New Hampshire Housing
Bringing You Home

Becoming a Homeowner Study Guide

I. Preparing for Homeownership

In this section, we will explore whether homeownership is the best choice for you, find out what you need to know about the four C's of credit, and learn about the homeownership option for current housing choice voucher holders.

Advantages & Challenges

What are the advantages and challenges of homeownership?

Stability is an advantage because it's your home, and as long as you pay your bills you can stay there.

Decreased mobility is a challenge because you have an asset that you can't take with you or quickly dispose.

Control is an advantage because you decide what to do with your home.

Maintenance & repairs are a challenge because you need to care for your home, and it costs money.

Stable housing costs are an advantage because your mortgage stays the same if you have a fixed interest rate; however, taxes and insurances may cause your payments to increase slightly from year to year.

Monthly costs are a challenge since you have payments for heat, hot water, electricity and sewer that before may have been included in your rent.

Equity is an advantage as your home may increase in value over time. However, it can also be a challenge since there is no guarantee that your home will appreciate in value. In fact, your home may even depreciate.

Tax benefits are an advantage since the mortgage interest and property taxes you pay may be deducted on your federal income tax return.

Increasing taxes are a challenge as property taxes generally increase annually, and allowable deductions may change over time.

The 4 C's of Credit

Lenders look at the 4 C's of credit in determining whether to lend money for a home.

Capital is the amount of money available for the downpayment and other closing costs, and any cash reserves available to pay for unexpected costs. This can come from your savings, grants or gifts depending on the loan program.

Capacity is the ability to afford the monthly mortgage payments over the length of the mortgage, generally 30 years. Lenders look at current income and the stability of your current job as well as work history.

Character is the management of personal finances. To determine this, lenders review credit reports and scores, bank accounts, and landlord references to learn if you pay your bills on time and have sufficient funds left to make the mortgage payment.

Collateral is the appraised value of the home being purchased. Lenders want to know that the house is worth more than the purchase amount. This is not the same as the assessed value for property tax purposes. The appraisal is not a substitute for your home inspection, which we will discuss later.

How Much Can You Afford?

On average, with a good credit history, steady income and low monthly debt, a family can afford to buy a home that costs two-and-a-half to three times their annual gross income. This includes everything in your mortgage payment. A large downpayment will increase your affordable home price. High monthly debt payments will lower your affordable home price.

In this example, we use a gross income of $50,000, and an interest rate of 4%. Our affordable home price is $179,105.

	Interest rate 4%	Affordable home $179,105
Income $50,000	Interest rate 5%	Affordable home $163,878
	Interest rate 6%	Affordable home $150,343

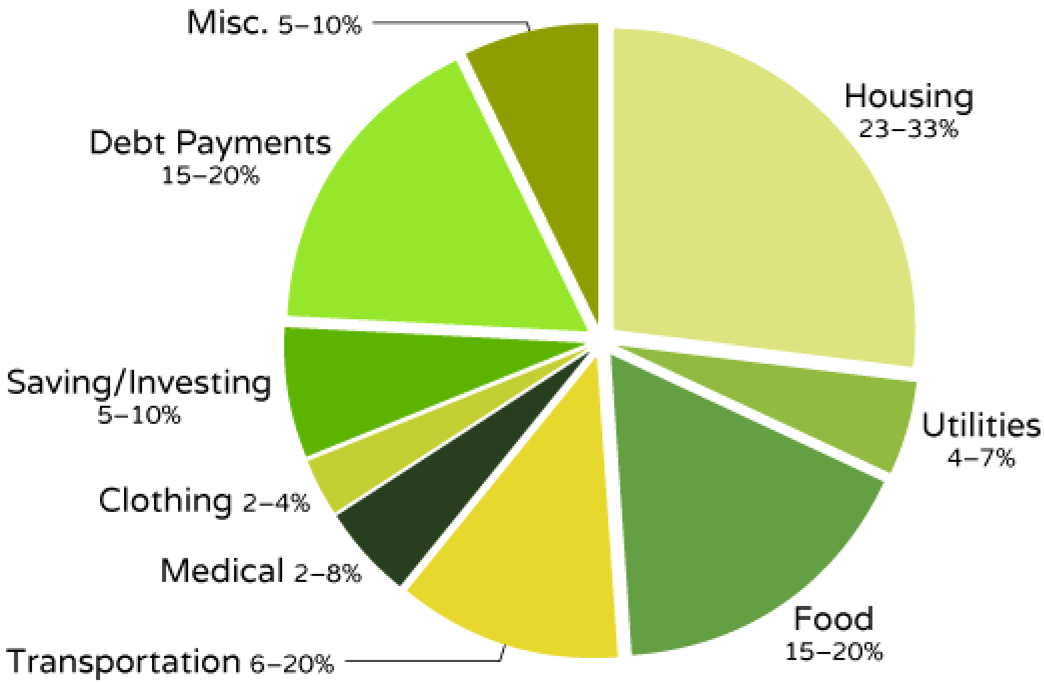
Notice what happens to our affordable home price as the interest rate changes from 4% to 5% to 6%.

Interest rates vary among lenders and mortgage products. The lower the interest rate, the higher the purchase price of an affordable home. Remember that purchasing a home is a long term commitment, so consider choosing a home that you can comfortably afford given your lifestyle rather than the most expensive home you can afford.

To estimate what your affordable home price would be, go to the mortgage qualifier calculator at www.GoNewHampshireHousing.com.

Spending Guidelines

This chart depicts spending guidelines for a typical family budget based on take home pay, also called net income, and can help you examine how you are managing your family budget compared to these averages. When you compare these averages, keep in mind that they are not hard and fast rules. One family may choose to spend forty percent of their income on housing and less on clothing and transportation. Another may choose to spend more on transportation and less on housing. It's up to you to decide your priorities.



Ratios

Lenders set limits on borrowers' monthly debt payments using two ratios, the front-end ratio and the back-end ratio. Different types of loans have different ratio requirements. Sometimes current debts must be paid down, or paid off entirely, before you can qualify for a mortgage.

The housing ratio, also known as the front end ratio, is used to determine the maximum dollar amount that the lender will allow for the mortgage payment. Twenty-five to 33% of the household's gross monthly income is generally acceptable, depending on the loan program.

The debt to income ratio is also known as the back end ratio. This ratio is used to determine the maximum dollar amount that the lender will allow for the mortgage payment and all other monthly debt payments combined. Thirty-six to 41% of the household's gross monthly income is generally acceptable depending on the loan program. The higher your debt, the lower your maximum mortgage payment will be.

Principal-Interest-Taxes-Insurance (PITI)

Understanding what is included in a mortgage payment will help you budget for it. There are four amounts that make up the total monthly mortgage payment: principal, interest, taxes, and insurance. They are commonly referred to as PITI.

First, there is an amount to pay down the **principal**, the original amount borrowed to pay the seller for your home.

Second, there is **interest** – the amount that the lender charges for lending the money. The interest is a large part of every mortgage payment in the early years until the principle is paid down.

Third, there is a monthly amount calculated to pay real estate **taxes**. The lender estimates how much real estate taxes will cost for the year and divides it by the number of mortgage payments in a year, which is usually 12. This part of the mortgage payment is held in a special account, called an escrow, until the property taxes are due.

Lastly, **insurance** for both the property and mortgage is generally included in a mortgage payment. Like real-estate taxes, insurance payments are made with each mortgage payment and held in escrow until the bill is due. Property insurance protects the home and its contents from fire, theft and other disasters. Mortgage insurance, known as PMI, which is mandatory for homeowners who purchase a home with a down payment of less than 20% of the home's value, protects the lender in the event the borrower is unable to repay the loan.

Budgeting for Other Costs of Homeownership

Budgeting for ongoing costs associated with homeownership is just as important as budgeting for the mortgage payment. Some of these expenses include ongoing costs such as heat, electric, water and sewer, lawn mowing, snow plowing, and equipment and supplies for household cleaning. Estimate costs based on the type of home you want to buy. When you've selected a specific home, the seller may tell you what the costs have been for that home in the prior year.

Reserves will be needed for home repairs. Many major repairs can be planned, but emergencies do happen. Preventive maintenance, planning for repairs and having savings set aside for them can save hundreds of dollars.

Moving costs are a one-time cost but can really add up, even for local moves. Set aside enough money to cover the van rental or moving company fee; deposits for utilities, phone and cable; household appliances and equipment; changing locks on doors; furniture; and interior decorating, such as painting and curtains.

Savings for Downpayment, Closing Costs & Escrows

After budgeting, the second step is knowing how much money you will need to save before you purchase your home. Fortunately for many first-time homebuyers, there are mortgage products that require little or no funds for the downpayment. We'll talk about the different mortgage products available a little later.

Closing costs are generally between 0% and 3% of the home's purchase price. Closing costs cover the fees for your credit report, for processing your loan application, and for the appraisal of the home you want to purchase. Under certain government programs, some mortgage products allow closing costs to be rolled into the mortgage. Also, the seller may pay the closing costs. This can be an important negotiating point with the seller when you don't have a lot of savings. The process of closing will be further explained in the section Purchasing Your Home.

You will need money to pay two to six months of taxes and mortgage insurance to put in the escrow account we talked about earlier so that there will be sufficient funds to pay the next property tax bill when it comes due. You will also need to purchase one year of homeowners insurance and bring proof of coverage with you to the closing. The cost of property taxes and homeowners insurance varies widely depending on the location of your home.

Reviewing Your Budget & Credit

A good credit score is necessary to purchase a home although it's not the only factor that lenders look at. Typically a FICO score above 620 is required to get pre-approved for a mortgage. The higher the credit score the more likely you will obtain a lower interest rate or the market interest rate.

The Find Financial Freedom Household Budgeting module walks you through setting up the savings and spending plan that is on your profile page and the Find Financial Freedom Credit Counseling module walks you through getting good credit and repairing bad credit. Both modules can be accessed on the Find Financial Freedom website, which you can find under Tools and Resources. http://education.gonewhampshirehousing.com

Using Your Section 8 Housing Choice Voucher

If you do not hold a Section 8 Housing Choice Voucher, please skip this section and go to Financing Your Home.

Households participating in the Section 8 Housing Choice Voucher (HCV) Program may be able to use their voucher to pay part of their mortgage instead of rent. This will increase the amount you can afford to pay for a mortgage. If your household meets the eligibility requirements covered here, check with your housing authority or the housing authority of the area where you want to purchase a home to see if they offer the homeownership option.

Eligibility Requirements

Income – The minimum annual household income from wages for people under 62 years old who do not have a disability and whose spouse does not have a disability is 2000 hours a year at the federal minimum wage.

For people 62 years old or older, or people under 62 who have a disability or whose spouse has a disability, the minimum income is the federal supplemental security income, or SSI, monthly benefit for an individual living alone multiplied by 12. Welfare assistance is counted towards meeting this requirement for this group only.

Go to the Tools and Resources page for up-to-date income requirements in dollars. http://education.gonewhampshirehousing.com

Employment – The minimum employment requirement is continuous employment for not less than an average of 30 hours per week, for the previous year. One break in employment for less than 30 days is allowed if the interruption was beyond the employee's control. This requirement is waived for people 62 or older or for people under 62 when the head of household or spouse has a disability.

Bank account – A bank account is required to be open for at least six months.

Credit history – An established credit history with copies of all three credit reports - Experian, Equifax and Transunion – is required of everyone.

Other requirements of the HCV homeownership option include:

- No one in the family has defaulted on a prior mortgage under the HCV homeownership option.
- They are first-time homeowners. New Hampshire Housing defines a first time homeowner as a family of which no member has had any ownership interest in a residence during the past 36 months. Check with your housing authority for their definition.
- They complete pre-purchase homeownership education. Completing the Becoming a Homeowner module and a Homeownership Plan counts toward meeting this requirement.

HCV Homeownership Process

There are eleven steps to becoming a homeowner using a New Hampshire Housing Housing Choice Voucher:

1. <u>Contact a Housing Choice Voucher Homeownership Counselor</u>: You may request a homeownership counselor on the Homeownership tab in your profile. If you have a New Hampshire Housing, Housing Choice Voucher you will automatically be assigned a counselor who can work with the HCV program. If you have a voucher with another housing authority, you will need to contact your housing authority to see if they participate in the voucher homeownership process.

2. <u>Meet all of the program requirements</u>: You will need to provide documentation that you meet each of the four program requirements (income, employment, bank account and credit history) to your HCV Homeownership Counselor, who will tell you if you qualify to use your voucher for homeownership.

3. Receive estimated housing assistance letter from rental assistance manager: Your rental assistance manager will send you an estimated dollar amount of housing assistance you will receive to help pay your mortgage payment. It is only an estimate – the final amount of housing assistance can only be determined when a Purchase and Sale Agreement has been accepted.

4. Get pre-approved for mortgage by a participating lender: This process is covered in the Financing Your Home section. Your lender will need to include your estimated housing assistance to give you true picture of what you can afford.

5. Arrange for a downpayment: A minimum 3% down payment is required with at least 1% from your own funds. An Individual Development Account (IDA) can help you with your downpayment and closing costs. See the Tools and Resources section for more information about setting up an IDA. http://education.gonewhampshirehousing.com

6. Enter into a Purchase & Sale Agreement: The Purchase and Sale Agreement process is discussed in the Purchasing Your Home section. However, to use your voucher you will need a contingency that the home pass the HUD Housing Quality Standards (HQS) inspection in addition to the other contingencies mentioned in that section.

7. Finalize financing: Once you have your Purchase & Sale Agreement you will need to send a copy to your Rental Assistant Manager or the Homeownership Educator. Contact your lender for approval for that property.

8. Arrange a home inspection: Hire an independent home inspector and send the report to your Rental Assistance Manager. The home inspection process is covered in Purchasing Process section.

9. Contact your Rental Assistance Manager for an HQS inspection: You will not be able to close on your home until it passes an HQS inspection.

10. Receive your Housing Assistance Payment (HAP): New Hampshire Housing will pay HAP directly to you. There will be additional paperwork to set up a direct deposit.

11. Complete post-homeownership counseling: Once you close on your home, you will receive a “Homeownership Survival” binder. A Homeownership Educator is available for support if you have any questions or concerns.

II. Financing Your Home

Mortgage Checklist

When interviewing your lender to determine if they are a good fit for your needs use the following checklist. It will help you to not only compare lenders, but also help you to compare mortgage products, including interest rates, downpayment requirements and downpayment cash assistance. A more complete checklist can be found in your homeownership plan workbook.

Fair Housing

EQUAL HOUSING OPPORTUNITY

While searching for your new house and financing, be aware of your rights under Federal and State Fair Housing laws.

The Federal Fair Housing Act prohibits discrimination in the sale, rental, and financing of dwellings, based on race, color, national origin, religion, sex, familial status and disability. New Hampshire's state Fair Housing Act (RSA Chapter 354 A) also prohibits housing discrimination on the basis of age, marital status and sexual orientation.

In addition, in mortgage lending, no one may take any of the following actions based on race, color, national origin, religion, sex, familial status or disability:

- Refuse to make a mortgage loan;
- Refuse to provide information regarding loans;
- Impose different terms or conditions on a loan, such as different interest rates, points, or fees;
- Discriminate in appraising property;
- Refuse to purchase a loan; or
- Set different terms or conditions for purchasing a loan.

If you think you may have experienced housing discrimination in New Hampshire, contact New Hampshire Legal Assistance at 1-800-921-1115. You can also call HUD's Housing Discrimination Hotline at 1-800-827-5005, or the New Hampshire Commission for Human Rights at 603-271-2767.

For more information on Fair Housing go to HUD.gov.

Types of Lenders

Choosing the right lender is important. so make sure you shop around. It is recommended to check with two or three lenders to compare rates and services. You need to find a lender that best understands your needs.

Your financing choices may include:

- Banks
- Mortgage companies
- Credit unions
- Government agencies, such as state housing agencies like New Hampshire Housing, and federal agencies, like FHA, USDA Rural Development, and VA
- Non-profit housing agencies
- Seller financing

Many government agencies have specialized programs for first-time homebuyers which may include low or no downpayment requirements, low interest rates, and downpayment assistance.

If you need help and don't know where to start, seek out free homebuyer education and counseling. In New Hampshire go to www.GoNewHampshireHousing.com, or nationally to http://portal.hud.gov/hudportal/HUD to find education and counseling resources near you.

The Selection Process

Choosing the right lender and mortgage product takes time and effort, but it may save you thousands of dollars.

Find the best fit for you by doing the following:

- Compare interest rates and annual percentage rate (APR). Your goal is to pay the least amount of interest as possible for your home.
- Compare downpayment and closing cost requirements.
- Be a smart shopper. Getting a "yes" doesn't always mean that the interest rate, term and type of mortgage are a good fit for you.
- Keep in contact with your lender throughout the process. Interest rates are not definite until locked in.
- Know mortgage terminology. Ask questions if you do not understand the meaning of a word.
- Talk with different lenders. Remember, you are in control. Find someone you are comfortable with.
- Shop around for interest rates, compare fees, and remember to get all quotes in writing

Watch Out for Predatory Lending Practices

In your financing search beware of predatory lenders. Predatory lending practices may include deceptive, misleading, unethical or abusive tactics that create unfair terms for you.

If you feel your lender is:

- Using high pressure sales tactics;

- Steering, which is recommending only individuals (such as appraisers, real estate agents, and home inspectors,) that do not have your best interest in mind;

- Charging excessive interest rates and fees;

- Padding costs and fees;

- Using deceptive and/or fraudulent practices; or

- Qualifying you for more financing than you can afford;

Stop! Seek out another lender. You may also want to contact your banking regulator to file a complaint.

If you feel that you may be a victim of a predatory lender in New Hampshire, contact the state of New Hampshire Banking Department at (800) 437-5991 or www.NH.gov/banking.

How can you avoid predatory lending?

- Know your lender.
- Ask questions.
- Never sign a blank or incomplete document.
- Educate yourself (taking this course is a great step!).

What Are the Different Types of Loans?

- Fixed rate mortgage
  - Monthly principal and interest payments do not change over the life of the loan
  - Terms available up to forty years
- Adjustable-rate mortgage (ARM)
  - Interest may change over the life of the loan, affecting mortgage payments
  - Loans start out at an interest rate below the average fixed rate and adjusts on a regular schedule
  - Most change every 12 months, 36 months or 60 months
  - Generally payment changes are limited to a maximum of a 2% cap
- Interest-only mortgage
  - Pay only interest for the first three, five or 10 years of the loan
  - Then make regular interest & principle payments
- Balloon-payment mortgage

    - Fixed monthly payments based on a thirty year schedule, but entire loan comes due at the end of a set period – usually five, seven, or 10 years
- Graduated payment mortgage
    - Start out making lower monthly payments, then payments go up slowly over a period of years
    - Biggest risk is that it may result in "negative amortization" (debt increases instead of decreases)

Government-Insured Loans

Government-insured loans are loans granted by lenders that the government insures or guarantees against default. The lender uses their money to make the loan and the government provides the insurance.

There are three providers: the Federal Housing Administration (FHA) , the Veterans Administration (VA) and USDA Rural Development.

Federal Housing Administration (FHA)

- Low downpayment requirements
- Flexible credit standards
- No income limits, but limits on maximum amount financed
- Ratios are 31 to 43
- Required to pay an up front and monthly mortgage insurance premium (MIP) until the principal balance of your loan reaches 78%

Veterans Administration (VA)

- Available to anyone who has earned entitlement by serving our country in the armed forces or reserves.
- No downpayment required
- No income limits, but limits on maximum amount financed
- Ratios are 41 to 43
- One percent VA funding fee to insure the loan, unless you have a service related disability

USDA Rural Development (USDA/RD)

- No downpayment required
- Flexible credit standards
- Income limits apply
- Limited to financing in rural communities only
- Ratios are 29 to 41

Homebuyer Tax Credit

If you are a first-time homebuyer or purchasing a home in a targeted community you will want to take advantage of the Homebuyer Tax Credit offered by New Hampshire Housing.

The Homebuyer Tax Credit can provide you up to $2,000 off of your federal income taxes owed for the life of the loan, as long the home is your primary residence and you continue to pay mortgage interest. This is real money that you can use to do other things, like pay your mortgage or save for future repairs.

If you can answer year to all of these questions, then you may qualify for the Homebuyer Tax Credit.

	Yes	No
Eligible Homebuyer		
Are you a first-time homebuyer or purchasing a home in a Targeted Area?	____	____
Will the home be your Principal Residence?	____	____
Is your annual household income at or below the MCC Income Limits?	____	____
Eligible Property		
Is the home you wish to purchase a single-unit property?	____	____
Is the home's purchase price at or below the MCC Purchase Price Limits?	____	____
Eligible Mortgage		
Is the mortgage loan that you qualify for a fixed-rate fully amortizing mortgage?	____	____
Your Ability To Use The MCC		
Do you generally expect to have federal income tax liability?	____	____

Understanding Insurance Products

You and your lender may choose a mortgage program that requires private mortgage insurance instead of a government insured loan. Mortgage insurance is almost always required by a lender if your downpayment is less than 20% of the price of the home.

PMI - or private mortgage insurance - is used with conventional loans.

MIP - or mortgage insurance premium **-** is used with FHA loans.

PMI protects the lender in case you do not pay your mortgage. Typically the PMI is includes as part of your monthly mortgage payment. When you reach 22% of your original appraised value your PMI is cancelled automatically.

You may also need other types of insurance when financing your home.

Homeowners (hazard) insurance is required on all mortgage loans. It protects you and the lender from unexpected misfortunes such as fire, theft or water damage. It does not cover you against flood, earthquake or mold damage. Flood insurance is required if the property is in a federal emergency management agency (FEMA) designated flood zone. To see if a property is in a flood zone go to www.floodsmart.gov.

Some things can affect your ability to obtain or affect the cost of hazard insurance. Premiums vary by company so be sure to shop around. When getting insurance quotes be aware of the difference between replacement cost versus actual cash value

- Replacement cost is the cost to repair or replace a property to the prior condition.
- Actual cost will only provide funds for the replacement, minus depreciation.

You may also be asked about other optional insurances. Do your homework before purchasing any of them as you may have other choices available.

- **Mortgage life insurance** pays off the loan if you die.
- **Home warranty policy** covers the replacement of other items which may not be covered by homeowners insurance.
- **Lender's/owner's title insurance** protects your title of ownership to the property. The advantage of this is it is a one-time fee paid at closing. There are two types of title insurance: **lender title insurance**, which you are required to purchase and is included in closing costs, and **owner title insurance**, which is not required. Title insurance covers any defects in the chain of ownership on the property you are buying. Defects include errors in record of ownership, forged documents, or missing heirs claiming ownership.

III. Purchasing Your Home

Now that you've learned the important pieces of financing, the next step is to purchase your new home.

Finding the Right Home

Now that you know how much home you can comfortably afford, it's time to focus on finding the right home for you and your family. There are several areas to research, discuss with your family, and decide about early in the process of looking for a new home. While it takes a little time up front, it will save you from looking at homes that really don't meet your family's needs or, even worse, buying a home that isn't a good fit for your family. The important things are:

- Identifying the community and one or more neighborhoods that fit your family's needs;
- Selecting the type of housing;
- Prioritizing the features you want your new home to have, including accessibility features;
- Finding the right real estate agent

Identifying the Best Neighborhood Fit

Finding the right community and neighborhood is the first step. While it may be easiest to look for a home in the neighborhood you currently live in, now is the time to look around and see if there is a better fit for your family's needs. Location of your new home is one of the most important decisions you will make because location impacts the resale value of your home. Important things to consider are the school system (if you have or are planning to have children), distance to work or access to commuting routes, access to the services and recreation you want and need, how close you will be to family and friends that you rely on, and the tax rate relative to other communities you are considering. You can get much of this information from your real estate agent, but the best way to gather information specific to you and your family's needs and wants is by talking to several people living in the communities and neighborhoods you are considering.

Selecting the Type of Housing

The next step is selecting the type of housing that fits your needs and your lifestyle. When many people think about buying a home, they think of a detached single family home on its own land. However, there are many other types of homes you can purchase.

- A detached **single family home** is an existing or newly constructed home located on its own land.

- A **modular home** is a detached single family home on its own land; however, it is built in pieces at a factory and then assembled at the home site. Modular homes often cost less than homes built entirely at the site.

- A **manufactured home** may also be a detached single family home that can be on its own land; however, it is completely built in a factory and then delivered to the home site. The home site may also be cooperatively owned land or land that is leased from another owner.

- A duplex or triplex (*trip-lex*) is two or three housing units that share one or more sides and the land the home sits on.

- A condominium is more than three housing units that share land and common areas. They can be townhouses that are side by side, multi-level units, or garden-style, where the units are only one level and are stacked on top of each other, similar to an apartment building.

• A cooperative is where the land is owned cooperatively, and people own their own housing units. Cooperatives can be made up of either single family homes or be similar to condominiums.

Understanding the Hazards of Lead Paint

When searching for the right home for you and your family, be aware of the concern for lead paint in your new home. Most homes built before 1978 contain lead paint, unless the lead paint has been remediated. Before you purchase or renovate a home that may have lead paint, it is important to know that exposure to even low levels of lead paint can be harmful to you and your children.

Lead paint exposure to children can cause:

- Nervous system and kidney damage
- Learning disabilities, attention deficit disorder, and decreased intelligence
- Speech, language, and behavior problems
- Poor muscle coordination
- Decreased muscle and bone growth
- Hearing damage

In adults, lead paint exposure can cause:

- Harm to a developing fetus
- Increased chance of high blood pressure during pregnancy
- Fertility problems (in men and women)
- High blood pressure
- Digestive problems
- Nerve disorders
- Memory and concentration problems
- Muscle and joint pain

Protect your family from lead paint by understanding the do's and don'ts of lead paint. For more information visit www.epa.gov/lead.

Prioritize the Features You Need or Want

One of the most important steps is to prioritize the features that you are looking for in your new home. Use this section to identify which features are important. You can then prioritize your selections. Once you have the list that best suits your needs, take it with you to the Realtor's office.

- Oil Heat
- Gas Heat
- Electric Heat
- One full bath and one half bath
- Near Schools
- Two full baths
- Near Shopping
- Basement
- Partial basement
- Near transportation
- Fenced yard
- Landscaping
- Eat-in kitchen
- Dining room
- All appliances included
- Four or more bedrooms
- Finished basement
- Full basement
- Garage
- One full bath
- Two bedrooms
- Paved driveway
- Three bedrooms

The Roles of a Real Estate Professional

There are different roles of a real estate agent. Which role they are in will effect what they can do to help you during the homebuying process.

- A **seller's agent** is a licensee who acts on behalf of a seller or landlord in the sale, exchange, rental, or lease of real estate.
- A **buyer's agent** is a licensee who acts on behalf of a buyer or tenant in the purchase, exchange, rental, or lease of real estate. To work with a buyer's agent you must sign a buyer's agency contract.
- A **facilitator** is an individual licensee who assists one or more parties during all or a portion of a real estate transaction without being an agent or advocate for the interests of any party to such transaction.
- There is also what is called a **dual agent or dual agency** who is a licensee acting for both the seller/landlord and the buyer/tenant in the same transaction with the knowledge and written consent of all parties.

Real estate agents get paid a commission from the proceeds of the sale – usually a percentage of the purchase price. ***Typically,*** if there is more than one agent involved in the sale, they ***may*** split the commission.

For more information about the different roles of real estate agents go to the Tools and Resource link. http://education.gonewhampshirehousing.com

Finding the Right Real Estate Professional

How do you find the right real estate professional? Here are some of the more popular options:

- Ask friends for recommendations.
- Search the internet for an agency near you.
- Visit real estate offices close to the neighborhoods you are interested in.
- Interview more than one agent about what they will do to help you find a home to buy.
- Check the professional record of an agent at your state's Real Estate Commission.

What You Can Expect Your Buyer's Real Estate Agent to Do

- Talk to you and your family about the home you want
- Help find a home that fits your needs and budget
- Assist you throughout the sale by explaining the steps and paperwork in the purchase process
- Research homes available in your price range with the features you want
- Accompany you to see the homes that you are interested in
- Help you determine how much houses are worth
- Help you prepare the best purchase offer for you
- Negotiate with the seller

Remember, seller's agents work for the seller, not you.

Start your House Hunting

- Research on the Internet.
- Drive through desired neighborhoods.
- Read newspapers.
- Work with your real estate agent.
- Attend open houses.
- Compare the housing for sale with what you can afford and the features you prioritized.

Purchasing Process

Once you find a home you want to purchase, the next steps are:

- To make an offer on the home;
- To negotiate with the seller if they don't accept your first offer; and
- To have a home inspection completed.

What is Included in the Purchase & Sales Agreement?

The first step is to prepare a written Purchase and Sales Agreement, known as a P&S, to make an offer on the property. Your real estate agent will walk you through filling out the necessary information, including:

- The price you are offering to pay for the house;
- The amount of earnest money, or good faith money, you will put down and who will hold the money;
- The closing date and other important dates, such as date by which the inspection must be done;
- A list of property you expect the seller to leave in the house, such as carpet, appliances, hanging lamps, and draperies;
- Any and all contingencies you want. These are things that must happen or the contract may be cancelled and your earnest money returned. Typical contingencies are:
    - Approval of financing for the home
    - An appraisal that shows the home is worth at least what you have offered
    - Home inspections that indicates no major problems
    - If needed, time to sell another house in order to qualify for financing

The Amount of an Offer

The next step is to make an offer.

The amount of an offer is determined by considering several factors:

- Fair market value, or what the home is worth compared to other recently sold homes in the neighborhood
- Condition of the home and any repairs or improvements that are needed
- Amount of mortgage you are pre-approved for and can comfortably afford
- The reason owners are selling and how long the home has been listed

A buyer's agent can determine the fair market value of the home you want to purchase by looking at:

- The price of comparable or similar homes in the same neighborhood
- The price per square foot of the house compared to the other homes

- The features in the house that the others do not have

The seller's real estate agent helped the seller set an asking price for the home through a similar process, but the seller can set the asking price at what they believe they can get.

Before You Make an Offer

Before you make an offer review the:

- Seller's disclosure report
- Tax bill and tax map for the property
- Warranty Deed

This will help you to understand what exactly you are purchasing.

Negotiating

Your real estate agent will present your offer to the seller and listing agent, and the seller will respond to your offer in one of three ways:

- If the seller likes the offer, it may be accepted immediately;
- The seller may counter-offer by asking for a higher price or an earlier closing date; or
- The seller may reject the offer without making a counteroffer.

If the seller rejects your offer, you can submit a new offer and hope it gets accepted. Your real estate agent will help you with the negotiating process.

Once the offer has been accepted, go to the lender to proceed for approval of that property. Provide your lender a copy of the accepted Purchase & Sales. By law, within 3 days of completing your full application with your lender, you will receive a Loan Estimate disclosure. Keep this document and compare it to the Closing Disclosure you will receive just prior to closing.

Home Inspection

Once you've come to terms with the seller on the purchase price, the next step is a home inspection.

Inspections are not required on most loans but are highly recommended so you are not surprised by major problems after the closing. Making your offer on a home contingent on a satisfactory home inspection gives you an opportunity to negotiate new terms, such as, asking the seller to make the repairs or reduce the price of the home, with the seller if major repairs are needed.

Attend the home inspection and get home maintenance tips from the inspector. Inspectors tell you whether the house meets minimum housing standards and complies with local building codes and may spot problems that you cannot see.

Inspectors will look for things like roof repairs, windows, building structure, mold, chimney lining, water quality and septic systems. Other types of inspections look for properly installed and maintained smoke alarms; carbon monoxide leaks from heating and cooking equipment; lead, which is a toxic substance that may be present in dust, paint, soil, and drinking water; radon gas emitting from soil and bedrock; pest, termite and insect damage. For more information about these other types of inspections, you can download the "New Hampshire One-Touch Healthy Homes" brochure from the Tools & Resources page. http://education.gonewhampshirehousing.com

Find a Home Inspector

There are several ways to find a home inspector:

- First, you can contact the licensing board or a professional association such as the National Association of Building Inspection Engineers or the American Society of Home Inspectors.
- You can also ask family, friends and real estate agent for referrals.

To locate a New Hampshire inspector visit www.nh.gov/jtboard/homeinspectors.htm

You can also access this website from our Tools & Resources tab. http://education.gonewhampshirehousing.com

Questions to Ask the Inspector

When selecting an inspector, there are several questions that you should ask prior to making your decision.

- Do they carry errors and omissions insurance? This protects the inspector in the event a serious defect was missed. It is not required by New Hampshire law, but it provides more assurance to the buyer that there is financial recourse for serious omissions and errors in the inspection report.
- Will they provide you with a detailed written report or a checklist style report?
- Is an inspection for wood-destroying insects included?
- Is an evaluation of the interior condition of the chimney and fireplace included?
- Will they inspect the roof from the ground or from a ladder?

It is also important to ask for references and contact those references to find out:

- If the inspector was prompt in completing the inspection and sending the report
- If the report was comprehensive and clear
- If the inspector was helpful in answering their questions
- If they would use the same inspector again

Role of Lender's Closing Agent/Title Agent

The final step in buying a home is closing on the loan. The Purchase and Sales Agreement is contingent on the financing of the home being approved. There are many steps and important legal documents to be prepared. Your lender will have a closing, or title, agent who:

- Starts the title search that determines if there are any prior un-discharged mortgages, attachments, liens, unpaid taxes, easements or rights of way, or restrictive covenants;
- Prepares a commitment of title;
- Schedules a closing date, usually 60 days out;
- Prepares the Closing Disclosure that includes all fees for the closing and discloses who owes what money to whom;
- Gives you the total dollar amount you will need to pay at the closing; and
- Conducts the closing,

Home Appraisal

If you remember at the beginning of this module we spoke about the four C's of credit. One of those was collateral. Your mortgage lender will need to know the value of the home you are purchasing. They do this by hiring an appraiser, for which you will pay.

The lender hires the appraiser to determine the market value of the home you are looking to buy.

If your home does not appraise for the purchase price you have three options:

- Negotiate for a lower sales price
- Pay the difference
- Withdraw your offer

Most lenders will only finance the lesser of the appraised value or the sales price.

What is a Title Search & Title Insurance

The purpose of a **title search** is to uncover any prior mortgages, attachments, liens, unpaid taxes, easements or rights of way, or restrictive covenants.

Certain title defects, such as a title restriction that prevents using the property as a home business, do not affect the lender's mortgage but might affect your intended use of the property.

Any title defect that cannot be corrected prior to closing would be grounds for you to be released from the Purchase and Sale Agreement and to have your deposit returned.

Title insurance is generally required by the lender to protect against losses resulting from problems with the title to the property that surface after the closing.

The buyer may also purchase an optional owner's title insurance policy. It is not required, but it covers the financial risk to the buyer if a title problem surfaces after the closing.

A title problem could be:

- Fraud or forgery
- Improper recording of the deed
- Improper transfer of the sale
- Clerical errors

Closing Disclosure

The Closing Disclosure should closely mirror the Loan Estimate that you received at the time of application. Typical closing fees and lender's expenses the buyer may pay include:

- Lender's attorney fees
- Transfer tax, which is split with the seller
- Recording fees
- Escrowed taxes
- Homeowners insurance
- Any points or fees that the lender charges to issue the loan
- Odd day's interest, which is interest you pay to bring your monthly mortgage payment current to the first of the following month

By law you will receive a copy of your Closing Disclosure three business days before your closing. Compare your Closing Disclosure to your Loan Estimate that you received at time of application.

Remember, if you are confused about any of the paperwork or terms, ask questions prior to signing any paperwork.

Preparing for Your Closing

About a month before the closing date, call utility & phone companies and arrange to have the utilities transferred to your name as of the closing date and make arrangements to move.

On the day of the closing, take a final walk-through inspection and get a cashier's check for the amount you need to pay at the closing and make it out to the closing agent.

Closing

What happens at closing?

As you can see, a lot of paperwork has to be read and signed – make sure you know what you're signing.

The title of ownership of the property passes from the seller to the buyer.

The seller receives the money from the lender and/or buyer, and the buyer receives the deed to the property and the keys. In New Hampshire, the title agent then files the deed and mortgage at the county registry of deeds.

Congratulations!

Don’t forget to complete the course online and pass the test to get your certificate.

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