New Hampshire Housing
Bringing You Home

Your Guide to Homeownership

Realizing the Dream!

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Follow the Steps to Homeownership

9/2012

Why Buy A Home?

You might wonder why you should buy a house. What are the benefits of making such a large, long-term purchase now? Although becoming a homeowner means taking on more responsibilities, it also means more personal and financial payoffs and a home to call your own.

- **A Place to Call Home**
  Buying a home allows you to establish roots in a community. It also gives you the freedom to truly make your house your own. Unlike a rental property you can paint, remodel, and make upgrades as you see fit so your home can reflect your personal style.

- **You Pay Yourself**
  When you make a mortgage payment, you're paying yourself. Instead of your money going to a landlord, your payment goes back into your own pocket by building your home's equity. More equity means your home has more value. If you already have good credit, making consistent mortgage payments can build your financial health even more.

- **Lock in Your Housing Costs**
  Rental costs often increase, but with a fixed-rate mortgage you can ensure that you pay the same monthly amount year after year.

- **Receive Tax Credits**
  Being a homeowner means you're eligible for tax credits that you wouldn't receive if you were renting. You can deduct mortgage interest from your taxes, and there is an income tax credit for property taxes you pay on your home. More information about tax write-offs available to homeowners can be found on the IRS website, www.IRS.gov.

Step 1
Check Your Budget

Budgeting your money is the first step in preparing for homeownership. Most consumers interested in purchasing a home need to save money for their downpayment, closing costs and other expenses associated with moving.

The following is a brief guide to developing a budget. To help you, we have included an Income and Expense Worksheet in the *Resources & Forms* section of this booklet.

- **Determine your income**
  Consider all sources of verifiable income available such as wages, public assistance, social security and child support. Do not take unpredictable or inconsistent income into consideration when setting up your budget.

- **List your expenses**
  Record the items you spend your money on and the amount needed for each one. It may be helpful to review your check register or make an expense list to help prompt you to include all of the periodic and miscellaneous areas where money is spent. Some examples beyond rent, food and utilities are: auto maintenance, pet expenses, personal spending, eating out, videos, prescriptions and clothing. It is also essential to include a regular amount in your budget for savings.

- **Establish financial goals**
  Determine your financial goals and write them down. Estimate how much you need to save for each goal and the time frame you wish to do it in. Then break the "goal" amount down into how much you should save per month or pay period. List this amount as a monthly expense in your budget.

- **Compare and adjust**
  Total both your monthly income and expenses. These numbers should be equal. When expenses exceed income, adjustments must be made to either decrease spending or increase income. Any money left over after expenses should be allocated toward additional savings.

- **Track your expenses**
  It is important to determine if your budget is accurate and workable. Track your spending for a period of one month. That means keeping a record of everything you spend including the money you carry in your wallet or pocket. This is a key part of the process even though it can be challenging.

- **Reality versus budget**
  Now compare your actual spending to the amounts budgeted for each item. You may find it necessary to do some adjusting to your budget. Additionally, it may be necessary to make some changes to your spending habits if you really want to reach your financial goals.

- **Monitor and review**
  Once you finally have a working budget established, remember that you need to review it periodically. Every six months or once a year you should make sure it is up to date. Circumstances and financial goals change as our lives change. Maintaining your budget helps keep it an active tool in achieving your financial goals.

Remember, living within your means is the key to sound financial management. Your budget can help you establish a regular savings plan, determine what you can afford for a mortgage payment and help you maintain your home once you purchase it.

If you are working toward homeownership and need help setting up a budget or dealing with credit issues, contact a HUD approved homeownership counseling agency. A HUD approved homeownership counseling agency can help you to understand the responsibility and process and buying a home. They can also assist you in creating a workable budget. To find the HUD approved homeownership counseling agency nearest you go to www.hud.gov.

Step 2
Review Your Credit

In order to approve your loan, your lender will request your credit report from one of the three credit reporting bureaus. From the credit report your lender will see how much money you owe, how you have paid your bills, and where you have applied for credit.

- **What is credit history?**
  Your credit history is a factual record of your payment history as reported by creditors. The information is compiled into a credit report that lenders use to determine your ability to pay back a loan. Your credit history gives the loan officer, or the person reviewing it, a snapshot in time as to your ability to make your loan commitments.

- **What kind of information does a credit report contain?**

  Identifying information - A credit report includes your name, current and previous address, telephone number, Social Security number and reported variations, current and previous employers.

  Tradeline information (credit accounts) - A credit report also includes the name of any institution that has granted you credit, date account opened, credit limit or loan amount, monthly payment amount, and payment pattern (on time and/or delinquent payment trends).

  Public record information - Bankruptcy records; state, county, or federal tax liens; and overdue child support (varies by state).

  Inquiries - Name and date of companies that have obtained a copy of your credit history for application, account review, or collection purposes.

It is recommended that you review your credit report from each one of the credit reporting agencies (CRAs) at least once a year. The three national credit reporting agencies are Experian, Equifax, and TransUnion. These three CRAs generally do not share information about consumers, so it is best to review all three credit reports.

The accuracy of your credit report is your responsibility. If there is a discrepancy, the credit report will provide instructions on how to correct errors.

The **Fair and Accurate Credit Transactions Act (FACTA)** was created by the federal government to help you ensure the accuracy of your credit report. FACTA allows you to get one free credit report from each of the three credit reporting agencies per year. To help facilitate this, the three CRAs have collaborated to create one place for you to contact to request your free annual credit reports. To receive your free annual credit reports, call, write, or go online at:

Annual Credit Report Request Service
P. O. Box 105281
Atlanta, GA 30348-5281
Phone: (877) 322-8228
<u>www.annualcreditreport.com</u>

- **How long does information stay on my credit report?**
  Tradeline information - Stays on for seven years (delinquency, collection accounts, charge-offs, etc.) from first date of delinquency.

  Public records - Chapter 13 Bankruptcy, judgements, and paid liens stay on your credit report for seven years from release date. Chapter 7, 11, or 12 Bankruptcy will be on your credit report for ten years.

  Inquiries - Credit inquiries remain on your report for two years.

- **What is a credit score?**
  In today's lending environment, lenders may access and use a credit score during the underwriting process. Scoring is a mathematical formula that is solely based upon credit information. Credit scores were created to quickly calculate the willingness of a customer to pay back a loan. The higher the score the better the borrower, and the lower the risk. The lower the score, the higher the risk of lending to that individual.

Step 3
Applying For A Mortgage

Looking for the "right" mortgage product takes time and effort but it's really no different from shopping for any other large purchase. Be a smart shopper! Getting a "yes" from a lender doesn't always mean that the interest rate, term and type of mortgage are a good fit for your needs. You absolutely must take the time to understand mortgage terminology and mortgage options to make an educated choice. We have included a mortgage *glossary* at the end of this booklet to help you become familiar with the terms you will hear in your search for the right mortgage. You should read it before you meet with your lender and, if you do not understand the meaning of a word, ask your lender to explain it.

Once you understand the terminology, you will need to choose a lender. Talk with a number of different lenders. Shop around for interest rates, compare fees and remember to get all quotes in writing.

Banks, mortgage companies, internet lenders and government agencies all have mortgage products available. How do you find the right lender for your needs? Just opening the phone book and calling or surfing the Web to find a lender can be dangerous! Ask your friends who own a home what lender they used and if they would recommend them. Consider using the bank where you currently have a checking/savings account. Your REALTOR® may also suggest lenders they have worked with. Once you have narrowed your search down to at least three lenders, meet with them and ask them some specific questions about their institution and the programs they offer. On the following page you will find a checklist of questions to ask each potential lender. This checklist will help you to find the right lender for your situation.

Nationwide Mortgage Licensing System
You should be aware that in January of 2008 the Nationwide Mortgage Licensing System (NMLS) was created. NMLS was created by the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR). It is a means by which a record of all non-depository finacial servicing companies and mortgage loan

officers are now licensed, registered and monitored. Professional standards to recieve a NMLS number include criminal background and credit report checks, 20 hours of pre-licensing education and eight hours of annual continual education, and testing.

Your mortgage loan officer should have a NMLS number. As a consumer you can verify that your potential mortgage company or mortgage professional is authorized to conduct mortgage business in your state by accessing the NMLS public website at http://nmlsconsumeraccess.org/Home.aspx/MainSearch.

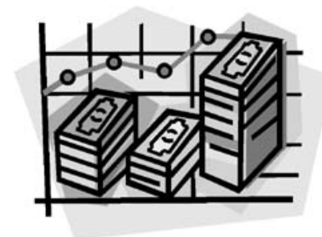
Mortgage Lender Interview Checklist:

- What mortgage programs do you offer for homebuyers?
- Do you offer fixed and variable rate mortgages? A fixed rate stays the same for the life of the loan while a variable rate changes.
- What interest rate and mortgage term do I qualify for and what will my total monthly payment be, including property taxes and insurance?
- How much will I need to put down and what are the total fees, points, and other charges I will be expected to pay?
- If I am late on a payment, how much will my late fee be?
- Are there any pre-payment penalties? What are they and for how many years will they be in effect?
- Will I get a complete copy of all of my mortgage documents to review before closing?
- After my mortgage is closed, will you service my mortgage or do you plan to sell it?
- What if I have trouble keeping up with my mortgage payments? Who do I call and will you work with me to correct the problem?

Your Mortgage Options

It may be helpful for you to understand some of the basic mortgage options you may run into when you start your search. Understanding the mortgage maze is key to finding the right loan for your specific situation.

As home prices and interest rates rise and fall, different loan products become more or less attractive to the average home buyer. Each loan product may have its own special benefit and/or disadvantage. Traditional mortgage products like the fixed rate and adjustable rate mortgages are typically suited to homeowners financing thier first home. Before you choose to use any one mortgage product ask questions and understand the risks associated with each mortgage financing option.



- **Fixed rate mortgages**
  This is the most common and best suited loan product for most first-time homebuyers. A fixed rate loan has monthly principal and interest payments that will not change during the term of the loan. Loan terms are generally 10 to 30 years. As a borrower, you can count on making the same monthly payments year after year. Interest paid to the lender is generally tax deductible. Keep in mind that with a fixed rate loan your principal and interest payment will not change but taxes and insurance may increase.

- **Adjustable rate mortgages (ARM)**
  The second most common loan type is an adjustable rate mortgage (ARM), sometimes called a variable rate loan. With an ARM, the principal and interest payments change. The most common adjustable rate mortgages have changes every 12 months, 36 months, or 60 months. The interest rate changes are based on an industry index. If you choose an ARM, it is extremely important to understand which index will be used and how often the rate may change. Generally, interest rate changes are limited to a maximum of two percentage points, up or down, at each change date and typically include a floor and possibly a ceiling.

Some of the newer ARMs adjust monthly. ARMs are attractive to first-time homebuyers because they offer a low introductory "teaser" rate. *If you choose an ARM, keep in mind the rate may change, and you will need to budget for that increase in payment.* Many people who take advantage of an ARM are using it for short-term financing. If you plan to be in your home for a long time, then an ARM may not be your best choice.

Other less favorable mortgage options you may come accross in your mortgage financing research and education may include :

- **Option ARMs**
- **Negative amortization loans**
- **Interest only mortgages**
- **Ballon payment loans**
- **Piggyback mortgages**
- **40-year term mortgages**
- **Sub-prime loans**

If you choose to finance your home with one of these less favoroable loan mortgage products be aware of the risk and your responsibilities as the mortgagee. You will need to budget your money and your lifestyle to the responsibilities of these riskier types of loans. In other words, do your homework before you put your signature on a mortgage that you do not fully understand. If you have questions about the loan product you are getting, ask your lender questions. You are in control of the process and should not feel pressured into signing anything you do not fully understand.

Predatory Lending

You may have heard the term "predatory lending" on the news or read about it in the paper, but what is it? Predatory lending is a term used to describe lending practices that employ deceptive, misleading, unethical or abusive tactics when providing financing. Many times predatory lenders will target their marketing to elderly, uneducated, immigrant, or low-income households. Predatory lenders usually make false promises to their customers, trapping their prey in loans with excessively high rates, large fees, and unrealistic terms.

While most lenders are reputable, there are predatory lenders in the market who will try to lure you into buying a mortgage product that you cannot afford. They often approve loans based on collateral without considering a borrower's ability to repay. If borrowers miss a payment, they risk losing the home they worked so hard to buy!

What are the differences between responsible lenders and predatory lenders? Your lender has many financing programs available to fit everyone's needs. No documentation loans, subprime lending, and specialized financing for unusual circumstances may require higher rates, pre-payment penalties and nontraditional terms. These practices alone do not constitute predatory lending. Predatory lending is when your lender does not disclose these nuances. Typical tricks used by predatory lenders are:

- **Flipping:** Flipping is when a lender keeps rolling over your loan into a new loan. Each time your loan is refinanced, higher fees and/or extended loan terms are rolled into the new loan, which reduces the equity in your home.

- **Non-disclosure of mortgage terms:** Sometimes a predatory lender uses the tactic of "not disclosing" important loan nuances as a way of hooking the borrower. For example, a balloon mortgage is a loan with a large lump sum payment at the end. Balloon term loans are not necessarily bad. A predatory lender, however, will sell the unsuspecting customer on the low monthly payment common to balloon mortgages. By not disclosing the full loan terms, the lender deceives the customer into financing on terms the customer may not be able to meet.

- **Excessive interest rates and fees:** Many times predatory lenders charge excessive interest rates and up-front fees, well outside of the norm. By comparing institutions' interest rates and APRs (see page 40 for a definition of APR) you can avoid being overcharged.

- **Over extending credit:** Another deceptive practice used by predatory lenders is to finance over the borrower's ability to repay the loan, or to finance more than the house is worth. Be cautious if the lender seems to be pushing more onto you than you feel comfortable paying for.

- **Know your lender:** Feel free to ask questions. A good lender will be happy to take the time and answer your questions. If a deal sounds too good to be true, it usually is. If all you remember is one thing after reading this booklet, remember to **never sign a blank or incomplete document!** By researching and working with well established lenders, you will get the right mortgage for you!

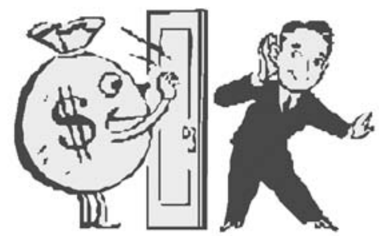
What do you do if you feel that you may be a victim of a predatory lender?
Buying a home is a big investment. If you feel that you have been a victim of predatory lending contact the New Hampshire Banking Department at (800) 437-5991 or visit them online at www.nh.gov/banking.

If you are looking for one-on-one counseling help with a complicated lending issue and you would like a housing counselor to assist you visit www.HUD.gov or www.HomeHelpNH.org. The information and resources available at these two websites can help you find a housing counselor and the right solution for your housing situation.

Pre-Qualified vs. Pre-Approved

Now that your finances are in order and you have selected a lender, you're ready to see how much you can afford to spend on a house. Getting **pre-qualified** simply means your income and debt have been reviewed and you have been given a rough mortgage amount that you can afford based on what you have told your lender. Keep in mind that when you get pre-qualified the lender has not verified income, credit references or ordered an appraisal on the house.

What you want to be is **pre-approved**. When a pre-approval is given, the lender actually will verify your income and credit and give you a letter stating the amount of money they are willing to loan to you. The lender may charge a fee to cover the cost of the credit report necessary for a pre-approval. If you end up financing the home through that lender, the credit report charge will be considered a pre-paid closing cost.



Soon after being pre-approved, your mortgage lender will mail you a "Good Faith Estimate" of closing costs. The "Good Faith Estimate" will list the fees that could be included in your mortgage. Keep this paperwork handy so you can compare it with your final loan figures at closing. Ask your lender to explain any fees or charges listed on your "Good Faith Estimate" that you do not understand.

By being pre-qualified or pre-approved you avoid sticker shock or the disappointment you get from looking at homes outside your price range.

Any lender, and some nonprofit housing groups, can pre-qualify you for a mortgage, and most will do it for free! When interviewing mortgage lenders, ask upfront if they charge for a pre-qualification. To locate a nonprofit housing agency in your area, go to the *Resources & Forms* section of this booklet.

Qualifying For A Mortgage

The lender will review your application for what is called the four "C's" of credit.

The 4 C's of Credit
Capital
Capacity
Character
Collateral

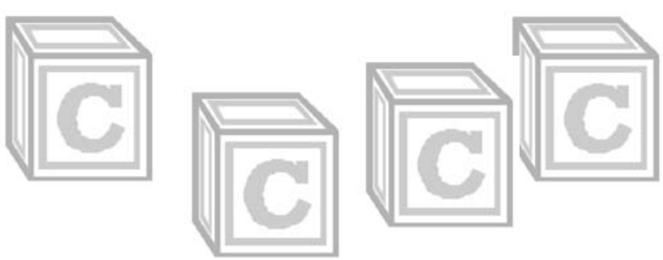
Capital is your reserve cash such as checking, savings and 401k accounts. Lenders want to ensure that you have enough money for a down payment plus adequate money set aside to pay for unexpected costs.

In reviewing your **capacity**, the lender looks to see if you have satisfactory income and stability to make the mortgage payment. The lender will review your work history and existing debt to determine your ability to repay the loan.

The third "C" is **character**. A lender will want to ensure that you are of worthy character and will make good on your promise to pay the loan back. A lender will review your character by requesting a credit report, checking bank references, and contacting your landlord. If you have limited credit history, the lender may also contact local stores or "buy here/pay here" businesses with whom you have open accounts.

Finally, the lender will order an appraisal on the property to assess the value of the **collateral**. This third party appraisal assures the bank that the value of the collateral is of a sufficient amount to pay off the loan should you default on the mortgage.

The four "C's" of credit are a very basic way of describing the process a lender goes through when approving a loan. After approval, the lender should give you a commitment letter and discuss the terms and conditions of your loan.



Understanding Mortgage Insurance

If you put less than 20 percent down on the purchase of your property, you could be required to pay for mortgage insurance in addition to your mortgage payment.

Mortgage insurance, (sometimes called private primary mortgage insurance, private mortgage insurance, or PMI) protects the lender in the event that you default on the loan. The premium is typically added to your monthly mortgage payment as part of your *principal, interest, taxes, and insurance (PITI)*. The less you put down, the higher the monthly premium. Conversely, the more you put down, the lower the premium.

If your loan requires mortgage insurance, generally, you can remove the insurance in two ways: first, you can request the insurance be removed when you feel that your equity in the home has reached 20 percent of the original value. Be sure to ask your lender **before you close** about restrictions or exceptions to removing mortgage insurance this way. The second way PMI can be removed is by paying down your loan. Once you have reached 22 percent equity in your home, based on the original value, the lender must automatically remove the insurance. You must be current on your loan and in good standing with the lender for them to remove PMI from your loan.

First-time homebuyers with limited income are often shocked by the monthly cost of mortgage insurance. Mortgage insurance companies have come up with a couple of ways to take the sting out of the PMI premium.

- **Lender paid mortgage insurance**
  Mortgage insurance companies give a discounted rate for lender paid mortgage insurance. The lender pays the entire amount up-front and passes the cost on to the borrower through a higher interest rate. Even with this higher interest rate, the borrower's monthly payment is often lower than options where the borrower pays monthly mortgage insurance in addition to their mortgage payment.

- **Financed/borrower paid mortgage insurance**
  A one-time private primary mortgage insurance premium is added to the amount of the first mortgage, resulting in a slightly higher mortgage payment but still a considerable cost savings over making the mortgage insurance payments separately. These loans often include loan-to-value ratios over 100 percent; however, the mortgage, including financed mortgage insurance, is fully insured by mortgage insurance companies. Borrowers retain the option to cancel mortgage insurance according to lender guidelines and receive a refund of the unamortized portion. Lower monthly payments allow borrowers access to a higher mortgage or more expensive home.

Government insurance
While shopping for a mortgage, you may hear about federal mortgage insurance programs that offer lower down payment requirements than conventional mortgage products. Most of these programs are targeted to low-and moderate-income buyers and are offered directly through your lender. Your lender will underwrite, process, and close your loan, which is then insured by the specific government program. Here are a few government insurance programs you should ask about:

- **Federal Housing Administration (FHA):** A federal agency within the Department of Housing and Urban Development (HUD) that provides mortgage insurance for residential mortgages and sets standards for construction and mortgage underwriting.

- **Veterans Administration (VA):** A federal agency that, among other things, helps eligible veterans purchase housing at an affordable interest rate and term with low mortgage insurance premiums.

- **USDA-Rural Development (USDA-RD):** A federal agency that offers 100 percent financing to low-and very low-income individuals who are purchasing, building, or improving homes in rural areas.

Step 4
Choose a Real Estate Agent

When you're ready to look for a home, choosing a real estate agent is a very important step. To make a good decision, you must have realistic expectations about the size of the home, location and type of home you want, and be aware of the different roles a real estate professional can play in your home search.

Assess your needs: A good real estate agent will help narrow down your choices when you first start looking at properties. As a first-time homebuyer, you will want to look at as many homes as possible. Take notes and pictures, and ask questions. Refer to the "Assessing Your Needs" form in the *Resources & Forms* section of this booklet as a starting point for your property search.

Choose a real estate professional: Ask your friends who they worked with when purchasing their home. Agency referrals are a good way to narrow the list of real estate professionals. Consider an agent who is a member of the New Hampshire Association of REALTORS® (www.nhar.com). Members pride themselves on adhering to a strict code of ethics and responsibility to the consumer. When you find a real estate agent, give them as much information about your housing needs as possible. But remember, unless you have a written buyer agency agreement, the agent may be working for the seller.

Disclosure of agency relationship: Once you begin working with a real estate professional, they will give you a number of disclosures that they are legally obligated to provide. If you do not understand the disclosures, ask the agent to explain them. Ignorance is no excuse once a legally binding contract is signed! One of the first things the real estate professional must disclose to you is the *Disclosure of Agency Relationship In Real Estate Brokerage*. This tells you who the real estate agent is working for. There are a number of agency relationships such as, but not limited to, the following:

- **SELLER AGENCY**: When the real estate agent is a Seller's Agent, they represent the seller's interest. They are working to get the seller the best possible price for the sale of the property. Information, like your financial position, may be conveyed to the seller and could negatively influence your position in negotiating the purchase price.

- **BUYER AGENCY**: A real estate professional acting as a Buyer's Agent represents you in the real estate transaction. You hire the real estate agent for a certain time period for a fee, which is negotiated in the *Exclusive Buyer Agency Agreement*. They will assist you in locating a property and in negotiating the purchase of that property. Their loyalty is with you, the buyer. They cannot discuss anything with the seller that may adversely affect your negotiation of the purchase of a property. If you break the *Exclusive Buyer Agency Agreement* prior to the expiration date on the contract, you may still be responsible for paying the real estate agent's fee.

- **SUB-AGENCY:** In a Sub-Agency relationship, the real estate professional acts as an agent for another real estate person or agency. The real estate agent working in a Sub-Agency relationship must represent the client's best interest whether that client is the seller or you, the buyer.

- **DISCLOSED DUAL AGENCY:** This happens when an agency is representing both sides of the real estate transaction, the seller's and the buyer's interest. If this happens, the real estate agent must immediately notify both parties and disclose Dual Agency. If the seller and the buyer agree to proceed with the negotiations, the real estate agent may continue with the transaction. However, the real estate agent must remain a neutral party throughout the transaction. Undisclosed Dual Agency is illegal.

- **DESIGNATED AGENCY:** A designated agent is a licensee who represents one party of a real estate transaction and who owes that party client-level services, whether or not the other party to the same transaction is represented by another individual licensee associated with the same brokerage firm.

- **FACILITATOR:** 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. A facilitator can perform ministerial acts, such as showing property, preparing and conveying offers, and providing information and administrative assistance, and other customer-level services (as described on the NH Real Estate Commission's Brokerage Relationship Disclosure Form). This relationship may change to an agency relationship by entering into a written contract for representation, prior to the preparation of an offer.

Step 5
Make An Offer

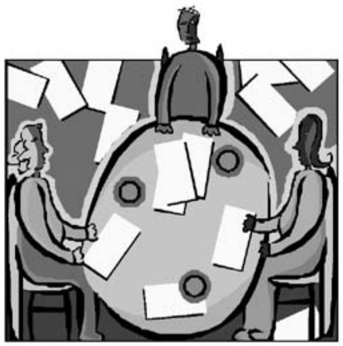
Buying a home may be the largest single purchase you will ever make. Such a major milestone requires exceptional care and planning. As the prospective buyer, you and the seller will be entering into a series of legally binding contracts, such as a Purchase & Sales Agreement. The potential pitfalls you may encounter when purchasing the home of your dreams can be staggering.

Misunderstandings about contractual liabilities and ownership issues can quickly turn your homebuying experience into a financial disaster and legal nightmare. When purchasing a home, the safest and most cost-effective course you can take to protect your investment is to seek well-qualified professionals to guide you through the contractual process. Listed below are a few points you may want to consider when making an offer on a home:

- **What do I need to consider when making an offer on a home?**
  As a homebuyer, you will need to understand your contractual liabilities and obligations when making an offer on a home. You should pay particular attention to the terms and conditions written in the Purchase & Sales Agreement. By signing a Purchase & Sales Agreement, you are entering into a legally binding contract. If you do not live up to your part of the agreement, you may forfeit part or all of your good faith deposit and could be subject to additional financial costs. No verbal agreements or unwritten offers to purchase or sell real estate are binding in the state of New Hampshire; only a written contract can be enforced.

- **What is the Purchase and Sales Agreement (P&S)?**
  A Purchase and Sales Agreement (P&S) is a written offer explaining your terms and conditions for purchasing a property. The P&S spells out a basic description of the property, the terms and conditions of the sale, and a projected date or time frame for the closing.

Typically, the real estate agent will offer a standard P&S form to which any special conditions may be added (e.g. specific kitchen appliances you want included in the purchase price). It is highly recommended that a contingency for a satisfactory home inspection be included. Neither party should enter into a P&S without being absolutely certain they understand and agree to its contents. Remember that no "understanding" or agreement is enforceable unless it is written into the P&S. The safest course is to have a lawyer review the agreement *before* it is signed.



As the buyer, you should review the language in the proposed P&S carefully and take the time to discuss any questions with your own agent and/or a lawyer. When the P&S is acceptable, sign it and return the contract with a deposit. The seller will also sign the P&S to accept your offer, at which point the contract becomes legally enforceable.

The financing condition listed in the P&S usually specifies the buyer's acceptable mortgage interest range and type of mortgage. A specific date or a time frame for the closing should be included. Failure to meet this date or time frame is considered a serious enough violation to breach the contract, *especially if* the P&S specifically spells out that "time is of the essence." As the buyer, be aware that any breach of contract could lead to your forfeiture of the deposit.

Adapted from the pamphlet "Home Buying and Selling in New Hampshire" courtesy of the New Hampshire Bar Association. www.nhbar.org

Step 6
Order Your Home Inspection

Your offer to purchase a home should always be contingent on a satisfactory home inspection. Even if a home inspection is not required by the lender, it is always advisable to have one done. The standard P&S provides that if the inspection uncovers any "significant" defects that were not previously disclosed to you, you may cancel the P&S. This may also give you an opportunity to negotiate new terms with the seller. If major repairs are needed, ask the seller to reduce the price of the home. That way you can fix the problem to your satisfaction. Keep in mind that any such negotiated settlement must be in writing and made part of the P&S. A good home inspection will identify any issues or problems with the property and can provide you with helpful information about future maintenance needs.

Reliable home inspectors are usually those who practice the profession as their full-time occupation and belong to a professional organization, such as the National Association of Building Inspection Engineers (NABIE) or the American Society of Home Inspectors (ASHI). In New Hampshire, effective January 1, 2010, a home inspector must also be licensed. You can find information about licensed New Hampshire home inspectors at www.nh.gov/jtboard/homeinspectors.htm. You should also consider hiring an inspector who is a licensed engineer. Engineers are legally qualified to provide definitive statements on critical issues such as the structure of a home.

Ask the inspector for references, and don't be afraid to call the references to verify that they are legitimate, satisfied customers. Here are some other things to ask your home inspector:

- Do they carry errors and omissions insurance? Errors and omissions insurance protects the home inspector, and ultimately you, in the event that the home inspector misses a serious defect during their inspection. E&O insurance is not required by New Hampshire law.

- Will they provide you with a detailed written report or a checklist-style report? (A written report typically provides a more holistic understanding of a property and appropriate detail regarding defects discovered).

- Will the report provide an overall opinion of the property as compared to others of similar age and construction type?

- Is an inspection for wood-destroying insects included as part of their standard inspection?

- How will they inspect the roof? From the ground or on a ladder? In general, the closer to the roof the better.

- Does the inspection include an evaluation of the interior condition of the chimneys and/or fireplaces? (This is not required by New Hampshire Law.)

- Will they prioritize needed repairs and create a maintenance and repair plan to help you take care of your home? (New Hampshire Law specifically prohibits non-engineer/architect home inspectors from predicting life expectancy of building components.)

Most homes will need some repair. If your inspector finds that an overwhelming number of repairs are needed or that the repairs are major items like wiring or a furnace, you might want to negotiate these items with the seller or look for a home that requires fewer repairs.

A good home inspection is a critical part of the home buying experience. Find a home inspector early in the process and develop a relationship with him/her before you need an actual inspection. You may be able to save hundreds of dollars in inspection and testing fees by learning about the inspection process and how to eliminate the obvious bad apples!

Article courtesy of Criterium-Turner Engineers. www.engineernh.com

Step 7
Complete Your Loan Application

Once you and the seller have both agreed to the terms and conditions of the Purchase and Sales Agreement (P&S) and have both signed it, the P&S becomes a legally binding contract. In that contract, you will be given a specific time frame to obtain financing. If you fail to meet the time condition for financing on the P&S, you may forfeit your deposit. If you were pre-qualified before you signed the P&S, then you are ahead of the game. However, you still have to complete your loan application. The following is a list of items you should bring with you when you apply for your loan:

- Social security number of each person applying for the loan

- Copies of your checking and savings account statements for the past six months

- Evidence of any other assets such as 401k accounts, mutual funds, stocks and bonds

- Your most current paycheck stub detailing your earnings

- A list of all credit card accounts and the approximate balances and monthly amounts owed on each

- A list of account numbers and balances due on outstanding loans, such as car loans, student loans, etc.

- Complete copies of your last three years income tax returns, including all W-2 information

- The name and address of your employer as well as the name and phone number of a person there who can verify your employment and income

Step 8
Close Your Loan

Once your offer on the house has been accepted by the seller and the bank has issued final approval on your loan, you are ready to close the loan. Here are a few answers to common questions that may arise during the closing process:

- **What is "title to real estate"?**
  The sale of real estate is completed with the transfer of title to the buyer. In New Hampshire, title may be conveyed by one of three types of deeds: warranty, quitclaim, or fiduciary.

  With a **warranty deed**, the seller guarantees that he/she owns the property, is lawfully conveying it, and that there are no defects in the title (ownership) not stated. The seller stands behind the title and agrees to make good on any proven title defect. This is the seller's "warranty." This is the most common form of conveyance and gives the buyer the most protection.

  With a **quitclaim deed**, the seller represents only that he/she did nothing to impair the title and is conveying nothing more than the title that the seller actually has. The buyer has no "warranty" or guarantee of title. If the property is purchased at foreclosure or tax sale, it is highly likely that the seller will only give the buyer a quitclaim, foreclosure or tax deed. If so, the buyer takes the property with all existing defects and problems, in other words "as is."

  In a **fiduciary deed**, an executor of an estate or some other "fiduciary" makes the conveyance. Here the seller acts merely in a representative capacity and makes no personal guarantees.

- **What is a title search?**
  If you intend to mortgage the property, the lender will require that you pay for a title search. The lender does this to ensure that the title is sufficiently clear before lending money to you and using the real estate as collateral. The purpose of the title search is to uncover any prior mortgages, attachments, liens, unpaid taxes, easements or rights of way, restrictive covenants or other encumbrances filed in municipal records or the Registry of Deeds that affect the title.

  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 or encumbrance that cannot be corrected prior to closing would be grounds for you to be released from the P&S and to have your deposit returned.

- **What is title insurance?**
  Many lenders now require you to purchase Title Insurance as part of the mortgage process. Title Insurance protects the lender against losses that result from defects in the title to the property. At the time of closing, you will be given the opportunity to purchase an owner's copy of the Title Insurance policy at a discounted rate. If you choose not to purchase the owner's policy, your ownership and investment in the property could be at risk if a title problem surfaces. Title Insurance is a one-time premium paid at closing.

- **What happens at the closing?**
  At the closing, title (ownership) of the property passes from the seller to the buyer. The closing often takes place at the lending institution providing the mortgage financing or the County Registry of Deeds. The seller receives their money from the lender and/or the buyer, the buyer receives a deed to the property, and the lender secures its loan to the buyer with a mortgage.

  As the buyer, you should expect to pay typical closing fees and lender's expenses. These fees may include: the lender's attorney fees, transfer tax (split with the seller), recording fees, escrowed taxes, homeowners insurance, and any points or fees that the lender charges to issue the loan. Closing fees will also vary depending on what day of the month you close. Most borrowers try to close at the end of the month to limit the amount of odd days interest they will have to pay at closing. Odd days interest is interest you pay to bring your monthly mortgage payment current to the first of the following month.

Adapted from the pamphlet "Home Buying and Selling in New Hampshire" courtesy of the New Hampshire Bar Association. www.nhbar.org

Step 9
What's Next?

Congratulations, you're a homeowner! You are now realizing the dream! The pressure and anticipation of the homebuying process is now in the past and you can look forward to years of enjoyment in your new home.

Things you need to do as a new home owner.
In all the excitement, it's easy to forget to take steps to protect your investment and keep your family safe. Here are a few simple suggestions:

- The day you move in, change the locks on all doors.
- Cut back shrubs that hide windows and doors.
- Install outside motion detection lighting.
- Check the smoke detectors and install new batteries.
- Write up a list of emergency phone numbers and post it in a handy location.
- Install fire extinguishers in the kitchen and garage.
- Buy a first-aid kit and place it in a convenient location.
- Open a safe deposit box or purchase a fireproof safe to store important documents like insurance paperwork, warrantees and loan documents.
- Take pictures or a video of the interior of your home with all of your belongings in place, and store it in your safe deposit box.
- Install timers on interior lights so they turn on and off when you are not at home.
- When you go away on vacation, have your neighbor pick up your mail or have the post office hold it until you return.

Most people find taking care of their own home is relaxing and rewarding work. If your home inspector provided you with a maintenance plan when you purchased your home, use it as a checklist for your regular maintenance. Repairing small items as they occur can help prevent big repair bills. A well-maintained home will be more fun for you and your family to live in, and it will retain its value and attraction to buyers if you wish to sell in the future. Here are some important maintenance areas to consider.

Maintenance suggestions for the new home owner:

In the Yard:
- Keep foundation shrubbery cut back so that branches are at least two feet from the house, and keep tree branches 10 feet away.
- Maintain proper drainage away from the house, around the foundation, walkways, and driveway.
- In the fall, mark the driveway, paths and landscaping to make winter snow removal easier.
- Be sure that paths for oil, gas and electricity providers are kept clear.

On the Roof:
- Keep the roof clear of organic matter like leaves and moss.
- Clean out the gutters in spring and fall, and more often if needed.
- If you don't have gutters, consider installing them in critical locations such as over entry stoops, decks and garage doors.
- Have your roof condition evaluated regularly by a qualified and unbiased professional.

Article courtesy of Criterium-Turner Engineers. *www.engineernh.com*

Exterior of the House:

- Wash the entire exterior at least once each year; more often if you live in a dusty or urban area.

- Stain decks and porches annually.

- Paint or stain siding and trim before it looks like it needs it.

- Paint window trim and bulkheads, and varnish wood thresholds.

Interior of the House:

- Check the operation of all windows and doors, and clean and lubricate as needed.

- Make sure that items stored in the attic aren't blocking air circulation.

- Use a flashlight to check basement walls and floors for seepage and to inspect visible pipes under sinks and in the basement for leaks.

- Take swift action at the first evidence of ants/rodents/termites and other unwanted pests.

- Store bird seed/animal food in metal containers.

Utilities:

- Have the heating system inspected and serviced annually (oil) or every six months (gas or propane), or as recommended by the manufacturer.

- Have well water tested every year, and maintain any water filters or softeners as the manufacturer instructs.

- Protect your septic system. Don't flush foreign objects or put grease down the drains, and avoid using chlorine bleach in the laundry. Pump your septic tank bi-annually.

Your Mortgage Responsibility

What happens if I miss a mortgage payment?

If your mortgage payment is late, you will most likely get a call or a letter from your lender's collections department. If your late payment is more than 30 days delinquent, your lender may report you to the credit bureau for a delinquent payment. If your mortgage payment continues to be late and passes the 90 day mark, your lender may foreclose on your home. Foreclosure is the legal means that your lender can use to repossess (take back) your home. The Mortgage Note & Deed that you signed at closing will spell out all conditions and terms that you are subject to in the event of a late payment or foreclosure.

When a foreclosure happens, you must move out of your house. If your property is worth less than the total amount you owe on your mortgage loan, your lender could seek a deficiency judgment. If that happens, you will lose your home and may still owe your lender additional debt.

Foreclosure or a deficiency judgment could seriously affect your ability to qualify for credit in the future. So, you should avoid missing mortgage payments if at all possible!

What should I do?

- Do not ignore letters or calls from your lender. If you are having problems making your payments, contact your lender immediately. Explain your situation. Be prepared to provide them with financial information, such as your monthly income and expenses. Without this information, they may not be able to help.

- You may also want to look at other resources available to homeowners who are having difficulty paying their mortgage. One of those resources is the state's foreclosure prevention website, www.homehelpnh.org. This site offers a large amount of information in an easy-to-understand format, along with links to websites offering programs that may help you save your home.

- You may also contact the Homeownership Preservation Foundation at (888) 995-HOPE (4673) or look them up on the internet at www.995hope.org. The HPF has information on free services and programs that could help you.

Becoming A Landlord

Are you thinking about becoming a landlord? A rental unit (or two) attached to your home can be a rewarding experience and it can help you realize the dream of homeownership. Your rental property will become your home as well as your business, and you will need to be ready to take on the responsibilities that go with it.

Before purchasing a property with rental units, consider the following:

- Are you able to take on a new business and learn how to manage a rental property?
- Are you willing to share your home with others?
- Can you afford to make necessary repairs, often with little notice?
- Are you ready to be on-call 24 hours a day?
- Can you take the time to become familiar with state, local and federal laws regarding landlord/tenant rights?
- Are you ready to deal with difficult tenants?
- Can you make your mortgage payment regardless of whether the apartment is rented?

Becoming a landlord takes a lot of time and energy but also has its advantages. A rental property might be the only way you can afford to own a home. Rental income can help make your monthly mortgage payments more manageable and give you money to help with property maintenance. In addition, you will be able to deduct interest and property taxes on your federal income tax return and be eligible for additional tax advantages as a landlord.

Becoming a landlord may not be the right choice for everyone. But if you're willing to tackle the responsibility of a landlord/tenant relationship, purchasing a property with rental units may be the right choice for you.

Resources and Forms

New Hampshire Housing helps qualified individuals reach their dream of homeownership by offering below-market mortgage rates, low down payment requirements and cash assistance for down payment and closing costs.

New Hampshire Housing

To apply for a New Hampshire Housing mortgage, contact one of our approved participating lenders. New Hampshire Housing offers several mortgage products to help first-time home buyers.

- **Single Family Mortgage Program**
  30-year fixed rate mortgages
  Affordable interest rates
  Low down payment requirements
  Statewide network of participating lenders
- **Cash Assistance Option**
  Provides down payment and closing cost assistance to help individuals and families purchase their home.
- **Purchase/Rehab**
  Provides up to $40,000 for repairs related to safety and livability of the home at the time of purchase.
- **New Hampshire Housing loans can be combined with programs such as:**
  Federal Housing Administration (FHA), Veteran Administration (VA), Rural Development (USDA-RD), and private mortgage insurance companies

Visit our website at **www.GoNewHampshireHousing.com** or call (800) 649-0470 /TDD (603) 472-2089 for more information about these and other New Hampshire Housing programs.

EQUAL HOUSING OPPORTUNITY

Providers of Homebuyer Education

AHEAD
161 Main Street
Littleton, NH 03561
Phone: (603) 444-1377
www.homesahead.org

CATCH Neighborhood Housing
76 South State Street
Concord, NH 03301
Phone: (603) 225-8835
www.catchhousing.org

Cheshire Housing Trust
39 Central Square, Rm #202
Keene, NH 03431
Phone: (603) 357-7603
www.cheshirehousingtrust.org

The Housing Partnership
P.O. Box 466
Portsmouth, NH 03802
Phone: (603) 431-3620
www.housingpartnership.org

Laconia Area Community Land Trust
658 Union Avenue
Laconia, NH 03246
Phone: (603) 524-0747
www.laclt.org

Neighbor Works® Greater Manchester
464 Chestnut Street
Manchester, NH 03101
Phone: (603) 626-4663
www.nwgm.org

New Hampshire Housing
P.O. Box 5087
Manchester, NH 03108
Phone: (800) 649-0470
Phone: (603) 472-8623
www.GoNewHampshireHousing.com

Other New Hampshire Resources

New Hampshire Legal Assistance
117 North State Street
Concord, NH 03301
Phone: (603) 224-4107
www.nhla.org

Legal Advice & Referral Center
48 South Main Street
Concord, NH 03301
Phone: (800) 639-5290
www.larcnh.org

New Hampshire Community Loan Fund
7 Wall Street
Concord, NH 03301
Phone: (603) 224-6669
www.theloanfund.org

Energy Efficiency Resources

Whether you are a first-time homebuyer or an existing homeowner, lowering energy bills and saving money by improving the energy efficiency of your home should be a top priority. Given the high cost of heating and electricity we see here in New England, homeowners should take advantage of every energy savings incentive available.

There are a number of new opportunities designed to help you reduce costs and save money! Federal, state and local programs are available to assist in everything from energy audits and weatherization programs to rebates and tax credits for the purchase of energy efficient appliances.

Bookmark these Web pages and check them often for the most up-to-date opportunities available to save money and reduce costs!

www.dsireusa.org – This website is an excellent one-stop shop for money saving state incentives targeted at renewable energy and energy efficiency for your home or commercial property. The website also has an excellent list of federal energy efficiency incentives.

www.energystar.gov – This website will help you understand the importance of choosing cost saving Energy Star products. It will also help you discover ENERGY STAR rebates and gives excellent energy saving tips.

www.myenergyplan.net – This interactive and informative website has one self-described goal – to help you develop an energy plan to reduce your household's energy consumption. The plan is customized to your family and fits your household's needs.

www.nhsaves.com – Do you want to see if your home qualifies for a comprehensive energy audit for only $100? Do you qualify for any other income eligible programs designed to assist individuals with energy costs? nhsaves.com is New Hampshire's energy solutions website designed to provide you with resources to save money on energy bills.

www.staywarmnh.org – This website, provided by the New Hampshire Office of Energy and Planning, can put you in touch with additional resources to help you pay heating and energy bills. It also provides practical tips to help you conserve energy.

Useful Websites

Organization	Web Site Address
Get your free annual credit report online	**www.annualcreditreport.com**
Equifax Credit - Credit reporting agency.	**www.equifax.com**
Experian - Credit reporting agency.	**www.experian.com**
Habitat for Humanity International Habitat for Humanity International brings families and communities together with volunteers and resources to build decent, affordable housing.	**www.habitat.org**
Help for New Hampshire Home Owners If you live in New Hampshire and are at-risk or concerned about losing your home, help is available.	**www.homehelpnh.org**
Homeownership Preservation Foundation Provides free foreclosure and loss mitigation counseling to help home owners avoid foreclosure.	**www.995hope.org**
Mortgage Bankers Association of America Great source of information about the mortgage application process. Good mortgage payment calculator.	**www.mbaa.org** -
National Foundation of Credit Counseling Credit counseling assistance and information resources.	**www.nfcc.org**
New Hampshire Association of Realtors®	**www.nhar.com**
New Hampshire Bar Association Information on how to find a lawyer in New Hampshire.	**www.nhbar.org**

Organization	Web Site Address
New Hampshire Housing Information for first-time homebuyers about obtaining mortgage loans.	**www.GoNewHampshireHousing.com**
New Hampshire State Government Online Great online source for information about the state of New Hampshire!	**www.nh.gov**
Northern New England Real Estate Network Up-to-date listings of properties for sale throughout New England.	**www.nneren.com**
Opt-Out Website Allows you to opt-out of having your name sold to companies for unsolicited credit and insurance offers through the mail.	**www.optoutprescreen.com**
Trans Union - Credit reporting agency.	**www.transunion.com**
U.S. Department of Agriculture-Rural Development Information about the rural development agencies of the U.S. Department of Agriculture as well as information on Rural Development housing programs.	**www.rurdev.usda.gov**
U.S. Department of Housing and Urban Development (HUD) Information on all HUD and Federal Housing Administration programs, as well as information on home ownership centers and counseling locations.	**www.hud.gov**
Veterans Benefits Administration Information about veterans benefits such as VA insurance and home loans.	**www.vba.va.gov**

Income & Expense Worksheet

Living Expenses	Weekly	Monthly
Housing		
Rent or Mortgage		
Electricity		
Heat		
Telephone		
Water/Sewer		
Property Taxes		
Garbage removal		
Other		
Food		
Groceries		
Work/School Lunch		
Transportation		
Car Payment		
Gasoline/Oil		
Registration Fees		
Public Trans./Tolls		
Other		
Insurance		
Medical/Disability		
Auto		
Household		
All Life		
Medical		
Doctor		
Dentist		
Eye Care		
Clothing		
Gifts		
Education		
Personal		
Allowances		
Pet		
Donations		
Entertainment		
Savings		
Day Care		
Child Support		
Misc./Other		
Total Expenses	$	$

Income	Weekly	Monthly
Income		
Spouse Income		
Alimony		
Child Support		
SSI		
Pension		
Dividends/Interest		
Other		
Total Income	$	$

Total Income	$
Less: Expenses	$
Surplus /(Deficit)	$

Assets	Value
Checking	
Savings	
401K/Retirement	
Investment	
Home	
Other	
Total Assets	$

Creditors	Payment	Balance
Total Debt	$	$

Total Assets	$
Less: Total Debt	$
Net Worth	$

Assessing Your Needs

Use the checklist below to help identify the features in a home that are most important to you and your family.

	Need	Want	Neutral
Near transportation			
Near schools			
Near shopping			
# Bedrooms:			
Two			
Three			
Four			
# Baths:			
One full			
1/2 bath			
two full			
Basement:			
Full			
Partial			
Finished			
Landscaping			
Fenced yard			
Garage			
Dining room			
Eat-in kitchen			
All appliances:			
Refrigerator			
Stove/oven			
Washer/dryer			
Dishwasher			
Other ______			
Other ______			

The Cost of Credit

	$1,000	$2,000	$3,000	$4,000	$5,000	$10,000
8%	80	160	240	320	400	800
9%	90	180	270	360	450	900
10%	100	200	300	400	500	1,000
11%	110	220	330	440	550	1,100
12%	120	240	360	480	600	1,200
13%	130	260	390	520	650	1,300
14%	140	280	420	560	700	1,400
15%	150	300	450	600	750	1,500
16%	160	320	480	640	800	1,600
17%	170	340	510	680	850	1,700
18%	180	360	540	720	900	1,800
19%	190	380	570	760	950	1,900
20%	200	400	600	800	1,000	2,000
21%	210	420	630	840	1,050	2,100
22%	220	440	660	880	1,100	2,200

**This chart reflects the interest you would pay each year based on your average daily balance at various interest rates.*

Consider this:
To give you an example of the power of interest, suppose you have a balance of $5000 on a credit card that charges 15 percent interest. If you make only the minimum payment (typically 2 percent of the balance), you would pay $7,700 in interest and it would take 32 years to pay off!

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Payment Calculator

	Interest Rate Factors			
Interest Rate	15 YRS	20YRS	25YRS	30YRS
2.50%	6.67	5.30	4.49	3.95
2.75%	6.79	5.42	4.61	4.08
3.00%	6.91	5.55	4.74	4.22
3.25%	7.03	5.67	4.87	4.35
3.50%	7.15	5.80	5.01	4.49
3.75%	7.27	5.93	5.14	4.63
4.00%	7.40	6.06	5.28	4.77
4.25%	7.52	6.19	5.42	4.92
4.50%	7.65	6.33	5.56	5.07
4.75%	7.78	6.46	5.70	5.22
5.00%	7.91	6.60	5.85	5.37
5.25%	8.04	6.74	5.99	5.53
5.50%	8.18	6.89	6.14	5.68
5.75%	8.31	7.02	6.29	5.84
6.00%	8.44	7.17	6.45	5.99
6.25%	8.58	7.31	6.60	6.16
6.50%	8.71	7.46	6.75	6.33
6.75%	8.85	7.61	6.91	6.49
7.00%	8.99	7.75	7.07	6.66
7.25%	9.13	7.91	7.23	6.83
7.50%	9.27	8.06	7.39	6.99
7.75%	9.42	8.21	7.56	7.17
8.00%	9.56	8.37	7.79	7.34
8.25%	9.70	8.53	7.89	7.51
8.50%	9.85	8.68	8.06	7.69

Directions: Find the interest rate factor that corresponds with your interest rate and term. Divide your loan amount by 1,000 and then multiply that number by the interest rate factor to come up with your mortgage payment amount.

For example, if the interest rate is 4.75% and the term is 30 years then the interest rate factor would be 5.22. If the loan amount was $160,000.00, you divided $160,000 by 1000 and then multiply that amount by the interest rate factor of 5.22 to come up with your payment amount (160,000 / 1000 = 160 x 5.22 = $835.20). Your mortgage payment would be $835.20 per month. Keep in mind that the payment amount does not include taxes and insurance.

Glossary

A

Amortization: Repayment of a mortgage loan through monthly installments of principal and interest, causing the loan balance to decrease to zero at the end of a specified time period.

Annual Percentage Rate (APR): Calculated by using a standard formula, the APR shows the cost of a loan expressed as a yearly interest rate. It includes the interest, points, mortgage insurance, and other fees associated with the loan.

Appraisal: A document giving an estimate of a property's fair market value. An appraisal is required by a lender before loan approval to ensure the mortgage loan amount is not more than the value of the property.

Assessed value: The value placed upon a property by the municipality in which the property is located for taxation purposes.

B

Buy down: An up-front payment made to the lender by the borrower to reduce the interest rate on the mortgage.

C

Cap: A limit, such as that placed on an adjustable rate mortgage, on how much a monthly payment or interest rate can increase or decrease.

Certificate of title: A document provided by a qualified source (such as a title company) showing the property legally belongs to the current owner. Before the title is transferred at closing, it should be clear and free of all liens or other claims.

Closing costs: Costs paid to cover obtaining a mortgage and the transfer of ownership at closing. These costs may vary by geographic location and must be disclosed to the borrower after submission of a loan application.

Commission: An amount, usually a percentage of the property sales price, that is collected by a real estate professional as a fee for enabling the transaction.

Credit report: A record that lists all past and present debts and the timeliness of their repayment. It documents an individual's credit history and is used by lenders to determine the likelihood that a loan will be repaid.

D

Debt-to-Income ratio: A comparison of gross income to housing and non-housing expenses. With the Federal Home Administration (FHA), the monthly mortgage payment should be no more than 29 percent of monthly gross income (before taxes), and the mortgage payment combined with non-housing debts should not exceed 41 percent of income.

Deed: The document that transfers ownership of a property.

Down payment: The portion of a home's purchase price that is paid in cash and is not part of the mortgage loan.

E

Earnest money: Money that potential buyers put down when they make an offer on a home to show that they are serious about purchasing the home. It becomes part of the down payment if the offer is accepted, or it is returned if the offer is rejected.

Encumbrance: A claim, lien, or liability attached to and binding real estate, but which will not prevent the transfer of title to that property.

Equity: An owner's financial interest in a property. Equity is calculated by subtracting the amount still owed on the mortgage loan from the fair market value of the property.

Escrow account: A separate account into which the lender puts a portion of each monthly mortgage payment to provide the funds needed for such expenses as property taxes, homeowners insurance, mortgage insurance, etc.

F

Fair market value: Estimate of the price that a willing buyer and seller would agree upon when acting freely, carefully, and with complete knowledge of the situation.

Flood insurance: Federal insurance that protects homeowners against losses from a flood. If a home is located in a flood plain, the lender will require flood insurance before approving a loan.

Foreclosure: A legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

G

Good Faith Estimate: An estimate of all closing fees including lender charges, pre-paid fees and escrow items. These estimates must be given to the borrower within three days after submission of a loan application.

I

Interest rate: The amount of interest charged on a loan, usually expressed as an annual percentage.

L

Lien: A legal claim against property. Liens against a property must be satisfied (paid in full) to obtain clear title when the property is sold.

Loan fraud: Purposely giving incorrect information on a loan application in order to better qualify for a loan. Committing loan fraud may result in civil liability or criminal penalties.

Loan-To-Value (LTV): A percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased. A higher LTV means the borrower may need less cash down payment to purchase the property; however, the lender may consider the loan a greater risk.

Lock-in (Rate-Lock): Interest rates can change frequently, so many lenders offer an interest rate lock-in that guarantees a specific interest rate if the loan is closed within a specific time.

M

Mortgage: To pledge as security, real property for the payment of a debt. The borrower retains possession and use of the property.

N

Note: An agreement by the borrower to promise to pay the lender a specific amount of money, at a certain interest rate, on a specific date each month.

P

Principal, Interest, Taxes, and Insurances (PITI): The four elements of a monthly mortgage payment. Payments of principal and interest repay the loan, while the portion that covers taxes and insurances (home owners and mortgage, if applicable) goes into an escrow account to cover the fees when they are due.

Point: A fee charged by a lender. One point represents one percent of the loan amount.

Pre-approval: Estimate by the lender of the amount of money a potential homebuyer may borrow. The commitment may expire after a certain period of time. If the commitment expires, the borrower must start the pre-approval process over.

Pre-qualification: An informal estimate by a lender of the maximum amount an individual is eligible to borrow.

Principal: The amount borrowed from a lender. It does not include loan interest or additional fees.

Purchase & Sales Agreement (Offer to Purchase): Indication by a potential buyer of a willingness to purchase a home at a specific price. This document must be in writing to be valid in New Hampshire. Also known as the P&S.

R

Real Estate Settlement Procedures Act (RESPA): A law protecting consumers from abuses during the residential real estate purchase and loan process by requiring lenders to disclose all settlement costs, practices, and relationships.

S

Subprime mortgage: A mortgage where a higher interest rate and/or fee is paid to reflect the applicant's higher risk to the bank.

T

Title Insurance: Insurance that protects the lender against claims arising from disputes about ownership of the property. An owner's Title Insurance policy is also available for homebuyers for a nominal charge.

Title search: A check of public records to ensure that the seller is the recognized owner of the real estate and that there are no unsettled liens or other claims against the property.

Truth-in-Lending: A federal law obligating a lender to give full written disclosure of all fees, terms, and conditions associated with the loan.

Notes

Mortgage Contacts

Property Address

Seller(s): ______________________________

Phone: ________________ E-mail: ________________

Loan Officer

Contact: ______________________________

Phone: ________________ E-mail: ________________

Real Estate Agent

Contact: ______________________________

Phone: ________________ E-mail: ________________

Home Inspector

Contact: ______________________________

Phone: ________________ E-mail: ________________

Appraiser

Contact: ______________________________

Phone: ________________ E-mail: ________________

Title Company/Attorney

Contact: ______________________________

Phone: ________________ E-mail: ________________

Insurance Company

Contact: ______________________________

Phone: ________________ E-mail: ________________

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