, State, Zip
Previous Address(es) Your
Previous Address
Last Reported Employment Your Position and Employer

Public Record Information

Bankruptcy filed on 02/17 in City of Atlanta wllh case or other ID number 123456789012341
Wilh Liabilities of $5,000, Assets of $60,234, Exempt Amount of $60,000 Type of Personal, Filed Individual, and status Voluntary Ch-7

Lien filed on 02/17 in United States Marshals Service with case or other ID number 123412341234 Fort the amount of $599, Release on 02117, and Verified on 02/17

Satisfied Judgment filed on *02117* in United States Marshals Service with case or other ID number 123412 Filed by plaintiff against defendant for the amount of $500 with status Satisfied as of 02/17 and verified on 02/17

Collection Agency Account Information

United States Marshals Service (404) 331-6833

Collection reported 02/17 and assigned lo United States Marshals Service on 01117 by Client
For account number 123412341234 which is an individual account for the amount of
$6,000
with balance $600 as of 01116. status in Bankruptcy as of 02/17 and last activity on 02/17_

Credit Account Information

Company Account Whose Date last **Type of**
High Terms **Balance Past Date Name** Number
Account Opened Activity Account **Credit** **Due**
Reported
& **Status**

Macy's 02/17	12341234	Joint	02/14	01117	Revolving - 90 Days Past Due	$4235	50	$243	$0	
Citibank Visa 06/17	12341234	Joint	02/17	05/17	Revolving - Pays as Agreed	$10000	50	$243	$0	
Rich's· FAGS	12341234		02/14	05/17	Lost or Stolen Card					02/17

Additional Information

Foreclosure reported 02/17 by Firm Name verified on 02/14

Checking Account reported 02/17 opened on 04/13 closed for reason: non-sufficient funds with amount $500

Companies that Requested your Credit File

02/15/17	**AR** Sears	02/13/17	ACIS 71200003
02/13/17	Richs/Facs	02/11/17	Equifax - Update
01/16/17	Macy's	01/13/17	Equifax - Disclosure
11/18/16	AM Macy's	10/16/16	PRM - Citibank Visa

THE FOLLOWING INQUIRIES ARE NOT REPORTED TO BUSINESSES:

PRM - Thi s is a promotional Inquiry In which only your name and address were given to a credit grantor **so** you could be solicited you with an offer such as a credit card . (PRM inquiries• remain on file for 12 months.)
AM or **AR** - These inquiries indicate a periodic review of your credit history by one of your creditors (AM and AR inquiries remain on file for 12 months.)
EQUIFAX. ACIS or UPDATE - These inquiries indicate Equifax's activity in response to your contact with us for either a *copy* of your credit file or a request for research
PRM, AM, AR, INQ, **EQUIFAX**, **ACIS** and **UPDATE** inquiries do not show on credit files that businesses receive, only on copies provided to you.

SAMPLE GOOD FAITH PAYMENT LETTER

November 10, 2018

(Company Name)
(Company Address)

Re: Account Number-----

Dear_____

Due to temporary financial difficulties, I will not be able to bring my account current at this time. However, enclosed please find a good faith payment of $20.00 on my account. I will resume regular payments (or, I will pay the outstanding balance) in the near future. Thank you for your consideration.

Sincerely,

(Your name)
(Your Address)
(Your Phone Number)

SAMPLE LETTER TO CREDIT BUREAU

November 10, 2018

(Credit Bureau)
(Credit Bureau (Address)

Dear -

I have reviewed the contents of mv credit report. Please see the below explanations for my delinquencies:

ABC Bank: This is a car loan that I co-signed with my husband. In January 2018, I had just returned to work after being laid off from mv job. I was out of work for most of of 2017, and we had only one income. I was unable to pay many of my bills. I am now working, and we have resumed payment.

XYZ Appliance Store: The payments were late when I was out of work. But, this account is now paid in full.

Please include the above responses in mv credit report and please provide all inquiries with a copy of this response.

Sincerely,

(Your name)
(Your Address)
(Your Phone Number)

WORKSHEET 2.1
GROSS MONTHLY INCOME

List all current, regular gross monthly income for yourself and any co-borrowers. Include only those sources of income that can be verified. If you want to include disability payments, child support, or overtime pay, you must be able to document that these payments are received regularly. Consider all sources of income during the past 12 months if they are likely to continue for at least three years.

	Average Monthly Income	
Gross Pay (before taxes) *	$____________________________	
Over time/Part-time/Seasonal/Commissions	$____________________________	
Bonuses/Tips	$____________________________	
Dividends/Interest Earnings	$____________________________	
Business or Investment Earnings	$____________________________	
Pension/Social Security Benefits	$____________________________	
Veterans Administration Benefits	$____________________________	
Unemployment Compensation	$____________________________	
Public Assistance	$____________________________	
Alimony, Child Support or separate maintenance income	$____________________________	
Other	$____________________________	
Total Gross Monthly Income	**$**____________________________	**A**
Gross Annual Income (Gross Monthly Income x 12)	**$**____________________________	**B**

* If you are paid once a week, multiply your gross pay per week by 52 to get the gross annual income, then divide by 12 to get the average gross monthly income.

WORKSHEET 2.2
CURRENT MONTHLY EXPENSES

Use this worksheet to calculate your current monthly expenses. If you are not already doing so, keep receipts and make notes in your checkbook so you can total expenses by each category at the end of the month. After following this procedure for several months, you will be able to estimate the average amount you spend on different items.

	Average Monthly Payment
A. **Current Housing Expenses**	
Rent	$____________________
Utilities (if paid separately)	$____________________
Total Current Housing Expenses	$____________________
B. **Current Non-Housing Expenses**	
Payroll Deductions (Social Security, State & Federal Income tax, credit union, savings plans, etc.)	$____________________
Food	$____________________
Clothing	$____________________
Daycare/Tuition	$____________________
Car Insurance	$____________________
Gas and Oil changes	$____________________
Car Repairs	$____________________
Other Transportation (bus fare, etc.)	$____________________
Medical and Dental Care (not covered under insurance)	$____________________
Debt Payments (From Worksheet 2.3)	$____________________
Entertainment (Movies, Cable TV, etc)	$____________________
Taxes (Personal Property)	$____________________
Phone (Cell or Landline)	$____________________
Renters or Homeowner’s Insurance	$____________________
Health or Life Insurance (not covered under insurance)	$____________________
Laundry and Dry Cleaning	$____________________
Church or Charitable contributions	$____________________
Miscellaneous (hair, grooming, etc.)	$____________________
Savings	$____________________
Other (be specific)	$____________________
Total monthly non-housing expenses	$____________________

WORKSHEET 2.3
MONTHLY DEBT PAYMENTS

List all monthly debt obligations for your household (other than your current housing cost).

	Average Monthly Payment	**Total Due**
Car Payment	$______________	$_____________
Credit Card Payments		
Account______________________________	$______________	$_____________
Account______________________________	$______________	$_____________
Account______________________________	$______________	$_____________
Other Installment Loans (with a balance of 6 months i.e. furniture, appliances, student loans, etc.)		
Account______________________________	$______________	$_____________
Account______________________________	$______________	$_____________
Account______________________________	$______________	$_____________
Medical “workout” Plan *	$______________	$_____________
Alimony/Child Support payments	$______________	$_____________
Other	$______________	$_____________
Total Monthly Debt	**$**______________	

* Medical workout plan refers to an installment plan to pay off outstanding medical bills. This item is different from routine health care costs and should be included only if applicable.

WORKSHEET 2.4
AVAILABLE CASH AND ASSETS

List all your sources of cash and other assets. Then decide how much you want to apply toward up-front housing costs such as the down payment and closing cost. Remember, you'll want to reserve some of your assets for financial security. It's not a good idea to totally deplete your savings to purchase a home.

	Average Monthly Amount
Checking accounts	$______________________
Savings accounts	$______________________
Mutual funds, stocks, and bonds	$______________________
Cash value of life insurance policy	$______________________
Cash gifts from relatives	$______________________
Value of property owned	$______________________
Other assets	$______________________
Total cash and assets	$______________________
The amount available for up-front housing costs	$______________________

WORKSHEET 2.5
HOW MUCH CAN YOU AFFORD PRE-QUALIFICATION WORKSHEET

In order to determine your maximum loan amount, you must determine (A) gross monthly income, (B) total monthly debt payments, and (C) estimates for your monthly escrow including property taxes, hazard insurance, and mortgage insurance. If you've completed the worksheets in this series, you will have some of these figures close at hand.

STEP ONE

A. Gross Monthly Income
(from Worksheet 2.1) $________________A

B. Monthly Debt Payment
(from Worksheet 2.3) $________________B

C. Estimate of Monthly Escrows

1. In order to estimate your monthly escrow payments, we must first make an educated guess at your maximum house price.

Multiply your gross **ANNUAL** income times 2.5.

Gross **ANNUAL** income x 2.5 =
(from Worksheet 2.1)

____
Estimated
Housing Price

2. Multiply this Estimated Mortgage Amount times 1.5%. It's generally safe to assume that most homebuyers will pay approximately 1.5% of the loan amount for Taxes and Insurance (T&I) escrow payments.

Estimated Mortgage Amount x 1.5% =

____
Yearly Escrow
for T&I

Estimated Mortgage Amount for T&I=
(divide yearly escrow by 12)

$________________C

STEP TWO

A. To compute your maximum mortgage amount for a loan, you must use the lesser of two ratio methods: (1) the Housing Expense-to-Income, or "front-end" ratio and (2) the Total Debt-to-Income, or "back-end" ratio. Follow these steps to estimate the amount you may be allowed to borrow. Fill in whatever ratio you "guess estimate" fits your situation.

(Examples: 31%-43% = FHA; 28%-36% = Conventional; 33%-38% = Affordable Housing Programs)

1. Ratio Method (1)

Gross Monthly Income $________________ A

Maximum allowable for PITI, mortgage insurance X________________ %
Condo fees, etc.

$________________ 1

2. Ratio Method (2)

Gross Monthly Income $________________ A

X________________ %

Maximum Debt Ceiling $________________

Minus Monthly Debt Payments $________________ B

Maximum allowable for PITI, mortgage insurance $________________ 2
Condo fees, etc.

Choose the Lesser of (1) or (2) $________________

Minus estimated escrow for T&I $________________ C

MAXIMUM ALLOWS FOR PRINCIPAL & INTEREST $________________

E. Divide the MAXIMUM ALLOWS FOR P&I by the factor in the chart on the previous page that most closely represents today's interest rates.

(P&I) *divided by* (FACTOR) = MAXIMUM LOAN AMOUNT

MODULE 3

TITLE

Selecting a Home and Neighborhood

LESSON PURPOSE

To present information which guides you through the process of assessing your housing needs and shopping for a home.

LEARNING OBJECTIVES

After completing Module 3, you will be able to:

- Evaluate your housing needs and preferences.
- Identify the steps to take in locating a suitable house and neighborhood.
- Evaluate the interior/exterior condition of a home.
- Discuss the pros and cons of using a professional home inspector.

SUMMARY

In Module 3, you will evaluate your current and future housing needs and learn how to shop for a home taking these needs into account. Thinking about your personal preferences in home size, type, location, and the neighborhood will help you find a house that suits your needs and your budget. This session includes information on how to evaluate the interior/exterior condition of a house, and the benefits/limitations of using a professional home inspector to assess a property before you buy. We will also include some house-hunting tips.

SELECTING A HOME

IDENTIFYING YOUR HOUSING NEEDS AND PREFERENCES

FAMILY NEEDS VS. WANTS

The process of selecting a home to meet your family's needs now and in the future is not easy. The number of people, their ages and health, and the varied activities that go on in and around the house are all factors that must be considered. No two people or families live and play in the same way or want and need the same things in their houses.

Before you start to look at possible houses, examine your family members' interests, likes and dislikes, and personalities.

- What are the things that mean the most to your family?
- Is your home of utmost importance or is it mostly a place to hang your hat?
- Are you willing to give up other things (travel, recreational activities, hobbies, etc.) to have the home you want? What are your major activities?
- How close must you be to your work, school, church, or shopping?
- Will access to public transportation be important to your family?
- Do you like puttering around the house or do you prefer keeping housework to an absolute minimum?

Answering these questions and then making a list of your needs and wants will help you make a better housing decision. For example, do you need a certain number of bedrooms and bathrooms, do you need a one-story house due to physical limitations of a family member, or do you need a kitchen large enough that several people can work and eat together? Wants are often different from needs. Does your family want a separate living room and family room? Do they want private bedrooms for each family member? Do they want a large yard?

It is seldom possible to achieve the perfect home. The best you can do is to select a home that most closely fits your needs and activities, which you can afford to buy and maintain, and in which you can feel secure. When shopping for a home, start by thinking about where you'd like to live.

LOCATION

One important decision you will make is regarding where your home will be the located. Whether you are a first-time homebuyer or an experienced one, you may already have formed opinions about locations within the community in which you want to live. The location of a house will affect its purchase price as much as the size and features of the house or the size of the lot. It can also affect your satisfaction with the house.

Weigh the advantages and disadvantages of the community in which you plan to buy or build. Is it a stable, settled neighborhood? What is the crime rate? Are surrounding houses well maintained? Study the location for accessibility to shops, schools, churches, work and other places you go often. Ask about property taxes, services, utilities, water sources, garbage pickup, etc. provided by the city or county. The current homeowner or your real estate agent can help you find this information. In addition, determine if there are zoning regulations, deed restrictions, easements and other legal provisions that might restrict the use of your land and its transfer when you want to sell it. The real estate agent will be instrumental in revealing these details.

Examine the area for possible sources of hazardous waste - dumps, salvage yards, industrial sites or agricultural operations. The location and condition of the area's surface and buried utilities such as water, sewer, electric, gas and telephone lines become significant when repairs or modifications have to be made to the system.

Economic and social trends may affect the long-term satisfaction you will experience. Look at the general economic health/growth of the area. Consider these questions:

- Does the neighborhood have a mixture of ages?
- Are there vacant or neglected lots?
- What is the general appearance of most of the homes? Shoddy or rundown houses are often an indication of a neighborhood in decline.
  How does the house you are considering compare in style, size (outside dimensions), price and living space with neighboring houses? While some conformity within a neighborhood is desirable and can help maintain property values, your house can be distinctive if you plan well. However, an extreme style or size in any neighborhood should be avoided.
- Have there been many conversions of single-family dwellings into apartments or rooming houses?
- Are many homes rented out to tenants? Housing is usually better maintained when the owner lives in or near the property.

EVALUATING A HOUSE

You may have some definite thoughts about the style and type of house you want. As you begin to look at house plans, there are several factors to keep in mind. Look for a style that will fit your family's needs and wants. The interior arrangement of rooms and the traffic patterns will affect the convenience and livability as well as your satisfaction with a house. Therefore, look for a plan that will permit flexible use of the space. Consider the size and shape of the rooms, their relationship to each other and to the outside living areas as well as the storage possibilities and window space.

THE EXTERIOR

The structure of a house will be defined by the type (number of levels and shape) and the style (tradi-tional, Spanish, etc.). You may prefer a two-story Colonial to a one-story ranch. A two-story house may allow for separation of activities while a one-story may be more convenient, especially if a member of the family is elderly or disabled.

Each basic house style has certain characteristics. Consider all advantages and disadvantages associated with a single-family detached house, a condominium, a modular home and a manufactured or mobile home. Cost may also be a factor when considering a single-family detached house versus other housing options. You also need to decide whether you want a new or existing home. You often can get more house for your dollar with an existing home, but you must be very sure that the house will not require extensive and expensive updating. With new houses, you must check thoroughly for construction faults and shoddy materials. Each type of house has advantages and each can have problems that are not readily evident. If you plan to build, the size and shape of the lot, its contour or slope, orientation, natural view, and neighboring buildings will have a great deal of influence on the house plan you select. The size and shape of the lot help determine the basic type and size of the house. It may restrict both length and width or even change the shape of the house. Local zoning regulations can tell you how far back from property lines the house must be set.

Try to take advantage of the natural lot contour or slope instead of fighting against it and thus spending more money to have the lot graded out or filled in. A level lot can be used for either a one- or two-story house, whereas a sloping lot may be more suitable for a two-story or split-level type. As a general rule, the house should follow the slope of the lot for both aesthetic reasons and to handle drainage.

Lot orientation means the relationship of the site and the house to the environment (wind, sun, trees, streets, etc.). A site that slopes to or faces southeast or south is often preferred. This places the longest walls of the house north to northwest and south to southeast, thus reducing the effect of direct sun rays. Wide roof overhangs or other shading methods such as trees and shrubs can also reduce the effect of the sun on interiors of the south or west sides, but give the house the right orientation should you decide to use solar energy for heating.

Capitalize on a good natural view even if it means sacrificing other factors. Consider landscaping possibilities and location of trees, streams, or other natural assets. Whether you are building or buying a new or existing home, you need to be aware of the building materials used for the foundation, roof, siding, windows, and doors. Ask about the projected life and durability of these materials and the maintenance they will require. There is a tremendous variation in cost and durability of building products. You need to know what to expect before investing.

THE INTERIOR

In addition to the importance of price, location, and condition of the house, the floor plan - the size and arrangement of rooms - can help determine your long-term satisfaction with a home. A floor plan can be evaluated by comparing it to generally accepted guidelines for living and storage space.

Living space can be divided into three zones that represent distinct types of activities:

- The work zone contains the kitchen, laundry, utility room and home office with their machines, noises, activity and general need for efficiency.
- The social zone includes the living room, dining room, deck or patio, and guest entry and is often where guests are entertained and the household spends leisure time.
- The private zone consists of the bedrooms and baths and generally requires some sound and visual privacy.

These three zones represent distinct types of activities that can conflict with each other and some separation may be desirable. They are often separated by the use of walls or partitions or even by placement on separate floors. Sometimes zones overlap because of the increased amount of leisure time spent in the home, the interests of the family members and the amount of furniture and equipment owned by the family. No single floor plan will be perfect and compromises will have to be made. You will need to decide which activities represent the greatest amount of time or are most important to your family.

Circulation is the movement of people through the living space. Look at the traffic pattern of the house. Generally, there should be easy, quick access from the main entrances to any area of the house. Some circulation through living areas is not always a problem, but try to avoid plans that force everyone through work areas like the kitchen. A central hall helps distribute traffic to several rooms, however, hall space should be minimized because it has limited use. Using wide doors and having a minimum of interior partitions will allow you to establish traffic patterns with furniture placement. This type of floor plan is called an open floor plan and often makes small houses and rooms seem large.

No matter how it is arranged, living space should be adequate in size to permit the activities intended for the space. Physical size is not always the usable size of a room. The room's shape, the size, and locations of windows and doors, and the size and location of special features such as a fireplace will affect the usable size of a room. For example, a wall full of windows can limit furniture placement to other walls. Some model homes look quite nice when they're empty, but after furnishings are in the house the usable space may be limited.

Storage space is needed in every room, including the attic and basement, if available. The amount and type of storage will depend on the activities taking place and the items to be stored. How much storage is enough? The best way to know is to compare what you already have to what exists in houses you are considering. Some experts suggest that storage space should be 10-25% of the total floor area of the house. Any storage area should be accessible, dry and lighted.

Kitchen arrangements can make a difference in efficiency, comfort, and convenience. Think about the type and number of meals your family eats, how many cooks will be working at the same time and what equipment you will need. As lifestyles change and as new appliances become widely used, kitchen planning is affected. For example, the use of microwave ovens has become fairly standard, but many older homes may not have a good location for a microwave. A kitchen can be a very expensive room to modify, so consider carefully any changes you plan to make in an existing home. A well-designed kitchen will have adequate counter and storage space.

Bathrooms. There are two factors to consider when evaluating bathrooms - the location within the house and the arrangement of the fixtures. In a single-bathroom house, a central location provides convenience for anyone using it. Houses with more than one bath can provide a private bath for the master bedroom or a guest bath in the social zone. In addition to storage space, the bathroom should provide adequate clearance and circulation space for those using the fixtures.

Mechanical systems. Pay particular attention to the mechanical systems (heating, cooling, plumbing, electrical) included in any house you are considering. These systems should be in good working order and as efficient as possible. Your local utility companies or a heating/cooling contractor can check the heating and cooling units for you. You may want to have a qualified plumber inspect the plumbing and an electrician check the wiring. These systems are not only necessary to the operation of the house, but can be very expensive to repair or replace.

The healthy house. In recent years there has been more concern with what is often called "the healthy house." Poor indoor air quality may cause or contribute to poor health. Because we spend a great deal of time indoors, the potential is high for disease or discomfort related to interior environmental conditions.
This is particularly true for the very young, the elderly and the infirm.

It is possible to buy a house that will be safe, healthy and comfortable. To do this, you need to know which pollutants you cannot tolerate. High or continuous levels of indoor pollutants may be the result of living in a certain geographic region, as is true with radon gas or industrial pollution. However, many indoor air quality problems can be the result of the practices and activities of the people who live there.

Many building materials, home furnishings, and building practices can release pollutants into the indoor air. For example, formaldehyde has been widely used in products such as plywood, particle board, paneling, permanent-pressed fabrics, carpeting, and wallpaper. New products containing formaldehyde release a gas that is easily recognized by its pungent odor.

Another product that can cause problems is asbestos. Older homes may contain asbestos in walls and ceilings as insulation, in textured paints, acoustic ceiling tiles, home appliances and wrapped around hot water and steam pipes and heating ducts. The removal of asbestos should always be done by a qualified professional. In many cases, products containing asbestos (i.e. floor coverings) should simply be covered up rather than removed.

Radon is a colorless, odorless, radioactive gas. Continual exposure to elevated levels of radon (which the EPA has determined as 4.0 Picocuries or greater) increases the risk of lung cancer. If you are looking at a.house in a region where radon has been a problem, the indoor air should be tested. For more information, visit https://www.epa.gov/radon
Names of reliable radon detectors and certified radon-reduction contractors may be provided by your county Cooperative Extension Center and U.S. Environmental Protection Agency regional offices.

The most likely sources of lead contamination in a house are the old painted surfaces with lead-based paint and plumbing systems with lead pipes or lead-based solder in pipe joints. Lead-based paint chips can be particularly dangerous to small children. Consult your state health department for suggestions on how to test for lead in paint and companies that specialize in removal.

Moisture by itself is not a pollutant, however, high humidity levels encourage the growth of microorganisms, increase the risks presented by other contaminants such as formaldehyde, and have a destructive effect on the materials used in building. Obvious signs of excessive moisture are sweating windows, musty odors, and mildew. The amount of moisture in a house can be controlled by using moisture preventative measures. (Note: Module 8 contains additional information on moisture problems in the home.)

OTHER SUGGESTIONS

Some additional suggestions when evaluating a house are:

- Use your previous experience, your specific likes and dislikes, to help you select the best arrangement for your family.
- Avoid accepting stereotypes. Be flexible in how you might want to use space. For example, a dining room does not always have to be used as a dining room - it can serve as a small study or even a playroom.
- Try to imagine a typical day with its routine of sleeping, cooking, eating, storing things, etc.
- Be alert to small, simple changes that could improve a floor plan, such as changing door placement (or swing), relocating non-load-bearing walls, or removing or disguising windows. Some changes might require professional assistance.
- The apparent size of rooms can be affected by the use of furniture that is scaled to fit the space. A house with no furniture or smaller scaled furniture can appear to be larger than it actually is.
- Keep in mind the future needs that you might have. Elderly parents may need to live with you at a later date or small children may need larger play space in the future.
- The distance between the water heater and hot water outlets affects the energy loss through hot water pipes.

- A fireplace can present a serious energy loss, thus requiring you to spend more money on heating.
- A swimming pool is very expensive to maintain and will not add measurably to the value of your house.

COMPARISON SHOPPING

Just as no two people are alike or want the same thing, no two houses are alike or offer the same amenities. When selecting a house, you should take the time to do a lot of looking. Compare the condition of homes (exterior and interior), visit open houses, get help from real estate agents and friends, and evaluate the location, house features, and cost trade-offs. Keep notes on each house you visit or each floor plan you evaluate.

Buying or building a home can be a long, expensive and frustrating experience, especially if you do not do your homework before starting. And remember, if you plan to build, you need to select a builder that you can trust, who does good quality work and can build you a house for the money you have to invest. Finding the right person may take some time - time to check references, to look at houses he/she has constructed, and to check on their work-completion record.

HOUSE INSPECTION

USING A PROFESSIONAL HOME INSPECTOR

A careful assessment of the physical condition of a house before the purchase can save you time and money at a later date. Costly repairs to structural or mechanical systems can be avoided or at least anticipated by a preliminary inspection of the property before a purchase offer is signed. Even if you are looking at an older house that needs repairs, you will be in a better position to negotiate if you are familiar with the extent that will be needed.

The inspection of a house is a job that requires specific technical skills. While you can become familiar with common problems that will help you eliminate certain houses from consideration, a professional home inspector can give you a better overview of the house and its potential problems. Your purchase offer can contain a clause that the purchase contract is contingent on acceptable inspection results.

The major areas to inspect are:

- Foundation
- Floors
- Walls and Partitions
- Roof
- Windows and Doors
- Plumbing System
- Electrical System
- Heating, Ventilating and Air Conditioning
- Energy Efficiency

Worksheet 3.1, Home Buyer's Checklist, may help you do a preliminary inspection yourself. However, once again, a professional inspector is better qualified to do a thorough job. A professional inspector is likely to uncover things that you will not find on your own and may prevent you from making a potentially disastrous mistake. **Therefore, it is highly recommended that you have the home professionally inspected.**

A professional home inspector can be located in several ways. Talk to friends who have had inspections to identify reliable inspectors, and call several companies for estimates. Also, your real estate agent may be able to provide you with a list of inspectors. You can also check with the local Better Business Bureau for reports on various inspectors.

Look for an inspector who is a member of the American Society of Home Inspectors (ASHI) and preferably one who has PE (Professional Engineer) after his/her name. An inspection by a company that also makes repairs presents the possibility of a conflict of interest. When you have an inspection, insist that the detailed report be written and lists: (1) major problems and estimated costs to correct, (2) minor problems and estimated costs to repair, and (3) estimates of the expected life of various items such as roof, furnace, electrical system, air conditioning, appliances, and costs of maintenance.

If possible, accompany the professional on the house inspection so that you can learn first-hand the condition of the house as well as maintenance techniques. The inspection will take two to three hours and the costs will vary depending on the size, amenities and the complexity of the house along with credentials of the inspector. However, the cost is typically between $350-$500 dollars. Regardless of the price of your house, whether you are spending $75,000, $100,000, $150,000 or more, this cost is a wise investment to reduce the chances of a costly oversight. In different regions of the country, procedures and customs vary. However, on the next page there are ten questions that the Department of Housing and Urban Development (HUD) recommends that prospective buyers should ask:

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 buildings.

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.

CAUTION

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

OMB Approval No: 2502-0538 (exp. 04/30/2018)

For Your Protection: Get a Home Inspection

Why a Buyer Needs a Home Inspection

A home inspection gives the buyer more detailed information about the overall condition of the home prior to purchase. In a home inspection, a qualified 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 or replaced; and
Estimate the remaining useful life of the major systems, equipment, structure, and finishes.

CAUTION

You Must Ask for a Home Inspection

A home inspection will only occur if you arrange for one. FHA does not perform a home inspection.

Decide early. You may be able to make your contract contingent on the results of the inspection.

CAUTION

Appraisals are Different from Home Inspections

An appraisal is different from a home inspection and does not replace a home inspection. Appraisals estimate the value of the property for lenders. An appraisal is required to ensure the property is marketable. Home inspections evaluate the condition of the home for buyers.

FHA Does Not Guarantee the Value or Condition of your Potential New Home

If you find problems with your new home after closing, FHA cannot give or lend you money for repairs, and FHA cannot 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.

Radon Gas Testing and other safety/health issues

The United States Environmental Protection Agency and the Surgeon General of the United States have recommended that all houses should be tested for radon. For more information on radon testing, call the toll-free National Radon Information Line at 1-800-SOS-Radon or 1-800-767-7236.

Ask your home inspector about additional health and safety tests that may be relevant for your home.

Be an Informed Buyer

It is your responsibility to be an informed buyer. You have the right to carefully examine your potential new home with a qualified home inspector. To find a qualified home inspector ask for references from friends, realtors, local licensing authorities and organizations that qualify and test home inspectors.

HUD-92564-CN (6/14)

CAUTION

CONCLUSION

Selecting the right house for you in terms of your housing needs and your budget can be a time-consuming process. Identifying your housing needs and preferences, evaluating the interior and exterior, considering the pros and cons of different locations and types of houses can be a difficult task. In the next Module, we'll talk about how a real estate professional can assist you. We'll also discuss how to approach submitting an Offer of Purchase when you find a house you want to buy.

WORKSHEET 3.1
HOME BUYER'S CHECKLIST

Shopping for a house can be both exciting and disappointing. Besides the cost of housing today, there are many things which must be considered. The purchase of a house should not be hurried, and you need to take time to ask a lot of questions. The following checklist may guide you as you look for a home. Check if OK.

Location - nearness to places of work, shopping, public transportation, post office, church, recreational facilities, places to eat

Community- well planned, fire and police protection, tax base reasonable, quality schools, health services

Neighborhood - compatible people, the area is physically attractive and well kept, the condition of streets, free of businesses or industry

Lot- right size and shape for the house, large enough for privacy, garden space

Landscaping - attractive, easy to care for, land well drained, mature trees and shrubs

Outdoor space - adequate for the needs of your family, off-street parking, driveway and walks in good condition

House exterior - attractive, well-constructed and designed, suited to surroundings, compatible with houses in the area.

The condition of the exterior of the building should be carefully evaluated The age of the house may give you some indication of the general condition of the structure, or you may need professional help with areas such as the roof or when checking for insect and moisture damage. Check if OK.

Roof - age, material, leak-free, warranty

Siding and trim - good condition, decay or moisture damage, peeling paint, warping, mortar cracking

Windows, doors, screens - tight, warped, broken panes, damaged, open and close easily, caulked and weather-stripped

Porches and steps - level, solid, damaged, railings

Chimney - cracks in mortar, fireproof flue lining, supported on own footing, bonnet to protect the top

Gutters and downspouts - secure, rusty or broken spots, adequate, connected to the storm sewer or splash blocks

Foundation and vents - uneven settling, free of cracks, number and operation of vents

Basement or crawl space - dry, soil cover, insulation, entry

Insect or moisture damage - may need a professional inspection for termite damage and wood rot, get written statement of condition

As you walk into a prospective house, don’t be carried away with the colors, furnishings, or other cosmetic aspects. Now is the time to be very observant and questioning. Check the layout for convenience, the soundness of construction, and the space in rooms. Remember your furnishings will look different. If you find repairs will need to be made, can you do them yourself? Check if OK.

Size - number of rooms, space in rooms, room for furniture

Walls and ceilings - clean, sound or cracks, peeling paint or paper, holes, moisture streaks, easy to refinish, care required, usable wall space, soundproof

Trim, cabinets- condition, care required, carpentry work

Flooring - firm, level, finish, clean, carpet, hard-surface

Windows and doors - placement, number, size, type, easy to open and close, caulked and weather-stripped, warped, locks and hinges, smooth thresholds

Fireplace - condition, damper, energy-efficient, screen and/or door, in working order

Layout - separate areas for living, working, and sleeping; rooms located to take advantage of sun and shade

Traffic pattern - direct, convenient, logical

Kitchens - well arranged, work triangle 13' - 22', counter and floor condition, storage, space to work, a place to eat, electrical or gas connections, ventilation, lighting

Appliances - good working order, age, efficient, clean

Storage - throughout the house, flexible, adequate for family needs, out-of-season items

Bathrooms - location, number, quiet, private, the condition of fixtures, ventilation, electricity

Plumbing - kind of pipes, age, water pressure, leaks, water heater, water-saving devices

Living areas - living, dining, family or great room - a choice based on family needs; size, arrangement, storage, lighting, floors, wall space

Laundry - location, space for appliances, water supply, gas or electrical connection, ventilation

Halls and stairways - safe, well lit, sturdy stairs and railings, steep

Electrical - adequate and up-to-date (100 - 200 amp) outlets and switches

Mechanical equipment - type, good working order, energy efficient, age, thermostat location

Insulation - meets state code or greater, vapor barriers in place

Lighting and wiring - adequate, energy-efficient, number and location of outlets

Attic - finished, height, access, vented

MODULE 4

TITLE

A Guide to the Real Estate Professional and Sales Contracts

LESSON PURPOSE

To present information which guides you through the process of selecting a real estate agent and negotiating the purchase contract.

LEARNING OBJECTIVES

After completing Module 4, you will be able to:

- Discuss the role of a real estate agent and how to select one.
- Discuss techniques for negotiating the purchase price.
- Identify terms and conditions to look for in the sales contract.
- Discuss provisions of fair housing laws and what to do if you suspect housing discrimination.

SUMMARY

In Module 4, we will discuss the role of the real estate agent to both the seller and the buyer, how to select a real estate agent and what services to expect from the agent. You will learn how home sales contracts are negotiated, including such topics as making an offer, earnest money deposits, due diligence fee, contingency clauses, and financing terms. Module 4 also discusses fair housing laws as they relate to looking for a home and obtaining a mortgage.

A GUIDE TO THE REAL ESTATE PROFESSIONAL AND SALES CONTRACTS

In Module 3, we talked about how to take stock of your housing needs and preferences. We also talked about how to inspect a home with a critical eye, so that when you're ready to actually start looking at homes, you'll know what to look for. At this point, you'll also want to consider whether or not you want to work with a real estate agent, how to locate a good one, and what kinds of services they can provide.

Once you find a house you want to buy, the next steps are to submit an offer to purchase, arrange for an inspection, negotiate the sales price, and finalize the sales contract.

THE REAL ESTATE PROFESSIONAL

USING A REAL ESTATE AGENT

Looking for the perfect home can be a frustrating, time-consuming endeavor. Using an experienced real estate agent can take some of the worry out of the process. Here's how an experienced agent can help you.

- An agent can help pre-qualify you for a loan and estimate how much you can afford to pay. As we've mentioned before, looking for a house that is affordable to you is extremely important. It can be a frustrating waste of time for both you and the agent to look at homes you cannot afford.

- An agent who is a member of the Multiple Listing Service (MLS) can help you identify more homes for sale and cover more ground than you could on your own. An agent can also provide you with background information about the community.

- An agent can help you sort through your financing alternatives, provide information on mortgage lenders, inform you of current interest rates, recommend housing subsidy programs and assist you in other housing matters.

- An agent can also help you identify inspectors, appraisers, and other housing professionals who will be involved in the process.

THE AGENT'S RELATIONSHIP TO THE SELLER

The agent in a real estate transaction can work with you in various capacities. Unless specified otherwise, however, the agent is legally the agent of the seller and is legally obligated to act in the seller's best interest. As a buyer, be sure that you understand your agent’s role. Each of the agent’s roles should be thoroughly explained to you so that you can make an informed decision regarding your representation. If you want the agent to represent *only* you, the agent is considered a **Buyer’s Agent**. If you agree to let them represent the Seller, they will be a **Seller’s Agent**. The agent must still treat you fairly and must divulge any material fact about the property, but the agent works for the seller. Or, you could agree that the agent can work with you *and* the Seller. In that case, the agent will be considered a **Dual Agent**. Following are examples to illustrate the role of an agent.

- The Clarks are selling their house. After looking for a qualified agent, they decide to list their house with Agent Smith. Agent Smith helps them decide on an asking price, advertises the house, includes it in the Multiple Listing Service, and shows the house to qualified potential purchasers. If Agent Smith, known in this case as the **listing agent,** sells the house to one of his clients, he will be acting as a Dual Agent and is entitled to the full commission, which is paid by the seller from the proceeds of the sale. Note: If Agent Smith is a Dual Agent, authorization and full disclosure is required from both seller and buyer

- Another scenario might be: Agent Smith has not yet found a buyer for the Clarks' home. Another agent, Ms. Jones, notices the listing in the Multiple Listing Service and suspects that it's just the house for her clients (she's a Buyer's Agent), the Browns. Agent Jones shows the house to the Browns and they decide to make an offer to purchase the house. The offer is accepted and the sales contract is signed. In this case, although Agent Jones is the selling agent (she introduced the property to her buyers) she is actually representing the Buyers. She and Agent Smith, the **listing agent,** will share the commission.

The important point to remember is that even if an agent represents a buyer, the agent can be paid by either party. For example, in the above scenario, Agent Jones can be paid by either the Clarks or the Browns. Even when representing the buyer, it is not uncommon for the seller to pay the commission. Immediately after meeting a buyer, the agent should spell out the terms of payment. Let's look at the typical services provided by the agent:

- Advertise the property and handle calls about the ad.
- Qualify prospective clients and make arrangements to show the house.
- Deliver offers to purchase to the seller. If more than one offer is submitted, the agent will review each of them with the seller and advise on which is the best offer.
- Relay the seller's response back to the potential buyer when a decision is made.
- After a contract has been signed by both parties, the agent concentrates on completing the transaction. This involves activities such as arranging to meet with inspectors and appraisers, providing necessary paperwork for others involved in the process, and attending the closing, where the real estate transaction is finalized and property is transferred to the buyer.
- When the closing is completed, the agent receives the commission and his or her job is done.

Seller's Agents duties:

- The agent must represent the property at its listed price and terms as set by the seller, and he/she must not reveal privileged information concerning the seller's situation. Agents violate their agreement with the seller when they make comments such as "The Clarks' are asking $70,000 for their house, but I feel sure they'll take less. They're in a hurry to sell because they are getting a divorce." Sharing this type of information puts the seller at a disadvantage, and it could only be shared if the agent is a Buyer's Agent.

- An agent is also obligated to present offers only from willing and qualified buyers. Since homes are normally taken off the market while the potential buyer's loan is being processed, it is unfair to take the property off the market for someone who is unlikely to qualify for a loan.

This discussion of the agent relationship to the seller is not meant to discourage you from using an agent in your search for a home. Experienced agents can and do provide valuable services to the buyer. If you are fully aware of the nature of these relationships, you will be in a better position to protect your own interests and negotiate the most favorable sales contract. And, if you decide to sell your house at a later date, you'll know what to expect when you work with a real estate agent.

THE SELLING AGENT'S RELATIONSHIP TO THE BUYER

If the agent represents the seller, what is the relationship between the agent and the buyer? An agent offers his or her time, experience, and expertise to you with the expectation of obtaining a fee when the house is sold. Such agents do have certain obligations to buyers. These duties include:

- To use reasonable care and skill in performing their duties;
- To deal with clients honestly and fairly;
- To disclose all facts known to the agent that affect the value or desirability of the property that are not known to the buyer.

In dealing with a buyer, an agent who represents the seller must comply with applicable real estate laws. For example, while it is not legal to exaggerate the desirability of a house, it is considered fraud if the agent intentionally misrepresents the property. Legal action can be taken against a seller or the seller's agent if they fail to reveal something that affects the value of the property, such as violations of zoning or building codes.

USING A BUYER'S AGENT

A buyer's agent is just what their name implies - a real estate professional who represents *your* interests as the buyer of a house. This broker is called the “Buyer’s Agent”. **The buyer's agent works for you, not the seller.** They should not show bias in which house you buy and they should be quicker to point out problems such as water damage and to steer you away from a "lemon." Buyer's agents are particularly helpful in negotiating the sales contract and writing a purchase offer that favors your position.

The buyer's agent receives a fee for his or her services, which is often a portion of the commission that is paid to the seller's agent. **This fee or commission can be paid by the Seller or the Buyer.** Even if the agent is representing you, that doesn’t mean that you must pay them --- they can be compensated by the seller. Either way, buyer’s agents are usually worth their fee because of their negotiating skills. If they are able to reduce the sales price or reduce your out-of-pocket cost it should save you some money.

FAIR HOUSING LAWS

In many states, the Real Estate Commission is committed to promoting fair housing in the state. Any conduct by a broker or salesperson which violates the provisions of the State Fair Housing Act is also a violation of the License Law. State Fair Housing Acts state that it is unlawful to discriminate on the basis of race, color, religion, sex, national origin, disability, or familial status in real estate transactions.

It is an unlawful, discriminatory practice to:

- refuse to rent or sell to, or otherwise deal with a person
- discriminate against a person in the terms, condition, or privileges of a real estate transaction
- refuse to receive or fail to transmit a legitimate offer to engage in a real estate transaction
- falsely deny that housing is available for inspection, sale or rental
- discriminate through advertising
- practice "blockbusting" - causing person(s) to sell or rent by telling them that members of a minority group are moving into the area
- deny membership or participation in brokerage, multiple listing, or other real estate services
  interfere, coerce, threaten or intimidate a person to keep him/her from obtaining the full benefits of state and federal fair housing laws

Sometimes discriminatory practices are hard to detect. If an agent steers you to a particular area away from others, or comes up with excuses as to why a house is not available for viewing, or if they are hard to reach or don't answer your calls about a certain house, you may want to check into the possibility that discrimination is involved.

Fair Housing Act

Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), as amended, prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and disability.

If you believe you have been discriminated against or otherwise harmed by the kinds of discriminatory acts which are prohibited by law, you have a right to file a complaint with the state Human Relations Council or the U.S. Department of Housing and Urban Development (HUD). The names and addresses of these agencies are listed in the Resource Appendix.

CHOOSING A REAL ESTATE AGENT

When you are looking for an agent, consider the following and use Worksheet 4.1, Evaluation of Real Estate Agencies.

1. CREDENTIALS

Because agents are engaged in a business that involves other people's money and property, their activities are regulated by the states in which they operate. State laws require real estate brokers and salespeople to be licensed in order to protect the public from fraud, dishonesty or incompetence in real estate transactions. In every state, applicants for a real estate license must meet certain educational requirements and pass an examination to show they have an adequate knowledge of the business. They must also renew their license periodically and must follow certain standards of conduct as established by the state Real Estate Commission.

You should also be aware of the different categories of real estate professionals:

- A real estate broker is a person licensed to carry out real estate transactions and to receive a fee for these activities.
- A real estate salesperson is also licensed, but he or she must operate under the supervision of a licensed broker because the training is not as advanced as that of a Broker. Salespersons receive a portion of the commission paid to the selling broker.
- A Realtor is a licensed real estate agent who is a member of the National Association of Realtors. The Association, which has local, state, and national chapters is a trade association which promotes high standards in the real estate profession. The Association also provides members with educational opportunities and resources, such as the Multiple Listing Service.

2. EXPERIENCE

There's no substitute for experience. If location is the prime consideration in looking for a house, then experience is the prime consideration in selecting an agent. Word of mouth referrals are among the best ways to locate an experienced broker. Ask friends, relatives, and co-workers to recommend someone they've worked with. However, beware of relatives or friends-of-friends who may be in real estate but are inexperienced. Think twice about letting a friend or relative act as your agent even if they are experienced. Real estate deals do fall apart sometimes, jeopardizing friendships and family relations. Interview several agents and ask for a list of recent references and find out how long they've been in business.

3. SERVICE AREA

The agent you choose should be well-established in the areas where you are interested in buying. They should have a good working knowledge of the area, the services available, current market conditions, schools, etc. They should also express an appreciation of your lifestyle and the type of home that interests you. For example, if you want to live in an older neighborhood close to town, you will want to work with an agent who appreciates city life and knows something about the neighborhood. It would also be helpful if the agent could advise you on the repair or maintenance on older homes. On the other hand, if you prefer a rural area, you'll want to work with an agent who appreciates rural communities and is familiar with issues such as wells and septic tanks.

4. PROFESSIONALISM

Good agents will listen to you and take your housing needs and preferences seriously. As long as you are looking within your price range, they should act in a professional manner and treat you with respect. They should also follow up on their commitments, keep you informed of what's going on, and conduct themselves in a business-like manner.

OTHER HOUSE-HUNTING OPTIONS

If you've decided that you would like to work with an agent, you may be confused about other options you may have heard about, such as using more than one agent or purchasing properties listed for sale by the owner.

USING MORE THAN ONE AGENT

Some buyers believe that if it's good to use an agent, then maybe using more than one would be even better. In most instances, you'll need only one agent. Working with several agents creates confusion and wasted efforts all around, particularly if all the agents you select are members of MLS. Although competition between agents may lead them to work harder to find the perfect house for you, it generally leads to an unnecessary duplication of efforts. In order to minimize the confusion, immediately upon verbally agreeing to work with each other, the agent will present you with the “Exclusive Buyer Agency Agreement”. This agreement states that the buyer and agent will work together exclusively for a specified period of time.

One exception to this may be when you are considering homes in two different communities located some distance apart. In this case, it may make sense to have an agent in each of these areas. This way, you'll have the benefit of each agent's knowledge of his or her service area.

When you find an agent you like who seems to be doing a good job showing homes in your price range, it's generally best to stick with him or her. However, don't feel obligated to stay with an agent if you are not satisfied with his or her services. If you've been working with the same agent for months and still haven't found anything, you might want request out of the *Exclusive Buyer Agency Agreement* and look for another agent.

FOR SALE BY OWNER PROPERTIES

If you drive around a neighborhood you like or check listings in your local paper, you're likely to come across "for sale by owner" properties (FSBOs, pronounced fizz-bows). If you are working with an Agent, let them know so that they can facilitate the sell. Theoretically, the advantage of FSBOs is that the agent's commission will not be added to the sales price, making these homes somewhat less expensive. However, comparative market studies indicate that ssles prices of FSBOs and those sold by Realtors are similar. Oftentimes, FSBOs will agree to pay a commission, and agents often agree to lower their fees which also makes the home more affordable. When buying a FSBO, take extra precautions to have the home inspected before you buy, and have an attorney advise you on drawing up the sales contract.

THE SALES CONTRACT

When you have found a home you want to buy, the next step is to draw up a sales contract. When a contract has been prepared and signed by the buyer, it is known as an **Offer to Purchase.** This Offer is presented to the seller or the seller's agent. If the document is accepted and signed by the seller, it then becomes a **Sales Contract.** This sales contract is perhaps the most important document in a real estate transaction because it states in detail the agreement between the buyer and the seller, establishing their legal rights and obligations. Once the contract is signed by the buyer and the seller, the conditions of the contract cannot be changed unless both parties agree to, and sign the changes. Therefore, it is important that you know what the agreement says.

Preparing the Offer to Purchase will undoubtedly create stress. You'll probably have second thoughts and wonder if you're making the right decision. You'll worry over whether or not the seller will accept your offer. However, don't despair. If you've done your homework before you make the offer, you'll likely be satisfied with the results.

The first step in writing the offer is gathering all the information required to complete the form. Your real estate agent will be able to help you. Many agents use a standardized form that has been approved by the state Bar Association and the state Association of Realtors. This is essentially a fill-in-the-blank form, where you indicate how much you want to pay for the house and what conditions you want placed on the sale. Whether this form or another is used, get the advice of a real estate attorney and have him/her explain the legal terms and contingencies (discussed below) to you.

At minimum the contract should include the following information:

- Names of the buyer(s) and a statement of intent to purchase the property
- Names of the seller(s) and a statement of intent to sell the property under provisions of the contract
- Property address, if applicable
- Legal description of the property which describes its location and boundaries
- Personal property included in the transaction, such as refrigerators, light fixtures, etc.
- Purchase price and how it is to be paid:
    - the amount of the earnest money paid as a deposit and who holds the deposit until closing
    - the amount of the (non-refundable) due diligence fee paid, if any
    - other cash payments to be made by the borrower (down payment)
    - the amount to be borrowed and the terms of the loan
    - amount to be assumed, if applicable
- Provision for length of time the contract is valid (expiration date)
- Dated signatures of all parties

Contingencies: any special provision that requires something to be done, (such as a professional inspection on the house) or that something occur (your loan must be approved) before you are legally obligated to buy the house. Contingency clauses give you a way out of the contract if something goes wrong.

The section of the contract that deals with contingencies is extremely important. Contingency clauses give you the right to cancel your contract if certain conditions aren't met. If contingencies are incorrectly stated or omitted, you may run into problems. Make sure everything you want is in the contract because you may not get a chance to correct mistakes later. There are several categories of contingencies.

FINANCIAL CONTINGENCIES

The purpose of a financial contingency is to release you from the contract if you are unable to get a loan. The contingency clause should describe the terms of the loan you wish to obtain, including the maximum interest rate, discount points, type of loan (such as fixed rate or adjustable), and term (15, 20, or 30 years). This is important information because it protects you from having to accept unfavorable terms.

The seller may want to include a good faith effort clause in the contract which obligates you to make every effort to obtain a loan within a certain time frame. Be sure that you are given adequate time to obtain a loan, taking into account that the seller may not want to tie up his property for a long time. If your loan application is rejected by one lender, you will have time to approach a different lender. If you are unable to obtain the loan within the time specified in the contract, you should be able to cancel the contract.

INSPECTION CONTINGENCIES

Although many states require the seller to disclose the condition of the home to the best of their knowledge (see the Property Disclosure form at the end of this chapter), the purpose of an inspection contingency is to uncover any hidden problems with the house before the purchase. Most lenders require termite inspection as a contingency. Other common inspection contingencies are for structural and mechanical systems, and for hazards such as asbestos, radon, or lead paint. If the results of these inspection reports are unacceptable, you may negotiate with the sellers to repair or remedy the situation at their expense, or you may ask for lower sales price if you can do the work yourself. If the seller agrees to make additions or repairs, be sure to get them in writing. If you cannot reach a satisfactory agreement, claim your right to cancel the contract. As a new homeowner, you don't want to be stuck with expensive repairs.

SURVEY CONTINGENCIES

Some lenders require a survey contingency. It is performed to confirm lot boundaries and reveal any zoning or code violations associated with the property. For example, if the survey shows that the property you want to buy is located in a flood zone of floodplain, you will know that you can expect to pay more for hazard insurance.

Another example of how a survey contingency can protect you involves zoning ordinances. Zoning ordinances generally specify that a house must be set back a certain distance from the edge of the property line. If you have an Offer to Purchase on a lot where the previous owner has built a garage too close to the property line, the garage may be in violation of the set-back requirements of the zoning ordinance. You may be required to remove the garage at your own expense if this violation is not discovered until after you become the owner. If this violation is detected before the contract is valid, you have the option to void the contract.

SOIL-TEST CONTINGENCIES

If you are purchasing land located in a rural area that is not served by municipal water and sewer services, you will have to install a well and septic tank. Don't assume that land you want to purchase will take a septic system or well. You will need to have a perk test done to determine if the soil is suitable for a septic system, and if so, where it should be located on the lot.

EARNEST MONEY DEPOSITS

When you submit your Offer to Purchase, you will be required to make a cash deposit which indicates that you are serious about your intent to purchase the house. The deposit is generally given to the listing agent (not the seller) to be placed in his or her escrow account. The deposit will be applied to your down payment at the time of the closing. For example, if you make a $500 deposit and you owe $2,000 as a down payment, you will only have to pay $1,500 of this down payment at closing.

The amount of the deposit required varies. It may be as little as $100 or it may be as much as the full down payment. Generally speaking, it is best to pay as little as possible so that you do not tie up your savings. The deposit should be large enough to let the seller know that you are serious about buying the house. Your agent and/or your attorney can advise you on how much earnest money you need.

Your earnest money deposit should be returned to you if the seller does not live up to the terms of the sales contract. The deposit should also be returned if major defects are uncovered by the inspections, or if you cannot obtain the financing you need. The conditions for returning the deposit should be clearly spelled out in the contract. It is also possible that you will lose your deposit if you fail to live up to the terms of the contract.

DUE DILIGENCE FEE

In addition to the Earnest Money Deposit, many states have a Due Diligence Fee. This is a non-refundable fee that allows the buyer a specific time frame to secure financing and to thoroughly inspect and investigate the property. Buyers must be sure that they allow themselves enough time for inspections as well as loan approval.

The fee, if any, is used for the right to conduct “due diligence” and the amount is negotiable between the seller and the buyer. If an inspection reveals defects, the buyer can accept the property “as is”, negotiable the repairs, or walk away from the property. If the buyer terminates the contract the earnest money is typically refunded, but not the Due Diligence fee, unless otherwise negotiated.

NEGOTIATING TIPS

Now that you are aware of some of the things that make up an offer and sales contract, let's turn our attention to strategies for negotiating a contract that gets what you want and protects your interests. One of the first questions you'll want to ask is, "How much should I offer?" "Should I offer the seller's full asking price?" As an example, let's say the seller is asking $65,000 for the house, but you don't want to pay that much. When negotiating the price, consider the following tips.

- **Know the market.**

If homes in the area are selling like hot cakes, sellers may feel that they can hold out for their full asking price. On the other hand, if homes are selling slowly and a home has been on the market for several months, sellers may consider coming down on the price. Compare the seller's asking price to the sales prices of similar homes in the area that have sold recently. This should give you some idea as to what is a fair and reasonable offer.

- **Be realistic.**

Don't be tempted to offer too much just to get one particular house. Remember, you will have to live up to your obligation to make the monthly mortgage payments. Revisit your household budget and make sure you feel comfortable about making those payments. You'll also want to be careful not to offer too little - you may insult the seller to the point that negotiations become impossible.

- **Be firm.**

Don't let the seller or the seller's agent try to convince you to raise your offer when you know you can't afford it.

- **Be in control.**

You can create an image of control if you have a clear idea of what you want. Inspect the house yourself carefully, as we discussed in Module 3, so that the seller knows you won't be easily fooled and that you are aware of the home's defects. Have your inspection checklist in hand and make notes of anything you find that would lower the home's value. Avoid being too critical, however. Don't offend the seller by talking about how much you dislike the wallpaper or the carpet.

- **Keep your feelings in check.**

  When you are viewing a home, it's OK to indicate that you like it, but don't go overboard, even if you think you've found the house of your dreams. If you appear over-anxious, you will weaken your negotiating strength. Likewise, avoid giving the impression that you are in a hurry to buy.

- **Don't get discouraged.**

  If your first offer is rejected, keep looking!

OFFERS AND COUNTER OFFERS

After the Offer to Purchase has been filled out to your satisfaction (and reviewed by your attorney), it is ready to be submitted to the seller. If you are working with a real estate agent, they will submit the offer to you. The seller may:

- accept the offer
- reject the offer
- submit a counter offer

Counter offers usually involve negotiations on the sales price. For example, if the original asking price was $95,000, and you offered $90,000, the seller may return with a counter offer to sell the house for $93,900. If you determine that you can still afford the house at that price, then you have the option to accept this offer. Or, you can make your own counter offer, raising your original offer from $90,000 to $92,000. During this negotiating process, keep your budget in mind and review any changes with your attorney to make sure you are still adequately protected.

CONCLUSION

When you start looking for a home, an experienced real estate agent can take some of the worry out of house-hunting. An agent can help you determine how much you can afford to pay, and help you shop for a mortgage. An agent can also help you identify more homes in your price range more quickly. Remember to choose your agent carefully and take your time in shopping for a home.

Signing the sales contract is a big step, and it usually creates a great deal of anxiety. That's perfectly understandable. Below is a 13-page sample of the NC Offer to Purchase and Contract. This contract is very detailed and it is not reflective of all contracts. There is no single standard contract that must be used, nor are there standard expenses. Although some items and procedures may be customary, everything is negotiable.
In addition, there's also a 4-page Property Disclosure statement below. This statement allows the seller to disclose anything that they know about the property. They are not required to disclose the condition of the property, however. They may state that they aren't making "no representation" regarding the condition or characteristics of the property. Again, if you are nervous but you are sure of what you want and how much you can afford, your (buyer's) agent can thoroughly explain the forms and can negotiate on your behalf. Remember, it's your agent and s/he can explain everything to ease your mind. You'll be on your way to becoming a happy homeowner!

WORKSHEET 4.1
EVALUATION OF REAL ESTATE AGENCIES

Place the name of each agency next to the corresponding number below. Mark each question with an "X" or "✓" in the appropriate column. "✓" answers are the best indicators for your evaluation.

Names of Agencies

1 ____

2 ____

3 ____

4 ____

5 ____

Evaluation Questions	1	2	3	4	5
1. Is the agency headed by a Realtor?	☐		☐	☐	☐
2. Does the agency have several listings in our price range?	☐	☐	☐	☐	☐
3. Has the agency been in business over 5 years?	☐	☐	☐	☐	☐
4. Does the agency advertise regularly?	☐	☐	☐	☐	☐
5. Do the agency's listings change with regularity?	☐	☐	☐	☐	☐
6. Does the agent seem interested in what we need?	☐	☐	☐	☐	☐
7. Is the agent showing us what we're looking for?	☐	☐	☐	☐	☐
8. Does the agent seem knowledgeable about the real estate market?	☐	☐	☐	☐	☐
9. Does the agent seem knowledgeable about local property taxes?		☐	☐		☐
10. Does the agent seem willing to tell us what is right and what is wrong with the house?	☐	☐	☐	☐	☐
11. Is the agent knowledgeable about the neighborhood?	☐	☐	☐	☐	☐
12. Do I like and trust the agent?	☐	☐	☐	☐	☐
13. Is the agent familiar with school districts, school locations, etc.?	☐	☐	☐	☐	☐

OFFER TO PURCHASE AND CONTRACT
[Consult "Guidelines" (Form 2G) for guidance in completing this form]

For valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, Buyer offers to purchase and Seller upon acceptance agrees to sell and convey the Property on the terms and conditions of this Offer To Purchase and Contract and any addendum or modification made in accordance with its terms (together the "Contract").

1. **TERMS AND DEFINITIONS:** The terms listed below shall have the respective meaning given them as set forth adjacent to each term.

(a) **"Seller":** Sample

(b) **"Buyer":** sample

(c) **"Property":** The Property shall include all that real estate described below together with all appurtenances thereto including the improvements located thereon and the fixtures and personal property listed in Paragraphs 2 and 3 below.

NOTE: If the Property will include a manufactured (mobile) home(s), Buyer and Seller should consider including the Manufactured (Mobile) Home provision in the Additional Provisions Addendum (Standard Form 2A11-T) with this offer.

Street Address: sample
City: ______ Zip: ______
County: ______, North Carolina

NOTE: Governmental authority over taxes, zoning, school districts, utilities and mail delivery may differ from address shown.

Legal Description: (Complete *ALL* applicable)
Plat Reference: Lot/Unit ______, Block/Section ______, Subdivision/Condominium ______
______, as shown on Plat Book/Slide ______ at Page(s) ______
The PIN/PID or other identification number of the Property is: ______
Other description: ______
Some or all of the Property may be described in Deed Book ______ at Page ______

(d) **"Purchase Price"**:

$ ______	paid in U.S. Dollars upon the following terms:
$ ______	BY DUE DILIGENCE FEE made payable and delivered to Seller by the Effective Date.
$ ______	BY INITIAL EARNEST MONEY DEPOSIT made payable and delivered to Escrow Agent named in Paragraph 1(f) by ☐ cash ☐ personal check ☐ official bank check ☐ wire transfer, ☐ electronic transfer, EITHER ☐ with this offer OR ☐ within five (5) days of the Effective Date of this Contract.
$ ______	BY (ADDITIONAL) EARNEST MONEY DEPOSIT made payable and delivered to Escrow Agent named in Paragraph 1(f) by cash, official bank check, wire transfer or electronic transfer no later than 5 p.m. on ______, ***TIME BEING OF THE ESSENCE.***
$ ______	BY ASSUMPTION of the unpaid principal balance and all obligations of Seller on the existing loan(s) secured by a deed of trust on the Property in accordance with the attached Loan Assumption Addendum (Standard Form 2A6-T).
$ ______	BY SELLER FINANCING in accordance with the attached Seller Financing Addendum (Standard Form 2A5-T).
$ ______	BY BUILDING DEPOSIT in accordance with the attached New Construction Addendum (Standard Form 2A3-T).
$ ______	BALANCE of the Purchase Price in cash at Settlement (some or all of which may be paid with the proceeds of a new loan).

Should Buyer fail to deliver either the Due Diligence Fee or any Initial Earnest Money Deposit by their due dates, or should any check or other funds paid by Buyer be dishonored, for any reason, by the institution upon which the payment is drawn, Buyer shall

REALTOR®
This form jointly approved by:
North Carolina Bar Association
North Carolina Association of REALTORS®, Inc.
EQUAL HOUSING OPPORTUNITY
STANDARD FORM 2-T
Revised 7/2018
© 7/2018

Buyer initials ______ ______ Seller initials ______ ______ have one (1) banking day after written notice to deliver cash, official bank check, wire transfer or electronic transfer to the payee. In the event Buyer does not timely deliver the required funds, Seller shall have the right to terminate this Contract upon written notice to Buyer.

(e) **"Earnest Money Deposit":** The Initial Earnest Money Deposit, the Additional Earnest Money Deposit and any other earnest monies paid or required to be paid in connection with this transaction, collectively the"Earnest Money Deposit", shall be deposited and held in escrow by Escrow Agent until Closing, at which time it will be credited to Buyer, or until this Contract is otherwise terminated. In the event: (1) this offer is not accepted; or (2) a condition of any resulting contract is not satisfied, then the Earnest Money Deposit shall be refunded to Buyer. In the event of breach of this Contract by Seller, the Earnest Money Deposit shall be refunded to Buyer upon Buyer's request, but such return shall not affect any other remedies available to Buyer for such breach. In the event of breach of this Contract by Buyer, the Earnest Money Deposit shall be paid to Seller as liquidated damages and as Seller's sole and exclusive remedy for such breach, but without limiting Seller's rights under Paragraphs 4(d) and 4(e) for damage to the Property or Seller's right to retain the Due Diligence Fee. It is acknowledged by the parties that payment of the Earnest Money Deposit to Seller in the event of a breach of this Contract by Buyer is compensatory and not punitive, such amount being a reasonable estimation of the actual loss that Seller would incur as a result of such breach. The payment of the Earnest Money Deposit to Seller shall not constitute a penalty or forfeiture but actual compensation for Seller's anticipated loss, both parties acknowledging the difficulty determining Seller's actual damages for such breach. If legal proceedings are brought by Buyer or Seller against the other to recover the Earnest Money Deposit, the prevailing party in the proceeding shall be entitled to recover from the non-prevailing party reasonable attorney fees and court costs incurred in connection with the proceeding.

(f) **"Escrow Agent"** (insert name): ______________________________

NOTE: In the event of a dispute between Seller and Buyer over the disposition of the Earnest Money Deposit held in escrow, a licensed real estate broker ("Broker") is required by state law (and Escrow Agent, if not a Broker, hereby agrees) to retain the Earnest Money Deposit in the Escrow Agent's trust or escrow account until Escrow Agent has obtained a written release from the parties consenting to its disposition or until disbursement is ordered by a court of competent jurisdiction. Alternatively, if a Broker or an attorney licensed to practice law in North Carolina ("Attorney") is holding the Earnest Money Deposit, the Broker or Attorney may deposit the disputed monies with the appropriate clerk of court in accordance with the provisions of N.C.G.S. §93A-12.

THE PARTIES AGREE THAT A REAL ESTATE BROKERAGE FIRM ACTING AS ESCROW AGENT MAY PLACE THE EARNEST MONEY DEPOSIT IN AN INTEREST BEARING TRUST ACCOUNT AND THAT ANY INTEREST EARNED THEREON SHALL BE DISBURSED TO THE ESCROW AGENT MONTHLY IN CONSIDERATION OF THE EXPENSES INCURRED BY MAINTAINING SUCH ACCOUNT AND RECORDS ASSOCIATED THEREWITH.

(g) **"Effective Date":** The date that: (1) the last one of Buyer and Seller has signed or initialed this offer or the final counteroffer, if any, and (2) such signing or initialing is communicated to the party making the offer or counteroffer, as the case may be. The parties acknowledge and agree that the initials lines at the bottom of each page of this Contract are merely evidence of their having reviewed the terms of each page, and that the complete execution of such initials lines shall not be a condition of the effectiveness of this Agreement.

(h) **"Due Diligence":** Buyer's opportunity to investigate the Property and the transaction contemplated by this Contract, including but not necessarily limited to the matters described in Paragraph 4 below, to decide whether Buyer, in Buyer's sole discretion, will proceed with or terminate the transaction.

(i) **"Due Diligence Fee":** A negotiated amount, if any, paid by Buyer to Seller with this Contract for Buyer's right to terminate the Contract for any reason or no reason during the Due Diligence Period. It shall be the property of Seller upon the Effective Date and shall be a credit to Buyer at Closing. The Due Diligence Fee shall be non-refundable except in the event of a material breach of this Contract by Seller, or if this Contract is terminated under Paragraph 8(n) or Paragraph 12, or as otherwise provided in any addendum hereto. Buyer and Seller each expressly waive any right that they may have to deny the right to conduct Due Diligence or to assert any defense as to the enforceability of this Contract based on the absence or alleged insufficiency of any Due Diligence Fee, it being the intent of the parties to create a legally binding contract for the purchase and sale of the Property without regard to the existence or amount of any Due Diligence Fee.

(j) **"Due Diligence Period":** The period beginning on the Effective Date and extending through 5:00 p.m. on ______________________________ ***TIME BEING OF THE ESSENCE.***

(k) **"Settlement":** The proper execution and delivery to the closing attorney of all documents necessary to complete the transaction contemplated by this Contract, including the deed, settlement statement, deed of trust and other loan or conveyance documents, and the closing attorney's receipt of all funds necessary to complete such transaction.

(l) **"Settlement Date":** The parties agree that Settlement will take place on ______________________________ (the "Settlement Date"), unless otherwise agreed in writing, at a time and place designated by Buyer.

(m) **"Closing":** The completion of the legal process which results in the transfer of title to the Property from Seller to Buyer, which includes the following steps: (1) the Settlement (defined above); (2) the completion of a satisfactory title update to the Property following the Settlement; (3) the closing attorney's receipt of authorization to disburse all necessary funds; and (4) recordation in the appropriate county registry of the deed(s) and deed(s) of trust, if any, which shall take place as soon as reasonably possible for the closing attorney after Settlement. Upon Closing, the proceeds of sale shall be disbursed by the closing attorney in accordance with the settlement statement and the provisions of Chapter 45A of the North Carolina General Statutes. If the title update should reveal unexpected liens, encumbrances or other title defects, or if the closing attorney is not authorized to disburse all necessary funds, then the Closing shall be suspended and the Settlement deemed delayed under Paragraph 13 (Delay in Settlement/Closing).

WARNING: The North Carolina State Bar has determined that the performance of most acts and services required for a closing constitutes the practice of law and must be performed only by an attorney licensed to practice law in North Carolina. State law prohibits unlicensed individuals or firms from rendering legal services or advice. Although non-attorney settlement agents may perform limited services in connection with a closing, they may not perform all the acts and services required to complete a closing. A closing involves significant legal issues that should be handled by an attorney. Accordingly it is the position of the North Carolina Bar Association and the North Carolina Association of REALTORS® that all buyers should hire an attorney licensed in North Carolina to perform a closing.

(n) **"Special Assessments":** A charge against the Property by a governmental authority in addition to ad valorem taxes and recurring governmental service fees levied with such taxes, or by an owners' association in addition to any regular assessment (dues), either of which may be a lien against the Property. A Special Assessment may be either proposed or confirmed.

"Proposed Special Assessment": A Special Assessment that is under formal consideration but which has not been approved prior to Settlement.

"Confirmed Special Assessment": A Special Assessment that has been approved prior to Settlement whether payable in a lump sum or future installments.

NOTE: Any Proposed and Confirmed Special Assessments must be identified by Seller in paragraph 7(c), and Buyer's and Seller's respective responsibilities for Proposed and Confirmed Special Assessments are addressed in paragraphs 6(a) and 8(k).

2. **FIXTURES AND EXCLUSIONS.**
(a) **Specified Items:** Unless identified in subparagraph (d) below, the following items, including all related equipment and remote control devices, if any, are deemed fixtures and shall convey, included in the Purchase Price free of liens:

- Alarm and security systems (attached) for security, fire, smoke, carbon monoxide or other toxins with all related access codes, sensors, cameras, dedicated monitors, hard drives, video recorders, power supplies and cables; doorbells/chimes
- All stoves/ranges/ovens; built-in appliances; attached microwave oven; vent hood
- Antennas; satellite dishes and receivers
- Basketball goals and play equipment (permanently attached or in-ground)
- Ceiling and wall-attached fans; light fixtures (including existing bulbs)
- Fireplace insert; gas logs or starters; attached fireplace screens; wood or coal stoves
- Floor coverings (attached)
- Fuel tank(s) whether attached or buried and including any contents that have not been used, removed or resold to the fuel provider as of Settlement. **NOTE:** Seller's use, removal or resale of fuel in any fuel tank is subject to Seller's obligation under Paragraph 8(c) to provide working, existing utilities through the earlier of Closing or possession by Buyer.
- Garage door openers with all controls
- Generators that are permanently wired
- Invisible fencing with power supply, controls and receivers
- Landscape and outdoor trees and plants (except in moveable containers); raised garden; landscape and foundation lighting; outdoor sound systems; permanent irrigation systems and controls; rain barrels; landscape water features; address markers
- Mailboxes; mounted package and newspaper receptacles
- Mirrors attached to walls, ceilings, cabinets or doors; all bathroom wall mirrors
- Storage shed; utility building
- Swimming pool (excluding inflatable); spa; hot tub
- Solar electric and solar water heating systems
- Sump-pumps, radon fans and crawlspace ventilators; de-humidifiers that are permanently wired
- Surface-mounting brackets for television and speakers; recess-mounted speakers; mounted intercom system
- Water supply equipment, including filters, conditioning and softener systems; re-circulating pumps; well pumps and tanks
- Window/Door blinds and shades, curtain and drapery rods and brackets, door and window screens and combination doors, awnings and storm windows

Buyer initials __________ __________ Seller initials __________ __________

(b) **Items Leased or Not Owned:** Any item which is leased or not owned by Seller, such as fuel tanks, antennas, satellite dishes and receivers, appliances, and alarm and security systems must be identified here and shall not convey:

____
____
____

(c) **Other Fixtures/Unspecified items:** Unless identified in subparagraph (d) below, any other item legally considered a fixture is included in the Purchase Price free of liens.

(d) **Other Items That Do Not Convey:** The following items shall not convey (*identify those items to be excluded under subparagraphs (a) and (c)*): ____
____.

Seller shall repair any damage caused by removal of any items excepted above.

3. **PERSONAL PROPERTY:** The following personal property shall be transferred to Buyer at no value at Closing: ______________
____.

NOTE: Buyer is advised to consult with Buyer's lender to assure that the Personal Property items listed above can be included in this Contract.

4. **BUYER'S DUE DILIGENCE PROCESS:**

WARNING: **BUYER IS STRONGLY ENCOURAGED TO CONDUCT DUE DILIGENCE DURING THE DUE DILIGENCE PERIOD.** If Buyer is not satisfied with the results or progress of Buyer's Due Diligence, Buyer should terminate this Contract, PRIOR TO THE EXPIRATION OF THE DUE DILIGENCE PERIOD, unless Buyer can obtain a written extension from Seller. SELLER IS NOT OBLIGATED TO GRANT AN EXTENSION. Although Buyer may continue to investigate the Property following the expiration of the Due Diligence Period, Buyer's failure to deliver a Termination Notice to Seller prior to the expiration of the Due Diligence Period will constitute a waiver by Buyer of any right to terminate this Contract based on any matter relating to Buyer's Due Diligence. Provided however, following the Due Diligence Period, Buyer may still exercise a right to terminate if Seller fails to materially comply with any of Seller's obligations under Paragraph 8 of this Contract or for any other reason permitted under the terms of this Contract or North Carolina law.

(a) **Loan:** Buyer, at Buyer's expense, shall be entitled to pursue qualification for and approval of the Loan if any.

NOTE: Buyer's obligation to purchase the Property is not contingent on obtaining a Loan. Therefore, Buyer is advised to consult with Buyer's lender prior to signing this offer to assure that the Due Diligence Period allows sufficient time for the appraisal to be completed and for Buyer's lender to provide Buyer sufficient information to decide whether to proceed with or terminate the transaction.

(b) **Property Investigation:** Buyer or Buyer's agents or representatives, at Buyer's expense, shall be entitled to conduct all desired tests, surveys, appraisals, investigations, examinations and inspections of the Property as Buyer deems appropriate, including but NOT limited to the following:

(i) **Inspections:** Inspections to determine the condition of any improvements on the Property, the presence of unusual drainage conditions or evidence of excessive moisture adversely affecting any improvements on the Property, the presence of asbestos or existing environmental contamination, evidence of wood-destroying insects or damage therefrom, and the presence and level of radon gas on the Property.

(ii) **Review of Documents:** Review of the Declaration of Restrictive Covenants, Bylaws, Articles of Incorporation, Rules and Regulations, and other governing documents of any applicable owners' association and/or subdivision. If the Property is subject to regulation by an owners' association, it is recommended that Buyer review the completed Residential Property and Owners' Association Disclosure Statement provided by Seller prior to signing this offer. It is also recommended that the Buyer determine if the owners' association or its management company charges fees for providing information required by Buyer's lender or confirming restrictive covenant compliance.

(iii) **Insurance:** Investigation of the availability and cost of insurance for the Property.

(iv) **Appraisals:** An appraisal of the Property.

(v) **Survey:** A survey to determine whether the property is suitable for Buyer's intended use and the location of easements, setbacks, property boundaries and other issues which may or may not constitute title defects.

(vi) **Zoning and Governmental Regulation:** Investigation of current or proposed zoning or other governmental regulation that may affect Buyer's intended use of the Property, adjacent land uses, planned or proposed road construction, and school attendance zones.

(vii) **Flood Hazard:** Investigation of potential flood hazards on the Property, and/or any requirement to purchase flood insurance in order to obtain the Loan.

(viii) **Utilities and Access:** Availability, quality, and obligations for maintenance of utilities including water, sewer, electric, gas, communication services, stormwater management, and means of access to the Property and amenities.

(ix) **Streets/Roads:** Investigation of the status of the street/road upon which the Property fronts as well as any other street/road used to access the Property, including: (1) whether any street(s)/road(s) are public or private, (2) whether any street(s)/road(s) designated as public are accepted for maintenance by the State of NC or any municipality, or (3) if private or not accepted for public maintenance, the consequences and responsibility for maintenance and the existence, terms and funding of any maintenance agreements.

(x) **Fuel Tank:** Inspections to determine the existence, type and ownership of any fuel tank located on the Property.

NOTE: Buyer is advised to consult with the owner of any leased fuel tank regarding the terms under which Buyer may lease the tank and obtain fuel.

(c) **Repair/Improvement Negotiations/Agreement:** Buyer acknowledges and understands that unless the parties agree otherwise, THE PROPERTY IS BEING SOLD IN ITS CURRENT CONDITION. Buyer and Seller acknowledge and understand that they may, but are not required to, engage in negotiations for repairs/improvements to the Property. Buyer is advised to make any repair/improvement requests in sufficient time to allow repair/improvement negotiations to be concluded prior to the expiration of the Due Diligence Period. Any agreement that the parties may reach with respect to repairs/improvements shall be considered an obligation of the parties and is an addition to this Contract and as such, must be in writing and signed by the parties in accordance with Paragraph 20.

NOTE: See Paragraph 8(c), Access to Property and Paragraph 8(m), Negotiated Repairs/Improvements.

(d) **Buyer's Obligation to Repair Damage:** Buyer shall, at Buyer's expense, promptly repair any damage to the Property resulting from any activities of Buyer and Buyer's agents and contractors, but Buyer shall not be responsible for any damage caused by accepted practices either approved by the N.C. Home Inspector Licensure Board or applicable to any other N.C. licensed professional performing reasonable appraisals, tests, surveys, examinations and inspections of the Property. This repair obligation shall survive any termination of this Contract.

(e) **Indemnity:** Buyer will indemnify and hold Seller harmless from all loss, damage, claims, suits or costs, which shall arise out of any contract, agreement, or injury to any person or property as a result of any activities of Buyer and Buyer's agents and contractors relating to the Property except for any loss, damage, claim, suit or cost arising out of pre-existing conditions of the Property and/or out of Seller's negligence or willful acts or omissions. This indemnity shall survive this Contract and any termination hereof.

(f) **Buyer's Right to Terminate:** Buyer shall have the right to terminate this Contract for any reason or no reason, by delivering to Seller written notice of termination (the "Termination Notice") during the Due Diligence Period (or any agreed-upon written extension of the Due Diligence Period), ***TIME BEING OF THE ESSENCE***. If Buyer timely delivers the Termination Notice, this Contract shall be terminated and the Earnest Money Deposit shall be refunded to Buyer.

(g) **CLOSING SHALL CONSTITUTE ACCEPTANCE OF THE PROPERTY IN ITS THEN EXISTING CONDITION UNLESS PROVISION IS OTHERWISE MADE IN WRITING.**

5. **BUYER REPRESENTATIONS:**

(a) **Loan:** Buyer ☐ does ☐ does not intend to obtain a new loan in order to purchase the Property. If Buyer is obtaining a new loan, Buyer intends to obtain a loan as follows: ☐ FHA ☐ VA (attach FHA/VA Financing Addendum) ☐ Conventional ☐ Other: ______________________ loan at a ☐ Fixed Rate ☐ Adjustable Rate in the principal amount of ____________ plus any financed VA Funding Fee or FHA MIP for a term of __________________ year(s), at an initial interest rate not to exceed __________ % per annum (the "Loan").

NOTE: Buyer's obligations under this Contract are not conditioned upon obtaining or closing any loan.

NOTE: If Buyer does not intend to obtain a new loan, Seller is advised, prior to signing this offer, to obtain documentation from Buyer which demonstrates that Buyer will be able to close on the Property without the necessity of obtaining a new loan.

(b) **Other Property:** Buyer ☐ does ☐ does not have to sell or lease other real property in order to qualify for a new loan or to complete purchase.

NOTE: This Contract is not conditioned upon the sale of Buyer's property unless a contingent sale addendum such as Standard Form 2A2-T is made a part of this Contract.

(c) **Performance of Buyer's Financial Obligations:** To the best of Buyer's knowledge, there are no other circumstances or conditions existing as of the date of this offer that would prohibit Buyer from performing Buyer's financial obligations in accordance with this Contract, except as may be specifically set forth herein.

(d) **Residential Property and Owners' Association Property Disclosure Statement** (*check only one*):

☐ Buyer has received a signed copy of the N.C. Residential Property and Owners' Association Disclosure Statement prior to the signing of this offer.

☐ Buyer has NOT received a signed copy of the N.C. Residential Property and Owners' Association Disclosure Statement prior to the signing of this offer and shall have the right to terminate or withdraw this Contract without penalty (including a refund of any Due Diligence Fee) prior to WHICHEVER OF THE FOLLOWING EVENTS OCCURS FIRST: (1) the end of the third calendar day following receipt of the Disclosure Statement; (2) the end of the third calendar day following the Effective Date; or (3) Settlement or occupancy by Buyer in the case of a sale or exchange.

☐ Exempt from N.C. Residential Property and Owners' Association Disclosure Statement because (SEE GUIDELINES): ________

____.

(e) **Mineral and Oil and Gas Rights Mandatory Disclosure Statement** (*check only one*):

☐ Buyer has received a signed copy of the N.C. Mineral and Oil and Gas Rights Mandatory Disclosure Statement prior to the signing of this offer.

☐ Buyer has NOT received a signed copy of the N.C. Mineral and Oil and Gas Rights Mandatory Disclosure Statement prior to the signing of this offer and shall have the right to terminate or withdraw this Contract without penalty (including a refund of any Due Diligence Fee) prior to WHICHEVER OF THE FOLLOWING EVENTS OCCURS FIRST: (1) the end of the third calendar day following receipt of the Disclosure Statement; (2) the end of the third calendar day following the Effective Date; or (3) Settlement or occupancy by Buyer in the case of a sale or exchange.

☐ Exempt from N.C. Mineral and Oil and Gas Rights Mandatory Disclosure Statement because (SEE GUIDELINES): __________

____.

Buyer's receipt of a Mineral and Oil and Gas Rights Mandatory Disclosure Statement does not modify or limit the obligations of Seller under Paragraph 8(g) of this Contract and shall not constitute the assumption or approval by Buyer of any severance of mineral and/or oil and gas rights, except as may be assumed or specifically approved by Buyer in writing.

NOTE: The parties are advised to consult with a NC attorney prior to signing this Contract if severance of mineral and/or oil and gas rights has occurred or is intended.

6. **BUYER OBLIGATIONS:**

(a) **Responsibility for Proposed Special Assessments:** Buyer shall take title subject to all Proposed Special Assessments.

(b) **Responsibility for Certain Costs:** Buyer shall be responsible for all costs with respect to:

(i) any loan obtained by Buyer, including charges by an owners association and/or management company as agent of an owners' association for providing information required by Buyer's lender;

(ii) charges required by an owners' association declaration to be paid by Buyer for Buyer's future use and enjoyment of the Property, including, without limitation, working capital contributions, membership fees, or charges for Buyer's use of the common elements and/or services provided to Buyer, such as "move-in fees";

(iii) determining restrictive covenant compliance;

(iv) appraisal;

(v) title search;

(vi) title insurance;

(vii) any fees charged by the closing attorney for the preparation of the Closing Disclosure, Seller Disclosure and any other settlement statement;

(viii) recording the deed; and

(ix) preparation and recording of all instruments required to secure the balance of the Purchase Price unpaid at Settlement.

(c) **Authorization to Disclose Information:** Buyer authorizes the Buyer's lender(s), the parties' real estate agent(s) and closing attorney: (1) to provide this Contract to any appraiser employed by Buyer or by Buyer's lender(s); and (2) to release and disclose any buyer's closing disclosure, settlement statement and/or disbursement summary, or any information therein, to the parties to this transaction, their real estate agent(s) and Buyer's lender(s).

7. **SELLER REPRESENTATIONS:**

(a) **Ownership:** Seller represents that Seller:

☐ has owned the Property for at least one year.

☐ has owned the Property for less than one year.

☐ does not yet own the Property.

(b) **Lead-Based Paint** *(check if applicable)*:

☐ The Property is residential and was built prior to 1978 (Attach Lead-Based Paint or Lead-Based Paint Hazards Disclosure Addendum {Standard Form 2A9-T}).

(c) **Assessments:** To the best of Seller's knowledge there ☐ are ☐ are not any Proposed Special Assessments. If any Proposed Special Assessments, identify: ____

Seller warrants that there ☐ are ☐ are not any Confirmed Special Assessments. If any Confirmed Special Assessments, identify:
____

NOTE: Buyer's and Seller's respective responsibilities for Proposed and Confirmed Special Assessments are addressed in paragraphs 6(a) and 8(k).

(d) **Owners' Association(s) and Dues:** Seller authorizes and directs any owners' association, any management company of the owners' association, any insurance company and any attorney who has previously represented the Seller to release to Buyer, Buyer's agents, representative, closing attorney or lender true and accurate copies of the following items affecting the Property, including any amendments:

- Seller's statement of account
- master insurance policy showing the coverage provided and the deductible amount
- Declaration and Restrictive Covenants
- Rules and Regulations
- Articles of Incorporation
- Bylaws of the owners' association
- current financial statement and budget of the owners' association
- parking restrictions and information
- architectural guidelines

☐ (specify name of association): ____________________________________ whose regular assessments ("dues") are $____________ per__________ . The name, address and telephone number of the president of the owners' association or the association manager is: ____________________________________
____ .

Owners' association website address, if any: ____

☐ (specify name of association): ____________________________________ whose regular assessments ("dues") are $____________ per__________ . The name, address and telephone number of the president of the owners' association or the association manager is: ____________________________________
____ .

Owners' association website address, if any: ____

8. **SELLER OBLIGATIONS:**

(a) **Evidence of Title, Payoff Statement(s) and Non Foreign Status:**

(i) Seller agrees to use best efforts to provide to the closing attorney as soon as reasonably possible after the Effective Date, copies of all title information in possession of or available to Seller, including but not limited to: title insurance policies, attorney's opinions on title, surveys, covenants, deeds, notes and deeds of trust, leases, and easements relating to the Property.
(ii) Seller shall provide to the closing attorney all information needed to obtain a written payoff statement from any lender(s) regarding any security interest in the Property as soon as reasonably possible after the Effective Date, and Seller designates the closing attorney as Seller's agent with express authority to request and obtain on Seller's behalf payoff statements and/or short-pay statements from any such lender(s).
(iii) If Seller is not a foreign person as defined by the Foreign Investment in Real Property Tax Act, Seller shall also provide to the closing attorney a non-foreign status affidavit (pursuant to the Foreign Investment in Real Property Tax Act). In the event Seller shall not provide a non-foreign status affidavit, Seller acknowledges that there may be withholding as provided by the Internal Revenue Code.

(b) **Authorization to Disclose Information:** Seller authorizes: (1) any attorney presently or previously representing Seller to release and disclose any title insurance policy in such attorney's file to Buyer and both Buyer's and Seller's agents and attorneys; (2) the Property's title insurer or its agent to release and disclose all materials in the Property's title insurer's (or title insurer's agent's) file to Buyer and both Buyer's and Seller's agents and attorneys and (3) the closing attorney to release and disclose any seller's closing disclosure, settlement statement and/or disbursement summary, or any information therein, to the parties to this transaction, their real estate agent(s) and Buyer's lender(s).

(c) **Access to Property:** Seller shall provide reasonable access to the Property (including working, existing utilities) through the earlier of Closing or possession by Buyer, including, but not limited to, allowing Buyer and/or Buyer's agents or representatives, an opportunity to (i) conduct Due Diligence, (ii) verify the satisfactory completion of negotiated repairs/improvements, and (iii) conduct a final walk-through inspection of the Property.

NOTE: See WARNING in paragraph 4 above for limitation on Buyer's right to terminate this Contract as a result of Buyer's continued investigation of the Property following the expiration of the Due Diligence Period.

(d) **Removal of Seller's Property:** Seller shall remove, by the date possession is made available to Buyer, all personal property which is not a part of the purchase and all garbage and debris from the Property.

(e) **Affidavit and Indemnification Agreement:** Seller shall furnish at Settlement an affidavit(s) and indemnification agreement(s) in form satisfactory to Buyer and Buyer's title insurer, if any, executed by Seller and any person or entity who has performed or furnished labor, services, materials or rental equipment to the Property within 120 days prior to the date of Settlement and who may be entitled to claim a lien against the Property as described in N.C.G.S. §44A-8 verifying that each such person or entity has been paid in full and agreeing to indemnify Buyer, Buyer's lender(s) and Buyer's title insurer against all loss from any cause or claim arising therefrom.

(f) **Designation of Lien Agent, Payment and Satisfaction of Liens:** If required by N.C.G.S. §44A-11.1, Seller shall have designated a Lien Agent, and Seller shall deliver to Buyer as soon as reasonably possible a copy of the appointment of Lien Agent. All deeds of trust, deferred ad valorem taxes, liens and other charges against the Property, not assumed by Buyer, must be paid and satisfied by Seller prior to or at Settlement such that cancellation may be promptly obtained following Closing. Seller shall remain obligated to obtain any such cancellations following Closing.

(g) **Good Title, Legal Access:** Seller shall execute and deliver a GENERAL WARRANTY DEED for the Property in recordable form no later than Settlement, which shall convey fee simple marketable and insurable title, without exception for mechanics' liens, and free of any other liens, encumbrances or defects, including those which would be revealed by a current and accurate survey of the Property, except: ad valorem taxes for the current year (prorated through the date of Settlement); utility easements and unviolated covenants, conditions or restrictions that do not materially affect the value of the Property; and such other liens, encumbrances or defects as may be assumed or specifically approved by Buyer in writing. The Property must have legal access to a public right of way.

NOTE: Buyer's failure to conduct a survey or examine title of the Property, prior to the expiration of the Due Diligence Period does not relieve the Seller of their obligation to deliver good title under this paragraph.

NOTE: If any sale of the Property may be a "short sale," consideration should be given to attaching a Short Sale Addendum Form 2A14-T) as an addendum to this Contract.

(h) **Deed, Taxes and Fees:** Seller shall pay for preparation of a deed and all other documents necessary to perform Seller's obligations under this Contract, and for state and county excise taxes, and any deferred, discounted or rollback taxes, and local conveyance fees required by law. The deed is to be made to: ____

____.

(i) **Agreement to Pay Buyer Expenses:** Seller shall pay at Settlement $ ____________________ toward any of Buyer's expenses associated with the purchase of the Property, at the discretion of Buyer and/or lender, if any, including any FHA/VA lender and inspection costs that Buyer is not permitted to pay.

NOTE: Parties should review the FHA/VA Addendum prior to entering an amount in Paragraph 8(i). Certain FHA/VA lender and inspection costs CANNOT be paid by Buyer at Settlement and the amount of these should be included in the blank above.

(j) **Owners' Association Fees/Charges:** Seller shall pay: (i) any fees required for confirming Seller's account payment information on owners' association dues or assessments for payment or proration; (ii) any fees imposed by an owners' association and/or a management company as agent of the owners' association in connection with the transaction contemplated by this Contract other than those fees required to be paid by Buyer under paragraph 6(b) above; and (iii) fees incurred by Seller in completing the Residential Property and Owners' Association Disclosure Statement, and resale or other certificates related to a proposed sale of the Property.

(k) **Payment of Confirmed Special Assessments:** Seller shall pay, in full at Settlement, all Confirmed Special Assessments, whether payable in a lump sum or future installments, provided that the amount thereof can be reasonably determined or estimated. The payment of such estimated amount shall be the final payment between the Parties.

(l) **Late Listing Penalties:** All property tax late listing penalties, if any, shall be paid by Seller.

(m) **Negotiated Repairs/Improvements:** Negotiated repairs/improvements shall be made in a good and workmanlike manner and Buyer shall have the right to verify same prior to Settlement.

(n) **Seller's Failure to Comply or Breach:** If Seller fails to materially comply with any of Seller's obligations under this Paragraph 8 or Seller materially breaches this Contract, and Buyer elects to terminate this Contract as a result of such failure or breach, then the Earnest Money Deposit and the Due Diligence Fee shall be refunded to Buyer and Seller shall reimburse to Buyer the reasonable costs actually incurred by Buyer in connection with Buyer's Due Diligence without affecting any other remedies. If legal proceedings are brought by Buyer against Seller to recover the Earnest Money Deposit, the Due Diligence Fee and/or the reasonable costs actually incurred by Buyer in connection with Buyer's Due Diligence, the prevailing party in the proceeding shall be entitled to recover from the non-prevailing party reasonable attorney fees and court costs incurred in connection with the proceeding.

9. **PRORATIONS AND ADJUSTMENTS:** Unless otherwise provided, the following items shall be prorated through the date of Settlement and either adjusted between the parties or paid at Settlement:

(a) **Taxes on Real Property:** Ad valorem taxes and recurring governmental service fees levied with such taxes on real property shall be prorated on a calendar year basis;

(b) **Taxes on Personal Property:** Ad valorem taxes on personal property for the entire year shall be paid by Seller unless the personal property is conveyed to Buyer, in which case, the personal property taxes shall be prorated on a calendar year basis;

(c) **Rents:** Rents, if any, for the Property;

(d) **Dues:** Owners' association regular assessments (dues) and other like charges.

10. **HOME WARRANTY:** Select one of the following:

☐ No home warranty is to be provided by Seller.

☐ Buyer may obtain a one-year home warranty at a cost not to exceed $ ____________________ which includes sales tax and Seller agrees to pay for it at Settlement.

☐ Seller has obtained and will provide a one-year home warranty from ____ at a cost of $ __________________ which includes sales tax and will pay for it at Settlement.

NOTE: Home warranties typically have limitations on and conditions to coverage. Refer specific questions to the home warranty company.

11. **CONDITION OF PROPERTY AT CLOSING:** Buyer's obligation to complete the transaction contemplated by this Contract shall be contingent upon the Property being in substantially the same or better condition at Closing as on the date of this offer, reasonable wear and tear excepted.

12. **RISK OF LOSS:** The risk of loss or damage by fire or other casualty prior to Closing shall be upon Seller. If the improvements on the Property are destroyed or materially damaged prior to Closing, Buyer may terminate this Contract by written notice delivered to Seller or Seller's agent and the Earnest Money Deposit and any Due Diligence Fee shall be refunded to Buyer. In the event Buyer does NOT elect to terminate this Contract, Buyer shall be entitled to receive, in addition to the Property, any of Seller's insurance proceeds payable on account of the damage or destruction applicable to the Property being purchased. Seller is advised not to cancel existing insurance on the Property until after confirming recordation of the deed.

13. **DELAY IN SETTLEMENT/CLOSING:** Absent agreement to the contrary in this Contract or any subsequent modification thereto, if a party is unable to complete Settlement by the Settlement Date but intends to complete the transaction and is acting in good faith and with reasonable diligence to proceed to Settlement ("Delaying Party"), and if the other party is ready, willing and able to complete Settlement on the Settlement Date ("Non-Delaying Party") then the Delaying Party shall give as much notice as possible to the Non-Delaying Party and closing attorney and shall be entitled to a delay in Settlement. If the parties fail to complete Settlement and Closing within fourteen (14) days of the Settlement Date (including any amended Settlement Date agreed to in writing by the parties) or to otherwise extend the Settlement Date by written agreement, then the Delaying Party shall be in breach and the Non-Delaying Party may terminate this Contract and shall be entitled to enforce any remedies available to such party under this Contract for the breach.

14. **POSSESSION:** Possession, including all means of access to the Property (keys, codes including security codes, garage door openers, electronic devices, etc.), shall be delivered upon Closing as defined in Paragraph 1(m) unless otherwise provided below:

☐ A Buyer Possession Before Closing Agreement is attached (Standard Form 2A7-T)

☐ A Seller Possession After Closing Agreement is attached (Standard Form 2A8-T)

☐ Possession is subject to rights of tenant(s)

NOTE: Consider attaching Additional Provisions Addendum (Form 2A11-T) or Vacation Rental Addendum (Form 2A13-T)

15. **ADDENDA:** CHECK ALL STANDARD ADDENDA THAT MAY BE A PART OF THIS CONTRACT, IF ANY, AND ATTACH HERETO. ITEMIZE ALL OTHER ADDENDA TO THIS CONTRACT, IF ANY, AND ATTACH HERETO.

- ☐ Additional Provisions Addendum (Form 2A11-T)
- ☐ Additional Signatures Addendum (Form 3-T)
- ☐ Back-Up Contract Addendum (Form 2A1-T)
- ☐ Contingent Sale Addendum (Form 2A2-T)
- ☐ FHA/VA Financing Addendum (Form 2A4-T)
- ☐ Lead-Based Paint Or Lead-Based Paint Hazard Addendum (Form 2A9-T)
- ☐ Loan Assumption Addendum (Form 2A6-T)
- ☐ New Construction Addendum (Form 2A3-T)
- ☐ Owners' Association Disclosure And Condominium Resale Statement Addendum (Form 2A12-T)
- ☐ Seller Financing Addendum (Form 2A5-T)
- ☐ Short Sale Addendum (Form 2A14-T)
- ☐ Vacation Rental Addendum (Form 2A13-T)

☐ Identify other attorney or party drafted addenda: ______________________________

____

NOTE: UNDER NORTH CAROLINA LAW, REAL ESTATE BROKERS ARE NOT PERMITTED TO DRAFT ADDENDA TO THIS CONTRACT.

16. **ASSIGNMENTS:** This Contract may not be assigned without the written consent of all parties except in connection with a tax-deferred exchange, but if assigned by agreement, then this Contract shall be binding on the assignee and assignee's heirs and successors.

17. **TAX-DEFERRED EXCHANGE:** In the event Buyer or Seller desires to effect a tax-deferred exchange in connection with the conveyance of the Property, Buyer and Seller agree to cooperate in effecting such exchange; provided, however, that the exchanging party shall be responsible for all additional costs associated with such exchange, and provided further, that a non-exchanging party shall not assume any additional liability with respect to such tax-deferred exchange. Buyer and Seller shall execute such additional documents, including assignment of this Contract in connection therewith, at no cost to the non-exchanging party, as shall be required to give effect to this provision.

18. **PARTIES:** This Contract shall be binding upon and shall inure to the benefit of Buyer and Seller and their respective heirs, successors and assigns. As used herein, words in the singular include the plural and the masculine includes the feminine and neuter genders, as appropriate.

19. **SURVIVAL:** If any provision herein contained which by its nature and effect is required to be observed, kept or performed after the Closing, it shall survive the Closing and remain binding upon and for the benefit of the parties hereto until fully observed, kept or performed.

20. **ENTIRE AGREEMENT:** This Contract contains the entire agreement of the parties and there are no representations, inducements or other provisions other than those expressed herein. All changes, additions or deletions hereto must be in writing and signed by all parties. Nothing contained herein shall alter any agreement between a REALTOR® or broker and Seller or Buyer as contained in any listing agreement, buyer agency agreement, or any other agency agreement between them.

21. **CONDUCT OF TRANSACTION:** The parties agree that any action between them relating to the transaction contemplated by this Contract may be conducted by electronic means, including the signing of this Contract by one or more of them and any notice or communication given in connection with this Contract. Any written notice or communication may be transmitted to any mailing address, e-mail address or fax number set forth in the "Notice Information" section below. Any notice or communication to be given to a party herein, and any fee, deposit or other payment to be delivered to a party herein, may be given to the party or to such party's agent. Seller and Buyer agree that the "Notice Information" and "Acknowledgment of Receipt of Monies" sections below shall not constitute a material part of this Contract, and that the addition or modification of any information therein shall not constitute a rejection of an offer or the creation of a counteroffer.

22. **EXECUTION:** This Contract may be signed in multiple originals or counterparts, all of which together constitute one and the same instrument.

23. **COMPUTATION OF DAYS/TIME OF DAY:** Unless otherwise provided, for purposes of this Contract, the term "days" shall mean consecutive calendar days, including Saturdays, Sundays, and holidays, whether federal, state, local or religious. For the purposes of calculating days, the count of "days" shall begin on the day following the day upon which any act or notice as provided in this Contract was required to be performed or made. Any reference to a date or time of day shall refer to the date and/or time of day in the State of North Carolina.

Buyer initials ________ ________ Seller initials ________ ________

THE NORTH CAROLINA ASSOCIATION OF REALTORS®, INC. AND THE NORTH CAROLINA BAR ASSOCIATION MAKE NO REPRESENTATION AS TO THE LEGAL VALIDITY OR ADEQUACY OF ANY PROVISION OF THIS FORM IN ANY SPECIFIC TRANSACTION. IF YOU DO NOT UNDERSTAND THIS FORM OR FEEL THAT IT DOES NOT PROVIDE FOR YOUR LEGAL NEEDS, YOU SHOULD CONSULT A NORTH CAROLINA REAL ESTATE ATTORNEY BEFORE YOU SIGN IT.

This offer shall become a binding contract on the Effective Date. Unless specifically provided otherwise, Buyer's failure to timely deliver any fee, deposit or other payment provided for herein shall not prevent this offer from becoming a binding contract, provided that any such failure shall give Seller certain rights to terminate the contract as described herein or as otherwise permitted by law.

Date: ______________________	Date: ______________________
Buyer ______________________	Seller ______________________
Date: ______________________	Date: ______________________
Buyer ______________________	Seller ______________________
Entity Buyer:	Entity Seller:
______________________ (Name of LLC/Corporation/Partnership/Trust/etc.)	______________________ (Name of LLC/Corporation/Partnership/Trust/etc.)
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________
Date: ______________________	Date: ______________________

WIRE FRAUD WARNING

TO BUYERS: BEFORE SENDING ANY WIRE, YOU SHOULD CALL THE CLOSING ATTORNEY'S OFFICE TO VERIFY THE INSTRUCTIONS. IF YOU RECEIVE WIRING INSTRUCTIONS FOR A DIFFERENT BANK, BRANCH LOCATION, ACCOUNT NAME OR ACCOUNT NUMBER, THEY SHOULD BE PRESUMED FRAUDULENT. DO NOT SEND ANY FUNDS AND CONTACT THE CLOSING ATTORNEY'S OFFICE IMMEDIATELY.

TO SELLERS: IF YOUR PROCEEDS WILL BE WIRED, IT IS RECOMMENDED THAT YOU PROVIDE WIRING INSTRUCTIONS AT CLOSING IN WRITING IN THE PRESENCE OF THE ATTORNEY. IF YOU ARE UNABLE TO ATTEND CLOSING, YOU MAY BE REQUIRED TO SEND AN ORIGINAL NOTARIZED DIRECTIVE TO THE CLOSING ATTORNEY'S OFFICE CONTAINING THE WIRING INSTRUCTIONS. THIS MAY BE SENT WITH THE DEED, LIEN WAIVER AND TAX FORMS IF THOSE DOCUMENTS ARE BEING PREPARED FOR YOU BY THE CLOSING ATTORNEY. AT A MINIMUM, YOU SHOULD CALL THE CLOSING ATTORNEY'S OFFICE TO PROVIDE THE WIRE INSTRUCTIONS. THE WIRE INSTRUCTIONS SHOULD BE VERIFIED OVER THE TELEPHONE VIA A CALL TO YOU INITIATED BY THE CLOSING ATTORNEY'S OFFICE TO ENSURE THAT THEY ARE NOT FROM A FRAUDULENT SOURCE.

WHETHER YOU ARE A BUYER OR A SELLER, YOU SHOULD CALL THE CLOSING ATTORNEY'S OFFICE AT A NUMBER THAT IS INDEPENDENTLY OBTAINED. TO ENSURE THAT YOUR CONTACT IS LEGITIMATE, YOU SHOULD NOT RELY ON A PHONE NUMBER IN AN EMAIL FROM THE CLOSING ATTORNEY'S OFFICE, YOUR REAL ESTATE AGENT OR ANYONE ELSE.

NOTICE INFORMATION

NOTE: INSERT AT LEAST ONE ADDRESS AND/OR ELECTRONIC DELIVERY ADDRESS EACH PARTY AND AGENT APPROVES FOR THE RECEIPT OF ANY NOTICE CONTEMPLATED BY THIS CONTRACT. INSERT "N/A" FOR ANY WHICH ARE NOT APPROVED.

BUYER NOTICE ADDRESS:

Mailing Address: ______________________________

____

Buyer Fax#: ______________________________

Buyer E-mail: ______________________________

SELLER NOTICE ADDRESS:

Mailing Address: ______________________________

____

Seller Fax#: ______________________________

Seller E-mail: ______________________________

CONFIRMATION OF AGENCY/NOTICE ADDRESSES

Selling Firm Name: ______________________________
Acting as ☐ Buyer's Agent ☐ Seller's (sub)Agent ☐ Dual Agent
Firm License #: ______________________________

Mailing Address: ______________________________

____

Individual Selling Agent: ______________________________
☐ Acting as a Designated Dual Agent (check only if applicable)

Selling Agent License #: ______________________________

Selling Agent Phone#: ______________________________

Selling Agent Fax#: ______________________________

Selling Agent E-mail: ______________________________

Listing Firm Name: ______________________________
Acting as ☐ Seller's Agent ☐ Dual Agent
Firm License #: ______________________________

Mailing Address: ______________________________

____

Individual Listing Agent: ______________________________
☐ Acting as a Designated Dual Agent (check only if applicable)

Listing Agent License #: ______________________________

Listing Agent Phone#: ______________________________

Listing Agent Fax#: ______________________________

Listing Agent E-mail: ______________________________

[THIS SPACE INTENTIONALLY LEFT BLANK]

ACKNOWLEDGMENT OF RECEIPT OF MONIES

Seller: ______________________________ ("Seller")

Buyer: ______________________________ ("Buyer")

Property Address: sample, , ______________________________ ("Property")

☐ **LISTING AGENT ACKNOWLEDGMENT OF RECEIPT OF DUE DILIGENCE FEE**

Paragraph 1(d) of the Offer to Purchase and Contract between Buyer and Seller for the sale of the Property provides for the payment to Seller of a Due Diligence Fee in the amount of $ ____________, receipt of which Listing Agent hereby acknowledges.

Date: ____________________ Firm: ____________________

By: ____________________
(Signature)

____
(Print name)

☐ **SELLER ACKNOWLEDGMENT OF RECEIPT OF DUE DILIGENCE FEE**

Paragraph 1(d) of the Offer to Purchase and Contract between Buyer and Seller for the sale of the Property provides for the payment to Seller of a Due Diligence Fee in the amount of $ ____________, receipt of which Seller hereby acknowledges.

Date ____________________ Seller: ____________________
(Signature)

Date ____________________ Seller: ____________________
(Signature)

☐ **ESCROW AGENT ACKNOWLEDGMENT OF RECEIPT OF INITIAL EARNEST MONEY DEPOSIT**

Paragraph 1(d) of the Offer to Purchase and Contract between Buyer and Seller for the sale of the Property provides for the payment to Escrow Agent of an Initial Earnest Money Deposit in the amount of $ ____________ . Escrow Agent as identified in Paragraph 1(f) of the Offer to Purchase and Contract hereby acknowledges receipt of the Initial Earnest Money Deposit and agrees to hold and disburse the same in accordance with the terms of the Offer to Purchase and Contract.

Date ____________________ Firm: ____________________

By: ____________________
(Signature)

____
(Print name)

☐ **ESCROW AGENT ACKNOWLEDGMENT OF RECEIPT OF (ADDITIONAL) EARNEST MONEY DEPOSIT**

Paragraph 1(d) of the Offer to Purchase and Contract between Buyer and Seller for the sale of the Property provides for the payment to Escrow Agent of an (Additional) Earnest Money Deposit in the amount of $ ____________ . Escrow Agent as identified in Paragraph 1(f) of the Offer to Purchase and Contract hereby acknowledges receipt of the (Additional) Earnest Money Deposit and agrees to hold and disburse the same in accordance with the terms of the Offer to Purchase and Contract.

Date ____________________ Firm: ____________________

Time: ____________ ☐ AM ☐ PM By: ____________________
(Signature)

____
(Print name)

STATE OF NORTH CAROLINA
RESIDENTIAL PROPERTY AND OWNERS' ASSOCIATION DISCLOSURE STATEMENT

Instructions to Property Owners

1. The Residential Property Disclosure Act (G.S. 47E) ("Disclosure Act") requires owners of residential real estate (single-family homes, individual condominiums, townhouses, and the like, and buildings with up to four dwelling units) to furnish buyers a Residential Property and Owners' Association Disclosure Statement ("Disclosure Statement"). This form is the only one approved for this purpose. A disclosure statement must be furnished in connection with the sale, exchange, option, and sale under a lease with option to purchase where the tenant does not occupy or intend to occupy the dwelling. A disclosure statement is not required for some transactions, including the first sale of a dwelling which has never been inhabited and transactions of residential property made pursuant to a lease with option to purchase where the lessee occupies or intends to occupy the dwelling. For a complete list of exemptions, see G.S. 47E-2.

2. You must respond to each of the questions on the following pages of this form by filling in the requested information or by placing a check (√) in the appropriate box. In responding to the questions, you are only obligated to disclose information about which you have actual knowledge.

   a. If you check "Yes" for any question, you must explain your answer and either describe any problem or attach a report from an attorney, engineer, contractor, pest control operator or other expert or public agency describing it. If you attach a report, you will not be liable for any inaccurate or incomplete information contained in it so long as you were not grossly negligent in obtaining or transmitting the information.

   b. If you check "No," you are stating that you have no actual knowledge of any problem. If you check "No" and you know there is a problem, you may be liable for making an intentional misstatement.

   c. If you check "No Representation," you are choosing not to disclose the conditions or characteristics of the property, even if you have actual knowledge of them or should have known of them.

   d. If you check "Yes" or "No" and something happens to the property to make your Disclosure Statement incorrect or inaccurate (for example, the roof begins to leak), you must promptly give the buyer a corrected Disclosure Statement or correct the problem.

3. If you are assisted in the sale of your property by a licensed real estate broker, you are still responsible for completing and delivering the Disclosure Statement to the buyers; and the broker must disclose any material facts about your property which he or she knows or reasonably should know, regardless of your responses on the Disclosure Statement.

4. You must give the completed Disclosure Statement to the buyer no later than the time the buyer makes an offer to purchase your property. If you do not, the buyer can, under certain conditions, cancel any resulting contract (See **"Note to Buyers"** below). You should give the buyer a copy of the Disclosure Statement containing your signature and keep a copy signed by the buyer for your records.

Note to Buyer: If the owner does not give you a Residential Property and Owners' Association Disclosure Statement by the time you make your offer to purchase the property, you may under certain conditions cancel any resulting contract without penalty to you as the buyer. To cancel the contract, you must personally deliver or mail written notice of your decision to cancel to the owner or the owner's agent within three calendar days following your receipt of the Disclosure Statement, or three calendar days following the date of the contract, whichever occurs first. However, in no event does the Disclosure Act permit you to cancel a contract after settlement of the transaction or (in the case of a sale or exchange) after you have occupied the property, whichever occurs first.

---

5. In the space below, type or print in ink the address of the property (sufficient to identify it) and your name. Then sign and date.

Property Address: ______________________________

Owner's Name(s): ______________________________

Owner(s) acknowledge(s) having examined this Disclosure Statement before signing and that all information is true and correct as of the date signed.

Owner Signature: ______________________________ Date ________ , ______

Owner Signature: ______________________________ Date ________ , ______

Buyers acknowledge receipt of a copy of this Disclosure Statement; that they have examined it before signing; that they understand that this is not a warranty by owners or owners' agents; that it is not a substitute for any inspections they may wish to obtain; and that the representations are made by the owners and not the owners' agents or subagents. Buyers are strongly encouraged to obtain their own inspections from a licensed home inspector or other professional. As used herein, words in the plural include the singular, as appropriate.

Buyer Signature: ______________________________ Date ________ , ______

Buyer Signature: ______________________________ Date ________ , ______ Property Address/Description: ____

The following questions address the characteristics and condition of the property identified above about which the owner has *actual knowledge*. Where the question refers to "dwelling," it is intended to refer to the dwelling unit, or units if more than one, to be conveyed with the property. The term "dwelling unit" refers to any structure intended for human habitation.

		Yes	No	No Representation
1.	In what year was the dwelling constructed? ____________ . Explain if necessary: ____________			☐
2.	Is there any problem, malfunction or defect with the dwelling's foundation, slab, fireplaces/chimneys, floors, windows (including storm windows and screens), doors, ceilings, interior and exterior walls, attached garage, patio, deck or other structural components including any modifications to them?..	☐	☐	☐
3.	The dwelling's exterior walls are made of what type of material? ☐ Brick Veneer ☐ Wood ☐ Stone ☐ Vinyl ☐ Synthetic Stucco ☐ Composition/Hardboard ☐ Concrete ☐ Fiber Cement ☐ Aluminum ☐ Asbestos ☐ Other ____________ (Check all that apply)			☐
4.	In what year was the dwelling's roof covering installed? ____________ (Approximate if no records are available) Explain if necessary: ____________			☐
5.	Is there any leakage or other problem with the dwelling's roof?..	☐	☐	☐
6.	Is there any water seepage, leakage, dampness or standing water in the dwelling's basement, crawl space, or slab?	☐	☐	☐
7.	Is there any problem, malfunction or defect with the dwelling's electrical system (outlets, wiring, panel, switches, fixtures, generator, etc.)?..	☐	☐	☐
8.	Is there any problem, malfunction or defect with the dwelling's plumbing system (pipes, fixtures, water heater, etc.)?	☐	☐	☐
9.	Is there any problem, malfunction or defect with the dwelling's heating and/or air conditioning?..................	☐	☐	☐
10.	What is the dwelling's heat source? ☐ Furnace ☐ Heat Pump ☐ Baseboard ☐ Other ____________ (Check all that apply) Age of system: ____________			☐
11.	What is the dwelling's cooling source? ☐ Central Forced Air ☐ Wall/Window Unit(s) ☐ Other ____________ (Check all that apply) Age of system: ____________			☐
12.	What are the dwelling's fuel sources? ☐ Electricity ☐ Natural Gas ☐ Propane ☐ Oil ☐ Other ____________ (Check all that apply) If the fuel source is stored in a tank, identify whether the tank is ☐ above ground or ☐ below ground, and whether the tank is ☐ leased by seller or ☐ owned by seller. (Check all that apply)			☐
13.	What is the dwelling's water supply source? ☐ City/County ☐ Community System ☐ Private Well ☐ Shared Well ☐ Other ____________ (Check all that apply)..			☐
14.	The dwelling's water pipes are made of what type of material? ☐ Copper ☐ Galvanized ☐ Plastic ☐ Polybutylene ☐ Other ____________ (Check all that apply)..			☐
15.	Is there any problem, malfunction or defect with the dwelling's water supply (including water quality, quantity, or water pressure)?..	☐	☐	☐
16.	What is the dwelling's sewage disposal system? ☐ Septic Tank ☐ Septic Tank with Pump ☐ Community System ☐ Connected to City/County System ☐ City/County System available ☐ Straight pipe (wastewater does not go into a septic or other sewer system [note: use of this type of system violates state law]) ☐ Other ____________ (Check all that apply)..			☐
17.	If the dwelling is serviced by a septic system, do you know how many bedrooms are allowed by the septic system permit? If your answer is "yes," how many bedrooms are allowed? ____________ ☐ No records available	☐	☐	☐
18.	Is there any problem, malfunction or defect with the dwelling's sewer and/or septic system?..........................	☐	☐	☐
19.	Is there any problem, malfunction or defect with the dwelling's central vacuum, pool, hot tub, spa, attic fan, exhaust fan, ceiling fans, sump pump, irrigation system, TV cable wiring or satellite dish, garage door openers, gas logs, or other systems?..	☐	☐	☐
20.	Is there any problem, malfunction or defect with any appliances that may be included in the conveyance (range/oven, attached microwave, hood/fan, dishwasher, disposal, etc.)?..	☐	☐	☐

Buyer Initials and Date ____________ Owner Initials and Date ____________

Buyer Initials and Date ____________ Owner Initials and Date ____________

	Yes	No	No Representation
21. Is there any problem with present infestation of the dwelling, or damage from past infestation of wood destroying insects or organisms which has not been repaired?	☐	☐	☐
22. Is there any problem, malfunction or defect with the drainage, grading or soil stability of the property?	☐	☐	☐
23. Are there any structural additions or other structural or mechanical changes to the dwelling(s) to be conveyed with the property?	☐	☐	☐
24. Is the property to be conveyed in violation of any local zoning ordinances, restrictive covenants, or other land-use restrictions, or building codes (including the failure to obtain proper permits for room additions or other changes/improvements)?	☐	☐	☐
25. Are there any hazardous or toxic substances, materials, or products (such as asbestos, formaldehyde, radon gas, methane gas, lead-based paint) which exceed government safety standards, any debris (whether buried or covered) or underground storage tanks, or any environmentally hazardous conditions (such as contaminated soil or water, or other environmental contamination) which affect the property?	☐	☐	☐
26. Is there any noise, odor, smoke, etc. from commercial, industrial, or military sources which affects the property?	☐	☐	☐
27. Is the property subject to any utility or other easements, shared driveways, party walls or encroachments from or on adjacent property?	☐	☐	☐
28. Is the property the subject of any lawsuits, foreclosures, bankruptcy, leases or rental agreements, judgments, tax liens, proposed assessments, mechanics' liens, materialmens' liens, or notices from any governmental agency that could affect title to the property?	☐	☐	☐
29. Is the property subject to a flood hazard or is the property located in a federally-designated flood hazard area?	☐	☐	☐
30. Does the property abut or adjoin any private road(s) or street(s)?	☐	☐	☐
31. If there is a private road or street adjoining the property, is there in existence any owners' association or maintenance agreements dealing with the maintenance of the road or street?	☐	☐	☐

If you answered "yes" to any of the questions listed above (1-31) please explain (attach additional sheets if necessary):

____

____

In lieu of providing a written explanation, you may attach a written report to this Disclosure Statement by a public agency, or by an attorney, engineer, land surveyor, geologist, pest control operator, contractor, home inspector, or other expert, dealing with matters within the scope of that public agency's functions or the expert's license or expertise.

The following questions pertain to the property identified above, including the lot to be conveyed and any dwelling unit(s), sheds, detached garages, or other buildings located thereon.

	Yes	No	No Representation
32. Is the property subject to governing documents which impose various mandatory covenants, conditions, and restrictions upon the lot or unit?	☐	☐	☐

If you answered "yes" to the question above, please explain (attach additional sheets if necessary):

____

____

	Yes	No	No Representation
33. Is the property subject to regulation by one or more owners' association(s) including, but not limited to, obligations to pay regular assessments or dues and special assessments? If you answer is "yes," please provide the information requested below as to each owners' association to which the property is subject [insert N/A into any blank that does not apply]:	☐	☐	☐

- (specify name) ____________________ whose regular assessments ("dues") are $ __________ per __________. The name, address and telephone number of the president of the owners' association or the association manager are ____________________

  ____

  ____

- (specify name) ____________________ whose regular assessments ("dues") are $ __________ per __________. The name, address and telephone number of the president of the owners' association or the association manager are ____________________

  ____

  ____

Buyer Initials and Date ____________________ Owner Initials and Date ____________________

Buyer Initials and Date ____________________ Owner Initials and Date ____________________

***If you answered "Yes" to question 33 above, you must complete the remainder of this Disclosure Statement. If you answered "No" or "No Representation" to question 33 above, you do not need to answer the remaining questions on this Disclosure Statement. Skip to the bottom of the last page and initial and date the page.**

	Yes	No	No Representation
34. Are any fees charged by the association or by the association's management company in connection with the conveyance or transfer of the lot or property to a new owner? If your answer is "yes," please state the amount of the fees: ______	☐	☐	☐
35. As of the date this Disclosure Statement is signed, are there any dues, fees, or special assessments which have been duly approved as required by the applicable declaration or bylaws, and that are payable to an association to which the lot is subject? If your answer is "yes," please state the nature and amount of the dues, fees, or special assessments to which the property is subject: ______	☐	☐	☐
36. As of the date this Disclosure Statement is signed, are there any unsatisfied judgments against, or pending lawsuits *involving the property or lot to be conveyed*? If your answer is "yes," please state the nature of each pending lawsuit, and the amount of each unsatisfied judgment: ______	☐	☐	☐
37. As of the date this Disclosure Statement is signed, are there any unsatisfied judgments against, or pending lawsuits *involving the planned community or the association to which the property and lot are subject*, with the exception of any action filed by the association for the collection of delinquent assessments on lots other than the property and lot to be conveyed? If your answer is "yes," please state the nature of each pending lawsuit, and the amount of each unsatisfied judgment:	☐	☐	☐

38. Which of the following services and amenities are paid for by the owners' association(s) identified above out of the association's regular assessments ("dues")? (Check all that apply).

	Yes	No	No Representation
Management Fees	☐	☐	☐
Exterior Building Maintenance of Property to be Conveyed	☐	☐	☐
Master Insurance	☐	☐	☐
Exterior Yard/Landscaping Maintenance of Lot to be Conveyed	☐	☐	☐
Common Areas Maintenance	☐	☐	☐
Trash Removal	☐	☐	☐
Recreational Amenity Maintenance (specify amenities covered) ______	☐	☐	☐
Pest Treatment/Extermination	☐	☐	☐
Street Lights	☐	☐	☐
Water	☐	☐	☐
Sewer	☐	☐	☐
Storm water Management/Drainage/Ponds	☐	☐	☐
Internet Service	☐	☐	☐
Cable	☐	☐	☐
Private Road Maintenance	☐	☐	☐
Parking Area Maintenance	☐	☐	☐
Gate and/or Security	☐	☐	☐

Other: (specify) ______

Buyer Initials and Date ______ Owner Initials and Date ______

Buyer Initials and Date ______ Owner Initials and Date ______

Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards

Lead Warning Statement

Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems, and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real property is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspections in the seller's possession and notify the buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase.

Seller's Disclosure

(a) Presence of lead-based paint and/or lead-based paint hazards (check (i) or (ii) below):

(i) ______ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain).

____

(ii) _____ Seller has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.

(b) Records and reports available to the seller (check (i) or (ii) below):

(i) ______ Seller has provided the purchaser with all available records and reports pertaining to lead-based paint and/or lead-based paint hazards in the housing (list documents below).

____

(ii) _____ Seller has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in the housing.

Purchaser's Acknowledgment (initial)

(c) ________ Purchaser has received copies of all information listed above.

(d) ________ Purchaser has received the pamphlet *Protect Your Family from Lead in Your Home.*

(e) Purchaser has (check (i) or (ii) below):

(i) _____ received a 10-day opportunity (or mutually agreed upon period) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards; or

(ii) _____ waived the opportunity to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards.

Agent's Acknowledgment (initial)

(f) ________ Agent has informed the seller of the seller's obligations under 42 U.S.C. 4852d and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information they have provided is true and accurate.

Seller	Date	Seller	Date
Purchaser	Date	Purchaser	Date
Agent	Date	Agent	Date

MODULE 5

TITLE

Financing the Home Purchase

LESSON PURPOSE

To provide information about various lending programs and mortgage products so you can determine which programs best suit your needs.

LEARNING OBJECTIVES

After completing Module 5, you will be able to:

- List the steps to take in shopping for a mortgage.
- Identify different types and sources of lending programs at the federal, state, and local levels.
- Discuss criteria for comparing mortgage programs.
- Learn how to pre-qualify yourself for a mortgage.
- Describe ways to increase your borrowing power.
- Understand the process of determining which programs are most appropriate.

SUMMARY

In Module 5, you will learn about the importance of shopping for a mortgage so that you can find the most favorable terms of purchase. Central to this discussion is an introduction to the various lending programs that are available through private lenders, government-insured programs, and local non-profit housing organizations. Differences between these lending programs and mortgage terms can make a great difference in the affordability of a home to purchasers with different income levels.

FINANCING THE HOME PURCHASE

In Module 5, we'll discuss the importance of shopping for a mortgage. Just as you would not buy a car without shopping around to compare prices, you should not finance a home purchase without shopping around to compare terms and conditions of different mortgage loans. The right loan can make a difference in whether or not you qualify, and it can save you thousands of dollars as well.

A common mistake that first-time home buyers make is to assume that all lenders are alike or that each lender has only one type of loan. There's a wider variety of mortgage products on the market now than ever before. This variety makes your search for a mortgage more difficult, but at the same time, it makes it more likely that there's a loan program out there to meet your needs.

Before you begin shopping for a mortgage, you should become familiar with the various types of home loans, where to look, and what factors to consider when comparing programs.

WHERE AND HOW TO SHOP FOR A MORTGAGE

LOAN SOURCES

Lenders making home loans include savings and loan associations, commercial banks, mortgage companies, credit unions, and state and federal savings banks. Commercial banks and savings institutions typically offer other banking services such as consumer and business loans and checking and savings accounts in addition to mortgage loans. Mortgage companies, on the other hand, are primarily in the business of providing residential mortgage loans.

TYPES OF MORTGAGES

There are basically three major categories of loans offered by lending institutions.

1. CONVENTIONAL MORTGAGES

Conventional mortgages are the standard product of lending institutions. However, the standard, conventional mortgage product of many years ago that required a 20% down payment is now joined by a variety of new products that make mortgages more accessible to first-time and low- to moderate- income families. These mortgages are more flexible and do not require as large a down payment.

Lenders tend to consider loans obtained with lower down payments (90% - 95% LTV) to be more risky, and they generally require Private Mortgage Insurance (PMI) that protects the lender if the borrower defaults. In order to get a better understanding of these not-so-conventional mortgages, a look at the role of the secondary market is in order.

THE ROLE OF THE SECONDARY MARKET

Most mortgage loans made today are not held as long-term investments by the originating lender. They are originated and sold to mortgage investors. The term secondary market refers to the investor market that buys the loans from originating lenders. Most conventional loans are sold in mortgage-backed securities with The Federal National Mortgage Association (FNMA, or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac), the guarantors of these securities. Most FHA and VA loans are sold with the Government National Mortgage Association (GNMA, or Ginnie Mae) guaranteeing these securities. Lenders, such as banks, thrifts, and mortgage banks, originate these loans and, even though they sell them in securities, retain the responsibility for collecting payments and paying taxes and insurance, etc. The lenders continue to have the same relationship with a borrower that they would have if they continued to own the loans. The only difference is that they send the principal and interest payments to the investor currently owning the mortgage. The originating lender is the first lender and the investor is the second - thus, the secondary market.

Like FHA and VA, the major secondary market participants, Fannie Mae and Freddie Mac, have established standardized documents and loan approval processes. Fannie Mae's Community Home Buyer Program is an example of special programs that might be available.

There are several programs available for first-time homebuyers. It is an admirable goal that is recognized by Lenders, the Federal Government, as well as State and Local entities. For example, the North Carolina Housing Finance Agency (NCHFA) has a Community Home Buyer's Program which is designed to provide loans for low- and moderate-income families. The program offers more flexible underwriting guidelines than many other conventional mortgages. They offer 0% loans, deferred, and second mortgages. As with many of these assistance programs, homebuyer education is required. To find out the availability of programs in your area, ask your Realtor, Loan Officer, and the local organization that administers homeownership classes such as a HUD Certified Housing Counseling Agency. Please note that there may be income limit restrictions.

2. FEDERAL HOUSING ADMINISTRATION (FHA)

The Federal Housing Administration does not make direct loans; it insures lenders against default by borrowers. FHA loans are originated by many different FHA-approved lending institutions across the state.

FHA loans are available with both fixed and adjustable rate mortgages and for terms up to thirty years. A downpayment of 3.5% is required with qualifying ratios of 31/43%.

FHA loans require two mortgage insurance premiums (MIP): an up-front MIP fee equal to 1.75% of the loan amount is charged and typically financed into the loan. For example, if you were borrowing $100,000, once the fee is added in, the loan amount would be $101,750 [$100,000 x 1.75% = $1,750] which accounts for the MIP fee. FHA also charges a monthly MIP. This amount varies depending upon the type of loan, the term of your loan, and your amount of your loan. In some case, the monthly MIP premium can be cancelled if you put more than 10% down. The below chart shows the term of the premium. However, verify the cancellation criteria with your lender.

Annual Mortgage Insurance Premium (MIP)

Applies to all Mortgages except:

- Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009
- Hawaiian Home Lands (Section 247)

Hawaiian Home Lands (Section 247) do not require Annual MIP.

Mortgage Term of More Than 15 Years

Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to $625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage term
	> 95.00%	85	Mortgage term
Greater than $625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage term
	> 95.00%	105	Mortgage term

Mortgage Term of Less than or Equal to 15 Years

Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to $625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage term
Greater than $625,500	≤ 78.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

http://www.fhahandbook.com/blog/fha-annual-mip-chart-2016/

Maximum loan amounts are established for various geographic locations, but these amounts are normally adequate for most first-time buyers. Properties must conform to FHA building guidelines and be inspected and approved by an authorized inspector.

The primary advantage of FHA-insured loans is that they provide financing with a small initial investment, allowing a small down payment and the financing of the closing costs. Qualifying ratios and other underwriting guidelines are also relatively lenient. The primary disadvantage is that they sometimes take longer to process because of government regulations.

3. VETERANS ADMINISTRATION (VA)

The Veterans Administration guarantees mortgages for veterans of the armed services, those currently in the service, and their spouses. Check with your regional Veterans Administration to find out if you are eligible and to obtain a copy of your eligibility certificate. You will be asked to furnish the VA with your discharge papers or evidence of current active duty status. Like FHA-insured loans, you may apply for a VA loan through many different lending institutions.

VA loans, for veterans who have not previously used their eligibility, may be available for 100% of the sales price or appraisal, whichever is less. The borrowers must meet income and credit standards very similar to FHA standards and some of the more liberal conventional loan programs.

Interest rates are similar to FHA loans, and they may be slightly lower than conventional loans.

VA loans offer one of the best financing options available today, so if you qualify, you'll want to talk to a lender who handles VA loans. The main disadvantage of VA loans is the additional time it generally takes for processing. In addition, you will be required to pay a funding fee of up to 2.4% for borrowers with no previous VA loans. There are few exemptions; however, service-related disabilities are eligible to be exempt. In this case, you must apply with the VA for the fee waiver.

OTHER OPTIONS

In addition to the types of loans offered through lending institutions, there are other sources and types of loan programs that you may want to look into. For example, the U.S. Department of Agriculture Rural Housing Service makes home loans to low- to moderate-income families in rural areas.

USDA/RURAL DEVELOPMENT

USDA/Rural Development (USDA-RD) provides loans in rural areas to finance homes and building sites.

Rural areas include open country places with populations of 35,000 or less. Loans may be made for up to 100% of the USDA/RD appraised value of the site and the home. The maximum repayment period is 33 years or, under certain conditions, 38 years. Most loans are subsidized according to income. It’s preferred that borrowers pay no more than 29% of their income toward house payment, property taxes, and hazard insurance. Applicants whose income is classified as "very low income" may qualify for additional subsidies.

Home ownership loans are offered to help families or persons with low and moderate income. They must:

- Be without decent, safe, and sanitary housing.
- Be unable to obtain a loan from other sources on terms and conditions that they can reasonably be expected to meet.
- Have sufficient income to pay house payments, insurance premiums and taxes and necessary living expenses. Persons with inadequate repayment ability may obtain co-signers for the loan.
- Possess the legal capacity to incur the loan obligation.
- Possess the ability to carry out the undertakings and obligations required in connection with the loan.

USDA-RD GUARANTEED PROGRAM

This program provides 100% guarantee to loans originated through lending institutions. Applications are submitted to participating lenders approved by the USDA Rural Housing Service.

The Guaranteed Rural Housing Loan is designed for moderate-income families. To be eligible for this program, applicants must have an adequate and dependable income and have a credit history that indicates a reasonable willingness to meet obligations as they become due. Your housing expense-to-income ratio cannot exceed 32% and your total debt-to-income ratio cannot exceed 41%. Interest rates are established by the lender for 30-year fixed term. USDA does charge an upfront MIP fee, plus an annual amount which is added into the monthly payment. Information about the program is available at the end of this module.

STATE HOUSING FINANCE AGENCIES

The State Housing Finance Agency (HFA) also offers various programs for low- to moderate-income families through many lenders. in the state. Visit ncsha.org/housing-finance-agencies-list/ to check availability for your state. Find out if there are nonprofit agencies in your area that have housing assistance programs. We hope to be able to help you identify many of these housing programs in your area, and the features of some of these programs are discussed below.

The State Housing Finance Agency is usually a self-supporting agency of state government. The HFA often operates several programs to help first-time home buyers with low and moderate incomes.

HFA LOW INTEREST MORTGAGES

The HFA sells tax exempt mortgage revenue bonds to investors to raise money for these low interest mortgages. Because the bonds are exempt from federal income tax, the investors accept a lower rate of interest than for taxable bonds. The savings are passed on to the home buyers, providing mortgages at interest rates that are lower than the market rate.

These mortgages are offered in cooperation with many lenders. You may call the HFA to get a list of participating lenders in your area (See Resource Directory).

- **Eligibility:** You may be eligible for an HFA loan if you buy a home in the state of your principal residence and are a first-time home buyer (or have not owned a home as your principal residence during the past three years). Your annual household income must be within the HFA's eligibility criteria.

•**Terms:** Most HFA's low interest loans may be applied to privately insured (such as Fannie Mae's conventional mortgages), FHA-insured, or VA or FmHA-guaranteed loans. Therefore, the down payment required, the amount of the monthly payment, and the exact mortgage amount for which you qualify will vary.

•Loans are generally below-market, fixed interest rates, 30-year terms, with up to 5% down payments. Some VA and FmHA loans require no down payment. Typically as the buyer, you'll pay a 1% origination fee and the seller or a third party pays the discount points, which can vary.

MORTGAGE CREDIT CERTIFICATE (MCC)

Mortgage Credit Certificates were authorized by Congress to assist home buyers with moderate and low incomes. While all homeowners can claim an itemized tax deduction for mortgage interest, MCC's go a step farther. An MCC reduces your tax liability, dollar-for-dollar. Therefore, you may receive a tax credit of up to $2,000 each your for as long as you live in the home and have a mortgage.

Eligibility criteria for the MCC in most states are similar to those of the HFA's Low Interest Mortgage described above. You may apply for an MCC at participating lenders in your area. There is usually a non-refundable processing fee. The benefit to using a MCC is that lenders often calculate your income based on your anticipated credit which may qualify you for a higher mortgage.

FINANCING OPTIONS

The various mortgage products mentioned previously can be further divided into categories according to how the loan is repaid.

FIXED RATE MORTGAGES

Most home loans are amortized, which means the loan is scheduled to be fully repaid within a definite period of time with equal monthly payments. The fixed-rate mortgage that has been used in our examples throughout the text is the garden-variety mortgage; it is perhaps the most frequently used because of its simplicity. Many borrowers, particularly first-time home buyers, prefer the security of an interest rate that does not change over the term of the loan. Before you decide, however, you'll want to investigate other financing options as well. Although there are too many varieties of mortgages to be covered in this text, following are some of the more common types.

ADJUSTABLE RATE MORTGAGE (ARM)

An adjustable rate mortgage, as the name implies, is one in which the interest rate varies. The ARM has a lower interest rate in the beginning, and it may increase by certain amounts and within certain set time frames over the term of the loan. The key feature to learn about ARMs is the cap placed on how often and how much the rate can increase. For example, a 2/6 cap means that the rate cannot increase by more than 2 percentage points at any one given time and that the maximum increase is 6 percent. Under this cap, a loan that starts out at 4% may increase to 6% after the first adjustment period (maybe every year, or every 2, 3, 5, or more years), but it could not exceed 10% over the loan term.

The primary advantage to the ARM is that it provides some relief from high interest rates by starting you out at a lower rate. They may also be advantageous for families who do not plan to live in their home for a very long time; they plan to sell the home before the rates are likely to have reached their peak.

However, there are pitfalls to ARMs that can have serious financial consequences, so you will need to be especially careful in reviewing all the features of the loan. Some of the questions to ask the lender about the ARM are included in Worksheet 5.1, Mortgage Comparison Checklist.

CONVERTIBLE MORTGAGE

The convertible option combines features of the fixed rate and the adjustable rate mortgages. This option allows the borrower to start out with an ARM with the option of switching to a fixed rate at a later date. Unfortunately, you cannot just pick the time to convert and get whatever the rate happens to be at the time, so the convertible may not represent any real savings to you - in fact, it could cost you more than a regular refinancing option. If you think you might be interested in a convertible mortgage, be sure to find out when you can convert, what fees will be charged, and what the conversion rate will be.

BUY-DOWN

The buy-down arrangement means that someone (the seller, the builder, or sometimes even the buyer) pays the lender a lump sum to temporarily buy-down the interest rate, from say, 5% to 4%. The buydown may be in effect for 3-5 years, during which time the rate gradually increases to the contract rate, 5% in this example. During this time period, the borrower's monthly payment is based on the lower rate (5%, 5.5%, 6%, etc.), and the lender is paid the difference between this payment and what the borrower would be paying at the contract rate. In effect, the mortgage payment is subsidized from the initial buydown set-aside fund. The final contract rate that is in effect at the end of the buy-down period will stay the same for the remainder of the loan term.

A buy-down allows you to make lower payments during the early years of homeownership, which are often the most difficult to manage. However, the buy-down could be a problem if your income does not increase enough to make the higher payments as the rate increases.

ASSUMABLE MORTGAGES AND SELLER FINANCING

An assumable mortgage is one in which the buyer takes over the existing financing on a house. When assuming a mortgage, you must pay the difference between the sales price and the remaining balance of the existing loan, so a large down payment is typically required. Occasionally, you may encounter a seller who is willing to take back a second mortgage if you don't have enough funds for the full down payment. This arrangement may work well in some instances, but consult with an attorney before you enter into any contracts with an individual seller.

GETTING STARTED

Now that we've reviewed the most common sources and types of mortgages, you're probably wondering how you'll ever choose one. The best approach is to develop a system for comparison shopping. You'll want to approach shopping for a mortgage in the same way you shop for a house.

Begin with recommendations from your real estate agent or agency, then find out what kind of loans are offered by the bank where you have your checking or savings account; check into the credit union where you work; find out where friends or relatives who have bought homes recently obtained their mortgages; and check websites specializing in real estate and mortgages such as realtor.com or bankrate.com. It's a good idea to do some of your preliminary searching by telephone. Don't hesitate to call different loan officers to get information; it's free and providing information to potential customers is part of their job.

Most importantly, you need to be aware of the basic terms and concepts you'll encounter when comparing mortgages. Although mortgage loans vary in many ways, they all have certain common structural features that provide a basis of comparison. These features are summarized in Worksheet 5.1, Mortgage Comparison Checklist. Many of the items on the checklist are self-explanatory; others are reviewed below. Use this worksheet to develop a loan profile on the various programs that interest you.

Once you have gathered this information, you'll be in a better position to determine which programs best suit your needs.

MORTGAGE COMPARISON TERMS

INTEREST RATE

Interest rates are constantly changing and different rates are applied to different programs, even within the same lending institution. As previously mentioned, the rate you get affects how large a loan you qualify for and it affects the size of your monthly payment. In shopping for a mortgage, find out what rates lenders are charging and be sure your information is current. The lender with the lowest rate one week may not have the lowest rate the following week.

INTEREST RATE LOCK-INS

The interest rate that is quoted at the time of your application may not be the same rate that is available at the time of closing. Since a higher rate may affect your ability to qualify, you'll want to know if the lender will hold, or lock-in, the initial rate quoted until closing. Be sure to get this lock-in agreement in writing, find out how long it will be in effect and determine if there are fees associated with the lock-in.

ORIGINATION FEE

An origination fee is a lender's charge for originating and processing the loan. The fee may be 1% or more of the loan amount.

APPLICATION FEE

Lenders frequently charge an application fee to cover the costs of credit reports, appraisal fees, and other miscellaneous expenses related to determining whether the borrower qualifies for the requested loan.

POINTS

A point represents one percent of the loan amount. On a $100,000 loan, one point would be $1000. Although the concept of points can be confusing at times, it is more understandable when thought of simply as prepaid interest. Points increase the lender's yield on a loan without raising the interest rate. Some borrowers may decide to pay points to keep the interest rate lower and, thereby lower their monthly payments. A seller might agree to pay points to help with closing costs. These points, whether paid by the borrower or the seller, are normally paid at closing.

How do points affect affordability? Each point is roughly equal to 1/8 of a percentage point added to the interest rate. For example, a 5 percent loan and 2 points is roughly equivalent to a 5 1/4 interest rate with no points.

If a lender tells you that you can get a fixed rate mortgage at 5% and 2 points or 5 1/4% and no points, how do you know which is best? The answer depends on how much you have available for up-front costs and what your comfort zone is for the monthly PITI payment. Your monthly PITI payment will be lower at 5% interest, but your closing costs will be higher if you pay the points.

ANNUAL PERCENTAGE RATE (APR)

The APR is the total yearly cost of a mortgage stated as a percentage of the loan amount. The APR includes the contract interest rate, mortgage insurance, and points. The APR is a better source of comparison than the interest rate alone, because it takes all fees into account.

ELIGIBILITY CRITERIA

In comparing mortgages, you'll find that most lenders evaluate borrowers on the same issues. Lenders will evaluate your income, assets, and credit history. They will also evaluate the property you wish to buy. However, some lenders are more flexible than others in interpreting these guidelines. For example, some lenders will accept non-traditional methods of establishing a good credit history if you don't use credit.

Some lenders require eligible borrowers to have been on the same job for the past two years, while other lenders will accept one year on the same job. Take a realistic look at your employment and residential stability and your credit history, then ask various lenders how they evaluate these factors.

QUALIFYING RATIOS

Pay close attention to income restrictions and lending ratios. Compare these to your own financial situation to find the best fit. For example, suppose you have determined that the maximum monthly PITI payment you can reasonably afford is 31% of your gross monthly income. You might be able to qualify for programs with front-end ratios (maximum housing expense-to-income ratio) of 31% or higher, but you wouldn't qualify for a program that had a lower front-end ratio..

Don't forget to check the back-end ratio - adding your total debt to housing costs as a percentage of your income. If your debts are high, you may not qualify for a program with a back-end ratio of 36% or 38%.
You may need to try FHA instead, where the back-end ratio is 43%.

CLOSING COSTS ESTIMATES

There are certain closing costs associated with all mortgages, but the fees can vary among lenders. Find out what the fees are for items such as the application fee, origination fee, credit report fee, appraisal fee, costs of title search and title insurance, attorney fees, and the survey, if desired.

PROPERTY EVALUATION

Does the lender place restrictions on the type of house you wish to buy? Will it finance manufactured or mobile homes? Modular homes? What are the lender's property evaluation criteria? What is the appraisal fee?

For Adjustable Rate Mortgages, be sure to ask these additional questions.

INITIAL INTEREST RATE

Some lenders may advertise an introductory discount rate on an ARM which seems unusually attractive. Find out how long these low rates last; you may find yourself paying the full rate before you can actually afford it.

ADJUSTMENT INTERVAL

How often can the interest rate be adjusted? A loan with short intervals, such as one year, results in your payments rising more rapidly. Will you be prepared for this? A longer interval protects you longer from the higher rates, if rates are increasing.

FINANCIAL INDEX AND MARGIN

Most ARMs are tied to the price of a financial index such as Treasury notes. These index figures are widely published in on business websites such as the Wall Street Journal, so they are easy to track. Ask about the lender's margin - how much higher is the ARM rate than the index rate? If the financial index falls, the interest rate on the ARM should also decrease.

PAYMENT CAPS

A payment cap sets limits on how much your monthly payments can increase, regardless of how high the interest rate rises. Remember, payment caps are different from rate caps. Rate caps set limits on how much and how often the interest rate changes; your monthly payments will increase accordingly.
However, if there's a payment cap which limits how much your payments can increase, you could have a problem. If your payments don't go up enough to cover the additional interest due, this unpaid interest is added to your loan balance. Under these circumstances, the amount you owe increases rather than decreases with each payment, and you could end up owing the lender more than the original amount you borrowed. This results in negative amortization, and it is a situation you want to avoid. Be sure to discuss this possibility with your lender. .

DETERMINING WHICH PROGRAM BEST SUITS YOUR NEEDS

PREQUALIFYING YOURSELF

There are three steps to determine which mortgage program has the most favorable terms for you. These steps will help you pre-qualify yourself for various loan programs before you actually submit a loan application.

1. Learn all you can about loans and all the various costs involved. Call various lenders in your area to compare mortgage terms. Make extra copies of Worksheet 5.1 so you can develop a loan profile for all the mortgage programs that interest you. Find out if the lenders have pre-qualification worksheets available.

2. Review your financial situation. How much can you afford for the down payment and closing costs? What is your comfort zone for the PITI payment? If you've taken the time to carefully complete \

3. the worksheets from previous modules, you'll have the answer to these questions. If you need help, ask your real estate agent or a housing counselor for advice.

4. Match up the best type of loan with your financial situation and the property you wish to buy. You'll then be able to narrow the field to only those programs with the best fit. At this point, you may want to schedule personal interviews with the lenders. These interviews enable you to get even more information, but you are under no obligation to actually submit an application. After these initial interviews, you can decide where you wish to submit an application. (See Module 6 for a full discussion of this loan application process.)

INCREASING YOUR BORROWING POWER

If you've worked through the pre-qualification process and are dissatisfied with the mortgage amount you will qualify for or don't think you'll be able to qualify at this time, here are some suggestions.

1. **ANALYZE THE PROBLEM**

   Take another look at your situation to determine where the problem lies and think about ways to solve the problem.

   Are your debts too high? Do you have bad credit? If you have too many debts or have bad credit, you will need to take some time to reduce these debts and re-establish good credit. You'll then be in a better situation to buy at a later date.

   Is your income too low? If your income is too low, you may need to wait until your income increases before you purchase a home. Do you anticipate that your household income will increase in the near future? Think about ways you and your family can increase your earnings potential.

   Are you being realistic? You may not be able to afford your dream house right now, but the fastest way to get it might be to buy a less expensive starter home now. If you live in it a while, take good care of it, and let it appreciate in value, you should be able to trade-up at a later date.

2. **STRETCH YOUR BORROWING POWER**

   Take another look at the various financing options discussed earlier. Is there anything you over- looked?

   - Private and government-insured loans (FHA, VA, FmHA, the State Housing Finance Agency, Fannie Mae, etc.)
   - Alternative financing options such as ARMs, buy-downs, seller financing, etc.
   - Special financing at the local level. Find out if there are non-profit agencies in your area with housing assistance programs. For example:

- **LEASE PURCHASE MORTGAGES OR LEASE PURCHASE AGREEMENTS**

Some non-profits operate these programs to help families prepare for homeownership. Potential buyers are charged monthly rent consisting of the PITI payment and a certain amount that is reserved in a down payment fund. Lease periods are usually between three and five years. At the end of this period the house may be purchased if the prospective home buyer has met all the conditions of the agreement. It's a good idea to have your attorney examine any lease-purchase arrangement you are considering. Unless you are dealing with a governmental agency, non-profit, or well established organization, it may be best to take your time by rebuilding your credit and saving your money without the legalities of this option. There are a few things that you must consider:

- If you don’t buy the house, you will lose all of your money.
- You do not own the house. Therefore, you don’t have any rights.
- The property’s value could decrease. When it’s time to buy, the amount that you’ve agreed to may be more than the house is worth.
- It could be a SCAM. This is a popular way to get large lump sums of money from unsuspecting renters.

- **SWEAT EQUITY**

Some non-profits, such as Habitat for Humanity and other self-help housing programs, allow potential buyers to help build their homes. These programs generally establish their own eligibility requirements, including the number of hours each potential buyer must spend working on their home. They may also be required to help build homes for their neighbors. These programs offer substantial savings to the home buyer.

- **SUBSIDIZED SECOND MORTGAGES**

Funds for second mortgages may be provided by local, city, and county governments and by non-profit organizations. Typically, these programs reduce the amount of the first mortgage so that the monthly payments are more affordable. The subsidized second mortgages are usually offered at very low interest rates, and in some instances they may be applied toward the down payment and closing costs.

Note: There are income limits on most of these programs.

CONCLUSION

The importance of shopping for a mortgage cannot be over-emphasized. The right mortgage can make the difference in whether you qualify and it can save you thousands of dollars as well. The importance of identifying the mortgage product that is right for you will become more evident in Module 6, as we advance to the topic of the loan application process.

Rural Home Loans (Direct Program)

What does this program do?

Also known as the Section 502 Direct Loan Program, this program assists low- and very-low-income applicants obtain decent, safe and sanitary housing in eligible rural areas by providing payment assistance to increase an applicant's repayment ability. Payment assistance is a type of subsidy that reduces the mortgage payment for a short time.
The amount of assistance is determined by the adjusted family income.

Who may apply for this program?

A number of factors are considered when determining an applicant's eligibility for Single Family Direct Home Loans. At a minimum, applicants interested in obtaining a direct loan must have an adjusted income that is at or below the applicable **low-income limit** for the area where they wish to buy a house and they must demonstrate a willingness and ability to repay debt.

Applicants must:

- Be without decent, safe and sanitary housing
- Be unable to obtain a loan from other resources on terms and conditions that can reasonably be expected to meet
- Agree to occupy the property as your primary residence
- Have the legal capacity to incur a loan obligation
- Meet citizenship or eligible noncitizen requirements
- Not be suspended or debarred from participation in federal programs

Properties financed with direct loan funds must:

- Be modest in size for the area
- Not have market value in excess of the applicable area loan limit
- Not have in-ground swimming pools
- Not be designed for income producing activities

Borrowers are required to repay all or a portion of the payment subsidy received over the life of the loan when the title to the property transfers or the borrower is no longer living in the dwelling.

Applicants must meet **income eligibility** for a direct loan. Please contact your **local RD office** to ask for additional details about eligibility requirements.

What is an eligible area?

Generally, rural areas with a population less than 35,000 are eligible. Visit the **USDA Income and Property eligibility** website for complete details.

How may funds be used?

Loan funds may be used to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities.

How much may I borrow?

The maximum loan amount an applicant may qualify for will depend on the applicant's repayment ability. The applicant's ability to repay a loan considers various factors such as income, debts, assets and the amount of payment assistance applicants may be eligible to receive. Regardless of repayment ability, applicants may never borrow more than the **area's loan limit** (plus certain costs allowed to be financed) for the county in which the property is located.

Rural Home Loans (Direct Program)

What is the interest rate and payback period?

- Fixed interest rate based on current market rates at loan approval or loan closing, whichever is lower.
- Interest rate when modified by payment assistance can be as low as 1%.
- Up to 33 year payback period - 38 year payback period for very low income applicants who can't afford the 33 year loan term.

How much down payment is required?

No down payment is typically required. Applicants with assets higher than the asset limits may be required to use a portion of those assets.

Is there a deadline to apply?

Applications for this program are accepted through your **local RD office** year round.

How long does an application take?

Processing times vary depending on funding availability and program demand in the area in which an applicant is interested in buying and completeness of the application package.

What law governs this program?

- The Housing Act of 1949 as amended, **7 CFR, Part 3550**
- **HB-1-3550** - Direct Single Family Housing Loans Field Office Handbook

NOTE: Because citations and other information may be subject to change please always consult the program instructions listed in the section above titled "What Law Governs this Program?" You may also contact **your local office** for assistance. You will find additional forms, resources, and program information at **www.rd.usda.gov**. ***USDA is an equal opportunity provider, employer, and lender.***

Last Updated September 2015

WORKSHEET 5.1
MORTGAGE COMPARISON CHECKLIST

Use this checklist as a guide when shopping for a mortgage. Ask lenders the questions listed below and compare terms to find the type of financing with most favorable terms for you.

Name of Lender	
Name of Contact/Phone #	
Type of Mortgage Available (Fixed-rate, ARM, FHA, VA, Other)	
Interest rate	
Points	
Annual percentage rate (APR)	
Eligibility Criteria Income Limits	
Employment History (length of time at current position or length of continuous employment)	
Credit History (policies on collections, judgements, etc.)	
Qualifying Ratios Housing costs/Income	
Total debt/Income	
Down Payment Assistance Gifts or loans allowed?	
Minimum Down Payment Required Without PMI	
With PMI	
If PMI will be required Up-front cost	
Monthly premiums	
Length of time required	

Name of Lender	
Closing Cost Estimates Application Fee	
Origination Fee	
Credit Report Fee	
Appraisal Fee	
Survey Fee	
Lender's Attorney Fee	
Title Search/Title Insurance	
Document Preparation Fee	
Assumption Fee	
Lock-ins Upon application/approval?	
Interest rate and points?	
Written agreement?	
Effective how long?	
Cost of lock-in?	
Lower lock-in if rates drop?	
Escrow Required For taxes	
For insurance	
Prepayment Is there a penalty?	
Extra payments allowed?	
Assumable?	
Loan Processing Time	
Adjustable-Rate Mortgage Only	
Initial Interest Rate	
Adjustment Interval	
Financial Index/Margin	
Rate Caps: Periodic, Lifetime	
Payment Cap	
Can negative amortization occur?	
Other	

MODULE 6

TITLE

Applying for a Mortgage

LESSON PURPOSE

To prepare you for the loan application process to maximize your chances for loan approval.

LEARNING OBJECTIVES

After completing Module 6, you will be able to:

- Understand the purpose of the application interview.
- List the information lenders require for the application.
- Discuss mortgage qualifying guidelines.
- Discuss verification procedures that take place during the loan processing phase.
- Discuss options if the loan application is rejected.

SUMMARY

In Module 6, you will learn about the loan application process, what information is required by lenders, and how this information is verified. This segment also includes a discussion of mortgage qualifying guidelines, such as ability to repay, creditworthiness, available assets and collateral. You'll be given tips for submitting a successful application.

THE LOAN APPLICATION PROCESS

THE INITIAL INTERVIEW

After you've done some comparison shopping for a mortgage, the next step is to begin the loan application process. The first thing you'll need to do is schedule an interview with the lender. The purpose of this initial interview is to give you the opportunity to learn more about the lender's programs. The interview also allows the lender to learn more about you. This meeting sets the stage for making a formal application if you decide to do so.

In most lending institutions, your initial interview will be with a loan officer or loan originator. Call ahead for an appointment and allow at least an hour for the interview. If you're married or have another co- borrower, it's best for you to go together. When you go to the interview you'll want to put your best foot forward, but there's no need to be uneasy about it. Lenders are people in the business of making loans and they want to help you.

GETTING PRE-QUALIFIED

If you have followed the guidelines in this book to pre-qualify yourself before you approach a lender, you will have a fairly good idea as to how much you can afford. The loan officer will want to go through this same process with you again. He or she will review the information you provide about yourself and the property you wish to buy to see whether you qualify for the loan and if the verification process shows that all this information is correct.

The loan officer will use the appropriate lending ratio requirements to see if you fall within specified ratios. For example, if you are applying for an FHA loan, the loan officer will want to find out if your Principal, Interest, Taxes, and Insurance (PITI} payment exceeds 31% of your gross monthly income. He or she will also add your total debts to this projected PITI payment to see if your total debts will exceed 43% of your gross monthly income. If you don't fall within these guidelines, the loan officer may be able to offer some advice as to how you might be able to qualify at a later date, or he or she may suggest a different mortgage program that would be more suitable for your situation.

If you do fall within these ratios, the lender will proceed to find out more about you and the property you wish to buy.

KNOWING WHAT YOU ARE QUALIFYING FOR

You are under no obligation to make a formal loan application at the interview. This interview is your opportunity to make sure you fully understand all the terms and conditions of the loan. Take along your Mortgage Program Checklist (Worksheet 5.1) and verify information you may have obtained prior to the interview. Pay particular attention to the information on the following page.

INTEREST RATE LOCK-INS

Some lenders will be willing to lock in the current rate, and points, if applicable, for a set amount of time. The advantage to locking in an interest rate is that you'll know that the rate won't increase before you close on your loan. You may want to consider locking in the rate if you know you won't qualify at a higher interest rate. Beware of lenders who put a short time limit on the lock-in. You'll want your lock-in to be in effect through closing, and be sure to get it in writing. Most rate locks last for up to 90 days.

CLOSING COSTS ESTIMATES

When you submit your mortgage application, the lender is required to provide you with a loan estimate of the closing costs that you are likely to have to pay. This estimate must come to you within three business days after your application is filed. Although the lender will not know exactly what these costs will be, the estimates are usually fairly accurate.

ANNUAL PERCENTAGE RATE (APR)

You'll want to verify the lender's annual percentage rate on the loan. The APR includes not only the interest rate, but also discount points and certain other fees.

FILLING OUT THE APPLICATION FORM

If you do decide to take steps to apply for the loan, you will need to be prepared to supply the loan officer with all the information needed for the application form. Most lenders use a standard residential loan application form (see example at the end of this module). This is another fill-in-the-blank form, and the loan officer will help you complete the form. There are six types of information generally required for the loan application.

1. **Personal Data** - Full names, addresses, and Social Security numbers of all borrowers.
2. **Income** - The amount and source of all income for all borrowers.
3. **Assets** - Information on all your other assets, such as checking and savings accounts, stocks and bonds, real estate, etc.
4. **Debts and Obligations** - Information on all outstanding debts and other financial obligations.
5. **Credit References** - Information concerning loans or debts that have been paid plus other good credit references.
6. **Property Information** - Information on the property you wish to buy including your sales contract with its legal description of the property and the sales price.

We will go into more detail about these items later, but for now, be aware of the types of information you will need to take with you to the loan interview. Use the Application Checklist (Worksheet 6.1) as a guide in gathering this information ahead of time.

The loan officer will ask you a lot of specific questions about your personal financial situation. It's important that you cooperate fully and be honest. The lender will verify all the information you give them; chances are they will find out if you've been dishonest, and this will hurt you in the long run.

VERIFYING THE INFORMATION

Your loan application and all the other information you supplied to the loan officer form the basis of your loan package. After your loan application has been taken, the next step is for the loan officer to turn your loan package over to a processor who will begin verifying this information. Because so much money is at stake when lenders make mortgage loans it is necessary for them to thoroughly investigate your financial and employment background to determine if you're a good credit risk.

Remember, most lenders cannot make a verbal commitment to approve your loan at the time of the interview. A decision on whether or not your loan will be approved is not made until all these verifications are in. The verification process takes time, and this is when the waiting begins. Waiting to find out if your loan will be approved is one of the most frustrating aspects of the entire home buying process. It will be helpful, however, if you understand what's going on behind the scenes.

Typically, lenders use standard verification forms (see example at the end of this module) to request information from credit bureaus, your employer, and your bank. There are four major areas that require verification.

1. **EMPLOYMENT AND SALARY -** Lenders will not just take your word for what kind of job you have or what your salary is. They will ask your employer for written verification of your current position, how long you've been with the company, your current salary and your prospects for continued employment. If you frequently work overtime and need this extra income included in your gross salary to qualify for the loan, you'll also need to provide the lender with your W-2 forms for the past year or two. Your W-2 forms show that you receive overtime pay on a regular basis.

   Employment stability is another concern of the lender. Lenders usually don't look favorably on an applicant who has changed jobs several times in recent years. Changing jobs should not be a problem if you have upgraded your job status or moved from one company to another to accept a better job in the same field. However, if you've held many different jobs in different fields within a relatively short period of time, you are likely to be considered a poor risk. The so-called job-hopper generally has a hard time getting a mortgage.

Self-Employment - If you are self-employed, you will need to submit copies of your personal federal income tax returns for the previous two years. Lenders will also ask for your partnership or corporate tax returns, unless you are the sole proprietor. Other information that may be required of the self--employed includes profit-and-loss statements and balance sheets for the current and previous two years.

2. **OTHER ASSETS -** The lender will want to know if you have any sources of income in addition to your salary. This may include alimony or child support, social security, disability payments, savings accounts, trust funds, and stocks. All assets that you list will be verified by the lender. For example, if you are including child support payments as part of your assets, you will be required to provide a copy of the divorce papers and any separation agreement. You may also be asked to provide receipts for support payments from previous years to prove that you receive the payments regularly.

   The lender will also contact your bank to verify the balances in your checking and savings accounts. This information tells the lender that you have enough money to make the downpayment and pay closing costs. In addition, most lenders will want to verify that you will have some savings left over after you pay these costs.

   Gifts - As mentioned earlier, many lending programs now allow part of the downpayment to be in the form of a gift. Most lenders, however, do not want you to borrow money to make the downpayment, so they will verify that this money is a gift and will not have to be repaid. Gifts from parents or other close relatives (grandparent, sibling, or child) are generally more acceptable than gifts from distant relatives or friends because there is less likelihood that a gift from a close relative is a loan in disguise. Lenders will usually ask for a letter from the donor specifying the relationship and confirming that the amount does not have to be repaid. The lender will also verify the source of the gift in order to determine that the donor has the resources to make the gift.

3. **CREDIT HISTORY -** You'll recall from Module 2 that we talked about the importance of establishing good credit. We also advised you to get a copy of your credit report before you apply for a loan so that you will have time to pay off delinquent accounts or correct mistakes on your report. When the lender pulls your credit report, they will be looking at several things.

Bankruptcy - The lender will look to see if you have filed for bankruptcy in the past. A bankruptcy will stay on your credit report for up to ten years, and can negatively impact the way the lender views your application . However, some lenders will work with you. It's important to be honest and tell the lender about your circumstances.

Debts - The lender will verify balances on charge cards and other installment or revolving charge accounts. If your debts are excessive you may not be able to qualify.

Payment History - The lender will also look at how you've paid these accounts, whether or not you've paid them on time, and how often your payments have been late. An occasional late payment probably won't diminish your chances to get a loan. We've all had times when we've lost an invoice or accidentally let the due date go by before paying the bill. However, a pattern of making payments late can hurt you because the lender may feel that you will not take your commitment to make monthly mortgage payments seriously.

Rent Payments and Residential Stability- Your history of paying rent or mortgage payments is important because it indicates your commitment to pay for shelter. If you rent, the lender will verify the amount you pay for rent each month and the length of time you have lived at your present address. Your history of paying the rent will be particularly important if you pay cash for most of your purchases and do not have an active credit file. You can establish a credit history by showing evidence of paying rent and utilities on time, so be sure and keep these accounts up to date.

Your residential stability will also be considered. If you've moved frequently in the last few years, the lender will want to know why. If your moves have been associated with job transfers you should not have a problem. However, if you've moved from place to place with no apparent reason you may be considered a poor credit risk.

4. THE PROPERTY - The lender will ask for an appraisal on the house you wish to buy. The purpose of an appraisal is to determine the market value of the property. The appraised value tells the lender whether or not you are trying to borrow more than the house is worth. This is where the loan-to-value ratio (LTV) comes into play. You'll recall from Module 5 that the LTV is one of the underwriting guidelines lenders use. Let's take another look at how the LTV works and how it affects your loan application.

Suppose you want to purchase a house for $100,000, and the appraisal report valued the home at or above $100,000. Suppose also that the lender's underwriting guidelines require an LTV no higher than 95%. This means the lender will not give you a mortgage for more than 95% of the appraised value; the most you could borrow would be $95,000, as shown in the example below.

First, multiply the appraised value times the lender's LTV to get your maximum loan amount.
<u>$100,000 x 0.95 LTV= $95,000</u>

Then, subtract the maximum loan amount from the appraised value to find the amount you'll need for the downpayment.
<u>$100,000 - $95,000 = $5,000 downpayment required</u>

In this example, you would be within these underwriting guidelines provided you had enough savings for the downpayment.

Suppose the appraised value of the house in the above example turned out to be only $97,000. In this case, your request for a $95,000 loan is like asking the lender to finance almost 100% of the appraised value. Because this falls outside the lender's underwriting guidelines, you would have a problem. If the lender offers to provide a mortgage of 95% of the appraised value, which is now only $97,000, the most you could borrow would be $92,150.
<u>$97,000 x 0.95 LTV= $92,150</u>

If you have already signed a contract on the house with the sales price of $100,000 and the appraisal comes in lower, you would have to come up with a larger downpayment, as shown below.

<u>$100,000 - $92,150 = $7,850 downpayment required</u>
In this example, you would have several options:

- Negotiate with the seller to reduce the sales price, pointing out that the appraisal was less than the asking price. The appraisal supports your claim that the home is overpriced.
- Find out if there is a mistake in the appraisal. Review the appraisal with your real estate agent or attorney to make sure the appraiser did not make an error such as failing to take the fireplace or some other feature of the house into account. If you give the appraiser evidence to support your claim that the house is worth more, the appraiser can increase the appraised value accordingly.
- Request another appraisal (you will have to pay for this).
- Come up with the extra money needed to make a larger downpayment. However, think twice about paying more for a house than its appraised value. If you sell your house at a later date, chances are the appraisal will still be less than the sales price you want.
- Make the decision not to buy that house. If your sales contract has a contingency clause that allows you to cancel the contract if the appraised value was unacceptable, then you would be free to walk away from the deal. Check with your attorney to make sure you are adequately protected by this and other contingency clauses.

THE APPROVAL PROCESS

The verification process eventually leads to a decision regarding your loan. When all the necessary information and verifications have been received, your loan package will be submitted for approval. In most instances, the person making this decision will be an underwriter. The underwriter will evaluate all the information in light of the lender's eligibility rules, called underwriting guidelines.

The underwriter will look at the verifications of your employment, income and assets to evaluate whether you have the resources to repay the loan. The information drawn from your credit report tells the lender whether or not you are likely to repay the loan. The appraisal tells the lender whether or not the property supports the loan.

Here's another way of looking at how lenders evaluate the risk in making loans - by looking at the four C’s of credit.

1. **Capacity** - Can you make the monthly mortgage payments required to pay off the loan?
2. **Credit History -** Is your credit good? Do you pay your debts on time? If you've had problems in the past, have you made an effort to correct them? Is your employment and residential history stable?
3. **Capital -** Do you have enough money to make the downpayment and pay closing costs?
4. **Collateral -** Does the value of the property support the loan? Is the appraised value in line with similar homes in the area?

THE WAITING

The wait for a mortgage approval only seems to take forever; most applications can be processed within 4-6 weeks. It may take longer if you are applying for an FHA or VA loan or if you are applying through a special assistance program that requires more than one approval.

Keep in mind that it takes time for all the verifications to be returned to the lender. It also takes time to schedule the appraisal and get the work done and the reports filed. You may be able to help speed things up by staying in touch with the loan officer. If you're told that your employer has not returned your verification form, for example, you could remind him/her to do so. Don't wait until just before the contract expires to find out that there are problems.

THE COMMITMENT LETTER

After weeks of waiting, you finally get the commitment letter telling you that your loan has been approved. Be sure to read the entire letter to make sure that all the terms and conditions are what you expected.
The following example shows what's included in the typical commitment letter.

> *Congratulations. We are pleased to inform you that your request for a mortgage has been approved subject to the following terms and conditions:*
> *A first mortgage in the amount of ______ at an interest rate of _____. Term of loan:_______. Discount points:_____. Origination fee: _____. Other fees:_____.*

The letter will list a number of other conditions that must be met before the closing such as evidence of homeowner's insurance, termite inspection, a final inspection of the property, the title search, and evidence of funds for closing costs. Your commitment letter will also include an expiration date. If all these conditions aren't met within the specified time, the lender will withdraw the commitment.

Be sure to read the commitment letter carefully before you sign. Your signature indicates your acceptance of the terms and conditions of the loan.

DEALING WITH REJECTION

If your loan application is rejected, you can certainly apply somewhere else. But before you do this, you'll want to know why your loan was turned down. There are several reasons a loan is not approved.

1. **POOR CREDIT HISTORY-** Did the lender uncover unpaid collections or judgments against you? Have you failed to pay your bills on time consistently? If you have credit problems, you may need to take some time to clear up your credit before you re-apply.

2. **LOW APPRAISAL** - If the contract sales price on your house is higher than the appraised value, the lender may reject your loan. Review the options discussed earlier in this module to see if there's a way to remedy the situation.

3. **INSUFFICIENT INCOME OR ASSETS-** Although you've been pre-qualified by the lender before your application is taken, sometimes a closer look at your income, assets, and debts shows that you don't fall within the lender's underwriting guidelines. Talk to the lender about ways to improve your situation.

You might also want to review our discussions in previous modules on how to expand your borrowing power. Even if you don't qualify now, you may be able to in the future.

LENDER RESPONSIBILITIES

Lenders are required by law to operate under certain rules, regulations and procedures when taking loan applications. You should know your rights under these laws.

EQUAL CREDIT OPPORTUNITY ACT

This Act prohibits discrimination in lending practices. The lender may not discriminate because of race, creed, religion, national origin, sex, marital status, or age. If your loan application is rejected, the ECOA requires the lender to send you a written explanation of the reasons for rejecting your application within 30 days of your request.

FAIR CREDIT REPORTING ACT

This Act guarantees your access to your credit report. You are entitled to know the full contents of your report. Remember, if you are turned down for credit anywhere, you are entitled to a free copy. If there are errors, you also have the right to have mistakes corrected.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

This Act require lenders to disclose closing costs you are likely to pay. The lenders won't know exactly what the closing costs will be when you submit your application, but they are required to estimate these costs so you will be prepared. The lender is required to give you these estimates within 3 business days of your application.

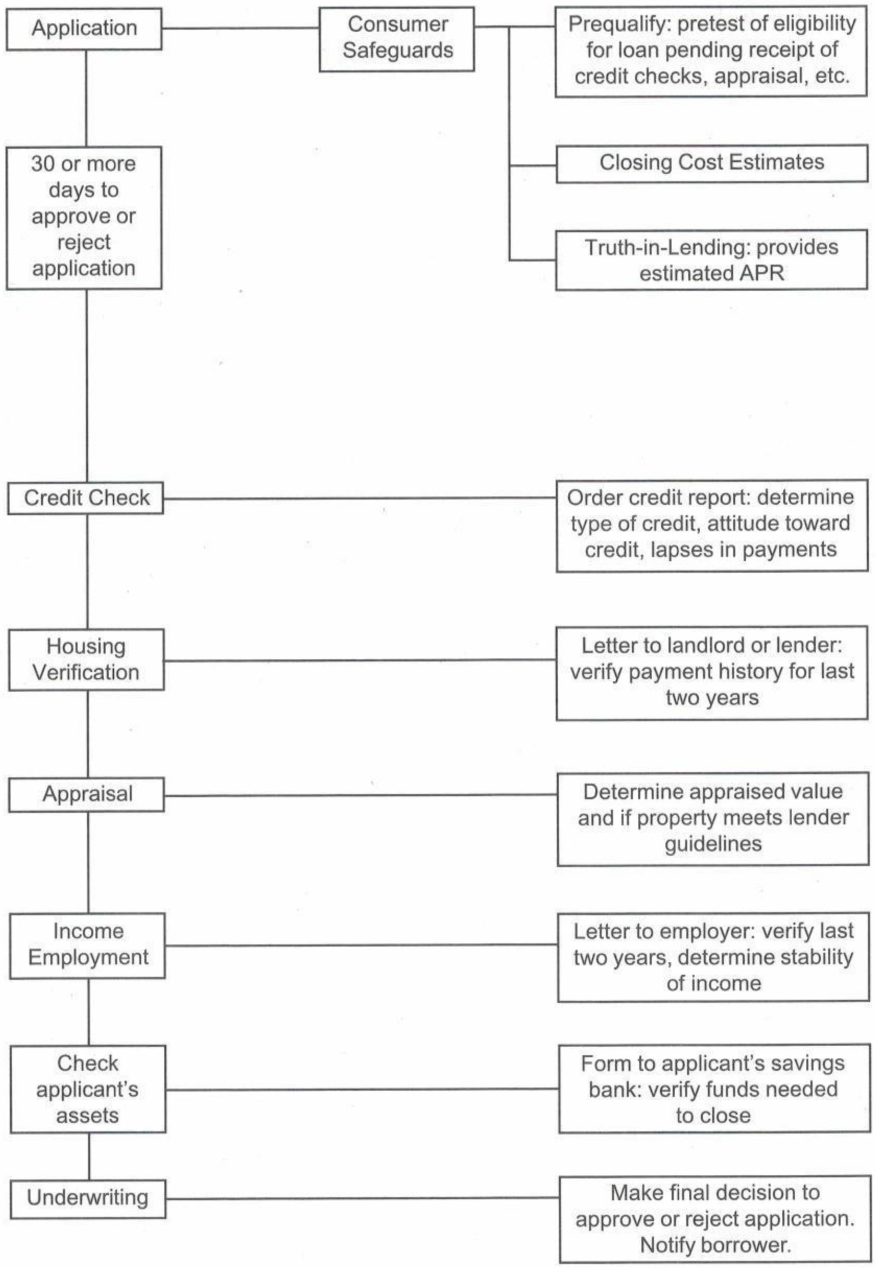
TRUTH-IN-LENDING SETTLEMENT (REGULATION Z)

Lenders must tell you the annual percentage rate (APR) on the loan. The APR is based on the contract interest rate plus discount points and certain other fees. The APR gives you the true costs of your loan and is a better basis of comparison than the interest rate alone.

CONCLUSION

The loan application process is long and tedious, and it requires your full cooperation and patience. Be prepared to furnish the lender with all the information needed and be prepared to wait for a response. The waiting period will be easier if you are fully aware of what happens after you apply for a mortgage. This process is summarized in the chart on the following page. If your loan is approved, you'll be ready to plan for the closing, which is the topic of Module 7.

MORTGAGE PROCESS CHART



WORKSHEET 6.1
ITEMS TO BRING TO A LOAN INTERVIEW

- ❑ Legal description of property
- ❑ Contract to purchase property
- ❑ Choice of closing attorney
- ❑ Current landlord's name and address
- ❑ Previous landlord's name and address (if you have lived there less than 2 years)
- ❑ Current employer's name and address
- ❑ Previous employer's name and address (if you have been employed by present employer for less than two years)
- ❑ All checking account numbers
- ❑ All savings account numbers
- ❑ All money market account numbers
- ❑ Most recent brokerage house statement of investments
- ❑ Loan numbers for all loans - bring name and addresses of lenders
- ❑ Monthly payments and balances on all loans
- ❑ Credit card account numbers, balances, and monthly payments
- ❑ Monthly payments on real estate debt
- ❑ Monthly income on investment property
- ❑ Copy of divorce/separation papers (if applicable)
- ❑ Current and previous two years P & L if self-employed
- ❑ Two years' tax returns if self-employed or if 5% or more of your income is derived from investments
- ❑ W-2 and current pay stub
- ❑ W-2 and current pay stub if self-employed
- ❑ VA Certificate of eligibility (if applicable)

If you have accounts or loans from out of state depositories and businesses, please be sure to provide names, addresses, and zip codes.

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

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

Projected Payments

Payment Calculation	**Years 1-7**	**Years 8-30**
Principal & Interest	$761.78	$761.78
Mortgage Insurance	+ 82	+ —
Estimated Escrow *Amount can increase over time*	+ 206	+ 206
Estimated Total Monthly Payment	$1,050	$968

Estimated Taxes, Insurance & Assessments *Amount can increase over time*	$206 a month	**This estimate includes** ☒ Property Taxes ☒ Homeowner's Insurance ☐ Other: *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.*	**In escrow?** **YES** **YES**

Costs at Closing

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

Visit **www.consumerfinance.gov/mortgage-estimate** for general information and tools.

Closing Cost Details

Loan Costs

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

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

C. Services You Can Shop For	$3,198
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

D. TOTAL LOAN COSTS (A + B + C)	$5,672

Other Costs

E. Taxes and Other Government Fees	$85
Recording Fees and Other Taxes	$85
Transfer Taxes	

F. Prepaids	$867
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)	

G. Initial Escrow Payment at Closing		$413
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

H. Other	$1,017
Title – Owner's Title Policy (optional)	$1,017

I. TOTAL OTHER COSTS (E + F + G + H)	$2,382

J. TOTAL CLOSING COSTS	$8,054
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
Estimated Cash to Close	$16,054

Additional Information About This Loan

LENDER	Ficus Bank	**MORTGAGE BROKER**	
NMLS/__ LICENSE ID		**NMLS/__ LICENSE ID**	
LOAN OFFICER	Joe Smith	**LOAN OFFICER**	
NMLS/__ LICENSE ID	12345	**NMLS/__ LICENSE ID**	
EMAIL	joesmith@ficusbank.com	**EMAIL**	
PHONE	123-456-7890	**PHONE**	

Comparisons	**Use these measures to compare this loan with other loans.**	
In 5 Years	$56,582 $15,773	Total you will have paid in principal, interest, mortgage insurance, and loan costs. Principal you will have paid off.
Annual Percentage Rate (APR)	4.274%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	69.45%	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

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower," as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when ☐ the income or assets of a person other than the Borrower (including the Borrower's spouse) will be used as a basis for loan qualification or ☐ the income or assets of the Borrower's spouse or other person who has community property or similar rights pursuant to applicable state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person who has community property or similar rights and the Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower　　　　Co-Borrower

I. TYPE OF MORTGAGE AND TERMS OF LOAN

Mortgage Applied for: ☐ VA ☐ USDA/Rural Housing Service ☐ FHA ☐ Conventional ☐ Other (explain):	Agency Case Number	Lender Case Number

Amount $	Interest Rate %	No. of Months	**Amortization Type:** ☐ Fixed Rate ☐ Other (explain): ☐ GPM ☐ ARM (type):

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state & ZIP)	No. of Units
Legal Description of Subject Property (attach description if necessary)	Year Built
Purpose of Loan ☐ Purchase ☐ Refinance ☐ Construction ☐ Construction-Permanent ☐ Other (explain):	Property will be: ☐ Primary Residence ☐ Secondary Residence ☐ Investment

Complete this line if construction or construction-permanent loan.

Year Lot Acquired	Original Cost	Amount Existing Liens	(a) Present Value of Lot	(b) Cost of Improvements	Total (a + b)
	$	$	$	$	$

Complete this line if this is a refinance loan.

Year Acquired	Original Cost	Amount Existing Liens	Purpose of Refinance	Describe Improvements ☐ made ☐ to be made
	$	$		

Title will be held in what Name(s)	Manner in which Title will be held	Estate will be held in: ☐ Fee Simple ☐ Leasehold (show expiration date)

Source of Down Payment, Settlement Charges, and/or Subordinate Financing (explain)

Borrower	III. BORROWER INFORMATION	Co-Borrower

Borrower's Name (include Jr. or Sr. if applicable)	Co-Borrower's Name (include Jr. or Sr. if applicable)

Social Security Number	Home Phone (incl. Area code)	DOB (mm/dd/yyyy)	Yrs. School	Social Security Number	Home Phone (incl. Area code)	DOB (mm/dd/yyyy)	Yrs. School

☐ Married ☐ Separated ☐ Unmarried (include single, divorced, widowed)	Dependents (not listed by Co-Borrower) no.	ages	☐ Married ☐ Separated ☐ Unmarried (include single, divorced, widowed)	Dependents (not listed by Borrower) no.	ages

Present Address ☐ Own ☐ Rent __No. Yrs. (street, city, state, ZIP)	Present Address ☐ Own ☐ Rent __No. Yrs. (street, city, state, ZIP)
Mailing Address, if different from Present Address	Mailing Address, if different from Present Address

If residing at present address for less than two years, complete the following:

Former Address ☐ Own ☐ Rent __No. Yrs. (street, city, state, ZIP)	Former Address ☐ Own ☐ Rent __No. Yrs. (street, city, state, ZIP)

Borrower	IV. EMPLOYMENT INFORMATION	Co-Borrower

Name & Address of Employer ☐ Self Employed	Yrs. on this job Yrs. employed in this line of work/profession	Name & Address of Employer ☐ Self Employed	Yrs. on this job Yrs. employed in this line of work/profession
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

If employed in current position for less than two years or if currently employed in more than one position, complete the following:

Name & Address of Employer ☐ Self Employed	Dates (from - to) Monthly Income $	Name & Address of Employer ☐ Self Employed	Dates (from - to) Monthly Income $
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)
Name & Address of Employer ☐ Self Employed	Dates (from - to) Monthly Income $	Name & Address of Employer ☐ Self Employed	Dates (from - to) Monthly Income $
Position/Title/Type of Business	Business Phone (incl. area code)	Position/Title/Type of Business	Business Phone (incl. area code)

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

Gross Monthly Income	Borrower	Co-Borrower	Total	Combined Monthly Housing Expense	Present	Proposed
Base Empl. Income*	$	$	$	Rent	$	
Overtime				First Mortgage (P&I)		$
Bonuses				Other Financing (P&I)		
Commissions				Hazard Insurance		
Dividends/ Interest				Real Estate Taxes		
Net Rental Income				Mortgage Insurance		
Other (before completing, see the notice in "describe other income," below)				Homeowner Assn. Dues		
				Other:		
Total	$	$	$	**Total**	$	$

*** Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.**

Describe Other Income ***Notice:*** **Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.**

B/C		Monthly Amount
		$

VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed about that spouse or other person also.

Completed ☐ Jointly ☐ Not Jointly

ASSETS Description	**Cash or Market Value**	**Liabilities and Pledged Assets.** List the creditor's name, address, and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities, which will be satisfied upon sale of real estate owned or upon refinancing of the subject property.		
Cash deposit toward purchase held by:	$	**LIABILITIES**	**Monthly Payment & Months Left to Pay**	**Unpaid Balance**
List checking and savings accounts below		Name and address of Company	$ Payment/Months	$
Name and address of Bank, S&L, or Credit Union		Acct. no.		
Acct. no.	$	Name and address of Company	$ Payment/Months	$

VI. ASSETS AND LIABILITIES (cont'd)				
Name and address of Bank, S&L, or Credit Union		Acct. no.		
Acct. no.	$	Name and address of Company	$ Payment/Months	$
Name and address of Bank, S&L, or Credit Union				
		Acct. no.		
Acct. no.	$	Name and address of Company	$ Payment/Months	$
Name and address of Bank, S&L, or Credit Union				
		Acct. no.		
Acct. no.	$	Name and address of Company	$ Payment/Months	$
Stocks & Bonds (Company name/number & description)	$			
		Acct. no.		
Life insurance net cash value Face amount: $	$	Name and address of Company	$ Payment/Months	$
Subtotal Liquid Assets	$	Acct. no.		
Real estate owned (enter market value from schedule of real estate owned)	$	Alimony/Child Support/Separate Maintenance Payments Owned to:	$	$
Vested interest in retirement fund	$			
Net worth of business(es) owned (attach financial statement)	$	Job-Related Expense (child care, union dues, etc.)	$	
Automobiles owned (make and year)	$			
Other Assets (itemize)	$			
		Total Monthly Payments	**$**	
Total Assets a.	$	**Net Worth** (a minus b) $	**Total Liabilities b.**	$

Schedule of Real Estate Owned (If additional properties are owned, use continuation sheet.)

Property Address (enter S if sold, PS if pending sale or R if rental being held for income)		Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Insurance, Maintenance, Taxes & Misc.	Net Rental Income
			$	$	$	$	$	$
	Totals		$	$	$	$	$	$

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

Alternate Name	Creditor Name	Account Number

VII. DETAILS OF TRANSACTION		VIII. DECLARATIONS				
a. Purchase price	$	**If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.**	**Borrower**		**Co-Borrower**	
b. Alterations, improvements, repairs			**Yes**	**No**	**Yes**	**No**
c. Land (if acquired separately)		a. Are there any outstanding judgments against you?	☐	☐	☐	☐
d. Refinance (incl. debts to be paid off)		b. Have you been declared bankrupt within the past 7 years?	☐	☐	☐	☐
e. Estimated prepaid items		c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	☐	☐	☐	☐
f. Estimated closing costs		d. Are you a party to a lawsuit?	☐	☐	☐	☐
g. PMI, MIP, Funding Fee		e. Have you directly or indirectly been obligated on any loan of which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? (This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name, and address of Lender, FHA or VA case number, if any, and reasons for the action.)	☐	☐	☐	☐
h. Discount (if Borrower will pay)		f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? If "Yes," give details as described in the preceding question.	☐	☐	☐	☐
i. **Total costs (add items a through h)**		g. Are you obligated to pay alimony, child support, or separate maintenance?	☐	☐	☐	☐

j. Subordinate financing		h. Is any part of the down payment borrowed?	☐	☐	☐	☐
VII. DETAILS OF TRANSACTION (cont'd)		**VIII. DECLARATIONS (cont'd)**				
k. Borrower's closing costs paid by Seller		i. Are you a co-maker or endorser on a note?	☐	☐	☐	☐
l. Other Credits (explain)		--				
		j. Are you a U.S. citizen?	☐	☐	☐	☐
		k. Are you a permanent resident alien?	☐	☐	☐	☐
m. Loan amount (exclude PMI, MIP, Funding Fee financed)		l. **Do you intend to occupy the property as your primary residence?** If "Yes," complete question m below.	☐	☐	☐	☐
n. PMI, MIP, Funding Fee financed		m. Have you had an ownership interest in a property in the last three years?	☐	☐	☐	☐
o. Loan amount (add m & n)		(1) What type of property did you own–principal residence (PR), second home (SH), or investment property (IP)?	___	___	___	___
p. Cash from/to Borrower (subtract j, k, l & o from i)		(2) How did you hold title to the home– by yourself (S), jointly with your spouse or jointly with another person (O)?	___	___	___	___

ACKNOWLEDGMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender's actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges that: (1) the information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described in this application; (3) the property will not be used for any illegal or prohibited purpose or use; (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated in this application; (6) the Lender, its servicers, successors or assigns may retain the original and/or an electronic record of this application, whether or not the Loan is approved; (7) the Lender and its agents, brokers, insurers, servicers, successors, and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the Lender, its servicers, successors or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Acknowledgement. Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors and assigns, may verify or reverify any information contained in this application or obtain any information or data relating to the Loan, for any legitimate business purpose through any source, including a source named in this application or a consumer reporting agency.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may not discriminate either on the basis of this information, or on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation and surname if you have made this application in person. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)

BORROWER	CO-BORROWER
☐ I do not wish to furnish this information	☐ I do not wish to furnish this information
Ethnicity: ☐ Hispanic or Latino ☐ Not Hispanic or Latino	**Ethnicity:** ☐ Hispanic or Latino ☐ Not Hispanic or Latino
Race: ☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White	**Race:** ☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White
Sex: ☐ Female ☐ Male	**Sex:** ☐ Female ☐ Male

To be Completed by Loan Originator

This information was provided:

- ☐ In a face-to-face interview
- ☐ In a telephone interview
- ☐ By the applicant and submitted by fax or mail
- ☐ By the applicant and submitted via e-mail or the Internet

Loan Originator's Signature	**Date**

Loan Originator's Name (print or type)	**Loan Originator Identifier**	**Loan Originator's Phone Number (including area code)**
Loan Origination Company's Name	**Loan Origination Company Identifier**	**Loan Origination Company's Address**

CONTINUATION SHEET/RESIDENTIAL LOAN APPLICATION

Use this continuation sheet if you need more space to complete the Residential Loan Application. Mark **B** for Borrower or **C** for Co-Borrower.	Borrower:	Agency Case Number:
	Co-Borrower:	Lender Case Number:

I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts as applicable under the provisions of Title 18, United States Code, Section 1001, et seq.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

EMPLOYMENT VERIFICATION LETTER

Employer Name: ________________________
Address: ________________________
City: ______________ State: ________
Zip: ________

RE: Verification of Employment for ____________________ [Name of Employee]

To whom it may concern:

Please accept this letter as confirmation that ____________________ [Name of Employee] has been employed with ____________________ [Employer Name] since ____________________ [Employee Start Date].

Currently, ____________________ [Name of Employee] holds the Title of ____________________ and works on a ☐ Full-Time ☐ Part-Time basis of ____ hours per week while earning $__________________ payable ☐ Hourly ☐ Daily ☐ Weekly ☐ Bi-weekly ☐ Monthly ☐ Quarterly ☐ Annually and ☐ No Bonus ☐ a Bonus of $_________________.

If you have any questions or require further information, please don't hesitate to contact me at __________________ [Employer Phone Number].

Sincerely yours,

Signature ______________________ Print Name: ______________________

Employer Title: ______________________

MODULE 7

TITLE

Closing the Real Estate Transaction

LESSON PURPOSE

To provide an explanation of the closing and settlement process so you will be prepared to meet the obligations and expenses of closing the transaction.

LEARNING OBJECTIVES

After completing Module 7, you will be able to:

- Discuss considerations in selecting an attorney or a settlement agent.
- Identify necessary preparations for the closing.
- Discuss what happens at the closing.
- Discuss the purpose of closing documents.
- List various closing costs normally paid by the buyer and the seller.

SUMMARY

In Module 7, you will learn how real estate transactions are finalized. Topics discussed in this segment include the purpose of the closing, where they are held and who attends, the role of the attorney or settlement agent, the legal requirements, title search and title insurance, closing statements, allocation of closing costs, and the recording of documents.

CLOSING THE REAL ESTATE TRANSACTION

The closing is the final step on your way to becoming a homeowner. The purpose of closing is to transfer ownership of the property from the seller to the buyer. This is also sometimes called the settlement because all financial arrangements and legal documents are "settled" at this time. The participants attending the closing include the buyer, the buyer's attorney, and the lender's closing agent. The seller or the seller's attorney (if possible) and the real estate agent may also choose to attend.

WHAT HAPPENS AT THE CLOSING

It's simply the time when all parties pay and receive the money to which they are entitled. It's also the time when all agreements and transactions are signed and notarized to make them legally binding. The sales contract is the controlling document at the closing. This contract clearly states all the items agreed to by the buyer and seller. The contract also calls for documentation of certain items, such as the inspection report, tax certificates and the title commitment.

PREPARING FOR CLOSING

The closing process actually begins several weeks before the scheduled closing. Pre-closing activities include:

1. **SELECTING AN ATTORNEY OR SETTLEMENT AGENT.** Since the sales contract is the controlling document at closing, it's to your advantage to have your attorney conduct the closing to make sure your interests are protected. The attorney you choose should practice real estate law and it's important to note that attorney's fees and services vary. Don't hesitate to find out how much is charged for various services. Ask what the fees are for:
   - Reviewing documents and giving advice on them
   - Attending the closing
   - Conducting the title search
   - Preparing the documents
   - The closing fee (if it is a separate charge)

   If an attorney's fees seem too high, shop around for another attorney, but don't just select the one with the lowest fees. Experience and qualifications are important as well.

2. **SETTING THE DATE AND TIME.** The sales contract should specify when the closing will take place, usually in the form of a statement such as "the closing will take place on or before_______________ (date)." This date can be extended if the buyer and seller agree to the extension. The exact date and time of the closing is generally set by the buyer. Be sure that the closing takes place before the lender's commitment or any interest rate lock-in expires.

3. **CLOSING COSTS.** A day or so before the closing, you'll be told the exact amount of money you need to bring to the closing and what forms of payment are acceptable. Certified checks or cashier's checks are normally required. Personal checks may be acceptable only for small amounts.

4. **FINAL WALK-THROUGH INSPECTION.** Your sales contract should spell out your right to inspect the property within 24 hours of the closing. Don't skip this last step. This inspection serves several purposes. After months of waiting for the financing to be arranged, you need to be sure that the property is in the same condition as when you offered to buy it. Use the opportunity to make sure that items that were included in your contract (appliances, curtain rods, light fixtures, etc.) are left intact.

   Arrange for the final inspection the day before closing. If you inspect the property too early, the seller may still be living there, and furniture and carpets not yet removed may conceal damage. Arrange for the gas, electricity and water to be on when you make your final walk-through inspection; otherwise, you won't be able to tell if all of the house's systems are working.

   If you find problems or damage that was not there before, talk with your real estate agent and lawyer prior to closing. Many times the seller will agree to correct the problems after closing, but you need some type of guarantee that the work will be done. Once you sign the final papers, you have less chance to get repairs made.

REQUIREMENTS FOR CLOSING

You'll recall from Module 6 that the lender's commitment letter approving your loan also specifies various conditions that must be met before closing. This is the time when the home inspection, survey, title search, termite inspection and any other contingency requirements are done. Talk to your attorney and real estate agent about who is responsible for which activities so you'll know what you are responsible for.

Many buyers are dismayed to learn that their closing has been delayed because one of the contingencies has not been taken care of. Your agent or your attorney should be in contact with the listing agent as well as your loan officer several times during this period to confirm that everything is on track. Typical pre-closing activities include:

TITLE SEARCH. A title search is done to ensure that the seller is the legal owner of the property and that he or she is free to sell it. The title search also checks the title records to make sure that there are no liens on the title. A lien is a legal claim against a property that must be paid when the property is sold. For example, there may be liens filed by creditors in an attempt to collect unpaid bills or there may be outstanding taxes due.

TITLE INSURANCE

If a title search checks title records, why is title insurance required? Even the most careful search of public records might not uncover risks such as forgery or fraud, false representation by those acting as owners of the property, incorrect representation of marital status or grantors, undisclosed or missing heirs, improperly probated wills, and inadequate or incorrect surveys or clerical errors, just to name a few potentially serious problems that could arise. There are two types of title insurance that provide protection against these title defects:

- Owner's Title Insurance protects the owner's equity in the event a title defect is discovered. The owner's title insurance does not guarantee that these defects won't occur, but it does protect you against loss arising from claims against your title.
- Mortgagee Title Insurance protects the lender’s loan in the event a flaw is discovered after the property has been purchased. The lender requires this type of title insurance.

As the buyer, you will pay for title insurance, and you should get both types. Most companies offer combination policies and the addition of owner's title coverage is very inexpensive.

SURVEY

In the past, lenders required a survey on the property before closing. A survey verifies property boundaries and confirms that the legal description of the property as stated in the sales contract is correct.
A survey will show that a fence or tool shed was built over the property line, extending into a neighbor's property (or vice versa). Violations of this kind are common and some are easily remedied. Therefore, most lenders no longer require a survey as a condition of funding. If you have concerns about the boundaries of the property that you are buying, you are encouraged to get a survey.

TERMITE CERTIFICATION

Termite inspections are required before closing to certify that the property is not infested with termites and that there is no termite damage.

HOMEOWNERS INSURANCE

Lenders require borrowers to purchase homeowner's, or hazard insurance that protects against loss in the event the house is damaged or destroyed by a disaster such as fire. Most lenders require you to buy insurance coverage that equals the home's replacement value - what it would take to replace your house should it be destroyed.

The types of coverages and premiums vary widely. Various insurance packages are available, including:

- Personal liability insurance. This type of insurance protects you from personal liability in the even someone is injured on your property or is injured by a member of your family and sues you. Automobile related injuries are not included.
- Insurance covering you against fire, theft and some weather-related hazards.

In obtaining homeowners insurance, consider these additional factors:

- For continuing coverage that is adequate as your home's value increases from inflation, make sure your policy has an inflation rider that increases your coverage automatically as the value of your property rises. Most lenders require you to have coverage that equals 80% of the replacement cost of your property. If your property values go up and you incur serious damage, insurers will only pay 80% of the value stated in the original policy.
- Get quotes from several different companies, but make sure you are comparing the same types and levels of coverage.

HOMEOWNER'S WARRANTY. If you are buying a new home, find out if you'll have a homeowner's warranty that protects against certain defects in the home. A certificate of occupancy is required before you can occupy the dwelling. Homeowners warranties and the certificate of occupancy should be provided at closing.

EXPLANATIONS OF CLOSING DOCUMENTS

There are numerous documents you'll be asked to review and sign at the closing. Some of these are summarized below. To give you a better idea of the purpose of these documents, copies of sample documents are included at the end of this module.

CLOSING DISCLOSURE. The Closing Disclosure (formerly called the HUD-1 Settlement Statement) itemizes the services provided and lists all charges to the buyer and the seller. Both the buyer and the seller must sign. This form is required by federal law - the Real Estate Settlement Procedures Act (RESPA).

LOAN ESTIMATE STATEMENT. This statement (formerly called the Truth-in-lending statement) requires lenders to disclose the annual percentage rate (APR), which reflects the annual costs of your mortgage as a yearly rate. Lenders are required to provide this information within three days of the original application. The Loan Estimate (LE) statement also describes other terms of the loan, including finance charges, the amount of the loan and the total payments required. Check with your lender before closing to see if all LE disclosures that were in the original LE statement are still correct.

THE NOTE. The mortgage note is a legal IOU that represents your promise to pay the lender according to the terms. The note also describes the penalties that you will incur should you fall behind in paying the loan (default). The note states the lender's right to "call" the loan, require full payment before the end of the loan term, if you fail to make the required payments. The loan may also be called if you sell your house without prior written consent of the lender or if you violate the terms of your note or mortgage in any way.

THE DEED OF TRUST. In some states, the Deed of Trust is the legal document that secures the note. In some states a mortgage is used instead of a deed of trust, and the terms are often used interchangeably, although there are some differences between them. In practical terms, a mortgage and a deed of trust accomplish the same thing. The deed of trust (or mortgage) gives the lender a claim against your house if you default on the note's terms. If you default, the lender can foreclose on the property, sell it and use this money to pay off the outstanding loan balance plus foreclosure cost.

The primary difference between a mortgage and a deed of trust is the means by which foreclosure can take place. Under a deed of trust, the borrower receives title to the property and then conveys this title to a third party, called a trustee, by signing a deed of trust. The borrower keeps the original recorded deed from the seller, but the trustee holds title until the loan balance is paid in full. If the borrower defaults, the trustee may take steps to foreclose. Foreclosure procedures for defaulted deeds of trust are usually simpler and faster than those for mortgage loans.

THE DEED. The deed transfers ownership from seller to the buyer. The seller should provide his or her deed at the closing, properly signed and notarized. The deed specifies how you will own the property and what name(s) should appear on the deed. If you are to be the only owner, you will have sole ownership of the property. Joint ownership may take several forms. Tenancy by the entirety is available only to married couples, and the house may not be-sold without both spouses agreeing to the sale. Both spouses have survivorship rights - if one spouse dies, the house automatically goes to the surviving spouse. Joint tenancy provides equal ownership shares without survivorship. Talk to your attorney about these options.

RECORDING THE DOCUMENTS

After the closing, the deed of trust or deed, and the note must be recorded, usually at the office of the Register of Deeds in the county where the property is located. The house is then officially yours!

CLOSING COSTS

As mentioned in Module 1, closing costs are 3% - 6% of the loan amount. What are all these costs for? There are three basic categories of closing costs.

1. **CHARGES FOR ESTABLISHING AND TRANSFERRING OWNERSHIP.** This category includes items such as:
   - · Title search and title examination
   - Title insurance
   - Settlement or closing fee
   - Document preparation (if separate from the above)
   - Notary fee - paid to licensed notary public to authenticate signatures
   - Attorney's fees

2. **AMOUNTS PAID TO STATE AND LOCAL GOVERNMENTS,** including:
   - City, county and state transfer taxes
   - Recording fees
   - Prepaid property taxes

3. **COSTS OF OBTAINING A MORTGAGE .** These items are payable in connection with the loan, including:
   - Loan origination fee
   - Points (the loan discount fee)
   - Appraisal fee
   - Credit report fee
   - Lender's inspection fee (for new construction)
   - Mortgage insurance premium (may be first year's premium or monthly premium paid in advance)
   - Assumption fee (if applicable)
   - Survey fees (if applicable)
   - Pest inspections
   - Hazard insurance (may be first year premium, paid in advance)
   - Adjustments or prepayments of interest

ALLOCATION OF COSTS TO THE BUYER AND THE SELLER

After reading this very long list of closing costs, you're probably wondering which of these you, as a buyer, will have to pay. Because of the uniqueness of every property and every settlement transaction, it's difficult to know what will apply in every situation. The payment of some closing costs, such as points, is negotiated between the buyer and the seller. Although negotiable, local customs also dictates which fees are paid by whom.

In general, the buyer pays the costs listed above that are associated with obtaining the mortgage - the loan origination fee, appraisal fee, credit report, appraisals, hazard insurance, etc.

ADJUSTMENTS. Other costs for which you may be responsible include items that are split between the buyer and the seller. These are generally items that are billed on an annual basis, such as property taxes. The buyer and the seller pay their portion of these bills according to how long they lived in the house during the year. For example, if you buy your home in July, you will be responsible for property taxes from July to December. The seller would owe the taxes due for the period of January to June.

Another type of adjustment you may be responsible for is interim, or "odd days," interest. This represents interest charged from the date when you take possession of the house until the first day of the following month. If your closing is July 20, there will be 11 days of interest due.

SUMMARY

The activities that take place at a closing can be summarized as follows:

- The buyer shows evidence of paid insurance on the house.
- The closing attorney lists all closing costs and who is responsible for payment.
- The buyer signs the deed of trust and promissory note.
- The lender's agent formally 'loans' money to the buyer and the buyer 'pays' the seller for the house.
- The title passes from seller to buyer, giving ownership to the buyer.
- The lender's agent collects closing costs owed by the buyer and the buyer is given the LE, which lists all items paid.

In order for all of these activities to take place, each party to the transaction is responsible for furnishing certain items.

1. **FROM THE LENDER OR LENDER'S AGENT.** Documents such as the RESPA statement, the LE statement, the mortgage, the note, applications for escrow accounts, if any, plus a check for the seller.
2. **FROM THE SELLER.** The seller must bring the deed and final tax or utility bills, special certificates that verify work that has been done (lead paint removal, for example), documents required to clear the title (if applicable) and the keys to your new house.
3. **FROM THE BUYER .** Insurance policy or binder, purchase money for closing costs and the down payment and any other documents requested by the lender. Again, it's advisable to bring your own attorney.

After the closing you'll be able to relax and to celebrate your new home. You'll then need to think about how and when you will move and how you will maintain your home. These topics will be covered in Module 8.

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

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

Projected Payments

Payment Calculation	**Years 1-7**	**Years 8-30**
Principal & Interest	$761.78	$761.78
Mortgage Insurance	+ 82.35	+ —
Estimated Escrow *Amount can increase over time*	+ 206.13	+ 206.13
Estimated Total Monthly Payment	$1,050.26	$967.91

Estimated Taxes, Insurance & Assessments
Amount can increase over time
See page 4 for details

$356.13 a month

This estimate includes	**In escrow?**
☒ Property Taxes	**YES**
☒ Homeowner's Insurance	**YES**
☒ Other: Homeowner's Association Dues	**NO**

See Escrow Account on page 4 for details. You must pay for other property costs separately.

Costs at Closing

Closing Costs	$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.*
Cash to Close	$14,147.26	Includes Closing Costs. *See Calculating Cash to Close on page 3 for details.*

Closing Cost Details

Loan Costs		Borrower-Paid At Closing	Borrower-Paid Before Closing	Seller-Paid At Closing	Seller-Paid Before Closing	Paid by Others
A. Origination Charges		**$1,802.00**				
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. Services Borrower Did Not Shop For		**$236.55**				
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						
C. Services Borrower Did Shop For		**$2,655.50**				
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						
D. TOTAL LOAN COSTS (Borrower-Paid)		**$4,694.05**				
Loan Costs Subtotals (A + B + C)		$4,664.25	$29.80			

Other Costs		Borrower-Paid At Closing	Borrower-Paid Before Closing	Seller-Paid At Closing	Seller-Paid Before Closing	Paid by Others
E. Taxes and Other Government Fees		**$85.00**				
01 Recording Fees	Deed: $40.00 Mortgage: $45.00	$85.00				
02 Transfer Tax	to Any State			$950.00		
F. Prepaids		**$2,120.80**				
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						
G. Initial Escrow Payment at Closing		**$412.25**				
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				
H. Other		**$2,400.00**				
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						
I. TOTAL OTHER COSTS (Borrower-Paid)		**$5,018.05**				
Other Costs Subtotals (E + F + G + H)		$5,018.05				

	Borrower-Paid At Closing	Borrower-Paid Before Closing	Seller-Paid At Closing	Seller-Paid Before Closing	Paid by Others
J. TOTAL CLOSING COSTS (Borrower-Paid)	**$9,712.10**				
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	**YES**	• See **Total Loan Costs (D)** and **Total Other Costs (I)**
Closing Costs Paid Before Closing	$0	– $29.80	**YES**	• You paid these Closing Costs **before closing**
Closing Costs Financed (Paid from your Loan Amount)	$0	$0	**NO**	
Down Payment/Funds from Borrower	$18,000.00	$18,000.00	**NO**	
Deposit	– $10,000.00	– $10,000.00	**NO**	
Funds for Borrower	$0	$0	**NO**	
Seller Credits	$0	– $2,500.00	**YES**	• See Seller Credits in **Section L**
Adjustments and Other Credits	$0	– $1,035.04	**YES**	• See details in **Sections K and L**
Cash to Close	$16,054.00	$14,147.26		

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing				**$189,762.30**
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				
Adjustments				
05				
06				
07				
Adjustments for Items Paid by Seller in Advance				
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				
L. Paid Already by or on Behalf of Borrower at Closing				**$175,615.04**
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
Other Credits				
06 Rebate from Epsilon Title Co.				$750.00
07				
Adjustments				
08				
09				
10				
11				
Adjustments for Items Unpaid by Seller				
12 City/Town Taxes	1/1/13	to	4/14/13	$365.04
13 County Taxes		to		
14 Assessments		to		
15				
16				
17				
CALCULATION				
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
Cash to Close ☒ From ☐ To Borrower				**$14,147.26**

SELLER'S TRANSACTION

M. Due to Seller at Closing				**$180,080.00**
01 Sale Price of Property				$180,000.00
02 Sale Price of Any Personal Property Included in Sale				
03				
04				
05				
06				
07				
08				
Adjustments for Items Paid by Seller in Advance				
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				
N. Due from Seller at Closing				**$115,665.04**
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				
Adjustments for Items Unpaid by Seller				
14 City/Town Taxes	1/1/13	to	4/14/13	$365.04
15 County Taxes		to		
16 Assessments		to		
17				
18				
19				
CALCULATION				
Total Due to Seller at Closing (M)				$180,080.00
Total Due from Seller at Closing (N)				– $115,665.04
Cash ☐ From ☒ To Seller				**$64,414.96**

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: *Homeowner's Insurance* *Property Taxes*
Non-Escrowed Property Costs over Year 1	$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: *Homeowner's Association Dues* 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

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

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
Name	Ficus Bank		Omega Real Estate Broker Inc.	Alpha Real Estate Broker Co.	Epsilon Title Co.
Address	4321 Random Blvd. Somecity, ST 12340		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
NMLS ID					
ST License ID			Z765416	Z61456	Z61616
Contact	Joe Smith		Samuel Green	Joseph Cain	Sarah Arnold
Contact NMLS ID	12345				
Contact ST License ID			P16415	P51461	PT1234
Email	joesmith@ficusbank.com		sam@omegare.biz	joe@alphare.biz	sarah@epsilontitle.com
Phone	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

Excise Tax:_______________ Parcel ID:_______________

NORTH CAROLINA GENERAL WARRANTY DEED

Mail after recording to____

This instrument prepared by ____

Brief description for the index ____

THIS DEED made this the _____ day of _____________**,** in the year______, by and between

Grantor	Grantee

The designation Grantor and Grantee as used herein shall include said parties, their heirs, successors, and assigns, and shall include singular, plural, masculine, feminine, or neuter as required by context.

WITNESSETH, that the Grantor, for a valuable consideration paid by the Grantee, the receipt of which is hereby acknowledged, has and by these presents does grant, bargain, sell and convey unto the Grantee in fee simple, that certain lot or parcel of land situated in __________________ Township, ___________________ County, North Carolina, and more particularly described as follows:

Grantor acquired the property hereinabove described by instrument recorded in Deed Book ____at page ____. A map showing the above-described property is recorded in Map Book _____ at page ___________ .

TO HAVE AND TO HOLD the aforesaid lot or parcel of land and all privileges and appurtenances thereto belonging to the Grantee in fee simple.

And the Grantor covenants with the Grantee, that Grantor is seized of the premises in fee simple, has the right to convey the same in fee simple, that title is marketable and free and clear of all encumbrances, and that Grantor will warrant and defend the title against the lawful claims of all persons whomsoever, except for the exceptions stated. Title to the property hereinabove described is subject to the following exceptions:

ANY AND ALL OF PUBLIC RECORD

IN WITNESS WHEREOF, the Grantor has hereunto set his hand and seal, or if corporate, has caused this instrument to be signed in its corporate name by its duly authorized officers by authority of its Board of Directors, the day and year first above written.

____ ____(Seal)
(Corporate Name)
BY: ____ ____(Seal)
Authorized agent

____(Seal)

____(Seal)

____(Seal)

____(Seal)

STATE OF NORTH CAROLINA
COUNTY OF ____________________

I, a Notary Public, of said State and County aforesaid, do hereby certify that____ grantor(s), personally appeared before me this day, and (i) I have personal knowledge of the identity of the grantor(s) or (ii) I have seen satisfactory evidence of the grantor(s) identity, by current state or federal identification with the grantor(s) photograph in the form of a ______________________________or (iii) a credible witness has sworn to the identity of the grantor(s) each acknowledging to me that he or she voluntarily signed the foregoing document for the purpose stated therein and in the capacity indicated.

Witness my hand and official seal or stamp, this ________day of _______________________, in the year __________.

____
Notary Public Official Signature

(seal or stamp)

____
Notary Printed or Typed Name

My commission expires:____________________________

STATE OF NORTH CAROLINA
COUNTY OF______________________

I, a Notary Public, in and for the State and County aforesaid, do hereby certify that ____________________________________ personally appeared before me and being duly sworn says that he or she is a duly authorized agent of said above named corporation and as such has the authority to act in and for said corporation. I, (i) have personal knowledge of the identify of the above named authorized agent, or (ii) I have seen satisfactory evidence of the authorized agent's identity, by current state or federal identification with the authorized agent's photograph in the form of a ____________________ or (iii) a credible witness has sworn to before me the identity of the authorized agent, and that he or she signed the foregoing or annexed instrument on behalf of said corporation in the capacity so herein stated and acknowledge the said writing to be the act and deed of said corporation herein stated.

Witness my hand and official seal or stamp, this _____day of ___________________, in the year ___________.

____
Notary Public Official Signature

(seal or stamp)

____
Notary Printed or Typed Name

My commission expires:____________________________

MODULE 8

TITLE

Living In and Maintaining Your Home

LESSON PURPOSE

To ensure the ongoing success of the homeownership experience by providing information which emphasizes the privileges and responsibilities of homeownership.

LEARNING OBJECTIVES

After completing Module 8, you will be able to:

- Discuss plans for moving into and adjusting to your new home and neighborhood.
- Identify ways to safeguard your home.
- Describe routine maintenance procedures; discuss seasonal differences in maintenance needs.
- Discuss how to deal with emergency repairs and major home improvements.
- Discuss basic water and energy saving techniques and improvements.
- Discuss appliance and furniture selection.

SUMMARY

In Module 8, you are given basic information on how to plan for the move into your new home, taking care of unfinished business in your apartment or rental unit, selecting and paying for home furnishings and major appliances, securing your home with fire and theft prevention techniques, planning for home maintenance and repair problems, and conserving water and electricity.

LIVING IN AND MAINTAINING YOUR HOME

Planning to move from one home to another can be an exciting, if sometimes traumatic, experience, especially if the move is into a new home. Many steps are required in becoming a homeowner and the moving process is one step in taking responsibility for your family's housing needs. Taking care of unfinished business in your apartment or rental unit, selecting and paying for home furnishings and major appliances, securing your home with fire and theft prevention techniques and insurance, planning for home maintenance and repair problems, and conserving water and electricity will make the homeownership experience successful and enjoyable.

PLANNING AHEAD FOR MOVING DAY

Planning a move across country or across town, especially when it is into your first home, can be an exciting time. Moving can also bring overwhelming feelings and confusion because changing your residence is never easy. If all goes smoothly, it is because the move has been planned and well organized. The two most important matters to take care of include making arrangements to move out of your current residence and planning for the move to your new home.

However, in spite of the best plans, you might begin to ask yourself questions about every major and minor detail of your life: How much will it cost to move? Do I have enough money? How much work do I need to do in my current residence before moving? Should I shampoo the carpets and clean all the rooms and floors? Should I make repairs to broken screens or windows? Do I need to paint? Is moving to the new house the right decision? Will I make new friends and will my children be happy in the new house, neighborhood, or school?

All of these questions are valid concerns to a home buyer. The thing to remember is to plan ahead. Creating a moving plan for the big day, as far in advance as possible, can minimize the worry you may feel.

THE MOVING CHECKLIST

The most important thing you can do to make your move easier is to keep things as simple as possible. Making and following a checklist of things to do at suggested intervals can help the moving process go much more smoothly.

THREE MONTHS BEFORE YOUR MOVE:

Contact moving companies for estimates to move your possessions. Obtaining two to three estimates is recommended. You will be asked to describe the contents of your home over the telephone, or a mover will visit you to evaluate the amount of possessions you have to move. He or she will then recommend using a certain size truck and will estimate a cost. Many moving companies also offer packing and unpacking services for an added fee. You will have to decide what you can or can't afford. Should your fund be limited, good sources of move-yourself rental companies include U-Haul, Budget, Ryder, and Hertz. You can search Google under "Movers" for more information.

Inventory your belongings and decide what you'd like to keep or discard. It is really easy to identify your larger belongings, such as furniture, appliances, yard equipment, or recreational items. What tends to be difficult is identifying the smaller items tucked away in closets, boxes or stored, or just kept in bureaus or trunks. Deciding what to keep, what to move, what to give away or even sell are some-times hard choices to make. A good rule of thumb for furniture, clothing, and papers and files is as follows:

1. Sketch a small floor plan of your new home and insert drawings of where your furniture may go. This will help you to determine how much space you have. If your house is larger, there won't be much problem with finding new locations for your furniture. But if your new home is smaller, deciding ahead of time to sell or donate excess furniture will make the move easier.

2. A good strategy for clothing is to examine all clothing items, and if you haven't worn an item within two years, it's time to consider passing it on to someone else. Many communities have consignment stores where good used clothing can be bought and sold. Communities also have drop off centers through Goodwill or Salvation Army for any items you may want to donate. Rum- mage or yard sales are also a good avenue for selling clothes and earning some return on your previous investment.

3. When reviewing file cabinets or desk drawers of papers, a good strategy is to determining the significance of the papers; are files needed for work? For IRS purposes? For legal matters? For personal memories? Legal documents, including canceled checks, legal forms or contracts should be retained for up to seven years. Other documents really require your own personal decision.

Visit your new community. If your new home is more than ten or twenty miles away, it's a good idea to spend some time before the move locating schools, a place to worship, grocery and hardware stores and banking institutions. These visits will assist you in planning for the big day.

TWO MONTHS BEFORE YOUR MOVE

- If you are renting, give your landlord your notice to vacate the premises. Usually, this notice only requires thirty days in advance. However, be sure to look at your lease and give as much notice as possible. Your lease will state how much time in advance is required. Also, the notice should be dated in writing - either handwritten or typed. Be sure to make a copy in case there is any confusion in the future.

- Make an appointment to talk with your children's school officials about the move. Let them know you and your children are moving to a new neighborhood and school system. Ask them to begin planning for the transfer of records if needed, and to hold an annual parent/teacher progress meeting for your children.

- Call your family doctor and dentist and let them know you're moving. Ask for referrals in your new community and request that they transfer your family's records at the appropriate time. Finding new doctors and dentists can be unsettling, especially when you have developed a relationship with one doctor. Your doctor can help alleviate some anxiety by giving you referrals to other doctors he or she may know in your new community.

- Visit your post office. Ask for a Mover's Guide Package so that you can begin to notify your magazine subscriptions, loan carriers, charge accounts, utility companies, doctors, lawyers and accountants about your impending move. Sending out moving cards in advance will minimize the delay caused by your post office in transferring your mail to your new address. It normally requires about two weeks to implement a moving request.
- Investigate the community's banks. If your present bank has a branch in your new location, you may want to stop by and let the bankers know about your impending move. Ask them for any information that might be helpful. If your present bank is not located in your new community, consider transferring your accounts. Having a bank close to your home or workplace is an important convenience, especially when financial considerations arise.
- Arrange for disconnection of all your utilities and request information on new service fees. Terminating your service at your old residence will save you money as you transfer service into your new home. Most utility companies also charge one time new connection fees, such as telephone and cable.

- Set up dates for new service in your new home. Appointments are necessary for all utility companies to connect you to new service. They can also check their service system and determine if service has existed there before, if the equipment is new or old, what you should expect in a connection fee, and give you an estimate on monthly utility costs for your new home.

ONE MONTH BEFORE YOUR MOVE

If you use a moving company...

1. Verify your lease notice requirement and advise your landlord of your upcoming move.
2. Make sure you have a firm estimate in writing for your move. You don't want any surprises.
3. List all the items to be moved.
4. Be sure all your valuable belongings are insured against loss or damage.
5. Arrange for specific moving and delivery times.
6. Have a moving fee ready, either in cash or as a certified check. Be sure to request a receipt. Moving expenses are deductible on your income tax returns.

If you're moving yourself...

1. Plan the move ahead of time. Locate moving truck rental companies and make arrangements to rent a truck on a certain day.
2. Contact friends and family to help you with your move. The more helpers you have on this day, the less time it will take and the more time you'll have to start unpacking in your new home.
3. Obtain boxes from grocery stores or purchase boxes from truck rental companies, such as U-Haul, Ryder or Budget. The more boxes you have in preparation for the move, the less surprises you will face on moving day.
4. Begin packing your items room by room. You will be able to pack and unpack more quickly if similar items are packed together.

Packing tips...

1. Again, have plenty of boxes.
2. Save newspapers to wrap your breakable items.
3. Purchase masking or packing tape and magic markers ahead of time to mark all boxes.
4. Don't overload boxes.
5. Label all boxes for their new location in your home.

Schedule to have your landlord inspect your apartment or home. Let him/her know when you will actually move, and when the premises can be examined. Also arrange for return of the security deposit once the inspection is completed.

TWO WEEKS BEFORE YOUR MOVE

1. Begin cleaning out your cabinets and refrigerator. Leave only essential items.
2. If you're moving hundreds of miles, be sure your car is tuned and arrange for a hotel if needed.
3. Arrange for a friend or family member to be available at your new home when the movers arrive. Develop a floor plan ahead of time. This will help the movers deposit your items in their proper places.

4. Set aside a special place in your home to begin collecting essential items you want to know are safe, together and accessible. You may decide to take items in your car. This may include your banking and any legal records; tools, such as a hammer, screwdrivers and wrenches; extension cords and three- prong plugs; and other important items essential to your own comfort.

ONE WEEK BEFORE YOUR MOVE

1. Pack an emergency kit including the essentials you have set aside. These items will come in handy during the first few days of your move.
2. As items are packed, consider whether they will be needed immediately or can remain packed for a few days. If you decide the items are needed immediately, such as dishes, pans, silverware, bathroom items, sheets and towels, etc., mark the boxes LOAD LAST or UNLOAD FIRST.
3. Clean and defrost your refrigerator and clean your oven. Save only essential condiments and plan ahead to pack those items in a cooler for the actual move.
4. Clean your old home. It might be difficult prior to the actual move, but some things can be completed early such as closets, cabinets, bathrooms, bedrooms. Floors will probably have to wait until after the move is completed.
5. Be prepared to have your home inspected by your landlord. Check screens, doors and walls for any damage. Caulk tubs and any wall holes caused by nails or picture hangers. Be sure all is clean or your landlord may charge you for cleaning from your security deposit.
6. Consider have the locks changed for your new home, and have duplicates made. A good strategy is to have all the locks keyed under one key.

PRE-CLOSING WALK-THROUGH AND INSPECTION

Before you sign the final papers on the house you are buying, you should arrange through your real estate agent a final inspection or walk-through of the property as previously discussed in Module 7.

LEARNING ABOUT THE NEIGHBORHOOD

When you first move into a new neighborhood, try to become acquainted with your neighbors. Also, you need to learn as much as possible about city services, such as trash pick-up or recycle day; where the schools are and, when needed, the bus stops; and where to shop for groceries, household and hardware items or health and beauty needs, including prescriptions. All of these are good ice-breaker questions to ask your neighbors and, in the process, you may make a friend. As you become more acquainted with the neighborhood, you will learn about neighborhood organizations and resources.

SAFEGUARD YOUR HOME

HOME SECURITY

Your home should provide a sense of safety and privacy. However, you need to be sure that your home has the necessary protection devices. These devices include: lighting, fences/walls, locks, smoke detectors, and alarms.

Good exterior lighting is considered an effective method of crime prevention as well as a necessary safety precaution. In particular, you should have lights at each exterior door, in garages or carports, on porches, and along walkways. If you have a large yard, you may want to consider adding lights that can be controlled from a central switch inside the house.

Fences and walls can give you a more secure feeling. Just be sure that any fence or wall installed does not cross your property lines. Some communities prohibit certain types of property barriers. You and your neighbors can be your community's best security by participating in a neighborhood watch system.

One of the most important security precautions against burglars is an adequate system of locks, such as double cylinder deadbolt locks on exterior doors with glass panes, and single cylinder locks for all other exterior doors. In addition, each window should have a lock of some type. Contact a locksmith service in your community for help. In many communities, the police department will be glad to advise you on security devices and systems.

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FIRE PREVENTION

Home fires kill over 3500 people in the U.S. each year and injure thousands more. Most fatal home fires occur at night while people sleep. Studies show that most die from smoke and toxic gases rather than the fire itself. Many never wake up to know that there was a fire. For these reasons, smoke detectors and an evacuation plan become necessities.

There are two basic types of smoke detectors (ionization and photoelectric) and many brands to choose from. The most important thing in selecting your smoke detector(s) is to make sure that the model has been listed by a nationally recognized testing laboratory. A labeled smoke detector, properly installed and maintained, offers adequate protection whether it is powered by batteries or house current. Both the ionization and photoelectric detectors will do a good job.

The number of smoke detectors you need depends on the size and arrangement of your home. There should be at least one smoke detector on every floor of the house (including the basement), and one inside of each bedroom.. Regular maintenance and testing of smoke detectors is essential to protect you and your family. In addition, have fire extinguishers in proper locations in the home for use on localized fires.

While a smoke detector can give you warning and extra time to leave the house in case of fire, you also need to know what to do and where to go. Escape may not be as easy as walking down the hallway and out the front door. You and your family must plan for the worst possible conditions. Plan at least two routes to the outside from every room in the house, especially bedrooms. Practice the escape routes by having fire drills in the home. Designate a meeting point well away from the house where all members of the family can meet.

HOME MAINTENANCE

BASIC HOME INFORMATION

There is very basic information that every responsible household member should know about your home.

- Where the heating fuel main shutoff is located.
- Where the main electrical shut-off or fuse box is located.
- Where the main water shutoff is located.
- Where all fire extinguishers and smoke alarms are located.
- Where the main drain line cleanout is located.

TAKING CARE OF YOUR HOME

Once you are in your house, you and your family need to plan for regular or routine housekeeping. Many people find that frequent, systematic, light cleaning has advantages over periodic upheaval. For one thing, the concept of continuous-cleaning is far easier on you and on the household surfaces. It minimizes the need for whole days devoted to housecleaning. It also minimizes the need for abrasive cleaning and forceful scrubbing - both of which can cause unnecessary wear and tear on wall, floor, and furniture finishes. Some families find it easier to do one or two chores each day.

A plan for continuous house care should start with a list of all the tasks to be done. When you clean and how often depends on your personal preferences and tolerance to dirt and clutter. Try grouping your cleaning tasks under the following headings: (Note: The tasks listed are only suggestions - you need to develop your own list based on your family and needs.)

- Daily (dishes washed, kitchen counters wiped, things picked up around the house)
- Once-a-week (furniture dusted, floors and furniture vacuumed or brushed, kitchen floor mopped, wastebaskets emptied, bathroom cleaned, appliances cleaned)
- Monthly (curtains and draperies brushed, wood trim wiped, windows washed, kitchen floor scrubbed, furniture polished, mattresses turned)
- Seasonal or semiannual (closets cleaned out and unused clothes discarded, curtains washed, appliances thoroughly cleaned, heating/cooling ducts and vents cleaned)
- Annually (furnace cleaned, air-conditioning system checked and cleaned, carpet shampooed)

- Lawn care also becomes a responsibility when you are a homeowner. This task can become a regular chore for one or more family members. Another option is to hire someone in the neighborhood or a lawn care company to regularly maintain the outside property. The important point is that you plan to keep the exterior of your home looking neat and well cared for. This adds not only to your home's appearance and value, but helps preserve the neighborhood.

IDENTIFYING AND CORRECTING POTENTIAL PROBLEMS

Any house will occasionally need repairs. It is important that needed repairs be made quickly to keep up the value of your property. Keep careful records of any significant maintenance or repair activities.

Mildew is a problem that occurs persistently in many homes. Millions of tiny mold spores hover in the air, ready to settle in damp, dark places where they can flourish. Mildew is a thin, whitish to bluish-green growth. It likes to grow in damp, warm, poorly aired or poorly lighted areas such as closets, bathroom showers, basements and under houses. Mildew not only looks unsightly and causes an unpleasant musty odor, but if permitted to grow, it will discolor and rot surfaces such as fabrics, wood, leather, and paper.

High levels of humidity and moisture problems encourage the growth of mildew. The best way to prevent mildew growth is to identify and correct moisture sources before they become major problem areas.
Many of the moisture problems that show up in the living space, attic, or on the outside of a house start around or under the foundation. Some problems have simple solutions; for others you may have to call a professional.

Electrical and plumbing systems can develop problems as you live in a house. This may be especially true of older houses that may not have had good, regular maintenance. Some typical problems are lights that flicker, circuits that trip when you use several appliances at one time, toilets that continue to run, or too little hot water. The list can go on. As you notice these or other problems, get them repaired. A small problem left too long can end up costing you a lot of money. Locate a reliable repair person (ask your neighbors or friends for references), and get the problem fixed.

DO-IT-YOURSELF REPAIRS VERSUS USING PROFESSIONALS

There are many simple home repairs that you can learn to do yourself. There are many home repair books and YouTube video which can teach you to repair a leaking toilet, a light switch that will not work, or a hole in the wall. To do any simple home repair, you will need not only the skill but also some basic tools. Check your local library, bookstore or consult the Reference Section in this manual for other recommendations.

There are some repairs that are better made by a professional. Many electrical and plumbing repairs fit into this category as well as roof and foundation repairs. When in doubt of your skills, time or knowledge, call a professional. This can save you not only time and money, but your life.

If you plan to do any repair work on your home, be sure that you have adequate homeowner's liability insurance coverage. This is a protection for you or anyone who works on your home. Talk with your insurance representative.

ENERGY EFFICIENCY AND WATER CONSERVATION/QUALITY

ENERGY SAVING TIPS AND IMPROVEMENTS

According to the Department of Energy, utility bills represent the largest chunk of monthly expenditures after rent or mortgage.

To equip yourself with the knowledge needed to lower energy expenses, you must first determine the high energy users in your home. From there, you can find ways to maximize efficient use.

Below is an example of how energy is used in a home.

Heating and cooling	58%
Water heating	18%
Appliances	12%
Lighting	8%
Other	4%

Since heating and cooling is the largest chunk, the single biggest step you can take to lower your bills is to make sure your home is adequately insulated. Insulation quality is measured in terms of R-value, which means resistance to heat. The higher the R-value, the higher the insulating ability of the material. You may want to check with your local utility for suggested insulation levels. Levels vary ranging from R-13 to R-60 depending on the climate of the area in which you live and what area of the house the insulation will be installed such as walls,ceiling, or floors.

In addition to adequate insulation, more heat is lost through windows and doors per unit of area than through any other part of a home. Storm doors and windows reduce energy costs by minimizing heat loss through doors and windows. Adding weather stripping and caulking will also prevent air loss and help save money.

Additional considerations for lowering your operating costs:

HEATING AND COOLING

- Make sure the thermostat is on an inside wall and away from windows and doors. A cold draft on the thermostat will make the furnace run even though the rest of the house is warm.
- Make sure registers for supply or return air are not blocked by drapes or furniture.
- In the winter, leave shades and draperies open on sunny days and allow the sun to help heat your rooms. Be sure to close them at night to help keep heat from escaping through the glass.
- Clean or replace furnace filters monthly to keep the system from having to work harder.
- Ceiling fans are not only good for cooling your home in summer. In winter, the direction of the blades can be reversed to push warmer air near the ceiling down to the living space.
- Leave warm air registers and doors open throughout the house.

- Air conditioners vary considerably in efficiency and therefore in the amount of energy they use. Make sure your central air conditioner is an Energy Efficient Appliance (EEA). To find out if your central air conditioner is energy efficient, look at the Seasonal Energy Efficient Ratio (SEER). The efficiency of window units is measured by the Energy Efficient Ratio (EER). As a general rule, an SEER or EER of 16 or more is excellent. Avoid equipment with an SEER or EER below 13.
- During warm weather, reduce the amount of heat in your home by drawing blinds, shades or drapes during the hottest part of the day.
- Make sure your attic is properly ventilated to relieve heat buildup caused by the sun.
- Humidity makes your house uncomfortable in hot weather. Save moisture-making jobs like mopping, dish washing, laundry and bathing for early morning or nighttime hours.
- Ceiling fans can make a room feel 7-10 degrees cooler than it actually is.
- Place heat-producing appliances such as lamps and TVs away from the air conditioning thermostat.

HEAT PUMPS

- Use your heat pump for both heating and cooling.
- Set the thermostat on a constant setting and leave it there.
- Do not close off unused rooms in your home. It will reduce the efficiency of the heat pump. Do not block registers or air returns with furniture or draperies.
- Clean or change filters, and vacuum registers and returns monthly to avoid buildup of dust and dirt. Make sure the outside unit is not blocked. Never stack anything against the heat pump or drape anything over it.
- Hose down the outside unit periodically to remove dust, dirt, lint, leaves and grass clippings.

WATER HEATING

- Set your water heater thermostat on 140 degrees.
- Match your water heater size to the needs of your family.
- Preheat your oven only when necessary. Many foods do not require preheating. If you must preheat, five to eight minutes is usually enough.
- Food that requires long cooking (like stew, soups and sauces) should be prepared in large quantities, then frozen in meal-size amounts. It costs less to freeze and reheat than to start from scratch.
- Avoid opening the oven door to peek at food. Each time the door is opened, the temperature drops 25-50 degrees Fahrenheit.
- Never use your oven to heat a room or to dry wet clothes or shoes.

REFRIGERATOR AND FREEZER

- Refrigerators and freezers operate more efficiently when filled to capacity but not overcrowded. Place items slightly apart on refrigerator shelves to allow air to circulate around them.
- Refrigerators and freezers must be airtight to operate efficiently. If the door doesn't seal tightly, adjust it or replace the gaskets. They will last longer if you keep them clean.
- Let food cool slightly before placing it in the refrigerator.
- Locate refrigerators and freezers away from direct sunlight and heat-producing appliances such as the range, water heater, dishwasher, washing machine or clothes dryer.

ELECTRIC WASHING MACHINES AND DRYERS

- Set your washing machine level for the size load you're washing. If your machine doesn't have a variable water level setting, wait until you have a full load.
- Wash with warm and cool water whenever possible. Always rinse in cold water.
- Keep the lint filter on the dryer clean.
- Don't over dry your clothes. Locate your dryer in a heated part of your home to keep it from having to work harder to produce heat.
- Your dryer will run most efficiently if you dry clothes that are of the same thickness.

LIGHTING

Even though lighting accounts for only a small part of your total electric bill, a penny saved is indeed a penny earned.

- Turn off incandescent lights when you leave the room. This is particularly important in summer because lights produce heat when they are on. That heat can make your air conditioner work harder.
- Use fluorescent lamps when possible. They produce about four times as much light per watt as incandescent bulbs. And the life of a fluorescent lamp is more than 10 times that of an incandescent lamp.
- Use light-colored interior paint and wallpaper. Light-colored walls will make the light appear brighter.
- You can save as much as 50 percent of the light by using a light-colored shade instead of a dark one. Dark shades soak up light in the same way a sponge soaks up water.
- Keep light bulbs and fixtures clean. Dust and dirt block some of the light requiring you to burn more lamps for the same amount of light.
- If you need lights on for security while on vacation, use a timer.
- If possible, locate floor, table and hanging lamps in the corner of the room rather than against a flat wall. Lamps in corners reflect light from two wall surfaces instead of one, giving you more usable light.
- For outdoor lighting, consider replacing incandescent light with sodium vapor lights now available for residential use. They consume less energy for a given light output and have a longer life.

OTHER

Once you get past the big energy users, like your heating and cooling system, water heater and refrigerator/freezer, saving money may be as simple as letting your dishes dry naturally or doing your ironing all at once. Each tip, by itself, will not save you a lot. But together they can add up to substantial savings.

- Use cold water when running a garbage disposal. Cold water saves energy and solidifies grease, which can be ground up and flushed away.
- Locate your water heater in a warm area of the house and/or insulate it with a water heater jacket. If you can't avoid a long pipeline, insulate the pipes.
- Repair leaky faucets immediately. A steady drip of hot water can waste many gallons per month as well as the energy needed to heat it.
- Don't let hot water run continuously when shaving or washing dishes. Break the habit of using hot water when cold water will do just as well.
- Take short showers, five minutes or less, rather than a tub bath. Install shower nozzles which use less water.
- Maintain the water heater properly. Once or twice a year turn off the power to the water heater at the circuit breaker and drain the sediment from the bottom of the tank. Sediment accumulated on the heating element makes operation less efficient.

APPLIANCES

Cooking and refrigeration rank behind the heating and cooling system and water heater in household energy use. People often use more energy than necessary to cook. The following tips will help you save money in the kitchen.

- Purchase Energy Efficient Appliances
- Turn the surface element or the oven off a few minutes before cooking time is up. An electric range will stay hot for a few minutes after it is turned off, so food will finish cooking.
- Use small kitchen appliances such as a toaster oven or electric skillet whenever possible. They use much less electricity than a full-size oven.
- Microwave ovens use less than one-half the power of a conventional oven, and foods cook in about one-fourth the time, greatly reducing cooking costs.
- Use your oven wisely. Cook as many dishes at one time as you can. Foods with cooking temperatures within 25 degrees of each other can often be cooked simultaneously at the same temperature.
- When time permits, open the door of your dishwasher and let the dishes dry naturally.
- Do your ironing all at once. It takes more electricity to heat the iron initially than to maintain the desired temperature.
- Turn off the iron five minutes before you finish ironing and complete the job with the heat stored in the soleplate.
- Turn off TVs, stereos and radios when no one is watching or listening to them. Even when turned off, instant-on TVs draw current to maintain readiness. Unplug the set when you're on vacation.

WATER QUALITY

The source and quality of drinking water are additional factors to consider when purchasing a home. Recent findings have shown that certain drinking water contaminants affect human health and should be of primary concern when selecting a home. If a home's water supply is from a municipal system, the water quality is regulated by standards set by the U.S. Environmental Protection Agency (EPA). Municipal suppliers must test and treat the water to comply with EPA standards. Information about the local municipal water supply or home water testing and treatment is available from your local health department.

Private water supplies (well, spring, pond, cistern) are not controlled by federal or state regulations. The quality of the drinking water is the responsibility of the homeowner. EPA standards may, however, be used as guidelines to assess the quality of individual supply systems. Testing is the only way to determine if the water supply for your house is safe.

SELECTING FURNISHINGS

It's not necessary to spend lots of money to make a new home attractive and livable. With some effort, you can create a home that you and your family can be proud of.

In decorating, three areas need planning and coordination: the furniture, the window treatments, and color. Old furniture can be revived with a new finish or a few coats of paint, or even a cover-up such as a table cover or slipcover. Coordinating colors in rooms and throughout the house can make rooms look and feel larger and make them more attractive.

Window treatments can be simple and inexpensive. Shades and ready-to-hang blinds can provide privacy where it's needed. Top-of-the-window treatments, such as balloon valances, swags and cascades, pleated valances, flat panels or even a shelf or a bracket to hold accessories can add softness and interest. The key to decorating a new home inexpensively is to be creative - a little fabric and a little money can go a long way.

WORKSHEET 8.1 MOVING CHECKLIST

You will want to be sure you have taken care of the many details involved in moving. Use this checklist as a reminder before and after your move.

Have you...

- ❑ Checked the condition of your new house to make sure the seller's belongings are moved?
- ❑ Checked to be sure your new home is ready for your arrival? Has it been cleaned?
- ❑ Given your landlord legal notice to "Quit the premises?"
- ❑ Cleaned your apartment and had the owner inspect it?
- ❑ Returned the keys to your landlord?
- ❑ Arranged to have your security deposit returned to you?
- ❑ Notified all utility companies to shut off your present service?
- ❑ Made arrangements for new utility service at your new residence?
- ❑ Notified your employer of your impending move?
- ❑ Changed your Driver's License?
- ❑ Filed a Change of Address with the Post Office, credit card companies, loan companies and banks, magazine subscriptions?
- ❑ Notified your children's teachers and school of your move?
- ❑ Made arrangements for child care for your children during your move?
- ❑ Confirmed the moving and delivery date with the moving company?
- ❑ Obtained a written moving estimate?
- ❑ Checked with the mover to be sure all your belongings are insured?
- ❑ Checked with the truck rental company for available trucks and conditions on the day of your planned move?
- ❑ Arranged with family and friends to help you with the move?
- ❑ Stocked up on boxes, packing tape, magic markers, rope and newspapers?
- ❑ Made a list of items to be moved and marked the contents of the boxes?
- ❑ Made a list of fragile items or items to be moved last and delivered first?
- ❑ Sketched a floor plan of where furnishings should go?
- ❑ Made sure all your new keys work properly?

APPENDIX A

GLOSSARY OF REAL ESTATE TERMS

Acceleration clause - A provision in a mortgage that gives the lender the right to demand payment of the entire outstanding balance if a monthly payment is missed.

Adjustable-rate mortgage (ARM) - A mortgage whose interest rate changes over time based on an index.

Amortization - The gradual repayment of a mortgage by installments.

Amortization schedule - A timetable for payment of a mortgage showing the amount of each payment applied to interest and principal and the remaining balance.

Annual percentage rate (APR) - The total yearly cost of a mortgage stated as a percentage of the loan amount; includes the base interest rate, primary mortgage insurance, and loan origination fee (points).

Appraisal - A professional opinion of the market value of a property.

Appreciation - An increase in the value of a house due to changes in market conditions or other causes.

Assessed value - The valuation placed upon property by a public tax assessor for purposes of taxation.

Assumable mortgage - A mortgage that can be taken over ("assumed") by the buyer when a home is sold.

Assumption - The transfer of the seller's existing mortgage to the buyer.

Binder - A preliminary agreement, secured by the payment of earnest money, under which a buyer offers to purchase real estate.

Cap - A provision of an ARM limiting how much the interest rate or mortgage payments may increase.

Cash reserve - A requirement of some lenders that buyers have sufficient cash remaining after closing to make the first two mortgage payments.

Clear title - A title that is free of liens and legal questions as to ownership of the property.

Closing - The occasion where a sale is finalized, the buyer signs the mortgage, and closing costs are paid. Also called "settlement."

Closing costs - Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Also called "settlement costs."

Commitment letter- A formal offer by a lender stating the terms under which it agrees to loan money to a home buyer.

Condominium - A form of property ownership in which the home owner holds title to an individual dwelling unit plus an interest in common areas of a multi-unit project.

Contingency -A condition that must be met before a contract is legally binding.

Conventional mortgage - Any mortgage that is not insured or guaranteed by the federal government.

Convertible ARM - An adjustable-rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

Cooperative - A form of common property ownership in which the residents of an apartment building do not own their own units but rather shares in the corporation that owns the property.

Covenant - A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in foreclosure.

Credit report - A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

Deed - The legal document conveying title to a property.

Deed of trust - The document used in some states instead of a mortgage; title is conveyed to a trustee rather than to the borrower.

Default - Failure to make mortgage payments on a timely basis or to comply with other conditions of a mortgage.

Delinquency - A loan in which a payment is overdue but not yet in default.

Deposit - Cash paid to the seller when a formal sales contract is signed.

Depreciation - A decline in the value of property; the opposite of "appreciation."

Discount points - See **points.**

Down payment - The part of the purchase price which the buyer pays in cash and does not finance with a mortgage.

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 - A deposit given to the seller to show that a prospective buyer is serious about buying the house.

Easement - A right of way giving persons other than the owner access to or over a property.

Equal Credit Opportunity Act (ECOA) - A federal law that prohibits lenders from denying mortgages on the basis of the borrower's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity - The difference between the market value of a property and the home owner's outstanding mortgage balance.

Equity loan - A loan based on the borrower's equity in his or her home.

Escrow - The holding of documents and money by a neutral third party prior to closing; also, an account held by the lender into which a home owner pays money for taxes and insurance.

Fair Credit Reporting Act - A consumer protection law that sets up a procedure for correcting mistakes on one's credit record.

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

First mortgage - The mortgage that has first claim in the event of default.

Fixed-rate mortgage - A mortgage in which the interest rate does not change during the entire term of the loan.

Flood insurance - Insurance required for properties in federally designated flood areas.

Forbearance - The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

Foreclosure - The process by which a mortgaged property may be sold when a mortgage is in default.

Graduated payment mortgage - A mortgage that starts with low monthly payments that increase at a predetermined rate.

Hazard insurance - Insurance to protect the home owner and the lender against physical damage to a property from fire, wind, vandalism, or other hazards.

Home owner's insurance - An insurance policy that combines liability coverage and hazard insurance.

Home owner's warranty - A type of insurance that covers repairs to specified parts of a house for a specific period of time.

Interest- The fee charged for borrowing money.

Interest rate cap - A provision of an ARM limiting how much interest rates may increase per adjustment period. See also **Lifetime cap.**

Joint tenancy - A form of co-ownership giving each tenant equal interest and equal rights in the property, including the right of survivorship.

Late charge - The penalty a borrower must pay when a payment is made after the due date.

Lease-purchase mortgage loan - An alternative financing option that allows low- and moderate-income home buyers to lease a home from a non-profit organization with an option to buy. Each month's rent payments consist of PITI payments on the first mortgage, plus an extra amount that is earmarked for a savings account in which money for a down payment accumulates.

Lien - A legal claim against a property that must be paid when the property is sold.

Lifetime cap - A provision of an ARM that limits the total increase in the interest rate over the life of the loan.

Loan commitment - See **Commitment letter.**

Loan servicing - The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

Loan-to-value ratio (LTV) - The relationship between the amount of a mortgage and the total value of the property.

Lock-in - A written agreement guaranteeing the home buyer a specified interest rate provided the loan is closed within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

Margin - The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

Mortgage - A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage banker - A company that originates mortgages exclusively for resale in the secondary market.

Mortgage broker - A company that for a fee matches borrowers with lenders.

Mortgage insurance - See **Private mortgage insurance.**

Mortgage insurance premium (MIP) - The fee paid by a borrower to FHA or a private insurer for mortgage insurance.

Mortgage note - A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time; the agreement is secured by a mortgage.

Mortgagee - The lender in a mortgage agreement.

Mortgagor - The borrower in a mortgage agreement.

Negative amortization - Payment terms under which the borrower's monthly payments do not cover the interest due; as a result, the loan balance increases.

Notice of default - A formal written notice to a borrower that a default has occurred and that legal action may be taken.

Origination fee - A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount, or points.

Owner financing - A purchase in which the seller provides all or part of the financing.

Payment cap - A provision of some ARMs limiting how much a borrower's payments may increase regardless of how much the interest rate increases; may result in negative amortization.

PITI - Stands for principal, interest, taxes, and insurance; the components of a monthly mortgage payment.

Points -A one-time charge by the lender to increase the yield of the loan; a point is one percent of the amount of the mortgage.

Prepayment penalty - A fee charged to a borrower who pays off a loan before it is due.

Pre-qualification - The process of determining how much money a prospective home buyer will be eligible to borrow before a loan is applied for.

Principal - The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

Private mortgage insurance (PMI) - Insurance provided by nongovernment insurers that protects lenders against loss if a borrower defaults.

Purchase and sale agreement - A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Qualifying ratios - Guidelines applied by lenders to determine how large a loan to grant a home buyer.

Radon - A radioactive gas found in some homes which in sufficient concentrations can cause health problems.

Rate lock - See **Lock-in.**

Real estate agent - A person licensed to negotiate and transact the sale of real estate on behalf of the buyer or seller.

Real Estate Settlement Procedures Act - A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Refinancing - The process of paying off one loan with the proceeds from a new loan secured by the same property.

Rent with option to buy - See **Lease-purchase mortgage loan.**

Second mortgage -A mortgage that has rights that are subordinate to the rights of the first mortgage holder.

Secondary mortgage market - The buying and selling of existing mortgages.

Seller take-back - An agreement in which the owner of the property provides financing, often in combination with an assumed mortgage.

Settlement - See **Closing.**

Settlement sheet - The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment.

Subsidized second mortgage - An alternative financing option for low- and moderate-income households that also includes a down payment and a first mortgage, with funds for the second mortgage provided by city, county, or state housing agencies, foundations, or nonprofit corporations. Payment on the second mortgage Is often deferred, carries no or low interest rates, and part of the debt may be forgiven for each year the family remains in the home.

Survey - A drawing showing the legal boundaries of a property.

Tenancy by entirety - A type of joint ownership of property available only to a husband and wife.

Tenancy in common - A type of joint ownership in a property without right of survivorship.

Title - A legal document establishing the right of ownership.

Title company - A company that specializes in insuring title to 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.

Title search - A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Transfer tax- State or local tax payable when title passes from one owner to another.

Truth-in-Lending - A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the APR and other charges.

Underwriting - The process of evaluating a loan application to determine the risk involved for the lender.

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APPENDIX B

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APPENDIX C

COMMUNITY RESOURCES

As a potential home buyer, there are a number of resources in your community that provide services you may find helpful as you work toward home ownership. The resources listed in this Appendix are those organizations at the federal, state and local level that provide state-wide services or that have offices located in various areas across the state. Local experts can help you identify additional resources specific to your area, such as programs and services provided by local governments or non-profit organizations.

This Resource Directory gives a brief summary of the types of services provided by these organizations.

- Consumer Credit Counseling
  Community Action Agencies
  Legal Services Agencies
- State Cooperative Extension Services
- Banks, Savings Banks, Mortgage Bankers, Mortgage Brokers, and Credit Unions
- Public Agencies
    State Housing Finance Agency
  - State Human Relations Commission
    U.S. Department of Housing and Urban Development (HUD)
- Utility Companies

CONSUMER CREDIT COUNSELING SERVICES, INC.

The Consumer Credit Counseling Services (CCCS) is a non-profit community service agency available in many communities whose purpose is to provide individual family counseling on the proper management of personal finances. This includes situation analysis, evaluation of spending habits, budget development, and recommendations for action steps to be taken by the client. CCCS counseling staff receive extensive, in-depth training in counseling techniques. These counselors provide one-on-one counseling sessions that are oriented toward helping the client maximize income, control spending, use credit wisely, establish goals and priorities, and save for emergencies as well as the future.

In addition to these individual counseling services, many CCCS offices extend their expertise into the community through educational presentations to schools, community groups, and employers. Special services that address the financial needs of senior citizens may also be available. Contact the office nearest you for more information.

There are over 600 CCCS offices nationwide. In the event that you need assistance from an office in another state, call (800) 388-CCCS for a toll-free referral.

COMMUNITY ACTION AGENCIES

Community Action Agencies are non-profit organizations committed to alleviating the conditions contributing to poverty. At the present time, there are numerous CAAs across most states, offering a variety of programs to improve the quality of life for all residents. Community Action Agencies typically offer programs such as Head Start, Weatherization , emergency assistance, job training, rental subsidies, employment and housing counseling. Contact the CAA nearest you to find out which programs are available in your area.

LEGAL SERVICES AGENCIES

Legal Services Agencies are usually private non-profit organizations that provide legal services free of charge to low income individuals and families. Legal Service offices provide legal assistance and representation in a wide variety of legal problems regarding public benefits, consumer rights, debt collection, family violence, and many other civil issues. Legal Services housing-related services include tenant rights, tenant-landlord relations, evictions, and foreclosures. These housing services focus on consumer housing rights, and on ways to remove legal barriers to home ownership or to continued home ownership. Priorities are set by local Boards, so the specific legal issues handled by each office varies. Contact the office nearest you for more information.

COOPERATIVE EXTENSION SERVICES

State Cooperative Extension Services are educational organizations. They are different from other educational organizations in structure and purpose. The Extension receives support from three levels of government - federal, state, and county. It usually has close ties to the state's land-grant universities. This unique partnership allows the Cooperative Extension Service to serve as a bridge between the people of a state and the scientists of the U.S. Department of Agriculture and the land-grant universities.

HOW IT WORKS

Extension Agents, located in each county of most states, are a major link between the universities and the people. Supported by a staff of university specialists, the agents have the research-based information people need for problem solving.

State Cooperative Extension Services have many lay leaders involved in their Extension Advisory Leadership Systems. These private citizens, who use Extension services, help keep university researchers and Extension professionals apprised of local concerns and needs. This two-way communication enables Extension to help individuals, families, and communities learn to identify and solve their problems.

WHAT IT OFFERS

State Cooperative Extension Services provide a broad range of educational programs that are of benefit to farmers, rural and urban residents, community leaders, homemakers, parents and youth. These initiatives focus on the following concerns of state citizens: sustainable agriculture; rural revitalization; waste management; water quality; food safety and quality; youth-at-risk; environmental protection and conservation of natural resources; families in crisis; health and human safety.

HOW TO GET HELP

The Cooperative Extension Educational Services are available to all the people in many states. Extension disseminates information through meetings and workshops; demonstrations, field days, and conferences; computer programs; radio, TV, and video; newspapers, newsletters, and publications; and telephone contacts and office visits.

For more information, call your local Extension Center, listed under County Government.

PUBLIC AGENCIES

For more information about special programs through a state Housing Finance Agency, or to find out which lending institutions in your area are participating in these programs, write or call your state Housing Finance Agency.

The **Human Relations Commission** in most states administers the Fair Housing Law, which is substantially equivalent to federal fair housing laws. The commission promotes fair housing by receiving, investigating, and resolving charges of discrimination in housing. They also are involved in receiving, investigating, and conciliating charges of discrimination in employment. The housing programs conducted are fair housing counseling and assistance. For more information or to report suspected housing discrimination, call or write the Human Relations Commission in your state.

Or, you may contact the **U.S. Department of Housing and Urban Development** with complaints of suspected housing discrimination.

Regional Office:

HUD - Fair Housing and Equal Opportunity (FHEO)
Richard B. Russell Federal Building
75 Spring Street, S.W.
Atlanta, GA 30303-3388

You may also use the toll-free hotline number (800) 424-8590, or write:

Office of Fair Housing and Equal Opportunity
U.S. Department of Housing and Urban Development
Room 5204
Washington, DC 20410-2000

If HUD has determined that your state or local agency has the same fair housing powers as HUD and has fair housing ordinances that are substantially equivalent to federal laws, HUD will refer your complaint to that agency for investigation and notify you of the referral.

UTILITY COMPANIES

Utility companies offer a variety of programs and resource materials to help you save on energy costs.

Energy saving programs for utility customers may include these features:

1. **The Maximum Value Home (MAX)** uses energy efficiently, saves on heating and cooling costs, and qualifies you for the lowest residential rate.
2. **Home Energy Survey** - a specialist will make recommendations to upgrade your home to energy efficiency standards so you can qualify for lower rates.
3. **Energy Saver Loan** - loans to increase insulation, add insulated windows and/or install a high efficiency heat pump/comfort machine.
4. **Comfort Incentive** - you receive an average of $200 back when you have a comfort machine installed by an authorized comfort machine dealer. Comfort machines must have a Seasonal Energy Efficiency Rating (SEER) of 11 or higher.
5. **Load Control** can reduce your summer bills. Load control customers allow power companies to temporarily interrupt service to their central air conditioning systems during emergency situations. These situations arise when the demand for electricity exceeds our ability to supply it. As a Loan Control participant, you receive monthly credits from July through October on your electric bill - even if the service to your air conditioning system is not interrupted.
6. With **Time-of-Use-Rate** you pay less for electricity used during periods of low overall demand for power - called "off-peak" hours. By shifting some of your daily chores, such as clothes washing and dish washing, to these hours, you may pay a lot less for electricity you use. A **Time-of-Use Comparative Billing Program** is also available. This program allows you to compare your current monthly electric bill to what you would be paying on the Time-of-Use-Rate.

Utility 6% Energy Loans allow you to borrow up to $1,500 to make energy efficiency improvements to your home. The repayment period on these loans is three to five years. Loans are available to increase your attic insulation (up to R-30); wall insulation (up to R-16); floor insulation (up to R-19); duct insulation, storm windows and replacement double glass, storm or insulated doors, electric water heater (minimum insulation level R-10), and programmable heat pump thermostats.

To qualify for some utility company energy loans, you must own the home where the improvements are to be made; have either electric heat or central/whole-house air conditioning; be served by the utility on a residential rate; and have credit approved by the utility.

Some utility companies also offer a **Heat Pump Finance Program.** This program provides loans for home owners wishing to replace their heating systems with a high-efficiency heat pump. The interest rate varies according to the efficiency level of the heat pump, and no down payment is required.

Other programs may include:

Equal Payment Plan - allows spreading your payments into 12 equal payments, easing the impact of higher seasonal electric bills.

EZ $64 - save $64 per year by allowing the utility to occasionally interrupt power to your air conditioner and water heater.

For more information on services and programs, call your local utility company's marketing representative.

APPENDIX D

COURSE EVALUATION

Host Lenderor Agency ______________________________

Course Location -

Lead Instructor —

Course Schedule (days and time offered} ______________________________

Please answer the following questions.

A. Did you find the overall quality of this course to be: (check one)

D Poor D Fair D Average D Good D Outstanding

B. Rate this course as a whole for the qualities listed below: (check one)

	Poor	Fair	Average	Good	Outstanding
1. Practical value	0	0	0	0	0
2. Understandable	0	0	0	0	0
3. Thoroughness	0	0	0	0	0
4. Presentation of materials	0	0	0	0	0
5. Use of class time	0	0	0	0	0
6. Maintaining your interest	0	0	0	0	0
7. Meeting your expectations	0	0	0	0	0

C. What, if anything, would you change about each Module?

Module 1, Planning for Home Ownership

____

____

____

Instructor's Name ______________________________

Module 2, Credit Analysis and Household Budgeting

Instructor's Name

Module 3, Selecting the Home and Neighborhood

Instructor's Name

Module 4, A Guide to the Real Estate Professional and Sales Contracts

Instructor's Name

Module 5, Financing the Home Purchase

Instructor's Name

Module 6, Applying for a Mortgage

Instructor's Name

Module 7, Closing the Real Estate Transaction

Instructor's Name

Module 8, Living In and Maintaining Your Home

Instructor's Name

D. How might we improve future Pre-Home Ownership Education Courses?

E. What topics would you like us to include in future courses?

F. Overall, do you feel more confident in your ability to purchase a home after completing this course? CJ Yes CJ No

Explain.

G. Other comments.

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