



# Home-Buying

Print Course

Print Handouts

## COURSE DESCRIPTION

Buying a house is the most significant purchase many people will ever make. This 60-minute course is designed to increase the knowledge and comfort level of first-time home buyers and serve as a refresher for repeat home buyers.

A panel of experts (such as a real estate agent, a mortgage lender and an insurance agent) can facilitate parts of this course. Guest speakers must agree not to solicit for their businesses before they participate in the panel.

## LEARNING OBJECTIVES

**Terminal:** Upon completion of this course, learners should be able to determine whether they are ready to purchase a home, know how to choose a real estate agent and mortgage and be able to negotiate and close on the deal.

**Enabling:**

- During a mock interview activity, learners will practice interviewing real estate agents.
- Learners will correctly answer 10 fill-in-the-blank questions on contracts, negotiation and closings.

## REFERENCES

Department of the Navy. (2005). *SECNAV Instruction 1754.1B: Family Support Programs*. Office of the Secretary of the Navy, Washington, D.C.

Department of the Navy. (2010). *OPNAV Instruction 1740.5B Change Transmittal 2, United States Navy Personal Financial Management (PFM) Education, Training, and Counseling Program*. Chief of Naval Operations, Washington, D.C.

Department of the Navy. (2009). *Command Financial Specialist Training Manual*. Commander, Navy Installations Command, Washington, D.C.

“Buying a Home.” *U.S. Department of Housing and Urban Development*. N.p., n.d. Web. Sept. 22, 2014. [http://portal.hud.gov/hudportal/HUD?src=/topics/buying\\_a\\_home](http://portal.hud.gov/hudportal/HUD?src=/topics/buying_a_home)

### Useful Websites

[www.ambest.com](http://www.ambest.com) (A.M. Best Co. for insurance ratings and analysis)

[www.ashi.org](http://www.ashi.org) (American Society of Home Inspectors certified home inspector locator)

[www.annualcreditreport.com](http://www.annualcreditreport.com) (Free annual credit report from the three major agencies)

[www.bankrate.com](http://www.bankrate.com) (Bankrate, for comparison shopping of rates)

[www.consumerfinance.gov/](http://www.consumerfinance.gov/) (Consumer Financial Protection Bureau)

[www.responsiblelending.org](http://www.responsiblelending.org) (Center for Responsible Lending)

[www.federalreserve.gov](http://www.federalreserve.gov) (Federal Reserve System)

[www.freddiemac.com](http://www.freddiemac.com) (Freddie Mac home-buying information and education)

[www.fsbo.com](http://www.fsbo.com) (For Sale by Owner website)

[www.benefits.va.gov/homeloans/](http://www.benefits.va.gov/homeloans/) (U.S. Department of Veterans Affairs Home Loan Program)

<http://portal.hud.gov/hudportal/HUD> (U.S. Department of Housing and Urban Development)

[www.militarybyowner.com](http://www.militarybyowner.com) (Military By Owner real estate network for sales and rentals near military installations)

[www.mls.com](http://www.mls.com) (Multiple Listing Service for real estate)

[www.realtor.com](http://www.realtor.com) (National Association of Realtors)

[www.zillow.com](http://www.zillow.com) (Zillow website for estimating home values)

## COURSE PREPARATION

Handouts:

- *10 Important Questions To Ask Your Home Inspector*
- *Checklist for Financing Your Purchase*
- *Checklist for Your House Hunt*
- *Closing the Deal*

- *Figuring Your Monthly Payment*
- *Financial Planning Worksheet*
- *Home-buying Debt-to-income Ratio*
- *Interviewing Agents*
- *Mortgage Loan Types*
- *Mortgage Shopping Worksheet*
- *Requesting a Quote for Homeowners Insurance*

Materials (vary depending on activities chosen):

- Chart paper or whiteboard
- Pens, pencils, paper
- Internet access (optional)
- Markers
- *Home-buying* PowerPoint slides

### SUMMARY OF LEARNER ACTIVITIES

*Practice Interview:* A mock-interview activity for learners to practice interviewing real estate agents.

*Closing the Deal:* A quiz activity in which learners test their comprehension of contracts, negotiation and closings.

### CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
  - a. Topic Overview
  - b. Agenda
  - c. Are You Ready to Buy?
    - i. Renting vs. Buying
    - ii. Choosing Your Home
    - iii. Choosing Your Location
2. What Can You Afford? (10 minutes)
  - a. Calculate Your Budget

- b. Debt-to-Income Ratio
  - c. Creditworthiness
  - d. Down Payments
3. Lenders and Loans (15 minutes)
  - a. Choosing a Lender
  - b. Choosing a Mortgage Loan
  - c. Borrower Beware
  - d. The Mortgage Application Process
4. Selecting a Real Estate Agent (10 minutes)
  - a. Real Estate Professionals
  - b. Interviewing Agents
  - c. Learner Activity: *Practice Interview*
  - d. Can You Do It Yourself?
  - e. Beginning the Search
5. Negotiating the Deal (5 minutes)
  - a. Property Values
  - b. Home Inspection
6. The Closing (10 minutes)
  - a. Closing Costs
  - b. Prepaid Costs
  - c. The Closing
  - d. Reducing Payback Time
  - e. Learner Activity: *Closing the Deal*
7. Homeowners Insurance (5 minutes)
  - a. Minimal Coverage
  - b. Additional Coverage
  - c. Reducing Premium Costs
8. Summary (5 minutes)

## CONTENT MATERIAL

### WELCOME AND INTRODUCTION

A home is one of the most complicated and expensive purchases you will ever make. Getting the best deal on the purchase can reduce life-of-the-loan costs by



SLIDE 1

thousands of dollars. This course will provide information to help you determine whether the time is right to purchase a home and better equip you to negotiate the financial pitfalls you may encounter during the home-purchase process.

## AGENDA

Some of the topics this course will cover include:

- Choosing a home
- Determining what you can afford
- Choosing a lender and loan
- Selecting a real estate agent
- Negotiating and closing the deal

## ARE YOU READY TO BUY?

Buying a home is a big decision. You may be unsure whether it is the best choice for you at this time. Even if you have the funds to buy a home, it may not be the right time or the right place. If you are looking to purchase a home and you are not sure how long you will be in an area, consider the risks associated for short-term home ownership, which include losing money or having to find renters to cover your mortgage payments. The bottom line is, a home is an expensive purchase. You should put a lot of thought into when and where the right opportunity will be, so that you will have the home you want and it will be one that provides a return on your investment.

## Renting vs. Buying

**Trainer's note:** Engage the learners by eliciting pros and cons from them on renting versus buying.

To evaluate whether renting or buying is the best option for you and your family, consider some of the pros and cons of each choice.

Renting may be a better choice if ...

- You move a lot. Unless you live in one place at least a few years, you may lose money when selling your home. Or, you may be unable to sell and end up renting your home to cover the mortgage. Not all homeowners want to be landlords.



- You are unfamiliar with the area. Before taking the plunge and buying a home, you may want to identify a neighborhood and rent there first to determine its long-term desirability.
- You do not have enough money saved to cover the down payment and initial costs involved in purchasing a home.
- You do not care to commit the time, effort and expense of maintaining a home. A home is an expensive purchase and requires maintenance and upkeep to protect your investment.
- You prefer more fixed expenses. There are many variable, unplanned expenses when you own a home.
- You do not want to lose any equity (you will not gain any, either).
- You do not mind living in an impersonal dwelling. When renting, you often take the dwelling as is, and the landlord may not be willing to let you paint or change anything.
- You do not need or want the tax advantages that come with owning a home.

### Buying may be better if ...

- You want your equity to grow. If you are moving to an area that enjoys high appreciation in the value of residential property, your equity can grow and offset the costs of selling should you be transferred.
- You are ready for stability and a sense of community.
- You do not mind the possibility of becoming a landlord.
- You have the money for the large initial investment involved in buying a home.
- You like to personalize your home.

### Choosing Your Home

Your goals might seem obvious – your growing family needs a larger home or you need a place to live. Once you have made the decision to buy, you need to determine what type of house you want to purchase.

- Do you want a condominium, a duplex or a single-family home?
- Do you desire an older home or new construction?
- Do you prefer a ranch or two-story home?



- How large a home do you need or want: 1,500 square feet, 3,000 square feet, more or less?
- How many bedrooms do you need, and how many do you want?
- Do you want a big backyard or no lawn to mow?

Sit down with your family and talk about your dream house. Make a list. Try to balance your needs and wants. Start by thinking about your present home and identify the features that are necessary, those you really like and those you would like to have if it fits into your budget for your new home. Highlight the items that are absolute necessities, such as adequate square footage, bedrooms and bathrooms to accommodate your family. These are the needs that your prospective home must have. Next, prioritize the remaining items on your list based on how important they are to you. Keep in mind that few people will find everything on their list in a home that actually fits into their budget.

### Choosing Your Location

Location is often the most important consideration in purchasing a home. Be sure to do your research and survey prospective neighborhoods. Get to know various areas by selecting several homes from real estate listings and ads and make a day of visiting them. The goal is not to find the house but to narrow your search to the most desirable neighborhood. Check out the amenities and services available in each neighborhood.

There are many factors that go into determining the perfect location for a home. These include:

**The commute:** Many people have strong feelings about the distance they drive from home to work. This defines the areas where they are willing to look for a home. Do you have a car or do you plan to use public transportation?

**Schools:** Do you have school-age children? Contact the local school administration or go online to determine which schools can meet your child's academic, athletic or special needs. If you do not have children, still consider the local school system, because that will affect the resale value of the home.

**Safety:** Contact the local police department to get crime statistics for different neighborhoods.

**Neighborhood:** Do you prefer the city, a suburb or the country? How close do you want your neighbors to be?



**Services:** How close are schools, libraries, parks, shopping, highways, hospitals, fire stations and other services? Is child care easily available?

And remember that it is much easier to fix up a house than a neighborhood.

Once you find a couple of areas that you like, you should check the price range of available homes in those neighborhoods. You can research home costs and values through many different websites. Here are some places to start doing your own research. A real estate agent can also help you narrow down location and neighborhoods based on your budget and needs.

Zillow.com: [www.zillow.com](http://www.zillow.com)

Realtor.com: [www.realtor.com/homevalues?source=web](http://www.realtor.com/homevalues?source=web)

MLS.com: [www.mls.com](http://www.mls.com)

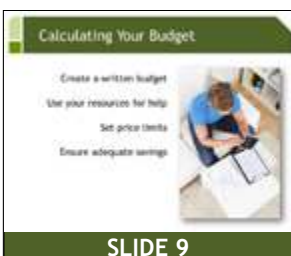
### WHAT CAN YOU AFFORD?

You may have decided to buy a house and determined your needs. But before you start looking for your new home, you have to make sure your finances are in order and that you can afford to buy. It may be the right time and the perfect place to buy a home, but if you cannot afford the mortgage payments, it may not be an option. Before you start shopping for your dream home, figure out how much you can afford by calculating a budget, determining your creditworthiness and factoring in how much money you will need to set aside for a down payment and to cover the other costs associated with the purchase.

### CALCULATE YOUR BUDGET

**Trainer's note:** Distribute the *Financial Planning Worksheet* and *Figuring Your Monthly Payment* handouts.

If you do not already keep track of your income and expenses with some type of written budget, then your first step should be to take a long, accurate look at your family's income and expenses. How can you know how much you can afford if you do not know how much you spend? You can use the *Financial Planning Worksheet* to construct your budget. If you need help, make an appointment with your Command Financial Specialist (CFS) or Fleet and Family Support Center (FFSC) financial counselor. Even if you have a working budget, you may make an appointment with your CFS or FFSC financial counselor to review your budget





before making such a large purchase. You may also want to attend the *Developing Your Spending Plan* course at your local FFSC.

Use information from your budget to determine the price limits for your home search. Considering homes that are beyond a comfortable price limit will only result in frustration and wasted effort. The upper limit of your price range is the mortgage loan amount for which you qualify. However, keep one thing in mind: You may not want to purchase a home whose price is at your upper limit. Some people refer to that as being “house rich and cash poor.” Make an honest assessment of your lifestyle. There may be other things you like to do rather than put most of your budget into mortgage payments and maintenance. You can use the *Figuring Your Monthly Payment* handout to determine what the monthly payment would be for any loan amount, or use an online calculator to help you crunch the numbers. Be advised that your mortgage payment will include the principal, interest, taxes and insurance (PITI).

Also take a look at how much money you currently have in savings. You should have adequate funds set aside, before buying a home, not only to cover the costs of the purchase but to also pay for incidentals, repairs, improvements and emergencies after you move in.

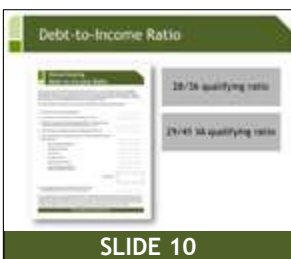
### DEBT-TO-INCOME RATIO

**Trainer's note:** If time allows, you can complete the *Calculating Your Home-buying Debt-to-income Ratio* handouts in class. Otherwise, distribute the handouts and provide brief instructions on how learners can complete the handout at home.

Many lenders use a 28/36 qualifying ratio. This means that your mortgage payment (PITI plus any homeowners dues) should not exceed 28 percent of your gross monthly income. All monthly debt obligations, including your mortgage payment and other recurring debt, should not exceed 36 percent of your gross monthly income. The Department of Veterans Affairs and many other lenders will allow a higher monthly debt-to-income ratio than you may find comfortable, as high as 29/41. With these ratios, you can determine whether you are financially ready to take on a mortgage payment, or whether you need to pay down some of your other recurring debt first.

### CREDITWORTHINESS

Before applying for a mortgage loan, obtain a copy of your credit report. You get one free credit report a year from all three credit reporting agencies by going to



[www.annualcreditreport.com](http://www.annualcreditreport.com). Your credit report is a detailed account of your credit history, including accounts, usage and payment history and any judgments, tax liens, bankruptcies or similar matters of public record entered against you. These factors can determine your overall creditworthiness.

You will also want to know your current credit score. Credit scoring is a system creditors use to help determine whether to extend credit to you and how much to charge you for it. Depending on the model used, credit scores usually range from 300 to 850. The higher your score, the less risk a lender believes you will be and the less you will have to pay for credit.

Lenders base mortgage loan decisions on both your credit score and their own professional judgment of your ability to repay. Their judgment may be based on the application you fill out, which will list income, expenses and assets, your credit report and possibly a personal interview. Lenders will also look at other factors, such as specific employment history and the type of credit you are seeking. From a lender's perspective, the ideal customer will have a high credit score, a low level of recurring debt, a long history of on-time payments, steady and reliable employment and sufficient assets, such as savings and investments.

### DOWN PAYMENTS

Another factor that influences financing is a down payment, or the money you agree to pay toward the price of the home at the time of purchase. Your down payment will probably affect your price range because the loan amount is based on the purchase price minus the down payment.

These are the typical down payment requirements for various loans:

**Conventional:** 20 percent of the loan amount, with a minimum requirement of 5 to 10 percent. Conventional loans are not guaranteed or insured by the federal government.

#### **Federal Housing Administration (FHA):**

- 3 to 5 percent
- Available in all 50 states
- Government insured

#### **Veterans Affairs (VA):**

- No down payment required
- Loan amounts are generally higher than FHA



- Both FHA and VA maximum loan amounts change periodically
- Guaranteed by the Department of Veterans Affairs

### LENDERS AND LOANS

**Trainer's note:** Distribute the *Checklist for Financing Your Purchase* and the *Mortgage Shopping Worksheet* handouts. Refer to them as the topics arise in this part of the course.



#### CHOOSING A LENDER

Finding a reputable lender with a variety of mortgages and attractive loan rates is important. Friends and co-workers can be an excellent source for finding a lender you are comfortable with. Your real estate agent will also make recommendations. Use a lender that offers several options, is knowledgeable about those options and takes the time to explain them to you.

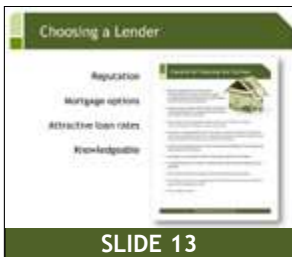
The *Checklist for Financing Your Purchase* handout has the typical steps involved in obtaining a mortgage, including a list of documents to bring with you when you visit a lender. The *Mortgage Shopping Worksheet* provides an extensive list of variables you can use to compare loans and lenders.

When comparing loans, pay special attention to:

**Annual percentage rate (APR):** The total interest rate of a mortgage, including the stated loan interest as well as any up-front interest paid in starting the loan.

**Discount points:** A discount point is 1 percent of the loan amount, paid at closing; the lower the interest rate, the higher the number of points. Go for the lowest APR possible. Not only will a low interest rate save you money, it is an attractive feature when it comes time for you to sell. Be sure you will own the house long enough to recover the cost of the points. In your offer to purchase, ask the seller to pay most of the points. If the seller will not pay points, the lender will allow you to fold the points into the loan (i.e., offer the seller a higher selling price, which includes the amount of the points). This allows you to finance the points, which adds to the tax-deductible amount of interest you pay.

**Loan-origination fee:** A loan-origination fee is imposed by the lender for processing the loan and is payable at closing. The loan-origination fee is generally about 1 percent of the loan amount and is applied toward the lender's cost of making the loan. The buyer usually pays it. You may negotiate the payment of points and loan-origination fees with the lender. In a hot buyers' market, many sellers will pay all or some of these closing costs.



SLIDE 13



SLIDE 14

**Lock-in options:** Lenders may offer different options to lock in the interest rate at the time you apply for the mortgage. Lenders usually honor guaranteed lock-in rates for a specific time, such as 45 or 60 days or more. If you close the transaction within that period, the lender guarantees to provide the interest rate you locked in, regardless of whether the rates rise or fall during the interim. Be sure to get a written lock-in agreement if you choose to lock in your rate. If rates are anticipated to fall before you close on the loan, you may prefer to let the interest rate and points “float,” to give them time to go down.

### CHOOSING A MORTGAGE LOAN

**Trainer’s note:** Distribute the *Mortgage Loan Types* handout and suggest that learners follow along on the handout during this section, because there is a lot of information to cover. If time is short, go over only the main loan types, referring learners to the description on the handouts for the remaining ones.



There are many types of loans to choose from. A bank or credit union, and many educational and mortgage websites, can help you determine the best type of loan for you. Mortgage calculators can help you determine how much loan you can afford, what your monthly payments will be and can evaluate the different types of loans available.

Common loan types include:

**Fixed rate:** These are the most popular loans because they offer stable, consistent payments throughout the life of the loan. The most common is the 30-year fixed rate. Other options are the 15-year (save half the interest over a 30-year loan), the 20-year (save thousands of dollars of interest over a 30-year loan), and a 40-year (reduces the payment below a 30-year but adds three times the loan amount in interest).

**Adjustable rate:** These loans have a variable interest rate that fluctuates according to the financial index they are tied to and the type of adjustable-rate mortgage obtained. Some features that make them attractive, even when the fixed interest rate is low, include:

- The first-year rate (teaser rate) is usually one or two points below the market rate.
- The interest rate is capped. It can rise only five or six points, depending on whether it is an FHA or conventional loan, over the life of the loan.
- The increase in interest rate is limited to one or two points a year, depending on type of loan.

- Can save you money if you are looking at a short-term investment. These loans are best for home buyers who stay in a home no more than five to seven years.

**FHA:** Government-backed Federal Housing Administration loans are designed for first-time or lower-income home buyers. The interest rate is usually less than the rate for a conventional loan. FHA loans are available as fixed-rate and adjustable-rate mortgages. The down payment is 3 to 5 percent of the loan amount. There are limits to the maximum loan amount.

**VA:** These loans are available to veterans of the U.S. Armed Forces and backed by the Department of Veterans Affairs. Have your lender check the current VA funding fee. No down payment is required. The seller must pay points. If the seller is reluctant to pay points, the buyer can increase the offering price to include the cost of points. Congress controls the maximum loan amounts. Multiple VA loans are available at the same time up to the maximum limits established by the VA. Check with your lender or the VA website for current maximums. You may want to explore other mortgage loan options rather than use your VA entitlement. If you have to sell and a buyer comes along who wants to assume your mortgage, your VA entitlement will be unavailable to you until that mortgage is cleared by a home sale with a substitution of a new mortgage or your entitlement is restored by release from the previous mortgage by the VA.

**Assumptions:** Consider assuming the seller's existing loan and interest rate if the rate on the assumable loan is lower than the prevailing rate for a new loan. By assuming a loan, you take responsibility for paying the mortgage owed by the seller.

**Buy-down:** If you cannot afford the prevailing interest rate, consider a buy-down mortgage. The buyer can pay extra points to buy down the mortgage for the first few years. For example, a 3-2-1 buy-down with a prevailing rate of 7 percent means that the first year you would pay 4 percent, the second year 5 percent, the third year 6 percent, and then in the fourth and remaining years the interest rate would be 7 percent. Note that buy-downs are common among new construction and first-time home buyers.

**Step loans:** These combine the stability of a fixed-rate loan with the lower rates of an ARM. There are two options: 5/25 and 7/23: The interest rate is fixed for the first five or seven years, and then the loan adjusts once into a one-year ARM or a fixed-rate loan. Step loans offer lower interest than the prevailing rate for 30-year fixed-rate mortgages.

**Balloon loans:** Interest paid during the term of the loan does not fully pay off the mortgage. At the end of the loan term, the homeowner must pay the remaining principal in one lump sum. Balloon loans usually have lower interest rates than fixed-rate loans. Balloon loans are most useful to home buyers who stay in home no more than the term of the loan but typically are not a good choice for a first-time home buyer.

**Seller financing:** The seller takes on the role of lender and gives the buyer a loan to purchase the property. Generally, the seller owns the property outright and can finance the entire purchase or has significant equity and can “carry back” a second mortgage, which can be used to finance the buyer’s down payment. The best bets for seller financing are elderly homeowners who do not need the cash from the sale of their home to finance their next home. The advantage for buyers is they get the prevailing interest rate or a better rate without paying points or fees. The advantage for sellers is they get a higher return on their money from the sale and receive a monthly stream of income.

**State veterans program:** Many states offer veterans benefits. These benefits may include educational grants and scholarships, special exemptions or discounts on fees and taxes, home loans, veteran’s homes, free hunting and fishing privileges, and more. Each state manages its own benefit programs. Be sure to take advantage of the benefits you have earned by linking to your state department of veterans affairs.

### BORROWER BEWARE

The following practices and terms fall under the predatory lending category. Protect yourself by being aware of and avoiding these practices.

**Interest-only mortgage:** An interest-only mortgage allows you to pay only the interest for a specified number of years. Since there is no payment on the loan principal, a borrower who takes this type of loan is depending on the housing market to increase the value of the home. Most interest-only mortgages have adjustable interest rates, which means the interest rate and monthly payment will change over the term of the loan. The interest-only mortgage payment period is typically between three and 10 years. After that, your monthly payment will increase even if interest rates stay the same, because you must pay back the principal as well as the interest.

**80/20 mortgages:** An 80/20 mortgage is essentially two mortgage loans that equal the total amount of the purchase price, with the first mortgage being 80



percent and the second mortgage covering the remaining 20 percent. The first is typically at the going rate for a conventional mortgage, the second is usually significantly higher.

**Subprime lending:** Subprime lending, also called “B-Paper,” “near-prime” or “second chance” lending, is a general term that refers to the practice of making loans to borrowers who do not qualify for market interest rates because of problems with their credit history. Because subprime borrowers are considered at higher risk to default, subprime loans typically have less-favorable terms than their traditional counterparts. These terms may include higher interest rates, regular fees or an up-front charge.

You can learn more about these loan products and how to avoid them at the Center for Responsible Lending ([www.responsiblelending.org](http://www.responsiblelending.org)).

### THE MORTGAGE APPLICATION PROCESS

#### Pre-qualification

Pre-qualifying is an informal way to see how much you may be able to borrow. You can be pre-qualified over the phone or online with no paperwork by providing information about your income, your debts and how large a down payment you can afford. This helps you arrive at an estimate of the amount you may have available to spend on a house, without any obligation. Prequalifying helps you figure your budget and the type of loan that would work best, but it is not a guarantee that you will qualify for that loan.

#### Pre-approval

Pre-approval, however, is different from pre-qualifying. Pre-approval is a lender’s actual commitment to lend to you. It involves assembling the financial records and going through a preliminary approval process. Pre-approval gives you a definite idea of what you can afford and shows sellers you are serious about buying. Sellers like pre-approved buyers, because they know these buyers can get the money to purchase their house. This can work in your favor by putting you in a better negotiating position.

#### Formal Application

If a buyer is not pre-approved when the offer to purchase is accepted by the seller, the buyer is expected to formally apply for financing within three to five days. If you have already pre-qualified, application time is minimal. If you have



been pre-approved, then processing of your loan begins when the purchase offer is accepted.

### Processing Time

Loan processing times vary greatly depending on the type of loan, the lender and the complexity of your financial situation. In some situations, processing can be sped up depending on successful completion of a title search, home inspection, termite inspection, well inspection, etc. Talk to your mortgage lender about processing times so you will know what to expect.

## SELECTING A REAL ESTATE AGENT

The importance of choosing a real estate agent cannot be overemphasized. Agents should be interviewed, just like a job applicant. If you are about to pay someone 6 percent of the value of your home, you want to make sure you get a good agent for the money spent.

A good real estate agent can save you time, effort and money in the purchase of your new home. Real estate agents can:

- target suitable neighborhoods.
- provide listings of available homes that fall within your budget and meet your needs.
- compare the cost per square foot of nearby homes that have recently sold.
- help assess your financial situation.
- manage the details of your purchase.

Professionals associated with real estate include:

**Agent:** Agent is the generic name for any licensed real estate professional (e.g., broker, Realtor).

**Buyer's agent:** A buyer's agent helps the buyer find the house, terms and conditions that will be most favorable to the buyer. The relationship is defined in a contract. Buyer's agents usually split part of their commissions with their brokers or may charge a fee for services.

**Principal broker:** A principal broker is a self-employed individual who is licensed to operate a real estate office. He or she may work independently or hire other agents. All real estate professionals must work under a principal broker's license.





**Realtor:** A Realtor is a member of the National Association of Realtors, a state Realtor's association and a local Board of Realtors. Realtors are bound by the Realtor's Code of Ethics.

**Listing agents:** Listing agents sign up the home seller with a broker and "list" the home with the Multiple Listing Service (MLS). As a buyer, you may never meet the listing agent. When the house sells, both the listing agent and the selling agent split part of their commission with their respective brokers.

**Selling agents:** A selling agent usually learns about the for-sale house through the MLS and then finds the buyer. This agent works with the buyer but legally represents the seller and must get the best possible deal for the seller.

### INTERVIEWING AGENTS

**Trainer's note:** Distribute the *Interviewing Agents* handout to learners.



Ask friends and co-workers for a personal recommendation for a real estate agent. It is still the best way to find a good agent. If you cannot get a personal recommendation, look for agents and companies that have the most signs in the neighborhoods you like. However, keep in mind that the agent with the most for-sale signs in the neighborhood may not be the best to work with buyers. Ask the managing broker to pair you with an agent who works with buyers. Look for solid credentials. Find someone who listens well and can translate your wishes into homes and neighborhoods you like.

No matter what kind of agent you use, take the time to find one you are comfortable working with. The *Interviewing Agents* handout lists information you should get from an agent before agreeing to work with them.

Once you have decided upon an agent:

- Arrange a meeting with the agent and your family to discuss house-hunting goals. The more the agent knows about your family, the more effective the home search.
- Review positive features of your previous homes.
- Discuss areas you have visited and ask for recommended neighborhoods you have not seen yet.
- Have the agent recheck your loan qualifications or pre-approval. Armed with this information, the agent will arrange appointments for you to see homes in your price range.

Do not be pressured to choose a neighborhood or a house that does not suit you after visiting only four or so prospective properties. Your agent works for you and should respect your wishes, needs and desires.



### LEARNER ACTIVITY: *Practice Interview*

**Time:** 5 minutes



**Materials:** *Interviewing Agents* handout

**Procedure:** After reviewing the information in this section, give learners the chance to practice. Ask learners to turn to their neighbor and ask some of the questions on the handout. Allow a few minutes for the interview and, if time permits, have the couples switch roles. After five minutes, stop the interviews and ask learners how the exercise worked for them. Explain that practicing will help them make better choices when they choose their real estate agent.

### CAN YOU DO IT YOURSELF?

Many people prefer not to use a real estate agent to help them buy a home. The Internet is a helpful resource. Also, networking with family and friends can help you find the right home for sale. Other sources include:

**FSBO:** This abbreviation stands for “for sale by owner.” These homes can be excellent buys but are more difficult to find because they may not be listed in the MLS or shown by agents unless the seller contracts for this service. They are usually advertised in the newspaper or online (check [www.fsbo.com](http://www.fsbo.com), [www.craigslist.com](http://www.craigslist.com) and [www.militarybyowner.com](http://www.militarybyowner.com) for starters). If you have found a house you wish to buy directly from its owner, you should seek the help of an attorney who specializes in real estate transactions. The downside to FSBO transactions can be that sellers may have an inflated idea of what their property is worth. You should do some research on homes sold in the surrounding area to compare prices.

**Rent to own:** Many rental properties give the option of purchasing the home and will even apply rent payments to the purchase price.

**Foreclosures:** Foreclosures can be great bargains, but remember that most foreclosures are sold in an “as is” condition and may require extensive work and repair. Look in the newspaper for houses for sale by the Department of Veterans Affairs (VA), Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA), Federal Deposit Insurance Corporation (FDIC) and other government agencies. Some local lenders may have foreclosed properties for



sale. These are called real estate owned (REO). Some come with excellent terms; others are sold at public auctions and require cash payment or a letter of credit. Many foreclosures need repairs ranging from cosmetic to structural. Ask your local agent for lists and acquisition information.

**Multiple Listing Service (MLS):** Most real estate sales are listed in an Internet-based system called the Multiple Listing Service. The MLS is accessible to anyone at [www.mls.com](http://www.mls.com).

### BEGINNING THE SEARCH



**Trainer's note:** Distribute the *Checklist for Your House Hunt* handout. If time is short, review this handout as an alternative way of covering the material in this section.



The *Checklist for Your House Hunt* handout will help you evaluate features you like, and dislike, in a home. It can also help you develop your needs and wants list.

Make a copy for each home you consider. A Realtor will likely generate computerized listings for you from the MLS; attach them to the back of the checklist. Some of the items on the checklist may be duplicated in a Realtor-provided printout. If possible, take pictures of the homes you are looking at and attach them to the checklist as well.

To highlight a few areas of the checklist:

**Price per square foot:** When comparing homes, it is important to know the price per square foot of each, especially if you are unfamiliar with local property values. To find the price per square foot, divide the home's asking price by its square footage. For example, a 2,000-square-foot home listed at \$125,000 has a price per square foot of \$62.50. Because of potential legal liability, some agents prefer not to disclose a home's estimated square footage. Others simply do not have this information. If your real estate agent does not provide these figures, get them from your local tax assessment agency or the home's builder. Price per square foot can serve as an objective benchmark to help you establish a home's value relative to other similar-sized homes in the area.

**Unique features:** You also should consider any unique features, which may affect the cost of insuring the home. Older homes and those built on a slope, for instance, may cost more to insure.

**Builder reputation:** Research the reputation of a home's builder. Start with the state consumer protection agency or the state attorney general. You can also go

to the Better Business Bureau website ([www.bbb.org](http://www.bbb.org)) and look at a report on the homebuilder.

**Utility costs:** Examine the previous owner's utility bills to get a sense of routine costs. Rural homes usually have a septic system and a well. Ask to see copies of the percolation (perc) test made before the septic system was built. It will show whether the drainage on the property is adequate to handle waste disposal. Also ask to see reports certifying the quality of the home's well water.

**Home warranty:** Ask the seller to provide a home buyers warranty. They can be purchased for as little as \$300 to \$600 annually to cover major repairs such as the appliances, heating, plumbing, etc. The cost can be reflected in the purchase price of the house.

## NEGOTIATING THE DEAL

### PROPERTY VALUES

A list of comparable sales during the last six months is important to determine property values. Ask your agent for a list of "comps," which shows the price and square footage of neighborhood homes that have sold recently. Besides the comps, there are intangibles that go into determining the asking price, including the market (buyer's market or seller's market), location and the buyers' emotional attachment to the home. If you plan to buy a home without the assistance of an agent (or, if you are looking for preliminary information), there are sources of information available online through your state and local offices of property taxation and from home value websites such as [Zillow.com](http://Zillow.com), [Realtor.com](http://Realtor.com), and [MLS.com](http://MLS.com).

Use property value information to highlight or eliminate certain neighborhoods. If your budget limits you to \$200,000, for example, it really makes no sense to concentrate on (and perhaps fall in love with) a neighborhood where the average sale prices are in the \$300,000 range. It is far better to focus on those areas where the average sale prices are well within your budget range, looking for a neighborhood that will give you the best value for your money.

When you find the home you want, the next step is to present an offer to purchase contract. After you make an offer, the seller may accept it, reject it or make a counteroffer. If a counteroffer is made, and they are quite common, you may accept it, reject it or make another counteroffer. This process continues until both parties agree or until one refuses to negotiate further. Be certain to put everything in writing.



- Set your price.
- List the personal property you may wish to have included, such as the refrigerator, washer and dryer, curtains, dining room ceiling fan, etc.
- List the needed repairs that you want the current owner to complete.
- List any contingencies, or circumstances, that must be met for you to go through with the sale, such as selling your current house, getting financing, a satisfactory home inspection, etc.

You may be asked to put down an earnest-money deposit, which, although not required, shows your good faith while negotiating. The amount of the deposit may vary. It can be as little as \$500 or as much as 10 percent of the sale price. If you cancel the contract, the earnest-money deposit is usually forfeited to the seller; therefore, try to limit the amount of the deposit. Earnest money is applied to the total purchase price of the home.

### HOME INSPECTION

**Trainer's note:** Distribute the *10 Important Questions to Ask Your Home Inspector* hand-out and review the questions with learners.



Many home purchasers, either in the desire to save the \$300 to \$500 that a good inspection costs or due to simple ignorance, have spent enormous sums of money repairing items that any good home inspector would have pointed out. Any purchase offer you make should be contingent upon (subject to) a whole-house inspection with a satisfactory report. Do not let anyone – not the agent, not your family or friends, and especially not the seller – dissuade you from having the property thoroughly inspected! A professional inspection can give you an escape hatch from a contract on a defective house. If the contract is written contingent on an acceptable inspection, any defects in the home must be repaired or monetarily compensated for. If you are not satisfied, you have the option to cancel the contract.

Inspections are designed to disclose defects in the property that could materially affect its safety, livability or resale value. They are not designed to disclose cosmetic deficiencies (for example, an interior wall that needs repainting). You will need to determine on your own those types of items that will need attention: Do not expect a whole-house inspection to reveal them to you. You can find certified home inspectors by visiting [www.ASHI.org](http://www.ASHI.org). The *10 Important Questions to Ask Your Home Inspector* handout will guide you through the selection process.

## THE CLOSING

### CLOSING COSTS



Closing costs are fees paid to complete the mortgage loan. They usually total approximately 2 to 5 percent of the loan amount and may be paid by the buyer or seller.

Examples of one-time types of closing costs include:

**Appraisal:** An estimate of current value of a home.

**Attorney's or title company's fee:** The buyer usually pays the fees.

**Credit report:** Furnishes lenders with information about the buyer's current indebtedness and payment history.

**Escrow company:** Acts as a third party to both buyer and seller, handles the paperwork and collects and distributes the various financial transactions, such as prepaids, real estate commissions and down payments.

**Home inspection:** An independent, professional inspection of the property and its electrical, plumbing, heating and cooling, and kitchen systems.

**Home warranty programs:** Offers first-year protection from a breakdown of many household systems, including plumbing, water heater, disposal, heating and cooling, and appliances.

**Loan origination fee:** A fee charged by the lender for making the loan; varies from zero to 2 percent.

**Pest inspection:** Separate from the home inspection; mortgage companies, particularly for VA loans, require a pest and water damage inspection.

**Recording fee:** The cost to record your deed and your mortgage with the city or county in which the home is located.

**Survey:** The measurement of the property by licensed engineers or surveyors to determine its area and attest to its boundaries.

**Title search and insurance:** Researches the records and ensures that the property's title is free from any encumbrances and that the property will transfer with a clear title. The insurance protects the mortgage company (required) and the buyer (optional) against any claims on the property not found during the title search.

In a buyer's market, the buyer can ask the seller in the offer to purchase contract to pay for all or a portion of the closing costs.

### PREPAID COSTS

At closing, the buyer will pay a number of recurring costs up front, with the money placed in escrow with the mortgage company and drawn when needed. Various prepaid costs are as follows:

**Private mortgage insurance (PMI):** Protects the lender against default on the loan. This can be a lump-sum payment, a monthly payment added to the mortgage payment or a higher interest rate. Example: \$200,000 purchase price, 10 percent down (\$20,000), \$180,000 loan amount, monthly PMI =  $.0052 \times \text{loan amount}$  divided by 12 months = \$78/month added to mortgage payment. PMI can be avoided by putting 20 percent down on the home purchase.

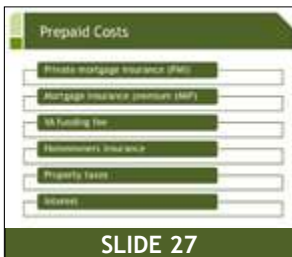
**Mortgage insurance premium (MIP):** FHA requires a mortgage insurance premium for its home-buying programs. An up-front premium of 1.75 percent of the loan amount is paid at closing and can be financed into the mortgage amount. In addition, there is an annual premium, which varies based on the length of the loan, the amount borrowed and the initial loan-to-value (LTV) ratio. Condominiums do not require upfront MIP, only a monthly MIP.

**VA funding fee:** For the VA to guarantee the home loan, there is a closing cost assessed by the VA to originate the loan. This is called a funding fee. This fee will vary, depending upon the type of VA loan, the down payment, whether this is your first time to use your entitlement, whether you are a disabled veteran, and whether you served active duty or in the National Guard or Reserve.

**Homeowners insurance:** A total of 14 months' premium payments are collected, 12 of which are used to pay the first year's policy premium. The extra two months are collected and placed in escrow account from which future premium payments are made.

**Property taxes:** Prorated buyer's first month's share of taxes and additional months of payments are placed in escrow from which future tax payments are made.

**Interest:** The buyer pays a prorated share of the first month's interest due on the loan amount, depending on the closing date.





### THE CLOSING

Closing is the final step in transferring home ownership from the seller to the buyer. It usually takes place at a lender's office, an escrow company, a title company or an attorney's office. It occurs when all of the promises in the purchase contract are fulfilled, the loan documents are prepared and the loan is finalized. Take possession, collect all keys and change all locks. Request these from the seller:

- Operating instructions for appliances and heating and cooling systems.
- Names of contractors.
- Paint colors.
- Locations of utility shutoffs.
- Security system combinations, if applicable.

While rent payment is made in advance, mortgage payments are paid in arrears – they are due on the first of a month for the previous month. Set your closing date as close to the end of the month as possible. It will minimize the amount of prorated interest charges you have to pay and you can skip a month before your first house payment is due. For example, if you close on March 30, you will pay prorated interest for March 30 and March 31 and your first house payment will not be due until May 1.

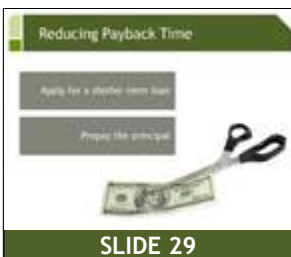
### REDUCING PAYBACK TIME

Many of us dream of retiring debt-free with nest egg large enough to sustain us in our later years. For many, this dream involves paying off a home mortgage. There are two ways a buyer can reduce the payback time on a loan:

**Apply for a shorter-term loan.** You can do this with a surprisingly modest monthly payment increase compared with a 30-year loan.

For example: a 30-year mortgage of \$100,000 at 6 percent interest carries a principal and interest payment of \$600 a month; a 15-year mortgage with 5.5 percent interest has a principal and interest payment of \$817. In most cases, lenders offer lower interest rates for loans with shorter maturities. A 15-year loan will generally have a lower rate than a 30-year loan.

**Prepay the principal.** This will reduce a 30-year fixed-rate loan's payback time to 20, 15 or even 10 years and will sharply reduce the amount of interest you pay over the life of the loan. If you are a disciplined money manager, and if your loan has no prepayment penalty, you may consider paying off a 30-year mortgage in 15 years





and one month by doubling the principal payment each month. Or you can take a 30-year loan and pay it back in 20 years in one of the three following ways:

- Make an extra lump-sum payment each year.
- Increase monthly payment by one-twelfth.
- Pay bi-weekly; that means making one-half mortgage payment every other week.

Be sure to fully explore the cost of such prepayments, making sure there are no prepayment penalties or additional fees associated with prepayment.

The option of paying off your mortgage has advantages and disadvantages.

### Advantages

**Emotional security:** Paying off your mortgage provides emotional relief from the anxiety of owing money. You may simply feel more secure owning your home free and clear. This sense of security may matter a great deal if you plan to live in your home when you retire. Also, you may desire to leave a debt-free home to your heirs.

**Future investing:** Without a mortgage payment, you will have more money to invest for the future. Your retirement savings can grow more quickly. Mortgage interest on a large or high-rate loan may be costing you a hefty sum. Instead of paying interest, you could be earning interest with your money.

**Retirement needs:** If you are retired, paying off your mortgage can free your money for other things. Experts recommend accumulating enough retirement savings to have at least 70 percent of your working income. If you are short of this goal, eliminating mortgage payments will free monthly income for living expenses. This approach is especially helpful if you have a large mortgage with high payments.

**Reducing loan stresses:** Paying off your loan removes loan-related stresses, too. Houses gain and lose value, depending on local conditions. These market changes affect the equity you have built in your home. Without a loan, you remove the risk of owing more than you own. Also, you avoid being hit by climbing rates if the interest on your loan is variable.

### Disadvantages

**Missed investment opportunity:** You can lose the opportunity to invest and build up a secure retirement nest egg. If you use your resources to pay off your mortgage, you will have less money to devote to growing your investments. If the



interest rate on your loan is reasonably low, you may be able to earn more by investing. You can build wealth by investing in higher-rate earnings vehicles.

This drawback particularly applies if you have more than 10 years remaining before retirement. With this extra time, you could grow your money if it is invested well. So, paying off a mortgage may not make sense if you are focused on accumulating wealth at this point in your life.

**Lost tax savings:** Another disadvantage of paying off your mortgage is lost tax savings. The interest on your mortgage is tax deductible. This tax deduction may mean considerable savings for some homeowners. If you pay off your mortgage, you will lose the interest deduction. This could hurt, especially if you are or expect to be in a high tax bracket during retirement, when you could really use the deduction. It also has a greater effect if you have more than 10 years left to pay on a 30-year mortgage. During the early years of repaying your loan, you pay more in interest and stand to benefit from a larger deduction.

**Payments:** Large monthly payments or more frequent payments.



### **LEARNER ACTIVITY:** *Closing the Deal*

**Time:** 5 minutes



**Materials:** *Closing the Deal* handout, pens or pencils

**Procedure:** Pass out the *Closing the Deal* handout. Tell learners that they are to write in the answers to the questions on the handout. When learners have completed the handout, review the answers with the class.

Questions:

1. You can expect to pay 2 percent to 5 percent of the home's purchase price for \_\_\_\_\_.
2. \_\_\_\_\_ protects the mortgage company (required) and the buyer (optional) against any claims on the property.
3. An \_\_\_\_\_ acts as a third party to the buyer and seller, handles the paperwork and collects and distributes the various financial transactions, such as prepaid insurance, real estate commissions and down payments.
4. Private mortgage insurance (PMI) protects \_\_\_\_\_ against default on the loan.
5. When searching for a home, use \_\_\_\_\_ information to highlight or eliminate certain neighborhoods.

6. While rent payment is made in advance, mortgage payments are paid in \_\_\_\_\_.
7. A \_\_\_\_\_ offers protection from a breakdown of many household systems, including plumbing, water heater, garbage disposal, heating and cooling, and appliances.
8. Prepaying the \_\_\_\_\_ reduces a 30-year fixed-rate loan's payback time to 20, 15 or even 10 years and will sharply reduce the amount of interest you pay over the life of the loan.
9. The closing occurs when all the promises in the \_\_\_\_\_ are fulfilled.
10. \_\_\_\_\_ are designed to disclose defects in the property that could materially affect its safety, livability or resale value.

Answers:

1. Closing costs
2. Title insurance
3. Escrow company
4. Lenders
5. Property value
6. Arrears
7. Home warranty
8. Principal
9. Purchase contract
10. Inspections

## HOMEOWNERS INSURANCE

**Trainer's note:** Distribute the *Requesting a Quote for Homeowners Insurance* handout.

Because your home usually represents your largest purchase, it only makes sense to protect your investment from possible hazards. Many homeowners are underinsured; be sure to assess your needs and purchase adequate coverage. Of homeowners policies, HO3 policies are the most popular because of its broad-based, comprehensive coverage. Remember, if you are renting now or



Homeowners Insurance

Minimal Coverage	Additional Coverage
• Builders defects	• Replacement cost
• Sewer backups	• Umbrella policy
• Sump pump	• Rent
• Personal liability	• Disaster insurance
• Medical payments	

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choose to rent later, always protect your possessions and liability to others with renters insurance.

### MINIMAL COVERAGE

At a minimum, you need to cover the cost:

- to rebuild your house should it be destroyed.
- of replacing the contents of the dwelling.
- of daily living expenses incurred when the homeowner is unable to stay in the home while repairs are under way.
- personal liability up to a maximum for each occurrence, usually up to \$100,000.
- medical payment for injuries that occur on the premises.

### ADDITIONAL COVERAGE

**Replacement cost coverage:** Allows for rebuilding the home with exactly the same materials with which it is currently constructed. Replacement cost coverage also allows you to replace your contents at current market prices rather than depreciated amounts, also called “actual costs” in some contracts.

**Umbrella policy (usually for \$1 million):** Should be considered if the homeowner has a lot of assets, high earning potential or an attractive hazard (such as a swimming pool, trampoline or an aggressive dog) to protect property and future earnings from lawsuits.

**Riders:** Additional coverage can be added for valuable personal property, such as gun collections, antiques and valuable jewelry. The insurance company may require appraisals.

**Flood insurance:** Mandatory at extra cost if a survey indicates your new home is in a flood zone. However, if you are not in a flood zone, have no flood insurance and your home is flooded by a freak storm, you will not be covered.

**Earthquake insurance:** This works in much the same way as flood insurance. If the new home is in an earthquake-prone area, the homeowner may be required to carry the extra insurance at an additional cost.

### REDUCING PREMIUM COSTS

To reduce insurance costs:



- Shop around for the best rates. Be sure coverage quoted is identical and the company is financially sound and reliable.
- Raise the deductible to \$1,000 or more.
- Ask about nonsmokers' discounts.
- Install fire and burglary detection systems.
- Use the same insurance company for homeowners, auto and life insurance.

### SUMMARY

This course has covered a lot of material. Keep in mind these six main concepts as you begin the search for your new home:

- Identify your needs and your wants.
- Know what you can afford.
- Research homes, agents, lenders and loans.
- Get a home inspection.
- Adequately insure the home.
- Enjoy your new home!



# Home-buying Debt-to-income Ratio

Most agents and lenders will calculate this information for you, free of charge and with no obligation. They will provide you with an approximate amount you may be able to borrow. Some lenders will go a step further, offering pre-approval before you buy a home. Being pre-approved is like being a cash buyer and may give you more bargaining power when you shop for a home.

Use this worksheet to determine your approximate debt ratio, including a borrowing limit.

1. Write down your gross annual income. \_\_\_\_\_

2. Write in your gross monthly income. (Divide line 1 by 12.) \_\_\_\_\_

3. Establish your approximate house payment limit, including principal, interest, taxes and insurance (PITI). (Multiply line 2 by .28) \_\_\_\_\_

4. Calculate your monthly debt ratio limit. (Multiply line 2 by .36) \_\_\_\_\_

5. Enter and total the monthly payments for the items below to find your debt ratio limit: \_\_\_\_\_

Auto loan/lease payments \_\_\_\_\_

Student/other loans \_\_\_\_\_

Credit cards \_\_\_\_\_

Installment debt \_\_\_\_\_

Child support/alimony \_\_\_\_\_

New house payment limit.  
(Copy the number on line 3.) \_\_\_\_\_

Total Debt:

--

6. To calculate your debt ratio, divide the number in the Total Debt box by the number you wrote on line 2. \_\_\_\_\_

Your new home price range is probably right if your debt ratio is below 36 percent. If it is at 36 percent, you are probably right at the upper limit of your price range and should consider whether unplanned expenses might prevent you from making your new house payment. If your debt ratio exceeds 36 percent, you need to reduce your debt, increase your down payment or reduce the price you pay for your home.

# 10 Important Questions to Ask Your Home Inspector

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

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

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

The inspector should be able to provide a professional history and perhaps even a few names as referrals.

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

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

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

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

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

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

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

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

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

Ask to see samples. Determine whether you can understand the inspector's reporting style and whether the time parameters fulfill your needs. Most inspectors provide their full report within 24 hours of the inspection.

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

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

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

There are many state and national associations for home inspectors. Ask to see the inspector's membership ID, and perform whatever due diligence you deem appropriate.

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

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

From [www.hud.gov](http://www.hud.gov)

# Checklist for Financing Your Purchase

- Decide the length of the loan (15-year and 30-year loans are the most common), the type of loan (adjustable-rate and fixed-rate loans predominate) and how much money you qualify for.
- Compare services, interest rates and fees of several lenders before selecting one. A real estate agent can help you find a lender if you are new to town.
- Discuss with your real estate agent and loan officer the current trends in interest rates and the option of locking in a rate for your purchase.
- Complete a mortgage application with a loan officer or online. To complete the application, have at last two paycheck stubs, W-2s, employment information, the last two months' checking and savings account statements and current loan statements.
- Lender requests appraisal of home, survey of property and verifications of your employment, bank balances and credit history.
- Lender gives you a "good faith estimate" showing your expected costs at closing.
- It typically takes two to six weeks for verification letters to be returned and paperwork to be processed.
- A loan officer evaluates your application and the underwriter approves the loan.
- On closing day, you sign the mortgage agreement. The lender pays the closing or settlement agent, and the agent pays the seller.
- You are ready to move in!





# Checklist for Your House Hunt

**ADDRESS** \_\_\_\_\_

**DATE OF VISIT** \_\_\_\_\_

**HOUSE** \_\_\_\_\_

Asking price \_\_\_\_\_

Square footage \_\_\_\_\_

Price per square foot \_\_\_\_\_

FHA/VA financing \_\_\_\_\_

Other financing \_\_\_\_\_

Floor plan \_\_\_\_\_

Number of bedrooms/bathrooms \_\_\_\_\_

On what side does sun rise/set? \_\_\_\_\_

Real estate taxes \_\_\_\_\_

Number of stories \_\_\_\_\_

**SIZE OF ROOMS:**

Bedroom (master) \_\_\_\_\_

Bedroom 2 \_\_\_\_\_

Bedroom 3 \_\_\_\_\_

Bedroom 4 \_\_\_\_\_

Master bath \_\_\_\_\_

Master closet \_\_\_\_\_

Kitchen \_\_\_\_\_

Family dining area \_\_\_\_\_

Formal dining area \_\_\_\_\_

Living \_\_\_\_\_

Family room \_\_\_\_\_

Other \_\_\_\_\_

Year constructed \_\_\_\_\_

Builder \_\_\_\_\_

Parking \_\_\_\_\_

**INTERIOR:**

Appliances \_\_\_\_\_

Attic \_\_\_\_\_

Attic vents \_\_\_\_\_

*Attach other printouts and pictures to this checklist.*

Basement \_\_\_\_\_

Ceiling fans \_\_\_\_\_

Closets \_\_\_\_\_

Electric garage door opener \_\_\_\_\_

Estimated utility costs \_\_\_\_\_  
(ask to see bills)

Fireplace(s) \_\_\_\_\_

Floor covering \_\_\_\_\_

General condition \_\_\_\_\_

Heating/ventilation/central air \_\_\_\_\_

Humidifier \_\_\_\_\_

Insulation \_\_\_\_\_

Kitchen \_\_\_\_\_

Lead-based paints used? \_\_\_\_\_  
(Harmful if ingested, common in older homes)

Plumbing \_\_\_\_\_

Radon levels \_\_\_\_\_

Security system \_\_\_\_\_

Stairs \_\_\_\_\_

Utility room \_\_\_\_\_

Wallpaper \_\_\_\_\_

Walls (check for cracks) \_\_\_\_\_

Window coverings \_\_\_\_\_

Wiring \_\_\_\_\_

**EXTERIOR:**

Deck/porch/patio \_\_\_\_\_

Doors \_\_\_\_\_

Foundation/grading/drainage \_\_\_\_\_

Gutters and downspouts \_\_\_\_\_

Landscaping \_\_\_\_\_

Lot size \_\_\_\_\_

Pavement condition \_\_\_\_\_

Roof \_\_\_\_\_

Septic system \_\_\_\_\_

Siding materials \_\_\_\_\_  
Sprinkler system \_\_\_\_\_  
Swimming pool/hot tub \_\_\_\_\_  
Trees \_\_\_\_\_  
Windows (single/double paned) \_\_\_\_\_

**NEIGHBORHOOD:**

Security \_\_\_\_\_  
Snow removal \_\_\_\_\_  
Susceptibility to flood, earthquake, etc. \_\_\_\_\_  
Traffic \_\_\_\_\_  
Trash removal \_\_\_\_\_  
Accessibility during inclement weather \_\_\_\_\_  
Adjacent property (its zoning, owner[s], and intended use) \_\_\_\_\_

Airports \_\_\_\_\_  
City services \_\_\_\_\_

**DRIVE TIME TO:**

Work \_\_\_\_\_  
Schools \_\_\_\_\_  
Shopping \_\_\_\_\_  
Church \_\_\_\_\_  
Major highways \_\_\_\_\_  
Entertainment/culture \_\_\_\_\_  
Landfills \_\_\_\_\_

Near hazardous/noxious activities? \_\_\_\_\_

**NOISE:**

Airport \_\_\_\_\_  
Freeway \_\_\_\_\_  
Railroad tracks \_\_\_\_\_  
Neighbors/pets \_\_\_\_\_

**OTHER:**

Overall appearance \_\_\_\_\_  
Percent houses for sale and rent in area \_\_\_\_\_  
Police/fire \_\_\_\_\_  
Power lines \_\_\_\_\_  
Privacy \_\_\_\_\_  
Restrictions \_\_\_\_\_  
(e.g., satellite dishes, outbuildings)  
Public transportation \_\_\_\_\_

**SCHOOL DISTRICT:**

Day care \_\_\_\_\_  
Elementary \_\_\_\_\_  
Middle school \_\_\_\_\_  
Junior high \_\_\_\_\_  
Senior high \_\_\_\_\_

**GENERAL:**

Affordability \_\_\_\_\_  
Investment value \_\_\_\_\_

**RESOURCES**

[www.ambest.com](http://www.ambest.com) (insurance ratings)  
[www.annualcreditreport.com](http://www.annualcreditreport.com) (free annual credit reports)  
[www.ashi.org](http://www.ashi.org) (certified home inspector locator)  
[www.bankrate.com](http://www.bankrate.com) (current interest rates on all types of loans and mortgages)  
[www.craigslist.com](http://www.craigslist.com) (all-purpose bulletin board with real estate rentals and sales for every state)  
[www.fool.com](http://www.fool.com) (The Motley Fool, investor's website and home-buying education)  
[www.freddiemac.com](http://www.freddiemac.com) (home-buying information and education)  
[www.fsbo.com](http://www.fsbo.com) (For Sale By Owner)  
[www.greatschools.org](http://www.greatschools.org) (school ratings)  
[http://homebuying.about.com](http://http://homebuying.about.com) (About.com homebuying)

[www.homeloans.va.gov](http://www.homeloans.va.gov) (Veterans Affairs Loan Guaranty Home Loan Program)  
[www.hud.gov](http://www.hud.gov) (U.S. Department of Housing and Urban Development)  
[www.militarybyowner.com](http://www.militarybyowner.com) (real estate network for sales and rentals near military installations)  
[www.mls.com](http://www.mls.com) (Multiple Listing Service)  
[www.ffsp.navy.mil](http://www.ffsp.navy.mil) (Fleet and Family Support Center)  
[www.ourfamilyplace.com](http://www.ourfamilyplace.com) (Our Family Place Resource Center)  
[www.realtor.com](http://www.realtor.com) (National Association of Realtors)  
[www.responsiblelending.org](http://www.responsiblelending.org) (Center for Responsible Lending)  
[www.saveandinvest.org](http://www.saveandinvest.org) (military investor education)

# Closing the Deal

Fill in the blanks below to see whether you are ready to “Close the Deal.”

1. You can expect to pay 2 percent to 5 percent of the home’s purchase price for \_\_\_\_\_.
2. \_\_\_\_\_ protects the mortgage company (required) and the buyer (optional) against any claims on the property.
3. An \_\_\_\_\_ acts as a third party to the buyer and seller, handles the paperwork and collects and distributes the various financial transactions, such as prepaid insurance, real estate commissions and down payments.
4. Private mortgage insurance (PMI) protects \_\_\_\_\_ against default on the loan.
5. When searching for a home, use \_\_\_\_\_ information to highlight or eliminate certain neighborhoods.
6. While rent payment is made in advance, mortgage payments are paid in \_\_\_\_\_.
7. A \_\_\_\_\_ offers protection from a breakdown of many household systems, including plumbing, water heater, garbage disposal, heating and cooling, and appliances.
8. Prepaying the \_\_\_\_\_ reduces a 30-year fixed-rate loan’s payback time to 20, 15 or even 10 years and will sharply reduce the amount of interest you pay over the life of the loan.
9. The closing occurs when all the promises in the \_\_\_\_\_ are fulfilled.
10. \_\_\_\_\_ are designed to disclose defects in the property that could materially affect its safety, livability or resale value.

# Figuring Your Monthly Payment

Interest Rate	Interest Rate Factor (per \$1,000 financed)	
	15 Years	30 Years
3.0%	\$6.91	\$4.22
3.5%	\$7.15	\$4.49
4.0%	\$7.40	\$4.77
4.5%	\$7.65	\$5.07
5%	\$7.91	\$5.37
5.5%	\$8.17	\$5.68
6%	\$8.44	\$6.00
6.5%	\$8.71	\$6.32
7%	\$8.99	\$6.66
7.5%	\$9.27	\$6.99
8%	\$9.56	\$7.34
9%	\$10.14	\$8.05
10%	\$10.75	\$8.78



## Helpful Websites with Information and Calculators:

[www.bankrate.com](http://www.bankrate.com)

[www.fool.com/how-to-invest/personal-finance/home/index.aspx](http://www.fool.com/how-to-invest/personal-finance/home/index.aspx)

[www.homeloans.va.gov](http://www.homeloans.va.gov)

[www.hud.gov](http://www.hud.gov)

[www.kiplinger.com/tools](http://www.kiplinger.com/tools)

[www.navyfederal.org](http://www.navyfederal.org)

# Financial Planning Worksheet

Date \_\_\_\_\_ Rate \_\_\_\_\_  
 Name \_\_\_\_\_ Age \_\_\_\_\_  
 Pay Grade \_\_\_\_\_ Yrs. in Svc. \_\_\_\_\_ Date Reported/PRD (Transfer) \_\_\_\_\_  
 Marital Status \_\_\_\_\_ Spouse's Name \_\_\_\_\_ Age \_\_\_\_\_  
 Spouse's Place of Employment \_\_\_\_\_  
 Number of Children and Ages \_\_\_\_\_  
 Home Address \_\_\_\_\_  
 Work Telephone \_\_\_\_\_ Home Telephone \_\_\_\_\_  
 Command & Referred By (Self, CMD, NMCRS, FFSC, etc.) \_\_\_\_\_  
 Amount of SGLI Elected \_\_\_\_\_ Amount of FSGLI Elected \_\_\_\_\_  
 TSP Monthly Contribution \_\_\_\_\_ MGIB Monthly Contribution \_\_\_\_\_

## STATEMENT OF NET WORTH

### ASSETS

Cash on hand \$ \_\_\_\_\_  
 Checking Accounts \$ \_\_\_\_\_  
 Savings Accounts \$ \_\_\_\_\_  
 Certificates of Deposit \$ \_\_\_\_\_  
 Cash Value of Life Insurance \$ \_\_\_\_\_  
 U.S. Savings Bonds \$ \_\_\_\_\_  
 Mutual Funds/Money Market \$ \_\_\_\_\_  
 Stocks/Bonds \$ \_\_\_\_\_  
 College Funds \$ \_\_\_\_\_  
 401(k)/403(b)/TSP \$ \_\_\_\_\_  
 Other (IRAs, etc.) \$ \_\_\_\_\_  
**Real Estate** (Market Value)  
 Home \$ \_\_\_\_\_  
 Rental Property \$ \_\_\_\_\_  
 Other (vacation home/trailer/time share) \$ \_\_\_\_\_  
**Personal Property**  
 Vehicles/Motorcycles/Boats \$ \_\_\_\_\_  
 Furniture \$ \_\_\_\_\_  
 Jewelry \$ \_\_\_\_\_  
 Other (collectibles, etc.) \$ \_\_\_\_\_

### LIABILITIES

Signature Loans \$ \_\_\_\_\_  
 Auto Loans or Leases \$ \_\_\_\_\_  
 Consolidation Loans \$ \_\_\_\_\_  
 Student Loans \$ \_\_\_\_\_  
 NEX/AAFES (Star Card) \$ \_\_\_\_\_  
 Department Store Credit Cards \$ \_\_\_\_\_  
 Other Credit Cards \$ \_\_\_\_\_  
 NMCRS (loan) \$ \_\_\_\_\_  
 Other (friends, relatives, etc.) \$ \_\_\_\_\_  
 Advance/overpayments \$ \_\_\_\_\_  
**Mortgages-Balances Due**  
 Home \$ \_\_\_\_\_  
 Rental Property \$ \_\_\_\_\_  
 Other (vacation home/trailer/time share) \$ \_\_\_\_\_

<b>TOTAL ASSETS</b>	\$ _____
<b>TOTAL LIABILITIES</b>	\$ _____
<b>NET WORTH</b> (Assets - Liabilities)	\$ _____

Counseling Provided By: \_\_\_\_\_  
 Counselor Phone #: \_\_\_\_\_  
 Appointment Date: \_\_\_\_\_ Time: \_\_\_\_\_  
 Place: \_\_\_\_\_

## MONTHLY INCOME

MONTHLY INCOME					
ENTITLEMENTS	ACTUAL		PROJECTED		REMARKS
* Base Pay					
Basic Allowance for Housing (BAH I or II)					
Overseas Housing Allowance (OHA)					
Basic Allowance for Subsistence (BAS)					
Family Separation Allowance (FSA)					
* Flight Pay/Diving Pay/Flight Deck Pay					
* Submarine Pay					
* Other Hazardous Duty Pay					
* Sea Pay					
Taxable COLA					
Other (tax exempt/allowance eg. COLA/FSSA)					
<b>TOTAL MILITARY COMPENSATION</b> (A)					
* Taxable pay ( )					Excludes pretax ded for TSP/MGIB
DEDUCTIONS	ACTUAL		PROJECTED		REMARKS
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
ALLOTMENT					For/ends?
Family SGLI (for spouses)					
Servicemembers' Group Life Insurance (SGLI)					
Uniform Services TSP					
MGIB					
FITW Filing Status Actual					Proj. Status:
FICA (Social Security)					Base Pay Only, Excludes MGIB
FICA (Medicare)					Base Pay Only, Excludes MGIB
State Income Tax					State Claimed:
AFRH (Armed Forces Retirement Home)					
TRICARE Dental Plan (TDP)					
Advance Payments					Ends:
Overpayments					Ends:
<b>TOTAL DEDUCTIONS</b> (B)	\$		\$		
CALCULATE NET INCOME	ACTUAL		PROJECTED		REMARKS
Service Member's Take-Home Pay (A-B)	\$		\$		Divide by 2 for Payday Amount
Service Member's Other Earnings (less taxes)					
Spouse's Earnings (less taxes)					
ALLOTMENT					
ALLOTMENT					
ALLOTMENT					
ALLOTMENT					
ALLOTMENT					
Family SGLI (For Spouses)					
Servicemembers' Group Life Insurance (SGLI)					
Uniform Services TSP					
MGIB					
TRICARE Dental Plan (TDP)					
Advance Payments					
Overpayments					
Child Support/Alimony (received/income)					
Other Income (e.g. SSI, rental income)					
<b>TOTAL MONTHLY NET INCOME</b>	\$		\$		

\*Note: Pay Entitlements are taxable. Allowance Entitlements are non-taxable.

# MONTHLY SAVINGS AND LIVING EXPENSES

Note: Actual or Projected figures can be carried forward to spending plan.

SAVINGS		ACTUAL	PROJECTED	REMARKS
<b>SAVINGS</b>	Emergency Fund (1-3 months)			Monthly Contribution Amount
Goal: 10% of Net Income	Reserve Fund			
Actual \$	Goal-Getter Fund			
Projected \$	Investments/IRAs/TSP/etc.			
<b>TOTAL SAVINGS AND INVESTMENTS (10%)</b>		\$	\$	
LIVING EXPENSES		ACTUAL	PROJECTED	REMARKS
<b>HOUSING</b>	Furnishings			
	Maintenance/Repairs			
	Mortgage/Rent			
	Taxes/Fees			
<b>FOOD</b>	Dining Out			
	Groceries			
	Lunches			Include school and work lunches
	Vending Machines			
	Meal Deductions			
<b>UTILITIES</b>	Cable/Satellite/Internet TV/Gaming subscriptions			
	Cellular/Phone Cards			
	Electricity			
	Internet Service			
	Natural Gas/Propane			
	Telephone			Local=\$ _____ Long Distance=\$ _____
	Water/Garbage/Sewage			
<b>CHILD CARE</b>	Allowances			
	Daycare			
	Support			Include other dependent care
<b>AUTOMOBILE</b>	Gasoline			
	Maintenance/Repairs			
	Other			
<b>CLOTHING</b>	Laundry/Dry Cleaning			
	Purchases (\$50 monthly per person)			
<b>INSURANCE</b>	Automobile			
	Health/Life			
	Homeowners/Renters			
	SGLI/FSGLI			Both service member/Family SGLI
	TRICARE Dental			
<b>HEALTHCARE</b>	Dental			
	Eye Care			
	Hospital/Physician			
	Prescriptions			
<b>EDUCATION</b>	Books			
	Fees (Other/Room & Board)			
	Tuition			
	MGIB			Montgomery GI Bill (MGIB)
<b>CONTRIBUTIONS</b>	Charities (CFC/NMCRS)			
	Club Dues/Association Fees			
	Religious			
<b>LEISURE</b>	Athletic Events/Sporting Goods			Include spectator sports
	Books/Magazines			
	Computer Products (software/hardware)			
	Movie/Music/Game Rentals or Downloads			
	DVDs & CDs			
	Entertainment			
	Lessons			Dance, music, self-defense, tutor
	Toys & Games			
	Travel/Lodging			
<b>PERSONAL</b>	Beauty Shop/Nails			
	Barber Shop			
	Cigarettes/Other Tobacco			
	Vending Machines			
	Liquor/Beer/Wine			ABC, package store, etc.
	Other (toiletries, supplements, etc.)			
<b>GIFTS</b>	Holidays			
	Birthdays/Anniversaries			
<b>PET CARE</b>	Food/Supplies			
	Veterinarian/Service (boarding/grooming)			
<b>MISCELLANEOUS</b>	ATM Fees/Stamps/etc.			
	Other			Recommend \$50-\$150 buffer
<b>TOTAL MONTHLY LIVING EXPENSES (70%)</b>		\$	\$	

## INDEBTEDNESS 20%

CREDITOR	PURPOSE	MONTHLY PAYMENT	BALANCE	PROJECTED PAYMENT	REMARKS <small>(Mos Behind, Pd by Allotment, etc.)</small>	APR %
1. US Govt.	Advance Pay				Automatic Deduction	
2. US Govt.	Overpayments				Automatic Deduction	
3.						
4.						
5.						
6.						
7.						
8.						
8.						
10.						
11.						
12.						
13.						
14.						
15.						
16.						
17.						
18.						
19.						
20.						
21.						
22.						
23.						
24.						
25.						
<b>TOTAL</b>						

## SUMMARY

	ACTUAL	PROJECTED
NET INCOME (Bottom of Page 2)		
SAVINGS AND INVESTMENTS (Page 3)	-	
LIVING EXPENSES (Page 3)	-	
AMOUNT LEFT TO PAY DEBTS	=	
TOTAL MONTHLY DEBT PMTS (Page 4)	-	
<b>SURPLUS OR DEFICIT</b>	<b>=</b>	
<b>DEBT-TO-INCOME RATIO</b>	<b>=</b>	

(Total Monthly Debt Payments ÷ Net Income x 100 = Debt-to-Income Ratio)



# ACTION PLAN

## INCREASE INCOME

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

## DECREASE LIVING EXPENSES

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

## DECREASE INDEBTEDNESS

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

## REFERRALS/RECOMMENDED TRAINING

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

## SETTING YOUR GOALS (Short and Long Term)

GOAL	COST	DATE WANTED	= MONTHLY SAVINGS TO REACH GOAL
1.			
2.			
3.			
4.			
5.			
6.			



# DAILY EXPENSES

## Keep track of your daily expenses for two weeks

Keep a record of how you spend your money for the next two weeks. The secret is to record it when you spend it. Using a sticky note in your wallet or purse will help you track your expenditures. When you go for your money, make a note on your sticky (write the amount and the item). At the end of the day, transfer the recorded amounts to this record. Be sure to include bills paid, along with sodas, lunches, etc.

Remember, this is for tracking your take-home pay. Do not include allotments.

TAKE-HOME PAY FOR TWO WEEKS

Dates

DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
Item:	Amount:	Item:	Amount:	Item:	Amount:	Take-Home Pay: \$ _____ Amount Spent: \$ _____ Balance: \$ _____ (+ or -)	

# DAILY EXPENSES

## Keep track of your daily expenses for two weeks

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TAKE-HOME PAY FOR TWO WEEKS

Dates

DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
DATE:		DATE:		DATE:		DATE:	
Item:	Amount:	Item:	Amount:	Item:	Amount:	Item:	Amount:
						Take-Home Pay: \$ _____ Amount Spent: \$ _____ Balance: \$ _____ (+ or -)	

# Interviewing Agents

1. How long have you been selling residential real estate? (Three or four years of full-time activity is generally enough to impart a solid foundation.)
2. Are you a full-time salesperson? (There are some very good part-time agents, but in the absence of a personal referral, go with full-time experience.)
3. Are you a licensed Realtor? (Realtors are well-trained and must conform to a code of ethics.)
4. Do you have access to a Multiple Listing Service (MLS)? (An MLS is a computerized database providing a fast, convenient way to gather useful information about most of the local for-sale homes.)
5. Will you represent me or the seller in the transaction? (Generally, agents represent the seller. However, a buyer's agent represents the buyer. Consider interviewing both types of agents.)
6. Will you give me the names of several people who have bought their homes through you during the past three months? (If yes, call and ask whether the buyers were satisfied. If no, find another agent.)
7. Would you work as a buyer's agent? If so, how would your fee be handled? (Buyer's agent fees are usually included in the purchase price, as are the selling agent fees.)
8. How many buyers are you working with right now? How many sellers?
9. How long will your contract be valid?
10. How familiar are you with my preferred community?
11. How many homes have you sold in the last year?



# Mortgage Loan Types

**Fixed-rate loans:** These are the most popular loans because they offer stable, consistent payments throughout the life of the loan. The most common is the 30-year fixed rate.

**Adjustable-rate loans:** These loans have a variable interest rate that fluctuates according to the financial index they are tied to and the type of adjustable-rate mortgage (ARM) obtained. An adjustable-rate loan is usually capped over the life of the loan and limited to one or two points a year, depending on the loan type.

**FHA loans:** Government-backed Federal Housing Administration loans are designed for first-time or lower-income home buyers. The interest rate for FHA loans are usually less than they would be for conventional loans. FHA loans are available as fixed-rate and adjustable-rate mortgages. The down payment is 3 to 5 percent of the loan amount. There are limits to the maximum loan amount.

**VA loans:** These loans are available to veterans of the U.S. Armed Forces and backed by the Department of Veterans Affairs. No down payment is required, the seller must pay points and Congress controls the maximum loan amounts.

**Assumptions:** Consider assuming the seller's existing loan and interest rate if the rate on the assumable loan is lower than the prevailing rate for a new loan. By assuming a loan, you take responsibility for paying the mortgage owed by the seller.

**Buy-down:** If you cannot afford the prevailing interest rate, consider a buy-down mortgage. The buyer can pay extra points to buy down the mortgage for the first few years. Buy-downs are common among new construction homes and first-time home buyers.

**Step loans:** These combine the stability of a fixed-rate loan with the lower rates of an ARM. There are two options: 5/25 and 7/23: The interest rate is fixed for the first five or seven years, and then the loan adjusts once into a one-year ARM or a fixed-rate loan. Step loans offer lower interest than the prevailing rate for 30-year fixed-rate mortgages.

**Balloon loans:** Interest paid during the term of the loan does not fully pay off the mortgage. At the end of the loan term, the homeowner must pay the remaining principal in one lump sum. Balloon loans usually have lower interest rates than fixed-rate loans. Balloon loans are most useful to home buyers who stay in the home no more than the term of the loan but typically are not a good choice for a first-time home buyer.

**Seller financing:** The seller takes on the role of lender and gives the buyer a loan to purchase the property. Generally, the seller owns the property outright and can finance the entire purchase or has significant equity and can "carry back" a second mortgage, which can be used to finance the buyer's down payment.

**State veterans program:** Many states offer veterans benefits. These benefits may include educational grants and scholarships, special exemptions or discounts on fees and taxes, home loans, veteran's homes, free hunting and fishing privileges, and more. Each state manages its own benefit programs. Be sure to take advantage of the benefits you have earned by linking to your state department of veterans affairs.

## BEWARE OF:

**Interest-only mortgage:** An interest-only mortgage allows you to pay only the interest for a specified number of years. Since there is no payment on the loan principal, a borrower who takes this type of loan is depending on the housing market to increase the value of the home. Most interest-only mortgages have adjustable interest rates, which means the interest rate and monthly payment will change over the term of the loan. The interest-only mortgage payment period is typically between three and 10 years. After that, your monthly payment will increase even if interest rates stay the same, because you must pay back the principal as well as the interest.

**80/20 mortgages:** An 80/20 mortgage is essentially two mortgage loans that equal the total amount of the purchase price, with the first mortgage being 80 percent and the second mortgage covering the remaining 20 percent. The first is typically at the going rate for a conventional mortgage, while the second is usually significantly higher.

**Subprime lending:** Subprime lending, also called “B-Paper,” “near-prime” or “second chance” lending, is a general term that refers to the practice of making loans to borrowers who do not qualify for market interest rates because of problems with their credit history.

# Mortgage Shopping Worksheet

	Lender 1		Lender 2	
<b>Name of Lender</b>				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2
<b>BASIC INFORMATION ON THE LOANS</b>				
Type of Mortgage: fixed rate, adjustable rate, conventional, FHA, other? (If adjustable, see below)				
Minimum down payment required				
Loan term (length of loan)				
Contract interest rate				
Annual percentage rate (APR)				
Points (may be called loan discount points)				
Monthly Private Mortgage Insurance (PMI) premiums				
How long must you keep PMI?				
Estimated monthly escrow for taxes and hazard insurance. Estimated monthly payment (principal, interest, taxes, insurance, PMI)				
<b>FEES</b> (Different institutions may have different fee names and charge different fees. Below are some typical fees you may encounter.)				
Application fee or loan processing fee				
Origination fee or underwriting fee				
Lender fee or funding fee				
Appraisal fee				
Attorney fees				
Document preparation and recording fees				
Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
Credit report fee				
Other fees				
<b>OTHER COSTS AT CLOSING/SETTLEMENT</b>				
Title search/title insurance				
For lender				
For you				
Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow				
State and local taxes, stamp taxes, transfer taxes				
Flood determination				
Prepaid Private Mortgage Insurance (PMI)				
Surveys and home inspections				
<b>TOTAL FEES AND OTHER CLOSING/SETTLEMENT COST ESTIMATES</b>				



	Lender 1		Lender 2	
--	----------	--	----------	--

Name of Lender				
	Mortgage 1	Mortgage 2	Mortgage 1	Mortgage 2

**OTHER QUESTIONS AND CONSIDERATIONS**

Are any of the fees or costs waivable?				
Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (For example, three years? Five years?)				
Are extra principal payments allowed?				

**LOCK-INS**

Is the lock-in agreement in writing?				
Is there a fee to lock in?				
When does the lock-in occur—at application, approval or another time?				
How long will the lock-in last?				
If the rate drops before closing, can you lock in at a lower rate?				

**IF THE LOAN IS AN ADJUSTABLE-RATE MORTGAGE:**

What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and of any changes to the monthly payment?				
What is the index that the lender will use?				
What margin will the lender add to the index?				

**CREDIT LIFE INSURANCE**

Does the monthly amount quoted to you include a charge for credit life insurance?				
If so, does the lender require credit life insurance as a condition of the loan?				
How much does the credit life insurance cost?				
How much lower would your monthly payment be without the credit life insurance?				
If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				



# Requesting a Quote for Homeowners Insurance

When you request price quotations on homeowners insurance, have the following information available.

## PERSONAL:

Name \_\_\_\_\_

Mailing address \_\_\_\_\_

Home and office phone numbers \_\_\_\_\_

Address(es) of any other home(s) you own \_\_\_\_\_

Names in which new home will be deeded \_\_\_\_\_

## LOAN & ESCROW INFORMATION:

Closing date \_\_\_\_\_

Lienholder and closing company name, address, phone number and name of contact \_\_\_\_\_

Escrow payment information \_\_\_\_\_

## TYPE OF HOME/CONSTRUCTION:

Single family, duplex, etc. \_\_\_\_\_

Number of stories \_\_\_\_\_ Number of square feet \_\_\_\_\_ Year constructed \_\_\_\_\_

(In most states, you will receive a discount if your home is 10 years old or less. Be sure to ask whether you are eligible for this reduction.)

Exterior construction (masonry, frame, veneer, other) \_\_\_\_\_

Type of roof \_\_\_\_\_

If mobile home, length and width \_\_\_\_\_

## LOCATION OF HOME:

Street address \_\_\_\_\_

City, county, state and ZIP code \_\_\_\_\_

Names of nearest intersecting street \_\_\_\_\_

Is the home on acreage? \_\_\_\_\_

Are there any farming or ranching activities on the same property? \_\_\_\_\_

Will you use the home or property for business/office activities? \_\_\_\_\_

## FIRE PROTECTION:

Is the home inside city limits? \_\_\_\_\_

If outside, what is name and distance of nearest city? \_\_\_\_\_

Name and number of fire department (district) \_\_\_\_\_

Distance to nearest fire hydrant \_\_\_\_\_

## ALARM SYSTEMS (BURGLAR AND FIRE):

Do you have either? \_\_\_\_\_ Where does each one sound? (residence, fire department, police department, other) \_\_\_\_\_

Manufacturer, model number and name of system \_\_\_\_\_

Does home have smoke detectors? \_\_\_\_\_

## AMOUNT OF COVERAGE:

Cost to rebuild home \_\_\_\_\_ Loan amount \_\_\_\_\_