



Homebuyer Counseling Manual

A Guide for the First-Time Buyer



H O M E O W N E R S H I P

Acknowledgements

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A Guide for the First-Time Buyer

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INTRODUCTION

Welcome. You are starting a course that will serve as a guide on your way to owning your first home. The homebuying course you are beginning has been designed by MassHousing and implemented in partnership with local agencies around the State. Together, we share the goal of offering first-time buyers a primer on the homebuying process, and preparation for the responsibilities of homeownership.

The mystery of the homebuying process will be partially solved by understanding the terms used in the real estate industry. Before you begin reading the first chapter, carefully look over the glossary of terms found at the back of this manual; some of the terms will be familiar, some will be new. You will learn many of the terms just by hearing them repeated. Throughout the course, keep the glossary at hand for reference whenever a real estate term is used.

We are hopeful this course will assist you in making some of the important decisions involved in the homebuying process. When MassHousing first designed the course, the Agency wanted to give prospective homebuyers a way to put it all together. This included finding the right home in the right neighborhood, choosing the right mortgage and mortgage terms, as well as providing first-time homebuyers the opportunity for the stability owning your own home provides. Additionally, if you are purchasing a multi-family property, MassHousing recognizes the need for, and has included tenant/landlord training, maintenance tips, and possible resources to use if problems arise.

COURSE OVERVIEW

We know that the first question new homebuyers ask is, **“Can I really afford to buy a home, and if so, how much can I afford?”** The course begins at square one; the financial side of purchasing your home.

Chapter 1 asks you to determine whether you can afford to buy a home. The chapter describes the monthly mortgage-payment-to-current-income ratio and how your credit and current financial obligations are connected to that. You will learn different downpayment options and the “hidden” or sometimes *unexpected costs* of buying a home, called **closing costs**. You will use a worksheet to construct a budget for yourself, both as a potential homebuyer and as a new homeowner. Chapter 1 asks you to take a complete and detailed look at your own financial situation. With that knowledge you will be a more educated, knowledgeable, and *realistic* homebuyer.

Chapter 2 asks what type of home you are looking for, realizing that as a first-time homebuyer, your dream home may be out of reach. Many aspects of your dream home, however, may make up the home you finally buy. Chapter 2 looks at single family, condominium, and two-to-four family home options. Tips on how to find a home and choose a location are covered, as well as factors you should consider before making an offer. How much you are willing to pay, together with how much you can actually afford, will be significant factors as you choose your first home. The chapter takes you through the Offer to Purchase, the Purchase and Sale Agreement, and the necessary home inspection by a certified, licensed, home inspector.

Chapter 3, Obtaining a Mortgage Loan, explains that finding a lender involves shopping around for the best terms for your mortgage. The chapter explains where to find lenders and what factors you should use to compare what different lenders are offering. You will need to apply to the lender you finally choose, and this chapter explains the application process and how credit is a major component of your application. Different types of mortgages are introduced and discussed (both their advantages and disadvantages). Escrow and insurance requirements are also described. The costs and processing involved in closing a loan are explained, as well as what you can do if your application for a mortgage is rejected. As a potential homebuyer and borrower, you have many options open to you. The most important lesson of this chapter is to shop carefully and wisely.

Chapter 4 explains your preparation for the loan closing, what to bring, and what you will sign at the actual closing. Once the closing is over, you are the owner of your new home! But the story is not over. This chapter also covers the responsibilities associated with homeownership, either as a landlord, in a condominium complex, or a single family home. The chapter also covers lender relations and information on how to minimize a difficult financial situation – which could save your home from foreclosure.

Together, the chapters provide a comprehensive course on buying your first home. This course was designed to give first-time homebuyers the tools to purchase a part of the American Dream, and MassHousing hopes that these tools and this knowledge will guide you through many successful years as a homeowner.

COURSE OVERVIEW: PLANNING FOR YOUR FIRST HOME

QA Who is MassHousing?

MassHousing was formed by the State Legislature, and made its first loan in 1970. The Agency was chartered to ensure the provision of affordable housing throughout the Commonwealth. Often described as a “mortgage bank with a public purpose,” MassHousing has invested over \$19 billion in mortgage capital into the state’s economy by providing homeownership and rental opportunities for low- and moderate-income households.

MassHousing is a self-supporting Agency that raises money for its programs through the sale of taxable and tax-exempt bonds to private investors. MassHousing does not use taxpayer dollars to sustain its operations.

The Homebuyer Counseling Course you are enrolled in was originally designed by the Home Ownership Division of MassHousing in 1991. Since then, the course has filled a need across Massachusetts by encouraging non-profit and other local organizations to provide outreach, training and counseling to low- and moderate-income, first-time homebuyers.

Is this the right time to buy a home, and how much money can I afford to spend on my first home?

The single most important term you will hear throughout the entire homebuying process is the word *mortgage*. **A mortgage is an agreement, in writing, in which a lender pledges money against a piece of real property.** The “real” property is the home you are buying, (we use the term *real* to differentiate between physical property, such as a house, and other types of securities, such as stock or bond certificates). The money the lender *pledges* is what you (the borrower) use to pay the seller of the property. Over the term of the loan (usually 30 years), the lender holds the ownership documents to the property (called a **Title**) while you pay back the lender in monthly (or bi-weekly) installments; but you also pay interest on that money, which is how the lender makes a profit for lending you the money in the first place. The lower the interest rate, the less you will pay each month on the loan. You will read, in Chapter 1, to shop around for the best mortgage. This means finding out what several lenders are offering, including MassHousing. You can think of a mortgage as a product that you purchase, and the goal is to get the best price (lowest interest rate) at the most favorable terms to you, the borrower.

What part does budgeting play in the picture?

Owning a home will increase your financial responsibilities. You must be willing to keep track of your money. That means knowing how much you spend each month, what you spend your money on, and factoring in other obligations that come with owning a home. By estimating your expenses as a homeowner, and knowing what you spend money on now, you can forecast what your overall financial obligations will be as a homeowner. That will help focus you on homes that you can afford.

Even before you begin looking at homes to buy, keep a budget. A good view of your income and obligations will lessen and may even eliminate any financial surprises as a homeowner. (See Exhibits 1-3 at the end of this chapter to calculate income and expenses.)

Consider some of the up-front costs of owning a home:

- Downpayment
- Closing costs
- Moving costs

Settling in costs include:

- Furniture
- New appliances
- Immediate and necessary repairs
- Increase in utility charges

How is my monthly mortgage payment calculated?

The factors that determine the amount of your mortgage payment include how much you borrow, how long you borrow for, and the interest rate of your loan. These factors are all part of the equation that your lender will use to calculate your monthly mortgage payment.

What are “underwriting ratios” and how do they affect how much I am able to borrow from a lender?

Underwriting Ratios are the percentage of a borrower's gross monthly housing expenses compared to monthly income, (i.e., monthly income divided by total housing payment), and percent of overall monthly debt to monthly income. For a MassHousing loan, for example, the housing expense percentage must be 30% or less and the overall debt-to-income percentage should be no more than 36%. These percentages are used by lenders as a guide to calculate the amount of debt you, the borrower, can carry on a monthly basis. If your debt exceeds the established ratios you may not be approved for the amount of mortgage you require.

How do I determine how much I can borrow?

Here's a quick method to determine your homebuying power. Multiply your monthly income before taxes (gross income) by 30% (.30). This number represents how much lenders will allow for the monthly mortgage payment (principal and interest), taxes, and insurance (PITI).

Next, multiply your gross monthly income (what you earn each month before taxes) by 36% (.36). This is the most you can spend on all your bills (credit cards, auto loans, and other bills), including your new house payment and still qualify for most mortgage loans. (See Exhibit 4 at the end of this chapter for an example of how to calculate underwriting ratios.)

Keep in mind that many lenders have special loan programs that allow you to stretch your buying power. Some allow as much as 38% of your monthly income (and sometimes even more) to be used toward your total bills (including your house payment) if you have demonstrated the ability to handle additional debt over time.

Higher credit ratios (33% and 38%) are also available to buyers who complete a MassHousing approved Homebuyer Counseling course and access MassHousing financing.

My lender talked about "LTV." What does that mean?

LTV stands for loan-to-value ratio. This ratio compares the mortgage amount to the appraised value or the sales price of the property, whichever is less. This ratio also shows how much equity you have in the property. For example, if you are buying a house worth \$100,000, have a 5 percent downpayment, and are getting a mortgage for \$95,000, the LTV on your loan will be 95 percent. Lenders generally use this ratio to determine whether you will need mortgage insurance. Mortgage Insurance will be explained later in this chapter.

How do I estimate the amount of my downpayment?

While most homebuyers rely on a mortgage to purchase their home, no mortgage will cover the entire purchase price. Buyers must use their own funds to make an initial payment, known as a downpayment, on the home they are buying. Lenders believe that buyers who contribute their own funds to the purchase of a home represent a better credit risk.

In addition, investing some of your own money into the purchase of your home shows the lender you are making a commitment to stay in the home and repay the loan. Your downpayment is considered equity in the property.

While most conventional banks and lenders require downpayments of 5 to 20 percent to qualify for a mortgage, MassHousing's borrowers are allowed a downpayment of as little as 3% percent. (See Exhibit 5 at the end of this chapter, which lists acceptable sources for downpayments.)

This flexible downpayment requirement recognizes that with increases in housing costs in the past decade, many families have difficulty saving for a downpayment and mortgage closing costs.

What are mortgage closing costs?

These costs are charges to the borrower which must be paid at loan closing over and above the downpayment for the house. They may include a mortgage application fee, attorney fees, title insurance, fire and hazard insurance, (protects both the lender and borrower from losses due to fire and other hazards to the house), mortgage insurance premiums, filing and recording fees, standard bank settlement costs, and bank origination fees, i.e., the financing charged by the lender for making the mortgage. These are computed as a percentage of the loan amount and are often referred to as points. Closing costs will vary depending upon several factors, including whether you choose a mortgage product with a 0, 1 or 2 point option and the costs of mortgage insurance.

What is Mortgage Insurance?

If your downpayment on the house is less than 20% of the purchase price, your loan must be insured by an approved mortgage insurer. Based on individual needs, borrowers can choose from one of the annual or monthly payment options offered by mortgage insurance companies or MassHousing's Mortgage Insurance Fund.

What is the cost of mortgage insurance?

The cost of mortgage insurance at closing will depend on the amount of your mortgage loan. For example, if you make a downpayment ranging from 5%-10% of the purchase price, you will pay more for mortgage insurance than you will if you make a downpayment of between 15% and 20%. Together, all of these closing cost expenses will run between 2% and 5% of the mortgage loan.

After determining what you can afford, you can begin the search for an affordable property.

"On July 29, 1998, President Clinton signed The Homeowners Protection Act of 1998. The purpose of the new law is to require automatic cancellation and notice of cancellation rights with respect to private mortgage insurance (PMI) purchased in connection with a residential mortgage loan. Borrowers should ask their lenders to provide written disclosures explaining when PMI may be canceled and under what circumstances."

My lender asked questions about my credit. How do I establish credit?

Paying bills on time is what establishes credit. Good credit and bad credit is determined by such factors as *when* you pay your bills, and the length of time (number of months) it takes to pay off a bill or credit card charges. All this information is reported on a credit report.

How do I obtain my credit report?

You can request a copy of your credit report online at www.annualcreditreport.com. You are entitled to one free copy per year. Or you can contact the three credit reporting agencies. (See Exhibit 6 on page 13 at the end of this chapter.)

Why does my credit report matter to lenders?

- Lenders judge how you have paid your bills in the past as an indication of how you can be expected to pay them in the future.
- When you apply for a mortgage loan, the lender will order a credit report to verify current debts and how well you have repaid your past debts.
- For more information on how you can obtain a copy of your credit report, see Exhibit 6 at the end of this chapter.

Because credit reports contain lists of account numbers, loan terms, and various codes, you may find that your report is confusing and hard to read.

To help you understand how to read it, a sample credit report is included at the end of this chapter as Exhibit 7. Review it and read the explanations included with the report.

What if my credit report is not perfect?

Your credit history does not need to be spotless, but your credit history must clearly show your willingness to pay your debts. If you had problems in the past, your more recent track record of keeping current on your debt payments shows lenders you made corrective actions. But if you are *currently* having credit problems, the lender may determine that you are not ready to buy a home until they are resolved.

NOTE: When you receive your credit report look at it carefully. Credit reports may be inaccurate or give a misleading picture of past credit problems that have since been resolved.

How should I resolve credit issues?

- "Clean" credit is the ideal, but if you have had problems in the past, you should rectify them before beginning the homebuying process.
- If you have ever owned a home and your mortgage was foreclosed upon, the credit report will show the foreclosure. The lender will want to know the reason for the foreclosure.
- If you declared bankruptcy this will also be revealed on your credit report. Once again, the lender will want you to explain the circumstances of the bankruptcy.
- If you had poor credit in the past, lenders will want to see that you have re-established your credit and are able to manage your debt.
- Detailed written letters of explanation for any untimely debt payments are necessary and can serve as the main reason for a lender approving a loan they may otherwise reject. Be sure that the letter highlights what steps were taken to resolve the problem.
- If you do not have any credit cards or have never taken out a loan from a bank, you will have to build a "non-traditional" credit history. This will require the lender to document your monthly rent payments to previous landlords, and your monthly payment history with utility companies and insurance companies.
- Remember, lenders want to see a successful track record of debts owed and duly paid.

Is there a way I can strengthen my loan application?

A regular savings pattern in a savings account will make your mortgage application stronger. Remember, the longer you have a regular savings history, the better your loan application will look to lenders when applying for a mortgage.

A consistent work history and good credit strengthens all loans. However, if you have changed jobs recently or have had numerous jobs in the past several years, writing a letter of explanation will help the underwriter understand your circumstances. What may look like a person who changes jobs every year will now show the underwriter that you have been promoting your career path with additional responsibilities or more money. Also, as stated earlier, if you had credit problems in the past but have rectified them, have a well written letter of explanation ready before your loan is reviewed by the lender. These letters will allow the lender to better understand you, the borrower, and assist you in getting your loan approved.

Chapter Summary

This chapter has covered the financial and credit issues involved in the homebuying process. Real estate terms should be more familiar – such as **mortgage**, **closing costs**, **loan-to-value**, **underwriting ratios**, and **mortgage insurance**. In addition, the role that credit plays in the loan process, and how to obtain and read a credit report has been covered. This chapter has also highlighted budgeting for first-time homebuyers, and the importance of successfully meeting new financial responsibilities.

You are ready to move on to Chapter 2, Finding the Right Home.

INSTRUCTOR NOTES

MassHousing recommends that guest speakers be invited to discuss the following topics:

1. The importance of credit as well as how to repair a damaged credit history.

Exhibits:

1. Your Gross Monthly Income
2. Current Monthly Expenses
3. Your Monthly Debt Payments
4. Underwriting Ratios Calculation
5. Your Available Cash and Assets
6. How to Obtain a Credit Report
7. Sample Credit Report

YOUR GROSS MONTHLY INCOME

List all current, regular gross monthly income for yourself and your co-borrower. Consider all sources of income during the past 12 months, if they are likely to continue for at least three years.

	Average Monthly Amount
Gross pay (before-taxes)	\$ _____
Overtime/part-time/seasonal/commission	\$ _____
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	\$ _____
Gross Monthly Income x 12 = Gross Annual Income	\$ _____

YOUR CURRENT MONTHLY EXPENSES

Use this worksheet developed by FNMA to calculate your current monthly expenses. By comparing your non-housing expenses to your gross monthly income, (see Exhibit 1: Gross Monthly Income), you can see how much you have left for housing-related expenses. Remember that as a homeowner, your housing expenses will include your monthly mortgage payment, property taxes, homeowner's insurance, private mortgage insurance and condominium fee (if applicable), utilities, and maintenance costs.

	Average Monthly Payment
<hr/>	
<i>Current Housing Expenses</i>	
Rent	\$ _____
Utilities (if paid separately)	\$ _____
 <i>Current Non-housing Expenses</i>	
Food	\$ _____
Clothing	\$ _____
Day care/Tuition	\$ _____
Car loan	\$ _____
Car insurance	\$ _____
Gas	\$ _____
Car repairs	\$ _____
Other transportation	\$ _____
Health care	\$ _____
Debt payments	\$ _____
Entertainment	\$ _____
Taxes	\$ _____
Phone	\$ _____
Cable/Internet	\$ _____
Insurance (other than car)	\$ _____
Other (specify)	\$ _____
 Total Monthly Expenses	 \$ _____

YOUR MONTHLY DEBT PAYMENTS

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

If your **Total Monthly Debt Payments** equal more than 36% of your gross monthly income, then your "excess debt" will reduce the amount of mortgage you can qualify for. This, in turn, means you must shop for a less expensive home.

	Average Monthly Payment
Car payment	\$ _____
Other installment loan payments with a balance of 10 months or more (e.g., furniture, appliances, etc.)	\$ _____
Average monthly credit card payment(s)	\$ _____
Student loan payment	\$ _____
Medical/health care payment	\$ _____
Alimony/child support payment	\$ _____
Total Monthly Debt Payments	\$ _____

UNDERWRITING RATIOS CALCULATION

Sample

Gross monthly income	4500.00
Monthly overtime/bonuses	300.00
Secondary monthly income	0
Total A	\$ <u>4800.00</u>

Mortgage Payment (projected principal and interest)	920.94
Monthly homeowner's insurance	50.00
Monthly real estate taxes	170.00
Monthly private mortgage insurance (if applicable)	73.13
Monthly homeowner's association fee (if applicable)	0
Total B	\$ <u>12407</u>

Housing to income ratio (B divided by A) 25%

Housing expense (Total B) divided by monthly income (Total A) equals your housing to income ratio. This ratio should not exceed 30%.

Total B from above	12407
Total monthly car loans	160.00
Total monthly education loans	45.00
Total monthly credit card payments	95.00
Other (debt)	0
Total C	\$ <u>151407</u>

Payment to income ratio (C divided by A) from above 32%

Total monthly payments (Total C) divided by stable monthly income (Total A) equals the payment to income ratio. This ratio should not exceed 36%.

YOUR AVAILABLE CASH AND ASSETS

List below all your sources of cash and any assets you can use for the down payment and closing costs.

Checking account(s) \$ _____

Savings account(s) \$ _____

Mutual funds, stocks, and bonds \$ _____

Cash value of life insurance policy \$ _____

Cash gifts from parents or other relatives \$ _____

Other assets \$ _____

Total Cash and Assets \$ _____

HOW TO OBTAIN A CONSUMER CREDIT REPORT

The three main national credit reporting agencies are listed below. All contribute information to your credit score. You can contact any of these to request a report or visit www.annualcreditreport.com.

<p>EXPERIAN 701 Experian Pkwy P.O. Box 2002 Allen, TX 75013 888-397-3742 www.experian.com/reportaccess</p>	<p>TRANS UNION 760 W. Sproul Road P.O. Box 390 Springfield, PA 19064-0390 800-916-8800 www.transunion.com</p>	<p>EQUIFAX PO Box 105873 Atlanta, GA 30348 800-685-1111 www.equifax.com</p>
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YOU ARE ALLOWED ONE FREE CREDIT REPORT PER YEAR.

WHAT TO INCLUDE IN THE REQUEST

Legal Name

* First

Middle initial

* Last

Suffix

* Birthday

* Social Security Number

* Verify Social Security Number

Display Social Security Number

Current U.S. Address

* Address

Address

* City

* State

* Zip -

* Have you lived at this address for 2 years or more? Yes No

Previous U.S. Address

* Address

Address

* City

* State

* Zip -

This site provides credit information only for U.S. credit files.

To request your report, you must list U.S. addresses in the address section of this form. If you give your foreign address, the credit reporting companies will not be able to find your information.

If you have lived at the address above for less than 2 years, enter your previous address.

UNDERSTANDING A CREDIT REPORT

A credit report shows basic information about a consumer and it includes their employment history. Sometimes a credit report includes information about income, though in some cases, "refused" indicates that the employer would not give income information to the credit bureau. Here is a brief description of some of the items found on a credit report. On the following page begins a sample credit report from one of the major credit reporting agencies, Experian.

Creditor: The party that loaned money or allowed the consumer to charge a purchase.

Reported Date: The date the creditor provided information to the Credit Bureau.

Open Date: The date the consumer opened an account or began to owe a debt to each creditor.

Type: The type of debt. "CHG" means "revolving" charge card debts such as Master Card, Visa and department store credit cards. "I" means installment debt, such as a loan from a bank for a car, student loan, or some major purchase. Most lenders will reverify installment debt by checking the current loan balance and payment history.

Amount: The total amount of debt borrowed from each creditor or the available limit on revolving credit.

Balance: The amount left to be paid on the loan or charge card. More precisely, it is the difference between the total amount borrowed and the amount that the consumer has already paid back.

Times Past Due: The number of times payments have been made late. The zeros indicate no late payments on those accounts.

Payment Status: "As Agreed" means that the consumer has paid their accounts according to their agreement with the creditor. If the consumer had a poor payment record on an account, the payment status column might show "DELINQ" or some similar term.

Collection: "Collection" means that an account was referred to a collection agency. This reflects poorly on the consumer's credit, even if the bill is eventually paid--and without good explanation, could prevent qualifying for a mortgage.

Inquiries: No inquiries during the past 90 days means that nobody has requested to see the consumer's credit report during the past three months. If there had been an inquiry, this might indicate that the consumer has recently applied for a loan or credit. If so, new debt could affect the ability to qualify for a mortgage loan.

SAMPLE CREDIT REPORT



Online Personal Credit Report from Experian for

Experian credit report prepared for JOHN Q. CONSUMER Your report number is 1562064065 Report date: 04/24/2012	Index: - Potentially negative items - Accounts in good standing - Requests for your credit history - Personal information - Important message from Experian - Contact us
---	---

Report number:

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

Index:

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

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

To return to your report in the near future, log on to www.experian.com/consumer and select "View your report again" or "Dispute" and then enter your report number.

If you disagree with information in this report, return to the Report Summary page and follow the instructions for disputing.

Potentially negative items:

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

Potentially Negative Items

Public Records

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

MAIN COUNTY CLERK

Address: 123 MAINTOWN S BUFFALO, NY 10000	Identification Number: 1	Plaintiff: ANY COMMISSIONER O.
Status: Civil claim paid.	Status Details: This item was verified and updated in Apr 2012.	
Date Filed: 10/15/2012	Claim Amount: \$200	
Date Resolved: 03/04/2012	Liability Amount: NA	
Responsibility: INDIVIDUAL		

Status:

Indicates the current status of the account.

Credit Items

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

ABCD BANKS

Address: 100 CENTER RD BUFFALO, NY 10000 (555) 555-5555	Account Number: 1000000....	
Status: Paid/Past due 60 days.		
Date Opened: 10/2012	Type: Installment	Credit Limit/Original Amount: \$523
Reported Since: 11/2012	Terms: 12 Months	High Balance: NA
Date of Status: 04/2012	Monthly Payment: \$0	Recent Balance: \$0 as of 04/2012
Last Reported: 04/2012	Responsibility: Individual	Recent Payment: \$0



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

www.experian.com/disputes

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

Account History:

60 days as of 12-2012
30 days as of 11-2012

SAMPLE CREDIT REPORT

 (cont.)

MAIN COLL AGENCIES

Address: PO BOX 123 ANYTOWN, PA 10000 (555) 555-5555	Account Number: 0123456789	Original Creditor: TELEWISE CABLE COMM.
Status: Collection account. \$95 past due as of 4-2012.		

Date Opened: 01/2005	Type: Installment	Credit Limit/Original Amount: \$95
Reported Since: 04/2012	Terms: NA	High Balance: NA
Date of Status: 04/2012	Monthly Payment: \$0	Recent Balance: \$95 as of 04/2012
Last Reported: 04/2012	Responsibility: Individual	Recent Payment: \$0

Your statement: ITEM DISPUTED BY CONSUMER

Account History:
Collection as of 4-2012

Accounts in good standing:

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

Accounts in Good Standing 5

AUTOMOBILE AUTO FINANCE

Address: 100 MAIN ST E SMALLTOWN, MD 90001 (555) 555-5555	Account Number: 12345678998...	
Status: Open/Never late.		

Type:

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

Date Opened: 01/2006	Type: Installment 6	Credit Limit/Original Amount: \$10,355
Reported Since: 01/2012	Terms: 65 Months	High Balance: NA
Date of Status: 04/2012	Monthly Payment: \$210	Recent Balance: \$7,984 as of 04/2012
Last Reported: 04/2012	Responsibility: Individual	Recent Payment: \$0

MAIN

Address: PO BOX 1234 FORT LAUDERDALE, FL 10009	Account Number: 1234567899876	
Status: Closed/Never late.		

Date Opened: 03/1997	Type: Revolving	Credit Limit/Original Amount: NA
Reported Since: 03/2012	Terms: 1 Months	High Balance: \$3,228
Date of Status: 08/2012	Monthly Payment: \$0	Recent Balance: \$0 /paid as of 08/2012
Last Reported: 08/2012	Responsibility: Individual	Recent Payment: \$0

Your statement:
Account closed at consumer's request

SAMPLE CREDIT REPORT (cont.)

Requests for Your Credit History

7

Requests Viewed By Others

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

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

HOMESALE REALTY CO

Address: 2000 S MAINROAD BLVD STE ANYTOWN CA 11111 (555) 555-5555	Date of Request: 07/16/2012
Comments: Real estate loan on behalf of 3903 MERCHANTS EXPRESS M. This inquiry is scheduled to continue on record until 8-2014.	

M & T BANK

Address: PO BOX 100 BUFFALO NY 10000 (555) 555-5555	Date of Request: 02/23/2006
Comments: Permissible purpose. This inquiry is scheduled to continue on record until 3-2008.	

WESTERN FUNDING INC

Address: 191 W MAIN AVE STE 100 INTOWN CA 10000 (559) 555-5555	Date of Request: 01/25/2006
Comments: Permissible purpose. This inquiry is scheduled to continue on record until 2-2008.	

Requests Viewed Only By You

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

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

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

MAIN BANK USA

Address: 1 MAIN CTR AA 11 BUFFALO NY 14203	Date of Request: 08/10/2012
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MYTOWN BANK

Address: PO BOX 825 MYTOWN DE 10000 (555) 555-5555	Date of Request: 08/05/2006
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INTOWN DATA CORPS

Address: 2000 S MAINTOWN BLVD STE INTOWN CO 11111 (555) 555-5555	Date of Request: 07/16/2006
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Requests for your credit history:

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

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

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

FINDING THE RIGHT HOME

QA How do I determine what type of home I am looking for, and where do I go to find it?

As you look at homes, you will prioritize your expectations and desires, and realize that no one house will have everything you seek. But the home you ultimately purchase should meet as many of your expectations as possible. A key to the entire process is narrowing your search and not wasting time looking at every property.

Where should I begin?

Begin to develop a list of expectations you have for your new home. Some of the items on the list will describe the interior, amenities and overall size of the house. Location, lifestyle and livability will come into play. Commuting distance to work, to public transportation and maybe neighborhood schools are all considerations that might be on your list.

Your list of what is important reflects you, the future homeowner. Take the time to make the list and review it throughout the entire home buying process. The more items on your list your new home meets, the happier you will be living in it.

What are my options?

A single-family home

If this is the type of house you are looking for, you have a choice of buying a newly constructed house or an older home which may be in an already established neighborhood. Both new construction and older homes offer a first-time homebuyer advantages. Frequently an older home is roomier and more affordable than a new home in a comparable location. A new home may have a more efficient heating system, better insulation, and lower maintenance costs – probably for several years – since everything is brand new.

Buying an older home may present room for negotiation of the sales price if there are any necessary repairs; but remember, if the seller takes money off the price for necessary repairs, you are then responsible for paying to have these done (or doing them yourself if you are able). These could be costly and take a great amount of your time.

Condominiums

One benefit of purchasing a condo could be that maintenance is provided by the condo development. This means that there is still the benefit of home ownership with less time spent on yard work or home repairs.

However, condos have fees to cover these services and these fees will increase over time as services become more expensive or an aging development needs more repairs. Also, if there is not a strong replacement reserve budget (i.e., monies set aside to provide for the replacement of commonly owned items) and effective management of the condo association collecting fees as scheduled, the unit owners could face unexpected repairs and assessments.

As a condo owner you may be asked or wish to serve on the association board. This involves overseeing the collection of fees, upkeep of the grounds, maintaining the reserves, and managing emergency and scheduled repairs.

A two-to-four family home

Purchasing a two-to-four unit property is an investment as well as your personal residence. There may be tax and income advantages but there is also a great deal more responsibility when YOU become a landlord. These responsibilities include tenant search and selection, leases, security deposit procedures, possible evictions, and emergency repairs.

Fixer uppers (The handyman's special)

During your search for a home, you will find many houses that can be described as fixer uppers or "the handyman's special." These homes are usually in older – and thus more established – neighborhoods, but have suffered from neglect over a long period of time.

If you decide that a home needing repairs is for you, be prepared for the many costs involved in doing the rehabilitation work. You may discover that there are significant structural or design defects that may appear after the rehabilitation work is begun. Suddenly, your out-of-pocket costs for the rehabilitation could rise significantly. It could take longer than you had originally anticipated, and leave you, a new homeowner, living in a house with unfinished rooms.

MassHousing recommends that if you decide on a "fixer upper" have a contractor and home inspector detail the full extent of the rehabilitation work – as well as estimate the costs involved. It is recommended that you do this before you make your offer to purchase. The amount it will cost to fix up the fixer upper should directly impact the price you pay for the house.

How do I find the right house?

You actually have a number of sources to find the "right" house. They are

- the many websites and smartphone apps dedicated to homes for sale
- the real estate section of local newspapers or on news websites
- free real estate booklets available at various locations, such as grocery stores
- driving around to look for "For Sale" signs or using an above referenced app to find a neighborhood you like
- talking and working with real estate agents
- checking bulletin boards at the office, or in and around the neighborhood in which you are planning to buy
- talking to friends, acquaintances, and people at work

If you decide to do the house shopping on your own, you will want to gather information about various neighborhoods in your price range, what the neighborhoods offer, as well as how they satisfy your needs as they relate to schools, public transportation, shopping and accessibility to work.

An easier way may be to contact a real estate agent. In a single conversation, a real estate agent can give you information that might take you several weeks to gather on your own. Agents can be an excellent source of information. However, when it comes to actually buying a house **remember, real estate agents work for the seller not the buyer**. If you are working with a real estate agent you are not satisfied with, or who is not doing a good job for you, find another agent.

Another homebuying resource is the buyer's broker. Buyer brokers, unlike the typical real estate agent, work exclusively for you, the buyer. The buyer broker can be paid a fee from the buyer, or be paid from the commission earned by the property seller's agent. The payment arrangement is usually determined up front when you are negotiating with the buyer broker.

Remember, it could take six months or even longer to find the right house. Whether or not it is a *buyer's market* or *seller's market* may affect the availability of properties for you to choose from, and your ability to negotiate the purchase price. A buyer's market means there are many properties on the market and sales tend to move slowly. A seller's market occurs when interest rates are low, and many more buyers enter the housing market than do sellers.

How do I choose a location?

After you've decided on the type of property you want to purchase, the next step is choosing the location. There are several considerations:

- How far are you willing to commute--how close is highway access or public transportation?
- Will you be close to shopping, churches, day care and recreational facilities?
- Will the nearby schools meet the educational needs of your children?

Once you've decided on the general areas where you want to live, create a wish list for the “must haves” and “would like to haves” to assist you or your real estate broker in the house hunting process. (See the Exhibit 8, The Homebuyer's Roadmap, at the end of this chapter.)

Are there any House Hunting Tips I should remember?

As you go from house to house, it can be exhausting. It's not just being physically tired, it's that after a while all the houses start to look the same and it becomes hard to remember the details of each. Therefore, it's a good idea to keep in mind the following:

- Always take a notes and check the location of the home as it relates to your work, public transportation and other important factors. If the owner offers you a fact sheet, save it, even if you don't think you're interested in the house at the time. Later on, you may think about it and realize it had more appeal than you thought. Many of the available websites and apps allow you to maintain a wishlist for free. This can help you organize your search.
- Try not to look at more than three houses at one time. After that, you are no longer being careful – you are just running through, and not paying attention to important details. If you are going to look at a lot of houses, take big breaks in between.
- Use your smartphone or camera to snap pictures of the houses that appeal to you. A picture is worth a thousand words, but there are also a thousand available filters out there, so taking your own photos to review later can be an important tool.
- Make a rough-sketch floor plan of the homes that you consider “top contenders” – this is a good way to compare one house with another.
- Take note of the square footage of each home—this will allow you to accurately compare the house sizes with each other and with the amount of living space you are used to currently.
- Don't be afraid to ask questions. Many buyers worry that the agent will think them foolish if they ask questions. But **there are no foolish questions!** As a first-time homebuyer, you will want to know everything you can about each property. Often one question about pipes, heating or cooling systems, taxes, age of the home or recent repairs will lead to other questions. You may find areas of concern about a specific property that, initially, looked trouble free. Remember, it is far better to know about the problems of a house before you buy, than discover them once you are the owner.

How do I make an offer or negotiate a price I am willing to pay?

Many factors come into play as you prepare to make an offer on a property. Carefully consider the following points:

- What is the condition and age of the house?
- What will be the cost of any repairs?
- Are the sellers willing to assume any repair or possibly closing costs?
- How long has the property been on the market?
- Is it a buyer's or seller's market?
- Are the sellers anxious sellers (relocating or buying another property)?
- Is the property in a particularly desirable location or school system?
- Does the house have everything (or almost everything) you have been looking for?

When you are ready to make an offer either to the seller or to the agent involved, do not offer more than you can afford. Be sure to include contingencies to this offer, primarily subject to an acceptable inspection report, UFFI and radon reports, lead paint report and mortgage financing. Your offer must include a deposit (earnest money). There is no set amount of deposit, but as the buyer, put as little down as possible.

The seller will either accept your offer, make a counter offer which you also may accept or counter, or reject your offer. The negotiation between you and the seller could go on for several days and is stressful, perhaps less so if a broker is involved. Remember, the house is still on the market while negotiations are going on.

An accepted Offer to Purchase Real Estate (See Exhibit 9) must be in writing and must be signed by both parties. The Commonwealth of Massachusetts does not recognize a verbal offer as valid. Remember, the Offer to Purchase is a signed contract and is therefore a legally binding commitment by both parties. It is a good idea to bring your lawyer into the deal before you begin anything.

Why do I need an attorney?

To protect your interests as a homebuyer. An attorney will

- set the dates and timing for the purchase to protect your deposit money;
- help you negotiate a fair purchase price;
- help you prepare the Offer to Purchase;
- help you negotiate a more favorable purchase price if the home inspection uncovers significant problems;
- draft and/or revise the Purchase and Sale Agreement to protect you and your money;
- assist you with the mortgage process;
- prepare you for the final walk through of the property;
- attend the closing

How important are the deadline dates in the Offer to Purchase Real Estate?

Time is very important in real estate transactions. It is important to allow yourself enough time in the Offer to Purchase Real Estate to get an inspection, negotiate the Purchase and Sale Agreement, make the application and obtain mortgage financing for the purchase, and set a closing date. Real estate deals often fail based on the inability to meet deadlines in the Offer form.

What happens when my offer is accepted, and it is time to execute the Purchase & Sale Agreement?

When your offer has finally been accepted, a Purchase & Sale Agreement (P&S) (See Exhibit 10) will be drawn up by the broker or the seller's attorney. Although the document used is a standard form developed by the Board of Realtors, this is very detailed and may require modifications on the part of the seller or you. Remember, this is a legally binding document which should clearly define all of the terms of the sale and **should be reviewed by your attorney before you sign**. There is a sample Offer to Purchase and Purchase and Sale at the end of this chapter.

The P&S agreement includes

- A legal description of the property;
- The agreed upon sales price;
- The amount of earnest money and down payment;
- Items of personal property to be included in the sale;
- The period of time for the borrower to get a mortgage commitment;
- The price confirmed by an acceptable appraisal. The appraisal report should support the sales price of the home with three recent comparable sales. If it does not, you may withdraw from the transaction;

The property at time of closing should be "broom swept" clean.

There should also be a mortgage contingency clause concerning your ability to obtain financing **so that you do not lose your deposit on the house if your loan is not approved**. A contingency clause states that your ability to purchase the house is contingent on your ability to obtain financing by an agreed upon deadline. The contingency clause protects you, the buyer, from losing your deposit.

Other contingencies should include acceptable home, termite, radon, and lead paint inspections. The loan closing date and occupancy date should also be indicated in the agreement.

What is a home inspection?

A satisfactory home inspection, although not required, is a major component of purchasing a home. (Remember the lender's appraiser is not a home inspector!) The buyer selects a licensed home inspector and pays for the inspection. The home inspection will be an additional cost of a few hundred dollars but should be done. The inspection should include the following:

- Foundation
- Doors and windows
- Roof
- Plumbing and electrical systems
- Heating and air conditioning
- Ceilings, walls and floors
- Insulation and ventilation
- Sewers and septic systems

A good inspector should provide a report within 24–48 hours of the inspection.

A failed inspection allows you to withdraw from the transaction (providing this contingency is in your Offer to Purchase Real Estate or the Purchase and Sale) or perhaps renegotiate the sales price.

When you have a home inspected, it is highly recommended that you also have your prospective home inspected for termites, radon, lead paint, and asbestos.

Home inspectors must be licensed. Please go to www.mass.gov for more information from the Board of Inspectors for Massachusetts. Home inspectors are regulated under 266 CMR .2–11, Rules and Regulations Governing Home Inspectors.

Chapter Summary

This chapter has covered the home selection process and provided tips on available resources to lead you to the right home. The process of making an Offer to Purchase Real Estate, signing a Purchase and Sale Agreement, and the important contingencies that must be included in these documents has also been highlighted.

The next step is to obtain a mortgage, and proceed to the loan closing. Chapter 3 covers the entire mortgage application process.

INSTRUCTOR NOTES

MassHousing recommends that guest speakers be invited to discuss the following topics:

1. The obligations of being a landlord/owner of a 2, 3, or 4 family property;
2. The home selection process by a real estate broker, including an explanation of the MLS;
3. Review of the Offer to Purchase and the Purchase and Sale documents by a real estate attorney;
4. Review of the inspection process by a licensed home inspector.

Exhibits:

8. The Homebuyer's Roadmap
9. Offer to Purchase Real Estate
10. Purchase & Sale Agreement

THE HOMEBUYER'S ROADMAP

The following “roadmap” overviews the homebuying process by giving you a step-by-step list and related costs of how to purchase your first home. Like any roadmap, there may be detours that are unexpected, costs may fluctuate depending on economic and market influences, and there may be additional steps, or some you can bypass altogether. By reading through the entire map as you begin house hunting, you should be well prepared for the road ahead.

- Step 1** Determine wants/needs based on personal evaluation and plans for the future.
Estimated Cost: \$0

- Step 2** Send away for free credit report. Address any issues that may arise from report.
Estimated Cost: \$0

- Step 3** Get pre-approved by at least one lending institution to determine borrowing ability.
Estimated Cost: \$0

- Step 4** Contact real estate agents to get information about the real estate market, including current properties on the market, and properties that have recently sold.
Estimated Cost: \$0

- Step 5** Begin looking at houses.
Estimated Cost: \$0

- Step 6** Make an Offer to Purchase Real Estate on a property. Make sure the Offer includes contingencies for inspections and mortgage financing.
Estimated Cost: Binder of about \$1,000—refundable if offer is not accepted or deal falls apart. If deal goes through, deposit goes toward downpayment.

- Step 7** Have home inspection performed by professional home inspector.
Estimated Cost: \$250 - \$750 (per unit*) depending on property and inspector.
** Multi-family properties may be per unit*

- Step 8** Contact a real estate attorney to negotiate Purchase and Sale Agreement. (You may wish to engage an attorney on an hourly basis instead of agreeing to a flat rate.)
Estimated Cost: \$500 - \$1,500 depending on complexity of negotiations and attorney used.

Step 9 Sign approved Purchase and Sale Agreement.
Estimated Downpayment: Equal to 5% of the sales price minus the initial binder, (earnest money), paid when offer was made. Deposit is held in escrow and is refundable if deal does not go through because all conditions and contingencies outlined in Purchase and Sale Agreement were not met.

Step 10 Apply for mortgage.
Estimated Cost: \$300 - \$750. Non-refundable.

Step 11 Get commitment letter from mortgage lender.
Estimated Cost: \$0

Step 12 Get insurance binder, get final closing cost figure and go to closing with money for closing costs and any remaining downpayment funds required.
Estimated Costs: Insurance: Between \$500-\$2,000 based on type of property and insurance purchased. Closing costs: wide range depending on lender and product used. Can be as low as 1% of the cost of the house or as high as 5% of the cost of the house depending on the number of points and fees charged. Remaining downpayment: Based on deposit described in the original Offer and again in the Purchase and Sale Agreement and any additional downpayment funds required.

FINALLY: MOVE IN! Factor in moving costs, and have all utilities turned on in your name.

Source: John Woods, Housing Program Manager, City of Somerville, MA.

OFFER TO PURCHASE REAL ESTATE

CONTRACT TO PURCHASE REAL ESTATE #501 (Page 1 of 2)
(With Contingencies)
(Binding Contract. If Legal Advice Is Desired, Consult An Attorney.)



MASSACHUSETTS ASSOCIATION OF REALTORS®

From: BUYER(S): _____ **To: OWNER OF RECORD ("SELLER"):** _____
Name(s): _____ Name(s): _____
Address: _____ Address: _____

The BUYER offers to purchase the real property described as _____ together with all buildings and improvements thereon (the "Premises") to which I have been introduced by _____ upon the following terms and conditions:

1. Purchase Price: The BUYER agrees to pay the sum of \$ _____ to the SELLER for the purchase of the Premises (the "Offer"), due as follows:

- i. \$ _____ as a deposit to bind this Offer
 and delivered herewith to the Seller or Seller's agent
 or to be delivered forthwith upon receipt of written acceptance
- ii. \$ _____ as an additional deposit upon executing the Purchase And Sale Agreement;
- iii. Balance by bank's, cashier's, treasurer's or certified check or wire transfer at time for closing.

2. Duration Of Offer. This Offer is valid until _____ a.m./p.m. on _____ by which time a copy of this Offer shall be signed by the SELLER, accepting this Offer and returned to the BUYER, otherwise this Offer shall be deemed rejected and the money tendered herewith shall be returned to the BUYER. Upon written notice to the BUYER or BUYER'S agent of the SELLER'S acceptance, the accepted Offer shall form a binding agreement. Time is of the essence as to each provision.

3. Purchase And Sale Agreement. The SELLER and the BUYER shall, on or before _____ a.m./p.m. on _____ execute the Standard Purchase and Sale Agreement of the MASSACHUSETTS ASSOCIATION OF REALTORS® or substantial equivalent which, when executed, shall become the entire agreement between the parties and this Offer shall have no further force and effect.

4. Closing. The SELLER agrees to deliver a good and sufficient deed conveying good and clear record and marketable title at _____ a.m./p.m. on _____ at the _____ County Registry of Deeds or such other time or place as may be mutually agreed upon by the parties.

5. Escrow. The deposit shall be held by _____, as escrow agent, subject to the terms hereof. Endorsement or negotiation of this deposit by the real estate broker shall not be deemed acceptance of the terms of the Offer. In the event of any disagreement between the parties concerning to whom escrowed funds should be paid, the escrow agent may retain said deposit pending written instructions mutually given by the BUYER and SELLER. The escrow agent shall abide by any Court decision concerning to whom the funds shall be paid and shall not be made a party to a pending lawsuit solely as a result of holding escrowed funds. Should the escrow agent be made a party in violation of this paragraph, the escrow agent shall be dismissed and the party asserting a claim against the escrow agent shall pay the agent's reasonable attorneys' fees and costs.

6. Contingencies. It is agreed that the BUYER'S obligations under this Offer and any Purchase and Sale Agreement signed pursuant to this Offer are expressly conditioned upon the following terms and conditions:

a. Mortgage. (Delete If Waived) The BUYER'S obligation to purchase is conditioned upon obtaining a written commitment for financing in the amount of \$ _____ at prevailing rates, terms and conditions by _____. The BUYER shall have an obligation to act reasonably diligently to satisfy any condition within the BUYER'S control. If, despite reasonable efforts, the BUYER has been unable to obtain such written commitment the BUYER may terminate this agreement by giving written notice that is received by 5:00 p.m. on the calendar day after the date set forth above. In the event that notice has not been received, this condition is deemed waived. In the event that due notice has been received, the obligations of the parties shall cease and this agreement shall be void; and all monies deposited by the BUYER shall be returned. In no event shall the BUYER be deemed to have used reasonable efforts to obtain financing unless the BUYER has submitted one application by _____ and acted reasonably promptly in providing additional information requested by the mortgage lender.

CONTRACT TO PURCHASE REAL ESTATE #501 (Page 2 of 2)
 (With Contingencies)



b. Inspections. (Delete If Waived) The BUYER'S obligations under this agreement are subject to the right to obtain inspection(s) of the Premises or any aspect thereof, including, but not limited to, home, pest, radon, lead paint, septic/sewer, water quality, and water drainage by consultant(s) regularly in the business of conducting said inspections, of BUYER'S own choosing, and at BUYER'S sole cost within _____ days after SELLER'S acceptance of this agreement. If the results are not satisfactory to BUYER, in BUYER'S sole discretion, BUYER shall have the right to give written notice received by the SELLER or SELLER'S agent by 5:00 p.m. on the calendar day after the date set forth above, terminating this agreement. Upon receipt of such notice this agreement shall be void and all monies deposited by the BUYER shall be returned. Failure to provide timely notice of termination shall constitute a waiver. In the event that the BUYER does not exercise the right to have such inspection(s) or to so terminate, the SELLER and the listing broker are each released from claims relating to the condition of the Premises that the BUYER or the BUYER'S consultants could reasonably have discovered.

7. Representations/Acknowledgments. The BUYER acknowledges receipt of an agency disclosure, lead paint disclosure (for residences built before 1978) and Home Inspectors Facts For Consumers brochure (prepared by the Office of Consumer Affairs). The BUYER is not relying upon any representation, verbal or written, from any real estate broker or licensee concerning legal use. Any reference to the category (single family, multi-family, residential, commercial) or the use of this property in any advertisement or listing sheet, including the number of units, number of rooms or other classification is not a representation concerning legal use or compliance with zoning by-laws, building code, sanitary code or other public or private restrictions by the broker. The BUYER understands that if this information is important to BUYER, it is the duty of the BUYER to seek advice from an attorney or written confirmation from the municipality. In addition, the BUYER acknowledges that there are no warranties or representations made by the SELLER or any broker on which BUYER relies in making this Offer, except those previously made in writing and the following: (if none, write "NONE"):

8. Buyer's Default. If the BUYER defaults in BUYER'S obligations, all monies tendered as a deposit shall be paid to the SELLER as liquidated damages and this shall be SELLER'S sole remedy.

9. Additional Terms.

BUYER _____ Date _____ BUYER _____ Date _____

SELLER'S REPLY

SELLER(S): (check one and sign below)

- ____ (a) ACCEPT(S) the Offer as set forth above at _____ a.m./p.m. on this _____ day of _____.
- ____ (b) REJECT(S) the Offer.
- ____ (c) Reject(s) the Offer and MAKE(S) A COUNTEROFFER on the following terms:

This Counteroffer shall expire at _____ a.m./p.m. on _____ if not withdrawn earlier.

SELLER, or spouse _____ Date _____ SELLER _____ Date _____

(IF COUNTEROFFER FROM SELLER) BUYER'S REPLY

The BUYER: (check one and sign below):

- ____ (a) ACCEPT(S) the Counteroffer as set forth above at _____ a.m./p.m. on this _____ day of _____.
- ____ (b) REJECT(S) the Counteroffer.

BUYER _____ Date _____ BUYER _____ Date _____

RECEIPT FOR DEPOSIT

I hereby acknowledge receipt of a deposit in the amount of \$ _____ from the BUYER this _____ day of _____.

 Escrow Agent or Authorized Representative



PURCHASE & SALE AGREEMENT



STANDARD PURCHASE AND SALE AGREEMENT [#503] (With Contingencies)

The parties make this Agreement this _____ day of _____, _____. This Agreement supersedes and replaces all obligations made in any prior Contract To Purchase or agreement for sale entered into by the parties.

1. **Parties.**

_____, [insert name],
the "SELLER," agrees to sell and _____ [insert name],
the "BUYER," agrees to buy, the premises described in paragraph 2 on the terms set forth below. BUYER may require the conveyance to be made to another person or entity ("Nominee") upon notification in writing to SELLER at least five business days prior to the date for performance set forth in paragraph 5. Designation of a Nominee shall not discharge the BUYER from any obligation under this Agreement and BUYER hereby agrees to guarantee performance by the Nominee.

2. **Description Of Premises.** The premises (the "Premises") consist of:

(a) the land with any and all buildings thereon known as _____

_____, as more specifically described in a deed recorded in the _____ Registry of Deeds at Book _____, Page _____, [Certificate No. _____], a copy of which is is not [choose one] attached; and

(b) all structures, and improvements on the land and the fixtures, including, but not limited to: any and all storm windows and doors, screens, screen doors, awnings, shutters, window shades and blinds, curtain rods, furnaces, heaters, heating equipment, oil and gas burners and fixtures, hot water heaters, plumbing and bathroom fixtures, towel racks, built-in dishwashers, garbage disposals and trash compactors, stoves, ranges, chandeliers, electric and other lighting fixtures, burglar and fire alarm systems, mantelpieces, wall-to-wall carpets, stair carpets, exterior television antennas and satellite dishes, fences, gates, landscaping including trees, shrubs, flowers; and the following built-in components, if any: air conditioners, vacuums systems, cabinets, shelves, bookcases and stereo speakers, and _____

but excluding _____,
[insert references to refrigerators, dishwashers, microwave ovens, washing machines, dryers or other items, where appropriate]

3. **Purchase Price.** The purchase price for the Premises is \$ _____ dollars of which \$ _____ were paid as a deposit with Contract To Purchase; and \$ _____ are paid with this Agreement; \$ _____ are to be paid _____; and \$ _____ are to be paid at the time for performance by bank's, cashier's, treasurer's or certified check or by wire transfer.
\$ _____ Total

4. **Escrow.** All funds deposited or paid by the BUYER shall be held in a non-interest bearing escrow account, by _____, as escrow agent, subject to the terms of this Agreement and shall be paid or otherwise duly accounted for at the time for performance. If a

BUYER'S Initials BUYER'S Initials BUYER'S Initials SELLER'S Initials SELLER'S Initials SELLER'S Initials



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Form No. 503

OBTAINING A MORTGAGE

QA How do I shop for a loan?

A major part of the homebuying process is shopping for a loan. Even if you are pre-qualified with a lender, an educated homebuyer should compare the terms of the different loan options that various lenders offer.

Many homebuyers hear the terms "pre-qualified" and also "pre-approved" for a mortgage loan. The term "pre-qualified" means that a lender has determined, based on the information you have provided, that you would qualify for a mortgage loan. Pre-qualified, however, does not guarantee you a loan, nor does it guarantee the rate at which the lender will lend you the money. Pre-approved, on the other hand, guarantees (typically for a period of 30 - 45 days) a mortgage loan at a specified rate. However, a pre-qualification gives the property seller confidence that the prospective buyer will be able to obtain a mortgage. This confidence will greatly affect the seller's decision to accept an Offer to Purchase. Neither pre-qualified nor pre-approved lock you into a mortgage commitment. As a smart consumer, **you should shop wisely for the mortgage loan that offers you the best terms that you can find.**

One place to begin (even while you are taking this course) is on-line with some general search terms such as "compare mortgage rates" or "compare lender rates". Although you may have a lender in mind, or even be pre-qualified (remember, you are not obligated to borrow from a lender who has pre-qualified you), competitive shopping can save you a lot of money over the life of the mortgage.

Other sources of information beside the internet are

- Mortgage companies;
- Savings and loan institutions;
- Federal credit unions;
- Other financial institutions.

Another good resource is your real estate agent. They usually know area lenders and what they are offering.

Finding the best rate and terms may require a significant amount of time, but it will be worth it overall.

What are the “terms” of a mortgage loan?

When shopping for a mortgage loan these are some *terms* or factors to compare among lenders:

- What interest rate is the lender offering?
- Is the rate fixed or adjustable?
- Can I lock in my rate when I apply for the mortgage? For how long? How much will it cost?
- What are the closing costs?
- What fees will the lender charge and how do those fees compare with other lender's fees?

To obtain a MassHousing Mortgage, you must go through a MassHousing Participating Lender. You can obtain a list of MassHousing approved lenders by going to www.masshousing.com/lenders or calling 1-888-843-6432

What do lenders generally focus on when you apply for a loan?

Lenders look most closely at the three C's of mortgage qualification — cash, credit, and collateral. Cash means you have enough money for a down payment and closing costs. Good credit means you have borrowed money in the past and repaid your debts in full and on time. Collateral is security for the mortgage loan represented by the home you are financing. Lenders want to make certain that the property you're buying has enough value to support the amount of money you're borrowing for the mortgage.

What can you do to prepare for the lender?

When you meet with your lender to fill out your mortgage application, they will require a lot of information from you. This section will prepare you for that and explain why the lender needs it.

The lender will need

- Last 3-4 current year-to-date pay stubs;
- Two years of W-2 and federal income tax returns (MassHousing requires three years of W-2 and federal income tax returns);
- Current landlord name and your address for the past two years or canceled rent checks from the last 12 months;
- Employer name and address for the past two years;
- Copy of the executed Purchase and Sale agreement;
- The name, address, account number and balances at all banks at which you have an account, or bank statements for the last 3-4 months for all accounts;
- Quarterly stock and bond statements, 401K statements, or IRA statements;
- All existing loans, name of lender(s), addresses, account numbers, monthly payments, and balances;
- Latest credit card statements;

- Green card – copies of front and back (not required for MassHousing mortgages), if applicable;
- Name of your real estate agent;
- Copy of canceled earnest money deposit;
- Condominium documents and condo fee information if applicable;
- Copy of divorce decree, if applicable;
- Checkbook.

If you are self-employed you will need all of the above documents as well as:

- Federal tax returns with all schedules, and a year-to-date profit and loss statement.

Be prepared to answer the following questions and provide additional information:

- If you have changed jobs in the past two years provide the dates of when you started and ended each job;
- If you have a gap in employment between jobs, be prepared to explain the circumstances **in writing**;
- If you have recently graduated from school and do not have a two year work history, provide a copy of your degree;
- The name and telephone number of your attorney.

(See Exhibit 11, Mortgage Application Checklist, at the end of this chapter.)

Financing

What is the right type of mortgage for me?

Probably the most difficult question to ask as part of the homebuying process is “What is the right type of mortgage for me?” The following describes different mortgages that you might choose and their advantages and disadvantages.

What are Fixed Interest Rate Mortgages?

Fixed interest rate mortgages come in 30, 25, 20, 15, and 10 year terms. A 30-year fixed rate mortgage is commonly the mortgage of choice in the Northeast. It offers the homeowner the comfort of knowing their housing payment remains constant for the life of the loan.

A 15-year fixed rate mortgage offers a lower interest rate than a 30- or 20-year mortgage and will save you a significant amount of interest over the life of the loan. A 15-year mortgage allows you to build up equity very quickly in your home. However, keep in mind that **your monthly mortgage payment will be considerably higher than a 30-year fixed interest rate mortgage.**

What are Adjustable Rate Mortgages (ARMs)

Another category of mortgages are adjustable rate mortgages (ARMs). If you expect your income to increase steadily in the years ahead, or plan to move in a few years and potential rate increases do not concern you, consider an ARM. ARMs adjust as economic and market conditions move up and down. Although the ARM typically offers a lower interest rate initially, your mortgage payments can change annually. To protect borrowers, the ARM comes with two caps or ceilings – one for each adjustment period, and one for the life of the loan.

What are Two-Step Mortgages?

The two-step mortgage is a special category of ARM in that it adjusts only once, either at five or seven years into the life of the loan. After that single adjustment, the mortgage remains at a fixed rate for the rest of the life (either 23 or 25 years) of the 30-year mortgage repayment term.

There are many other mortgage products available for first-time buyers as well as federally insured mortgages under the Federal Housing Administration (FHA) and Veterans Administration (VA) programs. Speak to as many lenders as possible and choose the program best for you.

When do I find out what the mortgage interest rate will be?

You will be quoted an interest rate on the day you apply. This rate may not be available to you when you actually close the loan, unless you lock-in the rate. A rate-lock guarantees your rate for a specific period of time, usually 45–60 days.

Interest rates affect how much you can borrow, higher rates can reduce the size of the mortgage for which you qualify.

Do all lenders have the same rate-lock policies?

No. Find out whether the rate-lock will expire before the loan is processed, and whether the lender promises rapid turn-around time. If the rate-lock might expire before the loan is processed and closed, the rate-lock has no value. Inquire if the lender provides a “rate relock” option in times of falling interest rates. Also, find out the lender’s policy if they fail to approve your loan during the rate lock period.

What are closing costs?

Following is a list of fees that are part of the mortgage loan process. These fees vary from lender to lender, and when a lender offers a first time homebuyer incentive they may waive all or some of the fees listed below. Remember, each of the fees is associated with one part of the mortgage. You can use the list below to verify that either you, an attorney, or your lender has completed all the necessary steps in the mortgage process.

- Application fee
- Origination fee
- Credit report fee
- Appraisal fee
- Lender's attorney fees
- Title search
- Title insurance
- Document preparation fee
- Plot plan
- Underwriting fee

What is private mortgage insurance?

Private mortgage insurance (PMI) allows borrowers to purchase homes with a low downpayment and protects the lender in the event the buyer fails to repay the loan. This insurance also enables the homebuyer to purchase a home with a downpayment as little as 3% of the purchase price. The cost of PMI is added to your monthly mortgage payments and closing costs.

MassHousing has its own insurance called the Mortgage Insurance Fund (MIF) that gives a borrower three different flexible payment options. Depending on which option a borrower chooses, less cash would be required at the loan closing. By taking advantage of MassHousing's MIF, borrowers can borrow up to 97% of the appraised value of the property.

What are the escrow requirements?

Escrow is the process by which money is put into the custody of a third party until certain conditions of an agreement are met, or to cover the borrower's upcoming expenses. The escrow amount the lender requires for the home purchase covers the cost of real estate taxes, homeowner's or hazard insurance, and private mortgage insurance. The payments you, the borrower, make into an escrow account are made over the life of the mortgage loan, and are reflected in your monthly mortgage payment.

What is a mortgage commitment?

When your loan is approved, your lender will send you a commitment letter which is a formal loan offer stating the loan amount, terms of the loan, loan obligation fee, annual percentage rate and amount of principal, interest, taxes, and insurance.

Furthermore, this letter will give you, the borrower, the amount of time necessary to accept this offer, and close the loan.

The Mortgage Commitment Letter may contain additional conditions you must satisfy to close your loan. Until all of the conditions are satisfied and approved by the lender, your loan will not close.

It is important to review the commitment letter carefully before you sign it. Remember, by signing the letter you agree to all the terms of the loan set forth in that letter.

How long does it take to get a mortgage commitment letter?

It will take at least 4–5 weeks for the lender to evaluate your application and approve the property. (See Exhibit 12, The Path of a Mortgage Loan.)

The lender verifies all information on the loan application by sending out verifications of income, deposits, and employment. The lender is required by law to provide all prospective borrowers an itemized estimate of the costs to close your loan within 3 days of submitting your loan application. The lender must also provide you the booklet *“Your home loan toolkit: A step-by-step guide”*. This booklet is full of important information regarding consumer rights and protections.

The lender will require that the property be appraised by a professional appraiser. This service will be added into your closing costs. The appraiser will estimate the market value of the property you are purchasing.

An appraisal is a report that lenders use to determine the current value of a property. It usually compares your home to at least 3 similar homes in your neighborhood that have sold within the last year. The appraisal is necessary to be sure the property you are buying has enough value to support the mortgage loan.

Lenders will not lend more than a certain percentage of the appraised value of the property. For example, MassHousing lends up to 97%.

How can I speed up the process?

- Respond to requests for additional information from your lender promptly.
- Contact your lender to check on loan status; perhaps you can speed up the process if you know what the lender is waiting for.

What can I do if my mortgage application is rejected?

Good communication between you and your lender is extremely important when an application has been rejected.

Applications are rejected because of inadequate income, poor credit, or too much debt. Check your credit report to make sure it is accurate. Sometimes a borrower will have good credit but too many bills to pay.

Sometimes the loan-to-value ratio is too high. In that case, your income is not enough to make the mortgage payments. Look for other loan programs with more flexible loan standards, or consider shopping for a less expensive home.

By law, lenders are required to notify you in writing if your application is rejected or denied. Communication is important in

- Clarifying a situation that caused the rejection;
- Trying to improve your ability to qualify for a future mortgage.

Remember:

- Do not assume that if you have been denied by one lender, you will be denied by another one.

Discuss the situation with the lender. There are instances where the rejection is beyond your control, and in some cases you may be able to remedy the situation, either immediately or over a short period of time.

Chapter Summary

This chapter has described the mortgage application process; discussed ways you can be prepared when meeting a mortgage lender; what questions to ask; what different mortgage products are available; and how important the interest rate is when calculating monthly payments.

The chapter has explained closing costs, and the mortgage time frames. The importance of the commitment letter was also emphasized.

You are now ready to proceed with the loan closing and take on the responsibilities of homeownership. Chapter 4 will guide you to the front door of your new home!

INSTRUCTOR NOTES

MassHousing recommends that guest speakers be invited to discuss the following topics:

1. The loan application process and mortgage programs available for first time buyers
- invite one or more mortgage lenders.

Exhibits:

11. Mortgage Application Checklist
12. The Path of a Mortgage Loan
13. FNMA Form 1003-Uniform Residential Loan Application
14. Loan Estimate

THE MORTGAGE APPLICATION CHECKLIST

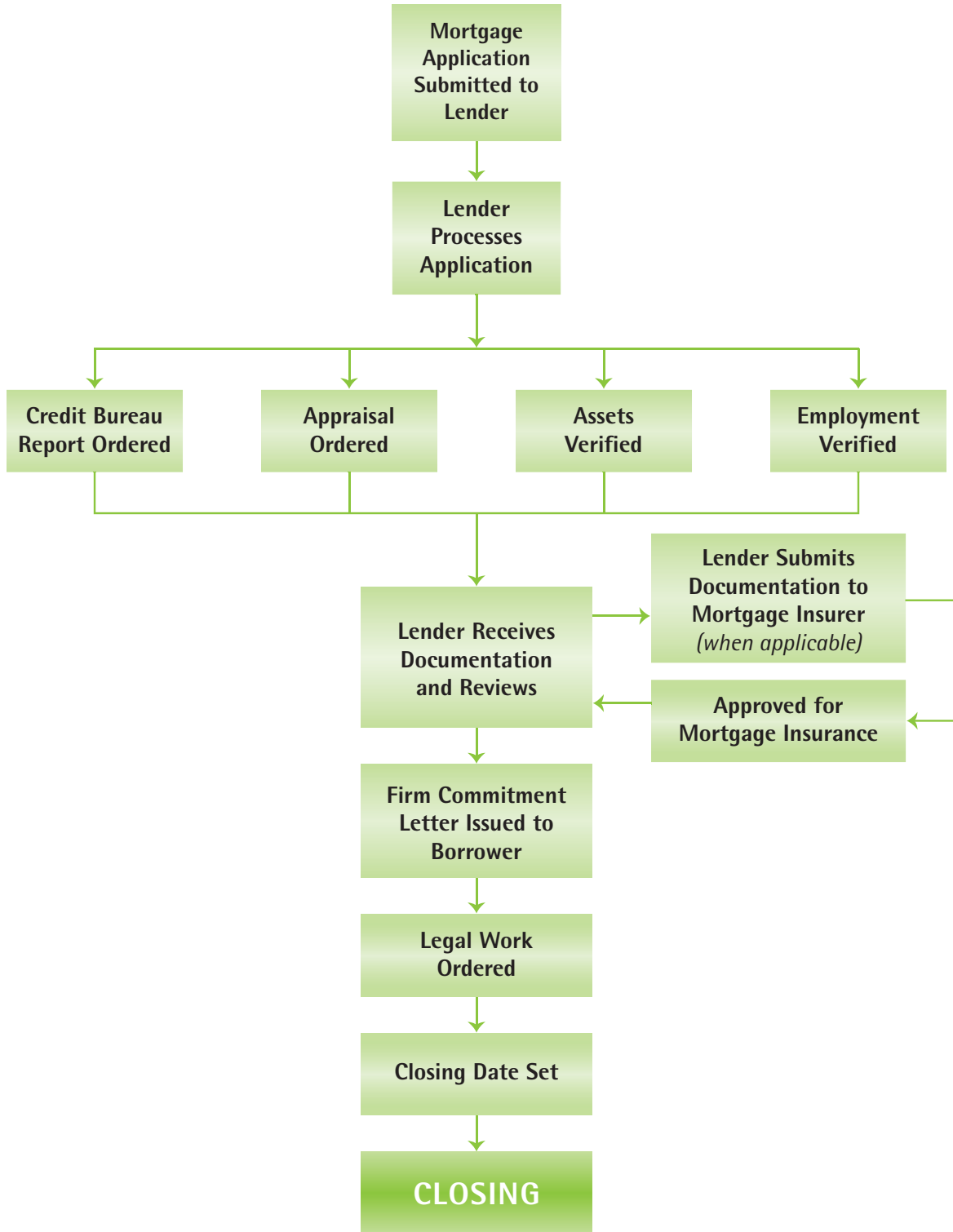
To expedite the processing of a mortgage application, the borrowers should provide the following information:

- Accepted Offer-to-Purchase Real Estate signed by all parties and a "Purchase and Sale Agreement" signed by all parties. Copies of canceled checks (front and back) used for down-payment listed on Purchase and Sale agreement will be required prior to closing.
- Names and addresses of all employers for the previous two years.
- Annual Gross salary (overtime and bonuses listed separately), copies of previous two years' W-2 forms and four most recent pay stubs.
- If self-employed, copies of your signed personal federal income tax returns with all schedules for the previous two years. If employed by your own corporation or partnership, copies of its returns for the previous two years and a year-to-date profit and loss statement prepared by your accountant. (Sole proprietorships included.)
- If relying on Social Security, Disability or Pension Income, bring a copy of three most recent stubs or three bank statements if directly deposited and Award Certificate from the issuing agent.
- Names and addresses of Banks, Credit Unions, Depositors in which you have deposit accounts. List account numbers and balances in each account. Include copies of last three months' statements for each account.
- List of all stocks, bonds, certificates of deposit and other securities, showing current market value. Include copies of last three months' and/or quarterly statements, account numbers, etc.
- Address, current market value, original loan amount and current balance on any real estate owned, with bank name, address and account number for each mortgage.
- Copies of leases or rental agreements for all rental property.

THE MASSHOUSING MORTGAGE APPLICATION CHECKLIST (cont.)

- Complete list of all outstanding installment debt, including auto loans, student loans, and personal loans. Supply creditor name, address, account number, current balance and monthly payment.
- Complete list of all outstanding credit card debt including account numbers, balances and minimum payments.
- Verification of monthly rental payment. Twelve (12) months of canceled checks (front and back).
- If receiving or obligated to pay alimony, child support and or separate maintenance, provide a copy of your divorce decree and separation agreement. Also include 12 months of canceled checks to verify the receipt or payment of these funds.
- Copy of front and back of Resident Alien Registration Card (if applicable).
- If purchasing a condo, a complete set of condo documents including a master deed, budget, by-laws and a project insurance certificate or condominium spot affidavit.

THE PATH OF A MORTGAGE LOAN



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 rights pursuant to 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 has community property rights pursuant to applicable law and 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: <input type="checkbox"/> V.A. <input type="checkbox"/> Conventional <input type="checkbox"/> Other (Explain): _____ <input type="checkbox"/> FHA <input type="checkbox"/> USDA/Rural Housing Service		Agency Case Number _____	Lender Case Number S
Amount \$ _____	Interest Rate % _____	No. of Months 3	Amortization Type: <input checked="" type="checkbox"/> Fixed Rate <input type="checkbox"/> Other (explain): _____ <input type="checkbox"/> GPM <input type="checkbox"/> ARM (type): _____

II. PROPERTY INFORMATION AND PURPOSE OF LOAN	
Subject Property Address (street, city, state, & ZIP) _____	No. of Units 1
Legal Description of Subject Property (attach description if necessary) _____	
Year Built _____	
Purpose of Loan: <input type="checkbox"/> Purchase <input type="checkbox"/> Construction <input type="checkbox"/> Other (Explain) _____ <input type="checkbox"/> Refinance <input type="checkbox"/> Construction-Permanent	
Property will be: <input type="checkbox"/> Primary Residence <input type="checkbox"/> Secondary Residence <input type="checkbox"/> 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: <input type="checkbox"/> made <input type="checkbox"/> to be made	
Cost: \$ _____	
Title will be held in what Name(s) _____	
Manner in which Title will be held _____	
Estate will be held in: <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold (show expiration date) _____	
Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain) _____	

III. BORROWER INFORMATION	
Borrower	Co-Borrower
Borrower's Name (including Jr. or Sr. if applicable) _____	
Co-Borrower's Name (including Jr. or Sr. if applicable) _____	
Social Security Number _____	Home Phone (incl. area code) _____
DOB (MM/DD/YYYY) _____	Yrs. School _____
<input type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Dependents (not listed by Co-Borrower) no. _____ ages _____ <input type="checkbox"/> Unmarried (includes single, divorced, widowed)	
<input type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Dependents (not listed by Borrower) no. _____ ages _____ <input type="checkbox"/> Unmarried (includes single, divorced, widowed)	
Present Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent _____ No. Yrs. _____	
Mailing Address, if different from Present Address _____	
If residing at present address for less than two years, complete the following:	
Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent _____ No. Yrs. _____	

IV. EMPLOYMENT INFORMATION	
Borrower	Co-Borrower
Name & Address of Employer _____ <input type="checkbox"/> Self Employed	
Yrs. on this job _____	
Yrs. employed in this line of work/profession _____	
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 _____ <input type="checkbox"/> Self Employed	
Dates (from - to) _____	
Monthly Income \$ _____	
Position/Title/Type of Business _____	
Business Phone (incl. area code) _____	
Name & Address of Employer _____ <input type="checkbox"/> Self Employed	
Dates (from - to) _____	
Monthly Income \$ _____	
Position/Title/Type of Business _____	
Business Phone (incl. area code) _____	

Borrower _____
 Co-Borrower _____
 Freddie Mac Form 65 7/05 (rev. 6/09), Fannie Mae Form 1003 7/05 (rev. 6/09) Page 1 of 4 www.bytesoftware.com 800-695-1008

FICUS BANK

4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

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

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

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$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 <i>Amount can increase over time</i>	+ 206	+ 206
Estimated Total Monthly Payment	\$1,050	\$968
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$206 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>
		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. <i>See page 2 for details.</i>
Estimated Cash to Close	\$16,054 Includes Closing Costs. <i>See Calculating Cash to Close on page 2 for details.</i>

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

LOAN CLOSING / OWNERSHIP

QA How do I prepare for the Loan Closing?

A loan closing is the transfer of the title from the seller to you, and the settlement of all the monies that are due. The real estate agent or broker, your attorney, the bank's attorney, the seller, and of course you, the buyer, will participate. It is important to be prepared and to avoid the possibility of having to reschedule the closing because something was overlooked.

How do I prepare?

- Conduct a walk through or final inspection of the premises within the 24 hours prior to closing to ensure that the property is in an acceptable move-in condition. If a problem with the house is discovered *after* the closing, you have no recourse against the seller of the property. The problem is entirely yours to reconcile.

What do I bring to the closing?

- A certified cashier's check or treasurer's check to cover all closing costs. The correct amount will be given to you before the closing by the closing attorney.
- A homeowners' insurance policy, binder, and a paid receipt for the first year's premium which covers 100% of the replacement cost of your home.

What are some of the closing costs, what do they include?

- Downpayment;
- Any points involved in the transaction (a point is 1% of the loan amount);
- Attorney fees;
- 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);
- Title insurance (insurance to protect the lender and/or the buyer against loss arising from disputes over ownership of a property);
- A municipal lien search (a search to determine that there are no outstanding legal claims against the property that must be paid when the property is sold);
- Appraisal; and
- Credit report and a certified plot plan.

What other costs are paid at closing?

- A full year insurance binder
- Recording fees and transfer charges
- Any prepaid interest due on the mortgage for the month in which you are closing the loan. You must also pay the first year's premium for mortgage insurance unless you have chosen to finance on a monthly basis

What happens during the actual closing?

The closing is the actual purchase transaction where the property is deeded from the seller to the buyer. This takes place most often in the attorney's office or the Registry of Deeds, but can also be done at your lender's offices. You will be contacted by the lender's attorney with instructions on what to bring to the closing. Usually a driver's license, insurance binder and cashier's check for the remainder of the downpayment and closing costs are requested. Please read all documentation before signing and feel free to ask as many questions as you need to of the closing attorney.

What documents are signed at the closing?

You will be asked to sign several documents at closing. The list below is a sample of the forms you will be signing. If there is a form you do not understand, ask questions.

The Closing Disclosure (CD). The Closing disclosure or CD is a form that lists all final terms of the loan you've selected, final closing costs, and the details of who pays and who receives money at closing. Your lender sends you a Closing Disclosure at least three business days before closing (see Exhibit 14, Closing Disclosure at the end of this chapter)

The Mortgage Note. The mortgage note represents your promise to pay the lender according to the agreed terms. It is, in effect, a legal "IOU". The Note also details the penalties that will be assessed if you default (that is, if you fall behind in paying the loan) and warns you that the lender can "call" the loan (require full payment before the end of the loan term) if you fail to make the required payments.

The Mortgage. The mortgage is the legal document that secures the note and gives the lender a claim against your house if you default on the note's terms. In effect, you have possession of the property, but the lender has partial ownership until the loan has been fully repaid. The mortgage restates the date of the final scheduled payment. It states the responsibilities of the borrower to pay principal and interest, taxes, and insurance in a timely manner; to maintain hazard insurance on the property without lapse; and to adequately maintain the property and not allow it to deteriorate. The mortgage also states that if the borrower fails to comply with these requirements, the lender can demand full payment of the loan balance. Moreover, if the borrower defaults, the lender can foreclose on the property, sell it, and use the proceeds to pay off the outstanding loan and the foreclosure costs.

The Initial Escrow Statement. The Initial Escrow Statement lists the estimated taxes, insurance premiums, and other charges the lender anticipates paying from your escrow account during the first year of your loan.

Lead Paint Indemnification or Disclosure. This is a form, signed by the borrower(s), in which the borrower(s) agrees to hold harmless the lender and the Agency in the event of lead paint poisoning of any child under the age of 6.

Urea Formaldehyde Foam Insulation Disclosure & Indemnification. The seller and the borrower both sign this form; the seller attests to the presence or absence of UFFI and the buyer indemnifies the lender and the Agency based on the seller's statement.

Cranston-Gonzales Disclosure. This is an estimate that indicates to the borrower the chance (expressed as a percentage) that the lender who originated the mortgage loan will collect the monthly payments once the loan is closed. Servicing, (i.e., collection of monthly mortgage payments, and in cases of delinquent accounts, collection of past-due payments or initiation of the foreclosure process) is often sold like a commodity to another institution or agent that handles the mortgage through its term.

Deed. The seller must bring the deed to the closing, properly signed and notarized. It is the document that transfers ownership from the seller to you.

Other lender forms include

- **Final Mortgage Application**
- **Taxpayer Certification and Identification: IRS Form W-9**
- **Smoke Detector Certification**

CLOSING DISCLOSURE

Closing Disclosure

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

Closing Information		Transaction Information		Loan Information	
Date Issued	4/15/2013	Borrower	Michael Jones and Mary Stone	Loan Term	30 years
Closing Date	4/15/2013		123 Anywhere Street	Purpose	Purchase
Disbursement Date	4/15/2013		Anytown, ST 12345	Product	Fixed Rate
Settlement Agent	Epsilon Title Co.	Seller	Steve Cole and Amy Doe	Loan Type	<input checked="" type="checkbox"/> Conventional <input type="checkbox"/> FHA
File #	12-3456		321 Somewhere Drive		<input type="checkbox"/> VA <input type="checkbox"/>
Property	456 Somewhere Ave	Lender	Anytown, ST 12345	Loan ID #	123456789
	Anytown, ST 12345		Ficus Bank	MIC #	000654321
Sale Price	\$180,000				

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$761.78	NO
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 <i>Amount can increase over time</i>	+ 206.13	+ 206.13
Estimated Total Monthly Payment	\$1,050.26	\$967.91
Estimated Taxes, Insurance & Assessments <i>Amount can increase over time See page 4 for details</i>	\$356.13 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Homeowner's Association Dues <i>See Escrow Account on page 4 for details. You must pay for other property costs separately.</i>
		In escrow? YES YES NO

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. <i>See page 2 for details.</i>
Cash to Close	\$14,147.26 Includes Closing Costs. <i>See Calculating Cash to Close on page 3 for details.</i>

OWNERSHIP

Now that I am a homeowner, what do I need to know?

Owning your own home brings pride and satisfaction, but it also presents new obligations and financial advantages. Buying a home takes time and hard work, and is perhaps the greatest financial investment you will make, so it is essential that you protect your new asset through home safety precautions, sound household budgeting, and regular home maintenance. As you pay down your mortgage over time, you have the satisfaction of knowing that you are building equity for the future.

As a homeowner you take on certain responsibilities that you did not have when you were renting an apartment. Here is a list of frequently asked questions that MassHousing has compiled from their consumer hotline.

What are my responsibilities as a homeowner?

Who pays the water and electric bills?

Who pays the property taxes?

Who pays the Homeowner's Insurance premiums?

Who collects the rent from the tenants?

Who fixes all appliances, and makes sure all systems (heating, air conditioning, water, electrical) are in good working order?

Who checks the smoke detectors, changes batteries, and makes sure they are in each room in your home?

Who repairs a failed septic system?

Who is responsible for painting the outside and inside of the house?

Who replaces outside lights?

Who fixes or replaces storm windows and doors?

The answer to all these questions is the same: *the homeowner – you*. Budgeting is an important part of owning a home, preparing for the monthly, quarterly and yearly financial obligations that are part of ownership.

Plan ahead. Try to save a little each week, or month. That way, you will never need to take a large portion of your paycheck to make one of the scheduled payments in your budget calendar. Some budget tips:

- Know what bills are due and when and plan a monthly payment schedule accordingly.
- Apply for an "average payment plan" with your utility companies. Based on the history of gas or electric use in the home, the company calculates an estimated annual cost and divides that figure by 12 months.
- Know how you spend your money: keep receipts, look for ways to economize, itemize your cash flow on a daily basis so that you get an accurate financial picture.
- Plan for regular maintenance and unexpected repairs. Try to save one percent of the purchase price of your home each year.
- Make yourself stick to a regular savings plan: 5% is suggested by budget planners.
- Always keep an emergency fund. **This is important.**
- Be sure to take advantage of all tax advantages for the homeowner. IRS publications or your tax accountant will be resources at tax time.

Is there a list of resources available to help a first time homebuyer?

Yes! MassHousing's Homeowner's Resource Guide is available upon request.

If you Become a Landlord

If I buy a two-four family home, what are the considerations I should be thinking about?

Tenant Search. Getting good tenants is not luck. It takes effective advertising to get responsible tenants and hard work and organization to keep them. Try to treat your tenants as you would like to be treated as a tenant. Do a credit check on possible tenants and ask for landlord references. If your tenants need something repaired and/or replaced and you are willing to do it, do it quickly. Landlords not only need to make necessary repairs, but also must do them in a timely manner. Tenants may deduct from their rent the cost of repairs (which must first be approved by you) that they do themselves or have hired others to do. If you are not willing to make the repair or replacement, talk to them. Try to find an alternative solution that will be satisfying to them. Tenants who are happy pay their rent on time and are usually eager to renew their lease.

What are fair housing laws? What do they require me to do?

There are two federal laws you must abide by when selecting tenants: the first is the Fair Housing Act, which prohibits landlords from discriminating against anyone applying for tenancy on the basis of race, color, sex, national origin, family status, disabilities, or religion; the second is the Civil Rights Act, which specifically prohibits discrimination based on race.

No landlord is exempt from the Civil Rights Act. However, landlords who rent one, two, or three units in homes that double as their own residences may be exempt from many of the provisions in the Fair Housing Act. **All landlords** are required to follow those provisions of the Fair Housing Act that prohibit discrimination in advertising.

Rents/Record Keeping. You are running a business. Do some research when setting the rent on your apartment(s). See what comparable apartments are renting for. Ask several neighborhood brokers. Never set a rent without research.

Keep a file on all of your tenants. Record all rent payments by date, amount, and check number. Rental income should not be considered a source for personal expenses. A landlord's fiscal responsibility includes financial planning and budgeting throughout the year.

Set up a separate account for your tenant's last month's rent (if you require it) and security deposit (the security deposit may equal one month's rent). Remember, you must pay interest to the tenant(s) each year on these deposited funds.

Repairs and Maintenance. You should budget for regular maintenance and emergency or unexpected repairs. There is a lot of necessary maintenance involved with multi-family houses, and as the owner and landlord it becomes your responsibility. Monitor your apartments on a regular basis to avoid costly repairs; preventative maintenance can eliminate repairs of a greater magnitude.

Tenant Welfare/Safety. Snow and ice removal, raking leaves, painting common areas are all part of the landlord's responsibilities. In addition, well lit common areas, safe stairs, heating the building from September 15th through June 15th are some of the more important responsibilities of the landlord.

Eviction Process. Undesirable tenants can usually be avoided if the landlord has done the necessary research on credit and rental history before renting. However, even the most careful landlord may have rented to a tenant they need to evict. The most important lesson to learn before trying to evict a tenant is **DO IT LEGALLY**. It is an expensive, time consuming process to evict a tenant. Only a judge can issue the court order to remove a tenant from an apartment, and only a sheriff can enter an apartment for the purposes of eviction. If you do not evict through the proper channels, your tenant can sue for damages (even though they may be violating the lease) and hold up the eviction process for weeks or even months.

Enlist the help of an attorney before you file anything with the court. An experienced attorney will make the process much easier for you. *MassHousing's Homeowner's Resource Guide* provides comprehensive information on the entire process.

If you Join a Condominium Complex

If I buy a condominium, what are the considerations I should be thinking about?

Condominium Ownership. You may think that you are going to enjoy a care-free lifestyle if you purchase a unit in a condominium development but there is a great deal of responsibility, involvement, and coordination with other owners. You will not only be responsible for the upkeep of your unit, but you also will be required to at least vote on major issues involving the common areas of the community. This includes hallways, heating and cooling systems and exterior care. You will also need to become familiar with the physical and financial aspects of the operation and the rules and regulations.

Association Purpose and Structure. Read or have your attorney read all condominium documents including the Declaration of Trust, Master Deed, Unit Deed, By-laws and Operating Budget. Understanding these documents will make you an informed owner.

You automatically become a member of your condominium association when you purchase your unit. The association elects a Board of Directors that is accountable for the maintenance and operation of all the condominiums. The association's purpose is to reduce the cost of operating by sharing expenses and increasing the value of the individual units by maintaining the property.

Communication is the lifeblood of any association. The Board is responsible for seeing that communication channels are open to all residents and fostering cooperation and respect throughout the entire condominium complex.

Condo Fees/Reserves/Budget. The governing documents generally require that each year the board establishes a budget based on the estimated income and expenses for the coming year. Income is primarily based on the projected monthly assessments of the units. Expenses are based on the projected costs to maintain the property and collect any assessments.

A separate working capital account may be established for months where monthly expenses exceed monthly condo fees. The Board of Directors is authorized to make a special assessment to be used primarily for two types of reserves: replacement and contingency. Replacement reserves are used to replace or repair major systems. Contingency reserves are used for unexpected expenses that cannot be planned for in the budget.

How do I develop a good relationship with my lender?

The majority of homeowners simply pay their mortgage each month online or by sending a check to their lender or to the company that handles billing, tax information, and payment records – called the servicer. However, it is extremely important to maintain a good working relationship with your lender or servicer. Keep the lender/servicer informed if your financial situation changes. If you lose your job, or have a period of financial hardship, let your lender/servicer know *right away*. Keeping problems under wraps for several months (such as an impending divorce or separation, serious illness in the family, or job loss) is a mistake because you will very likely drain your resources and find yourself in a serious financial situation with no alternatives and your home in danger of foreclosure.

What if I am unable to pay my mortgage?

If you miss a mortgage payment, for even one month, your mortgage is considered delinquent. Whenever you fail to make a payment, the lender may report the missed payment(s) to a credit bureau. This could damage your credit history for several years.

When you have not paid your mortgage for 30 to 60 days, you may receive “a letter of demand” requesting that all back payments be made within 30 days of the date of the letter. If you are unable to catch up and you do not contact your lender, foreclosure proceedings will usually commence.

Foreclosure is legal action taken by a lender to recoup the mortgage funds loaned to a borrower. This action typically results in the borrower losing the home to the bank and having to start over again as a renter. If a homeowner has been foreclosed upon, and tries to buy another home at some point in the future, lending institutions usually view the borrower as a high risk for credit. This is why it is so important to be in contact with your lender when there are financial problems so that you may be able to “work out” a solution and save your home and your good credit record.

Chapter Summary

This chapter has covered the loan closing process including a list of documents you are expected to bring to the closing, and a list of documents you are expected to sign.

Recognizing that owning your first home is a new experience, we have provided an overview of homeowner responsibilities as well as a recommendation to request a copy of MassHousing's Homeowner's Resource Guide which will detail what homeownership entails. Included in this section are tips on being a landlord, on being a member of a condominium association, and finally a general discussion on keeping your lender informed of changes to your financial situation.

INSTRUCTOR NOTES

MassHousing recommends that guest speakers be invited to discuss the following topics:

- 1. The Closing Disclosure, and the entire loan closing process should be reviewed by an attorney.**

Recommended Reading

MassHousing's Homeowner's Resource Guide

Exhibits:

15. Closing Disclosure (CD)

CONCLUSION

MassHousing hopes this manual has provided the basic tools to work through the process of buying your first home, and has provided you with answers to the many questions you will have along the way.

MassHousing believes the key to success in purchasing any home, whether your first or as an experienced homeowner, is *to be informed*. The more information you have before you buy, the more successful you will be as a homeowner for years to come.

GLOSSARY

APR. Annual Percentage Rate. Typically, the APR consists of the bank origination fee when combined with the base interest rate and primary insurance costs. This is the cost of credit that consumers pay, expressed as a simple annual percentage. According to the federal Truth in Lending Act, every consumer loan agreement must disclose the APR in large bold type.

Application. A form which the lender uses to collect information about a prospective borrower and the property being used as collateral.

Appraisal. An evaluation of the property to determine its value for purposes of the mortgage loan. An appraisal is concerned chiefly with market value—what the home would sell for in the marketplace.

Appreciation. An increase in the value of your property.

Basis Point. 1/100th of one percent.

Binder. A payment or document making an agreement legally binding until the completion of a formal contract.

Building Code. Local or state building regulations which govern the design, construction, and materials used in the construction of a building.

Certificate of Title. Like a car title, this is the paper that signifies ownership of a home.

Closing Costs. Sometimes called settlement costs. Costs in addition to the price of the home, including mortgage service charges, title search and insurance, and transfer of ownership charges. Be sure your sales contract clearly states who will pay each of these costs—buyer or seller.

Closing Disclosure or "CD". As the result of a law change by the CFPB, after October 3, 2015, your lender must provide you with a written disclosure of the financial details of your closing, including the closing costs and fees, on a form called the "Closing Disclosure" or "CD". The CD also advises you how much money you need to bring to the closing and must be delivered to you three days before your scheduled closing.

Closing Day. The date on which the title for property passes from the seller to the buyer and/or the date on which the borrower signs the mortgage.

Condominium. Individual ownership of a dwelling unit and an undivided interest in the common area and facilities which serve the multi-unit project.

Deed. A legal document that transfers ownership of the property from one person to another.

Depreciation. A decline in the value of a home as the result of time, changes in the housing market, wear and tear, adverse changes in the neighborhood and its patterns, or for any other reason.

Downpayment. An initial payment on a home, usually a specific percentage of the home purchase price, that is required of a borrower at the time of the loan closing.

Earnest Money. The deposit money given to the seller by the potential buyer to show that he or she is serious about buying the home. If the deal goes through, the earnest money is usually applied against the downpayment. If the deal does not go through, it may be forfeited.

Easement Rights. A right of way granted to a person or company authorizing access to or over the owner's land. Electric companies often have easement rights across your property.

Equity. The difference between the market value of the home and the amount of money you still owe on it.

Escrow Funds. Money, or papers representing transactions, which are given to a third party to hold until all conditions in a contract are fulfilled.

Foreclosure. Action a bank takes on a mortgage, usually when the homeowner fails to pay the monthly mortgage payment.

Hazard Insurance. Insurance to protect against damages caused to property by fire, windstorm, and other common hazards.

Homeowner's Association Fee. In determining whether you can afford the property, the lender will calculate the homeowner's association fee as part of your housing-to-income ratio. Depending on the size of the building housing the condo units, and the types of amenities, this fee can range from approximately \$100 to \$300. The fee pays for common expenses, including insurance, maintenance, trash removal, and reserves for future major expenditures.

Home Mortgage Loan. A loan for buying a home.

Loan Estimate or "LE". As the result of a law change by the Consumer Financial Protection Bureau (CFPB), after October 3, 2015, your lender must send to you a written estimate of your loan terms and the costs and fees for your loan closing within three days of your submission of a loan application on a form called the "Loan Estimate" or "LE"

Mortgage Commitment. The written notice from the bank or other lender saying that it will advance you the mortgage funds in a specified amount to enable you to buy the home.

Mortgage Discount "Points." Discounts (points) are a one-time charge assessed by a lending institution to increase the yield from the mortgage loan to a competitive position with the yield from other types of investments. One point is equal to one percent of the amount of the mortgage loan.

Mortgagee. The bank or lender who loans the money to the mortgagor.

Mortgagor. The homeowner who is obligated to repay a mortgage loan on a property he or she has purchased.

Origination Fee. A fee or charge for the work involved in the preparation and processing of a proposed mortgage loan. This is usually paid at closing.

Prepaid Expenses. The initial deposit at time of the closing, for taxes and hazard insurance, and the subsequent monthly deposits made to the lender for that purpose. Expenses may also include an interest amount.

Repair and Maintenance. The costs incurred in replacing damaged items or maintaining household systems to prevent damage.

Special Assessment. A tax for a specific purpose such as providing paved streets or new sewers. People whose properties abut the improved streets or tie into the new sewer system must pay the tax. Condominium owners may also be assessed for major repairs done in common areas of their building.

Title. The evidence of a person's legal right to possession of property, normally in the form of a deed.

Title Company. A company that specializes in insuring the title to the property.

Title Insurance. Special insurance which usually protects lenders against loss of their interest in property due to unforeseen occurrences that might be traced to legal flaws in previous ownerships. An owner can protect his or her interest by purchasing separate coverage.

Title Search or Examination. A check of the title records, generally at the local courthouse, to make sure you are buying the house from the legal owner and that there are no liens, overdue special assessments, or other claims or outstanding restrictions filed in the record.



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This brochure is also available in alternate formats, such as large print or audiocassettes. Such formats can be provided, if necessary, upon sufficient notice by contacting MassHousing's Consumer Hot Line at **888.843.6432** or Videophone at **857.366.4157**

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