

SECTION I:
INTRODUCTION TO HOMEBUYER
COUNSELING

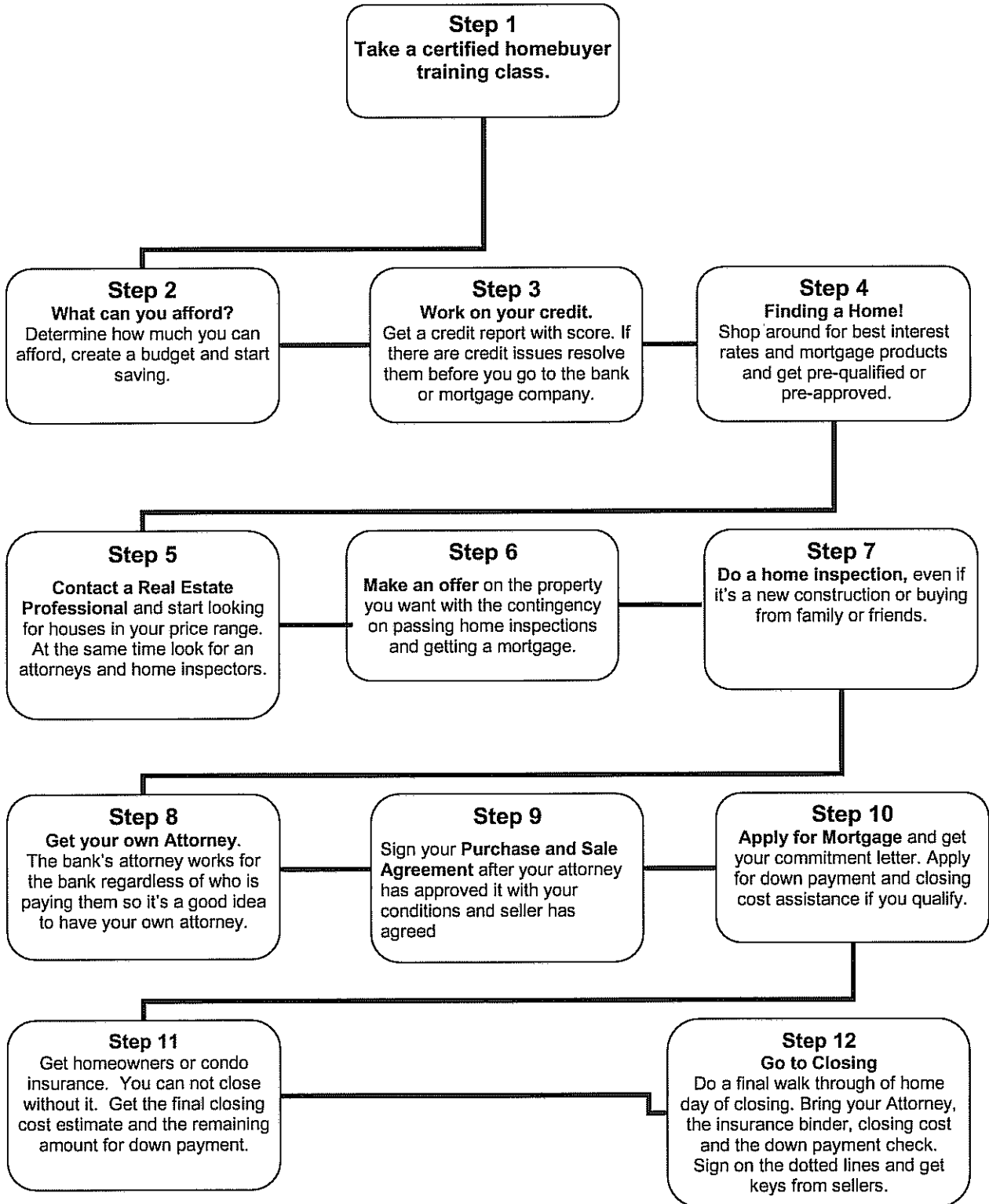
- A. 12 Steps to Buying a Home*
- B. Is Owning a Home Right for You?
- C. Glossary of Terms
- D. Questions to Ask Real Estate Professionals
- E. Homebuyer/Homeowner Expense List

Supplemental Information

- *Web Resources for Searching for a Home*

* Can choose to use the chart or the list or both

12 Steps to Buying a Home for First-Time Homebuyers



Congratulations you're a homeowner!

After closing take a 201 Home Safe (post-Purchase) class.
For listing please check www.chapa.org.

12 Steps to Buying a Home for First-Time Homebuyers

Step 1: Take a certified homebuyer training class.

Step 2: What can you afford? Determine how much you can afford, create a budget and start saving.

Step 3: Work on your credit. Get a credit report with score. If there are credit issues resolve them before you go to the bank or mortgage company.

Step 4: Finding a Home! Shop around for best interest rates and mortgage products and get pre-qualified or pre-approved.

Step 5: Contact a Real Estate Professional and start looking for houses in your price range. At the same time look for an attorneys and home inspectors.

Step 6: Make an offer on the property you want with the contingency on passing home inspections and getting a mortgage.

Step 7: Do a home inspection, even if it's a new construction or buying from family or friends.

Step 8: Get your own Attorney. The bank's attorney works for the bank regardless of who is paying them so it's a good idea to have your own attorney.

Step 9: Sign your **Purchase and Sale Agreement** after your attorney has approved it with your conditions and seller has agreed.

Step 10: Apply for Mortgage and get your commitment letter. Apply for down payment and closing cost assistance if you qualify.

Step 11: Get homeowners or condo **insurance**. You can not close without it. Get the final closing cost estimate and the remaining amount for down payment.

Step 12: Go to Closing: Do a final walk through of home day of closing. Bring your Attorney, the insurance binder, closing cost and the down payment check. Sign on the dotted lines and get keys from sellers.

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For listing please check www.chapa.org.

Congratulations you're a homeowner!

Is Owning a Home Right for You?

OBJECTIVES

Welcome to “Are You Ready to Buy a Home?”

You are taking an important step toward realizing the dream of many Americans: owning a home of your own. If you dream of owning your own home, it can become a reality if you set realistic goals, get sound advice, plan carefully and clearly understand the costs. As with any new endeavor, the more you know about homeownership, the better able you will be to reach your goals. Enrolling in a homebuyer education class is a good start for any first-time homebuyer.

Education helps you learn about the entire homebuying process and make wise choices about one of the largest purchases you may ever make!

This section gives you an overview of the homebuying process, helps you decide if homeownership is right for you and lets you know whether you can afford to buy a home now. It will help you understand:

- The advantages and disadvantages of owning a home
- The steps to buying a home
- The key members of your homebuying team
- The mortgage payment and other costs of homeownership
- How lenders determine creditworthiness and affordability
- If you are ready for homeownership

Owning a home is not for everyone. Some people do not want the responsibility, others do not want to change their spending habits so they can make monthly payments on a home. By the end of this section, you will have a good idea about whether you want to own a home. Start by thinking about the advantages and disadvantages of homeownership.

IS OWNING A HOME RIGHT FOR YOU?

Some people rent housing because they think they cannot afford to buy their own home. Many other people are renters by choice. They like to have the freedom to move from place to place and want the landlord to have responsibility for maintenance and repairs. As you decide if you want to become a homeowner, consider the pros and cons of owning a home.

Advantages of Homeownership

Stable Housing Costs

You can live in your own home for your whole life if you wish. If you have a fixed-rate loan, your principal and interest payments will never go up, although the amount you pay for taxes and insurance may increase each year.

Are You Ready to Buy a Home?

Tax Benefits

You may pay less income tax because all home loan interest and property taxes you pay each year are deductible from your taxable income. This benefit generally works when your itemized deductions for mortgage interest and other costs associated with homeownership in a given tax year exceed the standard deduction. This is a dollar amount based on your filing status that reduces the amount of income on which you are taxed. More information on tax deductions is provided in the Keeping Your Home and Managing Your Finances section.

Equity

Your mortgage payments are like an investment. When you buy a house, your monthly mortgage payments act as a scheduled savings plan. Over time, you accumulate equity, which represents your ownership interest in the property. You may be able to borrow against or convert your equity into cash by selling the home. Aside from gaining equity from your regular mortgage payments, your house may increase in value, thereby providing you with additional equity.

Control Over Your Environment

Having a home of your own gives you the freedom to live as you wish. You can have pets and make changes to your home to suit yourself. If you make improvements wisely, they often add to the value of your home.

Stability

A home is a place you can call your own. It often comes with feelings of permanence, pride and involvement, and many homeowners form deeper roots in the community. Home ownership can provide a stable environment for you and your family that adds to the security and comfort of your day-to-day life.

Disadvantages of Homeownership

Monthly Costs

Often, the monthly cost of a mortgage, utilities and maintenance is higher than rent. However, in some communities owning a home may actually be less costly than renting.

No Guarantees

There are no guarantees that your house will increase in value. Changes in market conditions, wear and tear on the property or other factors can cause the value of your home to decline. If you move before your loan is paid off when your home has depreciated in value and the balance of the home is now more than the sales price, you will have to pay the difference between your net proceeds from the sale of the house and the payoff balance on your mortgage to the lender.

Maintenance and Repairs

When you rent, repairs are the landlord's responsibility. When you own a home, you have to make the repairs yourself or pay someone else to do them. You must quickly fix small problems, like loose shingles and clogged drainpipes, or they can eventually cause bigger, costlier problems.



How Do You Buy a Home?

Pros and Cons of Owning a Home Worksheet

Read the following statements about renting vs. owning, and decide if they would be good or bad for you. Put a + in the box for what you think is a good thing and a – in the box for what you think is bad.

	Rent	Own
<i>Monthly Costs</i>	<input type="checkbox"/> Monthly costs may be lower, especially if utilities (gas, water and electricity) are included, but there are no tax advantages.	<input type="checkbox"/> Monthly payments are generally higher, but interest and property taxes can be deducted when you file federal income taxes if you itemize your deductions.
<i>Home Maintenance and Repairs</i>	<input type="checkbox"/> Repairs are the responsibility of the landlord. Repairs will be made when the landlord has time.	<input type="checkbox"/> Repairs are your responsibility. You have to make the repairs yourself or pay someone to make them. Broken things must be fixed or they will cause bigger problems and cost more later.
<i>Equity</i>	<input type="checkbox"/> When you make your monthly payment, the money is gone.	<input type="checkbox"/> Your mortgage payment is like a savings account. Over time, you accumulate equity, ownership interest in the property that you may be able to borrow against or convert into cash by selling the home. You could also gain equity if your house increases in value and becomes worth more than you owe. However, there are no guarantees that your house will increase in value. If you sell a house that is worth less than you owe, you must pay the lender the difference.
<i>Freedom vs. Responsibility</i>	<input type="checkbox"/> You can move when your lease ends.	<input type="checkbox"/> You cannot move until you sell or rent your home. If you fail to make your mortgage payment, you could lose your home and all the money you put into it and could ruin your credit rating.
<i>Privacy</i>	<input type="checkbox"/> You may not have privacy.	<input type="checkbox"/> Your home is all yours.
<i>Security</i>	<input type="checkbox"/> The landlord may sell the property. You may be evicted. Your rent may be raised.	<input type="checkbox"/> With a fixed-rate mortgage, your principal and interest payments remain the same.
	Total + for renting: _____	Total + for owning: _____
	Total – for renting: _____	Total – for owning: _____

Are You Ready to Buy a Home?

Decreased Mobility

When you own a home, you often can't move until you sell it or rent it. Selling can take several months – or more. If you stop making your mortgage payments, the lender may foreclose on your house and force the sale of your property to repay the loan. If that happens, you could lose your entire down payment and any equity you have earned over the years. Your credit rating will be affected for up to seven years.

Fewer Features

Some apartments have pools, laundry facilities, playgrounds and other features that you pay for as part of your rent. Unless you buy in a co-op or condominium, you may have to do without some of the features apartments have, or pay extra to have them.

Owning your own home has many advantages, but it comes with a lot of responsibility. It's up to you to decide if homeownership is right for you. Use the "Pros and Cons of Owning a Home Worksheet" on the opposite page to help you determine whether owning or renting is more appealing to you.



Glossary of Terms



Adjustable Rate Mortgage: A loan that adjusts on a regular schedule based on a national economic index and the lender's margin.

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

Annual Percentage Rate (APR): The cost of borrowing money expressed as a yearly rate, which includes the interest, points and other fees charged by the lender

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

Closing Costs: Expenses over and above the purchase price of the property that buyers and sellers incur in transferring ownership of the property.

Commitment Letter: A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Credit History: A record kept by the credit reporting agencies of how a borrower has repaid loans.

Debt-to-Income Ratio: The maximum percentage of a borrower's gross monthly income that can be spent on the house payment and all other creditor debts.

Deed: A legal document conveying title to a property.

Discretionary Income: The amount of money left over in a month after regular expenses are subtracted from the take-home pay.

Escrow Account: A special account set up by the lender to collect and hold monthly payments toward annual property taxes and homeowners insurance.

Finance Charge: The total dollar amount charged to use credit, which includes interest and other costs.

First Mortgage: A home loan that has priority over the claims of subsequent lenders for the same property in the event of default.

Fixed Rate Mortgage: A loan on which the interest rate remains the same over the life of the loan.

Good Faith Estimate: A document that discloses anticipated settlement costs.

Gross Income: Money earned before taxes and other deductions

Hazard Insurance: Insurance to protect the homeowner against physical damage to a property from fire, wind, vandalism and other hazards.

House Inspection: A professional opinion of the structural soundness of a property.

Housing Ratio: The maximum percentage of a borrower's gross monthly income that can be used to make the monthly mortgage payments.

HUD-1 Settlement Statement: A final statement listing all of the costs of the sale of a property and who pays for them.

Index: A published market index rate tied to an economic indicator that is used to calculate the interest rate of an adjustable rate mortgage at origination and at each adjustment period.

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

Interest Rate Lock In: A written guarantee that a buyer will receive a specific interest rate from a lender, provided that the loan closes within a set period of time..



Glossary of Terms



Loan Term: The amount of time a borrower has to pay off a loan.

Loan-to-Value Ratio (LTV): The ratio of the loan balance to of the appraised value of the house.

Margin: The set percentage the lender adds to the index rate to determine the interest rate of an adjustable rate mortgage.

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

Mortgage Insurance (PMI): A policy required by the lender if a borrower puts less than 20% cash down when buying a home with a conventional or FHA loan.

Mortgage Payment: The total monthly loan payment known as principal, interest, taxes and insurance (PITI).

Non-traditional Credit History: A record of credit performance shown with receipts and check stubs from payments to landlords, utility companies, and others.

Point: A fee that is 1% of the loan amount.

Pre-Approval: A guarantee that a lender will loan a potential buyer a fixed amount as long as he borrower buys a home by a certain time and the house appraises for he amount of the money for which the borrower qualifies.

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

Prepayment Penalty: A fee charged on some loans to a borrower who pays off a loan before it is due.

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

Promissory Note: A document in which the borrower promises to repay a loan, also called a Note.

Property Tax: A tax charged by the local government and used to fund a variety of municipal services, such a schools, police, or street maintenance.

Reserves: Money set aside for emergencies or repairs

Secondary Market: Investors that purchase residential mortgages originated by primary lenders, which in turn provides lenders with money for future lending.

Settlement Statement: A document required by the Real Estate Settlement Procedures Act that is an itemized statement of services and charges relating to the closing or settlement of the property transfer.

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

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

Truth-In-Lending Statement: A document that discloses the terms and cost of a mortgage loan, including the APR.

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

QUESTIONS TO ASK REAL ESTATE PROFESSIONALS

REAL ESTATE AGENT

1. May I have a copy of the listing agreement?
2. How long has this home been on the market?
3. Have there been any changes in the asking price and if so, when, and what were the changes?
4. Did the Seller sign a disclosure of the condition of the house? If so, may I have a copy of the Seller's Disclosure?
5. Do you know of any problems with this house? What are they?
6. Has the house previously had a home inspection? What problems were disclosed at the previous home inspection?
7. How is this property zoned?
8. Is this property in a flood plain?
9. What is the school district for this house?
10. What are the real estate taxes before any abatement?
11. How long have you been a licensed real estate agent?
12. How many sales of property have you made in this town in the past year?

ADDITIONAL QUESTIONS FOR A BUYER'S AGENT

1. How much am I obligated to pay you?
2. For what period of time am I obligated to pay you?
3. Where are my payment obligations shown on the buyer's agency agreement?
4. What will you do for me as a Buyer's agent?

CONDO QUESTIONS

1. What percentage of this condo is owner occupied?
2. Is this condo FHA approved?
3. Do you know of any special assessments?
4. What is the monthly condo fee?
5. Do you know of any planned increases in the condo fee?
6. Is there a deeded parking space?
7. Where is the parking space?

QUESTIONS TO ASK REAL ESTATE PROFESSIONALS

MORTGAGE LENDER

CREDIT SCORE

1. What is my credit score?
2. How can I improve my credit score?
3. May I have a copy of my credit score?

ALL MORTGAGES

1. What is the total amount of closing costs?
2. How did you calculate the closing costs?
3. Which closing cost amounts are known and which are estimated?
4. How many points are you charging?
5. Is there a prepayment penalty?
6. When do I start paying principle?
7. What will my initial monthly payments be?
8. What charges did you include in the monthly payment?
9. Can I have a Good Faith Estimate?
10. Can I have a Truth in Lending Disclosure?
11. How much will I be charged for PMI?
12. Could I eliminate the PMI charge with a second mortgage?
13. How long will it take to get a written pre-approval?
14. How long will it take to get a mortgage commitment?
15. How long have you been a licensed mortgage lender?

FIXED RATE MORTGAGES

1. For how long is the interest rate fixed for?
2. What is the term of the mortgage?
3. What is the interest rate?

ADJUSTABLE RATE MORTGAGES

1. For how long is the interest rate fixed for?
2. When does the mortgage rate start to adjust?
3. How often does the mortgage rate adjust?
4. What is the cape each time the mortgage rate adjusts?
5. What is the lifetime cap on the interest rate?
6. What is the term of the mortgage?

AFTER GETTING A MORTGAGE COMMITMENT

1. Is this mortgage commitment unconditional?
2. May I have a copy of the appraisal?

QUESTIONS TO ASK REAL ESTATE PROFESSIONALS

LAWYER

PRIOR TO CLOSING

1. How much are you going to charge me for reviewing the purchase and sales agreement?
2. How much you are going to charge me for attending the closing?
3. How much will you charge me for preparing the declaration of homestead?

AT THE CLOSING

Bring your Good Faith Estimate, Truth in Lending Disclosure and mortgage commitment

1. Are there any discrepancies between the Good Faith Estimate and the final numbers in the HUD Settlement Statement? If so, what are they and why is there a discrepancy?
2. Are there any discrepancies between the Truth in Lending Disclosure and the HUD Settlement Statement? If so, what are they and why is there a discrepancy?
3. Are there any discrepancies between the mortgage commitment and the final numbers in the HUD Settlement Statement? If so, what are they and why is there a discrepancy?
4. Where in the Note does it show my mortgage interest rate and what is it?
5. Where in the Note are my monthly payments and what are they?
6. (For adjustable rate mortgages) Where in the Note is the date when my mortgage adjusts, the adjustment rate caps and the lifetime adjustment caps?
7. May I have a copy of the plot plan?

QUESTIONS TO ASK REAL ESTATE PROFESSIONALS

HOME INSPECTOR

1. What will the home inspection cost?
2. How long have you been a licensed home inspector?
3. What does your home inspection cover and what is excluded?
4. Does your home inspection cover wood boring insects?
5. Condos: Does your home inspection include the common areas?
6. New construction: What items should be listed on my punch list?

QUESTIONS TO ASK REAL ESTATE PROFESSIONALS

HOME INSURANCE

1. What replacement value are you using for this home?
2. How did you determine the replacement value?
3. How much will the home insurance cost?
4. How will changing the deductible change the cost of the insurance?
5. What additional coverages do you recommend and how much will each cost?

HOMEBUYER/HOMEOWNER EXPENSE LIST

Homebuying Expenses

Real Estate Agent (Portion of the Downpayment)	
“Earnest” Money (Offer to Purchase)	\$ _____
_____ “Earnest” Money(Purchase and Sales)	\$ _____
Home Inspection	\$ _____
Other Inspections(Radon, lead, etc)	\$ _____
Mortgage Application Fee(s)	\$ _____
Closing Costs	
Points(Loan Origination fee and/or Loan Discount)	\$ _____
Survey (Plot Plan)	\$ _____
Appraisal	\$ _____
Attorney(Bank and Personal)	\$ _____
Homeowners/Hazard Insurance(1 year in advance at closing)	\$ _____
Mortgage Insurance (PMI)	\$ _____
Tax Service Fee	\$ _____
Flood Certificate	\$ _____
Title insurance (Bank and Personal)	\$ _____
Escrow (Taxes and Mortgage insurance)	\$ _____
Record fees	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
Moving Costs	\$ _____
“Settling In” Costs	
New appliances	\$ _____
New furniture	\$ _____
Repairs/renovations	\$ _____
Other expenses	\$ _____
Total	\$ _____

Homeownership Expenses

Mortgage payment (Principal, Interest, Taxes & Insurance)	\$ _____
_____ Utilities	
Water/Sewer	\$ _____
Electricity	\$ _____
Gas	\$ _____
Oil	\$ _____
Trash	\$ _____
 Maintenance and Repair Fund	 \$ _____

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INTERNET RESOURCES FOR HOME BUYING

	Topic	Website	Content	Comments
1.	Search Engines	www.google.com	Popular search engine	
2.	Budgeting	www.fool.com/calcs/calculators.htm	Lots of online calculators	
3.	Calculators	www.homemoneyhelp.com/mvelopesbudcalc.html	A thorough online calculator	
4.		http://realestate.boston.com	Calculators in the Financing section	
5.		www.hud.gov/buying	Affordability calculator; comparison of rent vs. buying; rights of home buyers	
6.	Credit	www.annualcreditreport.com	Order your free credit report	Free and simple No score
7.	Debt Management Plan	www.creditcounseling.org	Information about debt management plans, refinancing at lower interest rates	

8.		www.ago.state.ma.us (select consumer protection and then credit issues and identity fraud)	Regulations protecting against debt harassment	
9.		www.ftc.gov (click on consumers)	General information about credit reporting complaints	
10.	Mortgages	www.bankrate.com	Prevailing mortgage rates in a particular area, mortgage calculator	Lenders with phone numbers and rates, predictions about interest rates
11.		www.freddiemac.com	Average national mortgage rates	Provides a benchmark
12.		www.lendingtree.com	On line loan applications; mortgage calculator	“Get Smart” option where lender does not pull your credit
13.		www.homefind.com	Mortgage rates at some local banks and mortgage companies	Also gives list of utilities serving an area and list of homes
14.	Special Mortgage Programs for First Time Home Buyers	www.masshousing.com	Mass Housing's special mortgage programs for first-time or low and moderate income first-time homebuyers	

15.		www.mhp.net	SoftSecond Loan program information for first-time homebuyers	
16.		www.rurdev.usda.gov/rhs/common/indiv_intro.htm	Rural development loan info	Low cost loans for single and multifamily homes in designated rural areas
17.		www.homeloans.va.gov/	VA loans	
18.		www.hud.gov/offices/cpd/affordablehousing/programs/home/addi/index.cfm	General description of American Dream Down payment Initiative	Data regarding communities, home values, ownership and mortgages, general statistics
19.	Buying Real Estate	www.domania.com	Actual sales prices by neighborhood; property tax rates	Property listings, foreclosures, new construction Have to register to get access.
20.		www.boston.com	Boston real estate listings from the Boston Globe	Can search by region of state
21.		www.realtor.com	Comprehensive real estate listings as well as prices of recent sales in various towns and on various streets; can limit search by price	Listings for sale/rent; miscellaneous useful info such as movers

22.		www.isoldmyhouse.com	Owner real estate listings	
23.		www.zillow.com	Gives Assessment value of properties	
24.		www.craigslist.com	Owner real estate listing	Also good for home furnishings
25.		www.homebuying.about.com	Lots of general information about buying a home; references to home buying search engines	Free registration
26.		www.buypropertiesonline.com	Post a home wanted ad if you're pre-approved	Not much MA real estate
27.	Fair Housing	www.hud.gov/offices/fheo/index.cfm	HUD's Office of Fair Housing and Equal Opportunity	Fair housing laws — federal and complaint
28.		www.mass.gov/mcad/welcome.html	Massachusetts Commission Against Discrimination	Fair housing — state and complaint
29.	Affordable Homes for Sale	www.chapa.org/housing_lotteries.htm	Affordable Homeownership and Rental Lotteries	

30.		http://www.massdhcd.com/HOP/MainMenu.aspx	Affordable homes for sale	
31.		http://www.ci.boston.ma.us/bra/AffordableHousing/AH.asp	Boston housing lotteries run by BRA	Register on line to be kept appraised of upcoming lotteries
32.		http://homesforgood.org/	Affordable homes for sale and resale	
33.	Information about particular communities	www.mass.gov/dhcd/iprofile/default.htm	Community profiles	
34.		www.doe.mass.edu/mcas/results.html	MCAS Scores	
35.		www.just4kids.org/ma	School comparisons	
36.		www.massstats.com	A variety of statistical info by town	
37.	Transportation and Commuting	www.mapquest.com	Commuting times	Links to info about community, schools and jobs Doesn't take rush hour into account
38.		www.mbta.com/	Commuting map	Good maps of routes/times/programs

39.	Declaration of Homestead	www.sec.state.ma.us/rod/rodhom/homidx.htm	Information about filing a declaration of homestead	
40.	Licenses of real estate professionals	www.mass.gov/dob/liclist.htm	Check to see if a mortgage broker or lender is licensed	
41.		http://license.reg.state.ma.us/loca/locaprof.asp	Check a real estate agent license	
42.		http://license.reg.state.ma.us/loca/locaprof.asp	Check a home inspector license	
43.	Home Inspectors	www.ashi.org	A way to find home inspectors	
44.	Home Insurance	www.mass.gov/doi	General information about homeowner insurance	
45.	Lead	www.mass.gov/dph/clppp	Licensed lead inspectors and deleaders	

46.	Filing a Complaint	www.bbb.org	Better Business Bureau	
47.		http://www.occ.treas.gov/customer.htm	Complaints about National banks	References to websites of agencies regulating lenders other than national banks May take time to get complaint resolved
48.		www.mass.gov/doi	Massachusetts Division of Insurance website to file a complaint	
49.	Home Improvements	www.bostonbmrc.org	Building Materials Resource Center	Discounted building materials and home improvement classes