The Home Buyer's Handbook

From the Office Of

Minnesota Attorney General

Lori Swanson

www.ag.state.mn.us

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SECTION ONE: Thinking About Buying a Home?

Buying a home can be one of the most rewarding experiences of a lifetime — and one of the most stressful. After all, a home mortgage loan is the largest contract most of us will ever sign. Add to that the unfamiliar terminology and the endless stacks of legal documents, and it's not surprising that many people are confused by the whole experience.

But buying a home doesn't need to be a headache. In fact, with a little preparation and the right attitude, it can even be fun.

Can You Afford a House?

Perhaps you know people who bought homes and now complain about being "house poor." That's because they underestimated what they needed for home payments, maintenance and other expenses. While some people don't mind making sacrifices to own a home, you don't have to be unpleasantly surprised later if you take the time now to figure out what you can comfortably afford. We've provided some formulas and worksheets in this chapter to help you.

In general, experts say you can afford a home that costs about 21/2 times your yearly income. Income can include salary, dividends, Social Security benefits, public assistance payments and alimony. To accurately estimate what you can afford with your income, you'll need to answer the following four questions:

1. How much can you afford to spend for monthly home loan payments?

2. How much money do you need each month to meet other obligations? (Consider utilities, home maintenance, medical bills, groceries, entertainment and all other expenses.)

3. How much cash have you saved for a **down payment*** and other costs? (You usually need a minimum of 3.5 percent of the purchase price in cash or down payment assistance. If you're a U.S. veteran, then you may be eligible for a **Veterans Administration Loan ("VA Loan"**) with no down payment.)

4. How much will you need for home **closing costs**? (These are the costs involved in transferring ownership. Usually they should be no more than two to four percent of the total amount of your loan.)

Prequalify for a Loan

Pre-qualifying is a process lenders use to give you a quick evaluation of your credit-worthiness and the maximum loan amount for which you are likely to qualify. In most cases, this is not approval, but rather it's a snapshot of your finances that gives you a ballpark figure to work with. You may decide to set aside more for expenses. Even before you have a specific house in mind, you can meet with a lender to find out how much you qualify for. You don't need to spend as much as a loan officer says you can afford, but it's a good way to determine the maximum amount you should spend. And remember, pre-qualifying with one lender does not obligate you to get your loan from that lender. *Don't sign any paperwork that would obligate you at this point.*

In the meantime, you can get an idea of what size loan you might qualify for by going through the worksheet on page 5.

Before you fill out the Loan Qualification Worksheet on page 5, find out the current industry numbers from your loan officer or mortgage broker. The following numbers can change, but were current as of the date of this publication.

**Words in bold are defined in the glossary beginning on page 47.*

Terms to Know

Long-term debt: Anything you owe and are paying back on a schedule of twelve or more months. Long-term debt usually includes your mortgage loan payment, car and student loans, credit card payments, day-care costs, child support and alimony.

Gross income: Your total income before taxes are taken out. Besides wages, this can include income such as alimony, child support and public assistance.

PITI: Principal, interest, taxes and insurance – all of which make up your monthly payment.

Principal: The total amount you are borrowing to pay for a home. This is usually the purchase price minus the down payment.

Interest: A lender's charge for the loan.

Taxes: Property taxes usually are included in your monthly payment.

Insurance: You must purchase **homeowner's insurance** to protect your property against damage. The payment may be included in your monthly loan payment. As with any purchase of a service, you should collect quotes on insurance policy prices from several companies to try and get the best deal you can. You may also have to pay for mortgage insurance, which protects the lender in case you **default**, or don't make your payments on your loan.

28/36

Lenders offering conventional loans (loans not backed by the government) don't want you to take out a loan you can't afford. Generally the lender won't allow you to spend more than 28 percent of your gross income on home loan payments. Also, they usually won't allow you to pay more than 36 percent of your gross monthly income toward all your long-term debts combined, including your home loan payment, car and student loans, credit card payments, child support and alimony. Lenders sometimes refer to these as "28/36 ratios." However, with the increasing use of automated underwriting, lenders are more willing to consider compensating factors in evaluating your loan, so these ratios are subject to some variation. Your lender can assist you in more accurately determining the loan amount for which you may qualify.

31/43

The federal government also guarantees certain loans made by private lenders. Uncle Sam wants to encourage home ownership, so the Federal Housing Administration ("FHA") offers relaxed guidelines that let people with higher debt ratios and smaller down payments qualify for loans. With an **FHA loan** you can spend a higher percentage of your income on housing and still get a loan. Your home payment can be as high as 31 percent of your income, and your monthly debt payments (including your home payment) can be as high as 43 percent of your income.

Loan Qualification Worksheet

Step 1: Estimate Your Maximum Home Payment

	The Olson's	You
Gross Monthly Income	$2,500	
Multiply by .28* (conventional loan)	$700	
Or by .31* (FHA loan)	$775	
*or the current industry standard you obtain from your loan officer or mortgage broker.		
This is the maximum total monthly debt payment a lender will allow, including housing.		

Step 2: Estimate Your Maximum Long-Term Debt Payment Allowed by a Lender

(This is how large your monthly debt payments can be. This includes a house payment, credit card payments, car and student loans and other monthly debts. If you're applying for an FHA loan, add in monthly day-care costs, if you have any.)

	The Olson's	You
Gross Monthly Income	$2,500	
Multiply by .36* (conventional loan)	$900	
Or by .43* (FHA loan)	$1,075	
*or the current industry standard you obtain from your loan officer or mortgage broker.		
This is the maximum total monthly debt payment a lender will allow, including housing.		

If your monthly debt payments are higher than 36 or 43 percent of your gross income (depending on whether you're applying for a conventional or an FHA loan), talk to loan officers about ways you can reduce your long-term debt. Or, you may choose to delay buying a home until you've paid off more of your debts.

What's Your Price Range?

Now use the following charts to figure out your appropriate price range. You'll need to know what interest rates lenders are offering on loans. Rates vary from day to day and from lender to lender, so call several to find the best rate. A loan officer may ask to meet with you in person. That's a classic sales pitch, but if the help is free, go ahead and take it if you want. Choose a loan officer you believe can give you the best service and the best deal.

Also, consider whether you want a 15-year or 30-year loan. Other terms are also available. Check with a lender.

Monthly Payment Tables

Locate a current interest rate at the top of the following tables. Follow that column down to find the monthly payment closest to your monthly home payment amount from Step 1 of the Loan Qualification Worksheet. Then, read across to the far left-hand column to find the total loan amount for which you qualify. Add in any money you've saved for a down payment and subtract estimated closing costs, and you have the maximum amount you should consider paying for a home.

Monthly Payment Tables (Principal and Interest Only)

for loans that fully pay off the debt over the loan term

*(Note: These tables **do not** include other housing expenses such as property taxes, mortgage and home owner's insurance, maintenance, etc. Use the Household Income/Expense Worksheet on the next page to find out what you can really afford.)*

Term of Loan: 30 years

*AMOUNT FINANCED***	*INTEREST RATE**										
	2.5%	3%	3.5%	4%	4.5%	5%	5.5%	6%	6.5%	7%	7.5%
$50,000	198	211	225	239	253	268	284	300	316	333	350
$75,000	296	316	337	358	380	403	426	450	474	499	524
$100,000	395	422	449	477	507	537	568	600	632	665	699
$125,000	494	529	561	597	633	671	710	749	790	832	874
$150,000	593	632	674	716	760	805	852	899	948	998	1049
$175,000	691	738	786	835	887	939	994	1049	1106	1164	1224
$200,000	790	843	898	955	1013	1074	1136	1199	1264	1331	1398
$225,000	889	949	1010	1074	1140	1208	1278	1349	1422	1497	1573
$250,000	988	1054	1123	1194	1267	1342	1419	1499	1580	1663	1748
$275,000	1087	1159	1235	1313	1393	1476	1561	1649	1738	1830	1923
$300,000	1185	1265	1347	1432	1520	1610	1703	1799	1896	1996	2098
$350,000	1383	1476	1572	1671	1773	1879	1987	2098	2212	2329	2447
$400,000	1580	1686	1796	1910	2027	2147	2271	2398	2528	2661	2797
$450,000	1778	1897	2021	2148	2280	2416	2555	2698	2844	2994	3146
$500,000	1976	2108	2245	2387	2533	2684	2839	2998	3160	3327	3496
$550,000	2173	2319	2470	2626	2787	2953	3123	3298	3476	3659	3846
$600,000	2371	2530	2694	2864	3040	3221	3407	3597	3792	3992	4195
$650,000	2568	2740	2919	3103	3293	3489	3691	3897	4108	4324	4545
$700,000	2766	2951	3143	3342	3547	3758	3975	4197	4424	4657	4895
$750,000	2963	3162	3368	3581	3800	4026	4258	4497	4741	4990	5244

* Annual % rate, or APR, will be somewhat higher.
** Loan plus other costs to be paid monthly.

Term of Loan: 15 years

*AMOUNT FINANCED***	*INTEREST RATE**										
	2.5%	3%	3.5%	4%	4.5%	5%	5.5%	6%	6.5%	7%	7.5%
$50,000	333	345	357	.40	382	395	409	422	436	449	464
$75,000	500	518	536	555	574	593	613	633	653	674	695
$100,000	667	691	715	740	765	791	817	844	871	899	927
$125,000	833	863	894	925	956	988	1021	1055	1089	1124	1159
$150,000	1000	1036	1072	1110	1147	1186	1226	1266	1307	1348	1391
$175,000	1167	1209	1251	1294	1339	1384	1430	1477	1524	1573	1622
$200,000	1334	1381	1430	1479	1530	1582	1634	1688	1742	1798	1854
$225,000	1500	1554	1608	1664	1721	1779	1838	1899	1960	2022	2086
$250,000	1667	1726	1878	1849	1912	1977	2043	2110	2178	2247	2318
$275,000	1834	1899	1966	2034	2104	2175	2247	2321	2396	2472	2549
$300,000	2000	2072	2145	2219	2295	2372	2451	2532	2613	2696	2781
$350,000	2334	2417	2502	2589	2677	2768	2860	2953	3049	3146	3245
$400,000	2667	2762	2860	2959	3060	3163	3268	3375	3484	3595	3708
$450,000	3001	3108	3217	3329	3442	3559	3677	3797	3920	4045	4172
$500,000	3334	3453	3574	3698	3825	3954	4085	4219	4356	4494	4635
$550,000	3667	3798	3932	4068	4207	4349	4494	4641	4791	4944	5099
$600,000	4001	4143	4289	4438	4590	4745	4903	5063	5527	5393	5562
$650,000	4334	4489	4647	4808	4972	5140	5311	5485	5662	5842	6026
$700,000	4668	4834	5004	5178	5355	5536	5720	5907	6098	6292	6489
$750,000	5001	5179	5362	5548	5737	5931	6128	6329	6533	6741	6953

* Annual % rate, or APR, will be somewhat higher.
** Loan plus other costs to be paid monthly.

Figure Out What You Can Afford

Now that you know the amount a loan officer says you can afford to pay each month for a loan, double check the figures. In other words, be skeptical. Use the worksheet on the next page to figure out what you can comfortably afford to spend each month. This time, write down all your expenses (including the money you'd like to set aside for a retirement fund, travel or any other items you feel you can't do without).

Reality Check! Household Income/Expense Worksheet

Step 1: Your Monthly Income

Add the following:

Household income after deductions ________
Interest and dividends __________
Other income __________

1 Total Monthly Income = __________

Step 2: Monthly Non-Housing Expenses

Add the following:
Food and supplies __________
Clothing __________
Medical bills, including insurance premiums __________
Life insurance __________
Disability insurance __________
Automobile expenses:

- car loan __________
- insurance __________
- gas __________
- license __________
- routine maintenance __________
- parking __________

Education:

- student loans __________
- current classes __________
- books __________

Travel __________
Recreation __________
Credit card payments __________
Child care __________
Child support/Alimony __________
Phone/Cable/Internet __________
Dues, fees, subscriptions __________
Personal expenses __________
Savings and investments __________
Income taxes __________

2 Total Non-Housing Expense = __________

Step 3: Monthly Housing Expenses

Estimate and add the following:

Mortgage loan payment __________ (principal and interest)

Property taxes __________ (check with the county assessor for a rough estimate)

Mortgage insurance __________ (estimate at 3.5 percent of the loan amount for roughly seven years. After you have 20 percent equity in your home, lenders must allow you to drop mortgage insurance.)

Homeowner's insurance __________ (includes liability, flood, fire and any other)

Utilities __________ (heat, water, electricity, gas)

Garbage removal __________

Maintenance and repairs __________ (usually one percent of the value of the home annually)

Other __________ (such as **assessments**, condominium association dues and any others)

3 Estimate of Total Monthly Housing Expenses = __________

Add the total in Step 2 to the total in Step 3 to arrive at your estimated expenses. Compare this to your income in Step 1. If your estimated expenses are higher than your income, you have some adjustments to make. You either need to lower your expenses or lower your expectations of what you can afford in a home.

How Will You Ever Come Up with a Down Payment?

You'll probably need at least $3,000 to $5,000 to cover the up-front costs, including the down payment. Here are some suggestions:

- **Save Now, Buy Later.** Watch your spending habits. Don't take on any new long-term debt. Start putting as much money as you can in a savings account or another fund each month.

- **Gifts**. If possible, ask a relative for a gift of money. Why? First, because loans are counted as long-term debt. The more long-term debt you have, the harder it is to qualify for a loan. Second, because lenders want you to sink some of your own money into the house so you're less likely to walk away from the investment. Lenders may question whether gifts for down payments are really loans in disguise, so anyone offering a money gift will have to sign a "gift letter" verifying that you won't have to pay it back.

- **Low-interest down payment loans.** Check with lenders, the city or the state where you want to buy a home. Some offer loans to first-time buyers to help them make down payments.

What Do Lenders Want From You?

You may think you know what you can afford in a home, but will a lender agree? Lenders can seem like your best friends or your worst enemies when buying a home. They're your key to qualifying for a home loan, and you need to impress them with your responsibility. They want to give you a loan — that's how they earn their money — but they have to make sure you can pay it back, too!

Lenders usually want you to have at least two years of verifiable employment and a record of paying your bills on time. To check the financial data you give them, they will get your credit report from a credit bureau. It is well worth your time to get a copy of your credit report in advance to be sure it doesn't hold any unpleasant surprises. (To find out how to get your report, see page 40.)

A credit reporting agency will give your credit report a credit score, which will help determine what kind of mortgage you qualify for. If you've paid your bills on time and don't owe a large amount of money, you will have a high credit score. If your credit record isn't perfect, you will get a lower credit score and may only qualify for a loan with a higher rate of interest than the best rate available.

Credit scores are three-digit numbers used by credit bureaus based on a consumer's debt profile and credit history.

Most consumers have a prime credit score, which lenders see as a low risk. However, some consumers are considered subprime. Subprime consumers get higher interest rates and loan fees. According to the Center for Responsible Lending ("CRL"), the subprime home loan market grew from $35 billion to over $663 billion at its peak in 2005. Since 2005 subprime mortgage originations have declined. Since lenders and credit bureaus may know much more than you about your ability to obtain credit, it is important to pay close attention to certain factors affecting your credit score. Credit scoring models are confusing and vary among creditors. These models help creditors determine whether you are prime or subprime. Although none can guarantee you a prime credit rating, the following tips may help you in improving or maintaining your credit score:

- **Have you paid your bills on time?** Your credit score may vary depending on if you always, sometimes, or never pay your bills on time.
- **How much outstanding debt do you have?** Many credit-scoring models evaluate the amount of debt you have compared to your credit limits. If your actual debt is equal or near your credit limit, this will likely have a negative effect on your credit score.
- **How long have you had credit?** The longer you have had credit and proven your ability to pay the better your credit score.
- **How often do you apply for credit?** Many scoring models consider whether you have applied for credit recently by looking at inquiries on your credit report. However, your score will not be penalized if you're hunting for an auto loan or a mortgage within a short time frame. Credit scores are also not affected by "pre-approved" credit offers. However, you should be aware that your credit report may be affected if you send in a pre-approved offer.

Mortgages are also marked with a grade. For example, the higher your credit score is, the higher the grade of "paper" you qualify for and the lower amount of interest you have to pay. The highest grade of paper mortgage loan is considered a **prime mortgage** and a lower grade is often called a **subprime mortgage**. Ask your mortgage lender if they are offering you a prime or subprime loan. Some lenders may specialize in subprime lending and try to sell you their product even though you might qualify for a prime loan. If you believe you should qualify for a prime mortgage, be sure to comparison shop with a company that provides them.

If your finances haven't been stable, you often can take steps to rebuild your credit record and become a better credit risk. Call your bank or a nonprofit consumer credit counseling agency to see if it offers a course on re-establishing credit. Or, go over your records with a mortgage lender for suggestions.

If you have a question or concern about a mortgage lender, contact the Minnesota Department of Commerce at 651-539-1500.

Here are the key questions lenders will ask:

Do You Have Stable Employment?

- You must have a steady income and your current or future employer will have to confirm the amount of your income and verify that he or she expects to employ you long term.

Are You Self-Employed?

- If you're self-employed — or paid on straight commission — you must verify that you've had a steady income for at least one year. Many mortgage products, however, require verification of a steady income for longer periods. You must supply tax returns for these years and a year-to-date profit/loss statement. You should avoid mortgage brokers who suggest or encourage you to make false statements about your income or to inflate it. You should report such brokers to the Minnesota Department of Commerce.

Have You Ever Declared Bankruptcy?

- If you declared bankruptcy more than two years ago, you may still qualify for a home loan. But you will want to prove that you have since established good credit. To establish credit, use your credit cards and pay the bills on time. It is ironic, but true, that lenders would rather have you prove you can go into debt and pay it off on time, than see you pay for everything in cash.

What is Underwriting?

Ultimately, you're going to have to convince a lender that you're worthy of a loan. A lender may tell you that underwriters will make this decision. The loan officer and loan processor do most of the screening and qualifying by collecting information. The underwriter reviews the file, assesses the risks and gives a final stamp of approval. Lenders don't like bad risks, so they will carefully analyze your records to answer these questions:

- Will you be able to make your loan payments for the foreseeable future?
- Does the value of the home you want to buy justify the amount of money you want to borrow?

If the answer to both questions is yes, a lender is likely to approve your loan.

Gather These Records

Your lender needs about six weeks to collect, review and verify all of your financial records. All you can do is wait and perhaps answer a few more financial questions. You cannot close on a home until the underwriting process is complete and you are approved for a loan. Start collecting the following records for your loan application as soon as possible.

For the past 10 years

- All former addresses, including zip codes.

For the past two years

- Names and addresses of employers.
- All sources of income (include recent pay stubs or copies of checks as proof of income).

Liabilities

Provide up-to-date information on payments you've made and what you still owe on the following:

- Auto loans (include lenders' addresses, loan numbers and balances).
- Installment loans (include addresses, account numbers and balances).
- Credit cards (include account numbers and balances).
- Alimony and child support payments you owe (include a copy of the divorce decree and any child care provider costs).

Assets

Provide information on any of the following resources you have:

- Bank accounts (include bank address, account numbers and balances).
- Stocks and bonds.
- Market value of any real estate.
- Vested interest in a pension or other retirement plan.
- Automobiles (include years, makes and estimated values).
- Furniture and personal property value estimate.
- Other assets and their value (include cash value of whole life insurance).
- Alimony and child support payments that you receive.

If you are self-employed

- Corporate tax returns for at least the past year if your business is incorporated.
- Personal tax returns for at least the past year.
- Year-to-date profit and loss statement.
- Balance sheets for the year to date.

Other

- Driver's license (photocopy).
- Social Security number.

SECTION TWO: Where Do You Want to Live?

There are two ways to decide what you want in a house. One is to close your eyes and dream. The other is to open them and look around. A little of both may be the best advice for finding the home you want. Look beyond the elegant spiral staircase, the freshly laid carpeting, the kitchen space — or whatever catches your fancy in home design. First, look closely at the neighborhood to decide where you want to live.

Ask yourself: Is it safe? Accessible to work? Near good schools? Check out traffic and noise at different times of the day. Answering these questions and others like them will help you decide where to live. Furthermore, if you're concerned that your home is a good investment, be sure to find out if property values are rising or falling in the neighborhood. The county assessor's office or a real estate agent who knows the neighborhood should have the answer. Here's a list of good questions to ask yourself:

Is the Traffic Heavy?

If you want privacy, have children, or just don't like noise, you'll want to know if the street where you may live is busy with traffic. While a street may seem quiet in the middle of the day, be sure to watch and listen during rush hour. Is it a throughway for traffic? Is it an alternate route for local commuters? What about airplane traffic? Is there a flight pattern right over the home you're thinking of buying?

Can You Handle a Commute?

You may find a better deal on a home outside a city... but if you work in the city, will you be able to stand the longer commute? Take a dry run during your normal drive-time to see if you're comfortable with the commute. If you'll be taking public transportation, find out how often buses run, how long the routes take and how far you'll need to walk or drive to the bus stop.

What is the Community Like?

Glowing community profiles are available from many local Chambers of Commerce. Just ask them for a Resident's Guide. These guides include information about income levels, taxes, schools and other important factors. Another way to find out about the community is to pick up an issue of a community newspaper at a local store or library. Reading it will tell you what issues are of concern to local residents.

Schools

For parents, little is more important than schools when choosing where to live. Feel free to visit schools, talk to the teachers, and ask neighbors for their opinions.

Cultural and Religious Organizations

To find out about local entertainment, cultural events, community happenings and religious organizations, check the listings in the local newspaper and phone books. And find out what's going on by scouring bulletin boards at local libraries, coffee shops and similar gathering spots. In addition, the internet can also be a useful tool in answering the questions above.

What Do You Want in a House?

Homes can fit every taste and lifestyle. Perhaps you'd like a traditional home with a large kitchen, a downstairs bathroom and good insulation for those below-zero days. Maybe you want the convenience of a condominium unit or townhouse to avoid the hassles of yard work and other exterior maintenance. Or perhaps you've always dreamed of a contemporary, spacious home where you can have privacy — even if you have to build it to get it. Each type of house has advantages and disadvantages to consider before you start house hunting.

Older Homes

Older homes in established neighborhoods often have the old-world charm of broad front porches, quirky nooks and crannies and hardwood floors. That's what makes them interesting. One of their main advantages is their construction. Homes built before World War II often were made with higher quality materials.

A home with a history has had time to settle on its foundation, so you won't have to worry about the walls cracking. And a home inspector should be able to give you a good estimate of how long the furnace, roof and other major components will last.

Older homes can also have disadvantages. They weren't built with modern appliances in mind, so often the wiring is inadequate. Old water pipes and drains may be clogged or leaking, and the heating system and insulation probably aren't as energy efficient as in a newer home. You may also have to rip out all the old carpeting and wallpaper. Federal law also requires sellers to make disclosures about lead paint.

Despite the drawbacks of older homes, they tend to be less expensive than new ones with similar features. Because their neighborhoods are established, you (or your loan officer) will be able to predict property taxes and home appreciation far more accurately than you would in a new housing development. And, if you make improvements, the tax benefits and resulting higher value of the home may offset some of the costs.

New Homes

If you can't find what you want in an older home, you may want to look into newly-built homes. These can either be "builder built," such as those in a development of new homes, or "custom built," either contracted by you or a contractor you hire.

Tract homes in developments are generally easier to re-sell than custom-built homes because the builder designs them to appeal to the greatest number of people. For example, you'll probably find a lot of neutral colors. A tract home also costs less than a custom-built home, because a builder saves money by ordering materials in bulk.

New houses may have the benefit of increasing in value faster than older homes because they're usually strategically located where the population is growing. The area may be in demand in a few years and if you buy early, you may be able to sell at a good profit. New homes also tend to be more energy efficient because they must meet today's stricter building codes.

The design of new homes has changed, too. For example, the living, dining and family rooms may be combined in one large room to give the illusion of size to a smaller home. Bathrooms, kitchens and master bedrooms may be more luxurious than they would be in older homes. Closets generally are more spacious, too

New homes do come with a few disadvantages. They are typically more cookie-cutter in style, construction may be a bit flimsier than that found in older homes, and, in the Twin Cities at least, buying a new home usually means relying on your automobile to do just about everything — including running out for a gallon of milk, commuting to work, and driving the kids to school and to their activities.

Make Your Home Environmentally Friendly

Would you like to save money and the environment at the same time? Cutting gas and electricity does us all a world of good. And home improvements can help:

- Use compact fluorescent lights. These are three to four times more efficient than common bulbs and last 10 times longer.
- Caulk or weatherstrip doors and windows that leak air. Materials cost under $50 and you could save as much as 10 percent on your annual energy bill.
- Install storm windows and doors, and cover them with heavy-duty clear plastic sheets to prevent drafts. This could save as much as 15 percent on your energy bill in cold months.
- Insulate your attic floor or top floor ceiling. Investment costs range from $100 to $1,000 and reduce energy costs about 5 percent.
- Insulate exterior walls. Although often an expensive job, you can reduce your heating and cooling costs by 20 percent.
- Plant trees to shade your home and air conditioning units. You can increase energy efficiency by 10 percent.
- When you use air conditioning, set the thermostat no lower than 78 degrees Fahrenheit. You'll save as much as 47 percent in cooling costs.
- Add insulation around your water heater. This could save from $8 to $20 a year.
- Reduce the setting on your water heater. Just 10 degrees colder will save more than 6 percent in energy costs.
- Reduce water usage by installing a low flow kitchen faucet and consider a flow controller in the showerhead pipe to restrict water flow.
- Think energy efficiency when you're buying new appliances, too, by comparing EnergyGuide levels.

To find out more about conserving energy and cutting costs in your home, call your local utility to request a free home energy audit.

Condominiums and Townhouses

Condominium and townhouse units give you the worry-free lifestyle of renting, with the financial benefits of ownership. What they offer is usually an updated smaller home — or apartment-style home — that generally costs less than a detached home. "Condos" and townhouses can take many different shapes and forms, but they are usually part of a community of similar units that share common spaces like yards, hallways and health facilities. The owners within a complex are members of an association formed to ensure upkeep and make joint decisions about the property.

Find out these facts before you buy a condominium or townhouse:

- Is it a townhouse, condominium or a co-op? Why is this important? For example, if you purchase a townhouse, you own the ground beneath your unit. This is not the case if you buy a condo or co-op.
- How many units are occupied? How many units are owner occupied?
- Has resale or depreciation been a problem?
- How much will you pay in association dues? This amount can be significant and could be used when qualifying for your loan. Have the dues gone up in the past few years, and how much? Also, ask if the association has planned any major improvements. You may have to kick in extra cash for these.
- Are the common areas well maintained? What do roofs, siding, driveways, swimming pools or spas, hallways and game rooms look like?
- Has the association set up and funded reserve accounts for expensive projects like roof, siding or driveway repairs? Ask the association for a financial statement.
- Read the association declarations, bylaws and rules. Resident associations may ban pets, restrict guest parking and noise after certain hours, and put constraints on renting property.
- Knock on owners' doors to get acquainted. You'll be living in close proximity to your neighbors. Ask present owners if they have had any problems with the association.
- Is the association run by the owners or a management company?

Needs and Wants Checklist

You've narrowed your home search by location and type of home. Now focus your lens a little closer and think about what space and amenities you'd like inside the walls. The following "needs and wants" checklist will help you focus on homes that meet your top priorities. Start by identifying general needs: How many bedrooms? How many bathrooms? How many square feet? Then think about the amenities you want. A fenced-in yard for the dog? A fireplace that really works? An insulated garage? A porch or deck? A picture window with a pleasant view? Wood floors? Stall showers, not just bathtubs?

Decide which of the below are "needs" and which are "wants." List the features you must have in a home in your "needs" column. Then list your wants. This is your dream list. Wants are items you can live without or add later. List your "wants" from most to least important.

Needs and Wants Checklist

List the features you must have in a home in your "needs" column. Then list your wants. This is your dream list. Wants are items you can live without or add later. List your "wants" from most to least important.

FEATURES	*NEEDS*	*WANTS*		
		Most	*More*	*Least*
Number of bedrooms				
Number of bathrooms				
Square feet				
Style of home (rambler, split-level, etc.)				
Modern kitchen				
Fenced-in yard				
Fireplace				
Garage (how many stalls?)				
Porch				
Windows (number, type)				
Wood floors				
Carpeting				
Basement				
Other				

SECTION THREE: The Cast of Characters

Meet the players in the home-buying business. While they may all want to help you, they also want to make money as well. "So who are these people and why do they want my money?" you may ask. Introductions are in order. Get to know the cast and learn how to choose the best in the bunch.

ALICE, The Real Estate Agent

You'll find Alice showing buyers through houses every free minute she has — her paycheck rides on selling you a home. If you don't buy, she's not paid.

Real estate agents are professionals. Their job is to help you buy or sell a home. Be forewarned! Different types of agents have different obligations and interests. You might think that an agent who brings a potential home buyer to a property would be considered a buyer's agent. Actually the agent may be considered a **subagent** of the seller's agent. That means the agent doesn't owe his or her loyalty to the buyer. In fact, the loyalty of this subagent is to the seller! If you want an agent to act exclusively on your behalf as a buyer, find a buyer's broker. A **buyer's broker** is bound to keep confidences and negotiate the price for you, and can put the terms of your relationship in writing.

The fees you pay your real estate agent are often included in the purchase price of the home. An agent who lists a home for sale usually shares the agreed upon commission with the agent who brings in a buyer for the house. The commissions are usually a percentage of the sale price of the home. Because these commission amounts depend on the final price, this means that real estate agents have a financial incentive to sell you a higher-priced home. As a buyer, you pay for the services of the real estate agents in the purchase price of the home.

How Do I Find an Agent?

You can look for a home without an agent, but if you are planning to work with one, ask friends, relatives or co-workers for recommendations. Interview several agents until you find one you feel comfortable with. Here are some things to discuss with prospective agents:

- How long have you been in the real estate business? What training and designations do you have?
- Can I have a list of references?
- How many homes have you listed or sold in the past year?
- How well do you know the area(s) that I am interested in looking at?
- **What fees do I pay for your service? (Many agents will give you the impression that their commission is not negotiable. However, by law, their fees are always negotiable.)**

Agents may ask you to sign either an exclusive representation agreement or a nonexclusive representation agreement. An exclusive agreement locks you into using one agent from the time of the agreement. Signing a nonexclusive agreement will allow you to work with more than one agent. Keep in mind, however, that an agent with an exclusive agreement may be inspired to work harder for you. If you choose an exclusive agreement, negotiate the length of the agreement so you aren't locked into the agreement for an unreasonable amount of time — typically no shorter than 60 days and no longer than six months.

See Appendix A for a full explanation of the agreements and disclosures you will be asked to sign. It's important that you understand them well, because they'll affect the service you receive and the money you pay your agent.

LINDA, The Loan Officer or Mortgage Broker

You'll recognize Linda by the smoke coming from her calculator. Introduce yourself to her early in the home-buying process. She's the one who can figure out if you have the right stuff to qualify for a home loan, and she'll tell you what you can afford. She also gathers and checks all of your credit, employment and other income records. She's the first of three people you must impress to qualify for a loan (followed by the loan processor and the underwriter).

Check whether you'll have to pay Linda even if you don't take out a loan through her. Some loan officers/mortgage brokers have such a policy. To choose a loan officer/mortgage broker, talk to several and ask each for a complete list of fees. (See page 32 for a Closing Cost Comparison Worksheet.)

PAT, The Loan Processor

You probably won't meet Pat, but you'll pay him in your closing costs. Pat double-checks all the financial and employment information your loan officer gathers from you. If he thinks you're a good credit risk, he'll pass your paperwork on to the underwriter.

NICK, The Underwriter

This character enters the scene late, but with a very important role. He gives final approval for a loan. He goes over your records to make sure you're a good credit risk for a loan.

FRED, The Appraiser

Your loan officer will ask Fred to give an independent opinion of the value of the home you're thinking about buying. Fred will visit the house you want to buy, compare it to similar nearby homes that recently have sold, and determine a fair market value. He might tell you that the real value of the home is higher or lower than the price you've offered to pay. When applying for a FHA or VA loan, you must use an appraiser certified by the FHA or VA, respectively.

HERMAN, The Truth-in-Housing Evaluator

Herman only works in cities that require a Truth-in-Housing Report. Herman determines if the home meets a particular city's housing code standards. (For information on a Truth-in-Housing Report, see page 20.)

ALLIE, The Attorney

Everyone wants an Allie on his or her side. Her job is to protect your rights and interest and anticipate legal problems. She can be very helpful in complex home purchases. For example, if the home you're buying has been in foreclosure or has been part of a contested will, she can clarify the terms of your purchase or help you negotiate better terms. A lawyer is especially useful if your new home is **For Sale By Owner ("FSBO")** — meaning the owner is not using a real estate agent — or you have a **"Contract For Deed."** Some owners who have had difficulty selling their property will offer a contract for deed. In this situation you would make your monthly payments to the owner, who would essentially be the "lender."

A lawyer also can review your purchase agreement, make sure the seller delivers all necessary documents at closing, and convey a marketable title. Hourly attorney fees can run high, so try to negotiate a flat fee.

CLARENCE, The Closer

Clarence will peer at you from behind stacks of papers at the closing on your house. He'll make you sign each one, so be prepared for writer's cramp. Clarence makes sure all the seller's and buyer's sales documents are in order, agreed upon and signed on the date of closing. There may be a buyer's closer and a seller's closer at the closing.

Clarence may work for a title company owned or commonly hired by your real estate agent's company. Don't select a closer just because of this relationship. *You have the right to select the closer of your choice. Shop around for the lowest fee as well as a competent closer.* And remember, you have the right and the obligation to read all of your closing documents before you sign them, and to ask as many questions as you want. This is probably the biggest purchase you will ever make in your life, and you should understand every step and every word.

Discrimination and Fair Lending

Everyone involved in the home-buying process should be aware that it is against federal and Minnesota law for real estate agents, sellers and lenders to discriminate against buyers because of their race, color, creed, sex, religion, national origin, marital status, status with regard to public assistance, disability, sexual orientation or familial status. These laws are discussed in more detail in Section 8.

Discrimination in the home-buying process can take many forms. Some are obvious, but others may be subtle and difficult to identify. For example, real estate agents should not refuse to list or show homes in certain areas. Lenders should not refuse to consider loans in certain areas or refuse to accept applications below a certain amount. These practices are considered forms of "redlining" that may be discriminatory.

Bank regulators are beginning to scrutinize some traditional lending practices that could unfairly screen out individuals on the basis of racial or cultural characteristics that have little relationship to a person's ability to repay a loan. Some low-income or minority loan applicants may be rejected simply because the lender fails to consider creative ways to approve the loan. For example, an applicant with little or no formal credit history may have a solid record of prompt rent payment, or long-standing charge accounts with local merchants that don't show up on a credit report. When evaluating an applicant's income from child support or public assistance, a lender should take into account the fact that this income is tax-free, and is therefore comparable to a higher "gross income" from taxable sources.

In addition, the property appraisal should be an accurate description of the property without subjective criteria that might unfairly influence an underwriter. For example, an appraisal might describe a property as being located in an "old, decaying neighborhood," when in fact the area may be targeted for urban renewal.

SECTION FOUR: Looking at Homes

Are you ready to hit the pavement? Finding the perfect home isn't easy but here are some of the best ways to get started:

Visit Open Houses

Poking through open houses on a Sunday afternoon is easy and fun, and it offers a good overview of the market. You don't have to make appointments to see homes. Just pull up to an open house and walk in.

Misconceptions About Open Houses

Only a small percentage of homes are sold through open houses. An open house may be set up by the seller or an agent who works for the seller. But if you think that's the usual practice, you're wrong. As many as half of all open houses are hosted by agents who simply want to find new clients. However, by holding an open house, that agent's loyalty is to the seller. If you have signed an agreement to work with a buyer's agent, that agent will probably discourage you from attending open houses on your own. Also, if you sign in at an open house, and do not disclose you are working with an agent, this could cause problems later. Additionally, a commission dispute could arise if you hire an agent at an open house and later hire another agent. See Appendix A for further discussions on Real Estate Agency Disclosures.

Laws Limit Agent Solicitation

Laws keep agents from soliciting each other's clients. When you go to an open house, the agent showing the home will ask if you have an agent. Be prepared for a sales pitch if you say, "No." The agent running the open house may try to enlist you as a client by having you sign an agreement. How do you know this agent has the skills and experience you need? You don't! So don't sign up as a client during an open house. Remember, if you just want to look at the home, you don't have to sign any contracts.

Multiple Listing Service ("MLS")

The **Multiple Listing Service ("MLS")** is the main tool real estate agents use for finding homes to match your needs. In fact, only real estate agents can subscribe to the service. The MLS is a computerized publication that is updated constantly. It tells what homes are for sale by neighborhood, price and amenities. In fact, computerized viewings of homes are provided by some real estate agents who subscribe to the MLS. You can also view listings online at *www.mls.com*, *www.realtor.com* or individual realty companies may be featuring their listings online as well. You can tour an entire house without leaving your chair!

For Sale by Owner Publications

Some homes are for sale by owner ("FSBO"); pronounced "fisbo." These sellers are homeowners who choose not to hire an agent. Don't ignore FSBOs. FSBO homes can be cheaper than those advertised by real estate agents because FSBOs aren't paying sales commissions.

Make sure your agent or broker is actively seeking FSBO property for you. To find a FSBO home on your own, look at publications that specialize in FSBO homes or you may have luck driving around an area that interests you.

Shopping the Classifieds

Newspaper ads are the most common source for advertising homes. You'll find homes for sale by owners and builders, and through real estate agencies. The ads aren't as timely as the MLS listings, but they are all-encompassing.

SECTION FIVE: The Perfect Place

When you find the perfect house, you want to move in immediately. Before your heart races ahead of your head and you ignore the old pipes or leaky roof, it is time to hire a professional to help you make your final decision. Now is the time to talk about the nitty gritty details of a home inspection and making an offer.

The Home Inspection

Once you buy a home, repairs can eat into your pocketbook, making the home of your dreams a "money pit." Homes can have wet basements, shaky foundations, rotting roofs and a multitude of other problems — even if they're relatively new. But a thorough home inspection before you buy can keep you from getting stuck with the bill.

Invisible Enemies

Unlike watermarks, some defects can be difficult to see. For example, radon (a gas emitted from the ground) has been discovered in dangerous levels in many Minnesota homes. A high level of radon may cause cancer. Not only is radon impossible to find without special detectors, it may be expensive to get rid of. Other potentially harmful "invisible enemies" include lead paint and asbestos.

Isn't the Seller Required to Tell You About Problems?

Pursuant to some purchase agreements, the seller is required to note certain problems and environmental hazards, and state that certain mechanical systems are in working order. Sellers are also required by Minnesota law to make certain disclosures about wells and sewage treatment systems on the property.

In addition, in most arms-length transactions, the seller must disclose any information he or she has about the property that could significantly affect the buyer's use of the property, unless the buyer waives this disclosure. A buyer can file a lawsuit against the seller for damages caused by violation of this law within two years of the closing date.

However, a seller may not disclose everything and does not always know a problem exists. If you would like more information on selling a home, including more information on the seller's disclosure requirements, the Attorney General's Office offers a free publication entitled *The Home Seller's Handbook.*

What is a "Truth-in-Housing" Report?

Some Minnesota cities require a **Truth-in-Housing Report** that tells you the condition of the home based on the city's housing code standards. The report is completed by a licensed evaluator. Some cities have limited requirements to meet, so don't rely on this report alone.

Most communities that have this ordinance do not require the seller to make repairs. The intent of the report is to provide prospective home buyers with thorough, accurate information to assist them in making a good decision about buying a home. When a Truth-in-Housing Report is required, the seller must provide the report to all prospective buyers at the time of the showing.

If you have questions about a Truth-in-Housing Report for a particular home, contact the evaluator or the city in which the home is located.

Should You Pay for a Home Inspection?

Hiring a qualified inspector will protect you and help you feel confident about the condition of the home you're buying. The home inspector you hire should identify any major plumbing, heating, electrical, structural, safety and environmental problems. If a home inspector identifies numerous minor or major maintenance items, you may be able to negotiate the final sales price of the home with the existing owner.

There are several ways to do an inspection. You can hire a professional inspector or contractor, or, if you're knowledgeable about construction, inspect the home yourself. An inspection should cover at least the items listed in the Inspection Checklist in Appendix B.

Where Do You Find a Good Inspector?

If you plan to hire a professional inspector, keep in mind they are not regulated by the state. Talk with friends and family about inspectors they've used. Your real estate agent may also be able to suggest someone. You can also check the yellow pages under "Building Inspection Services" or "Inspection Service."

However you find your inspector, make sure you ask for references. Here are some other things to discuss with prospective inspectors:

- What training and experience do you have?
- How do you define major problems? Any repair over $500, $1,000 or $2,000?
- Do you stand behind the report, or is there a clause limiting your liability to the amount of the inspection fee?
- Have you ever written a report that caused a buyer to walk away from a sale?
- Do you carry professional liability insurance?

The price of home inspections varies considerably, so shop around. Be sure to ask the companies to list what they inspect. A word of caution about referrals from real estate agents — make sure the inspector is concerned about doing the job properly, not about getting more business. Too often inspectors are afraid to tell the truth for fear they will "blow the sale" and not receive referrals from the agent again.

A home inspection only takes a few hours, but is one of the best ways for you to learn about your new home. Tag along with the inspector and don't hesitate to ask questions.

What if You Can't Find a Professional Inspector?

If you live in a rural area, it may be difficult to find a professional inspector. A local building contractor may be able to inspect your home and may charge less than an inspector. Before you jump the gun and hire someone, ask a contractor the same questions that you would ask a professional building inspector. Be very clear that you are looking for someone to identify potential problems, not offering them a future contract to fix the problems. While you probably won't get a written report and the work won't be covered by insurance, you may save yourself money and trouble if a major problem is found.

What if the Property Doesn't Pass Inspection?

The FHA and VA require their own appraisal and may ask a home seller to make repairs before the sale. But if a house does not pass a buyer's independent inspection, and if the buyer has put an inspection contingency in the agreement, the buyer may cancel the purchase agreement. Otherwise, the seller and the buyer might have to negotiate who pays for repairs. (We'll discuss more about contingencies later in this section.)

Making an Offer

Some people decide to buy a home within seconds of walking in. Even the most well-educated home buyers can't ignore their hearts. The strings are pulled the second they see the garden and the bay window overlooking it, the fireplace at the end of a cozy living room, or the luxurious master bedroom and bathroom. We know it's difficult, but try to keep your emotions in check when you're bidding on a home. Your business savvy will have to ignore the tug of your heart strings to make a smart offer.

How Much Should You Bid on a Home?

Money isn't the only consideration in home buying, though it usually appears near the top of the list! In making a bid, first prioritize your needs. Is it important for you to pay the lowest price possible? Or is the ability to move quickly your biggest concern? Your real estate agent can tell you what the typical neighborhood difference is between asking prices and bidding prices. This will help you know what to expect.

Your bid must be in writing and include:

- The price you offer to pay and how you plan to finance the purchase.
- The time period you'll give the seller to accept or reject the bid.
- The date you want the seller to be obligated to close and give you possession of the home.

Bid High or Low?

You don't need to offer to pay what a seller is asking for a home. Home buying is a game of negotiations. When sellers first put their homes on the market, they may ask for more than they are willing to take. Later, if the home hasn't sold, the seller may be desperate to sell and could price the home below market value. The amount you offer depends on whether you think the asking price is high, low or in line with market values in the neighborhood. Don't worry about insulting the seller by bidding lower than the asking price. On the other hand, you may decide to bid higher if the home buying market is hot and homes are selling quickly, or if you really want to buy a certain home.

Understanding the Purchase Agreement

The purchase agreement is the major contract in home buying. It's what you submit when you bid on a home and it becomes a binding legal contract if your offer is accepted. If you change your mind about buying the home after the seller has accepted your offer, prepare for a battle. *The purchase agreement legally locks you into buying the house.* You'll probably have to pay hefty legal fees to try to get out of buying the home, and you may still be stuck with it in the end.

Read the purchase agreement thoroughly. If you don't understand all of the provisions, you may wish to have an attorney with real estate experience review the purchase agreement with you before you sign it. A real estate agent may want to hurry you into signing it if another buyer is considering making an offer on the house you want to buy. Don't be pressured. *Understand the purchase agreement before you sign it!*

There are two purchase agreement forms predominantly used in Minnesota residential transactions: (i) the Minnesota State Bar Association form approved by The Real Property Section, or (ii) the form approved by the Minnesota Association of REALTORS®.

A Word About Contingencies

Contingencies are your safety net. Contingencies are conditions, or "what if...?" provisions, that you add to your purchase agreement. Carefully consider under what conditions you will and won't buy the house by attaching contingencies that can make the agreement null and void. A real estate agent or an attorney can help you write your contingencies. Make sure it reflects your understanding of the conditions under which you're willing to make the offer. To see a common contingency clause used by buyers, refer to Appendix C. You might want to use contingencies to allow you to cancel the purchase if:

- You aren't accepted for a home loan.
- The house has structural, mechanical or environmental defects that are discovered through your inspection.
- There are liens or other charges or claims on the property.
- The house appraisal comes in lower than the price you offered to pay.
- You can't sell your current house.

Contingency Concern

It is important to note that some purchase agreements state that a seller is free to accept another offer while you're waiting for your contingency(s) to be met. If another offer comes in, the seller can ask you to lift your contingency(s). If you are unable to lift the contingency(s), the seller can accept the other offer.

Arbitration

At the time you fill out the purchase agreement, you may have the opportunity to sign an **arbitration agreement**. The arbitration agreement may be a separate document or it may be included as part of the purchase agreement. You don't have to sign it. Signing or not signing won't affect your purchase agreement. You can agree to arbitrate later.

So what is arbitration? In simple terms, it's a system for settling out of court all differences or disputes about the physical condition of the property. An arbitrator will hear all sides of an argument and make a decision. Sound appealing? It is to those who think court is just another word for "high legal fees." But that's not always the case.

Disputes among buyers, sellers and agents are often simple misunderstandings that involve a limited amount of money. Maybe you thought the washer and dryer came with the house, but the sellers didn't think so. If you can't agree on a solution, you'll have to go to court, submit the dispute to arbitration, or use another dispute resolution process. However, if you sign an arbitration agreement, it is binding and you waive your rights to pursue any action in court.

Arbitration hearings are often held at the homesite. Usually an arbitrator will pick a winner — the buyer, seller, broker or agent. Keep in mind that arbitrators aren't bound by legal rules. It is next to impossible to appeal their decisions. Make sure you study the pros and cons of arbitration closely before you sign any agreement. In addition, keep in mind that there are fees involved with arbitration. Some consumer advocates have raised questions about the effectiveness of arbitration in resolving homeowners' disputes.

If you don't sign the arbitration agreement you can often have your case resolved quickly and inexpensively in conciliation or "small claims" court. Currently, judges in conciliation court can decide cases involving disputes up to $10,000 (this amount can change). If you would like more information on conciliation court, the Attorney General's Office offers a free publication entitled *Conciliation Court: a User's Guide to Small Claims Court*.

If you sign an arbitration agreement at the time you sign the purchase agreement, you will be committing yourself to a particular method of dispute resolution before you know what the dispute is about. And you will be giving up the right to go to court to assert specific legal rights you may have if you find yourself in a dispute. For this reason, you may want to consider waiting until a dispute arises and then choose a method of dispute resolution — whether that method is arbitration, mediation, conciliation court or district court.

SECTION SIX: Financing Your Home

Buying a home usually hinges on your ability to get a home loan. You'll find that a little business savvy can go a long way in getting the best rate for your loan. The purpose of this section is not to offer a boring overview of loans but to give you some great cost-saving ideas. Of course, you'll need to understand the boring stuff first.

The fact is, you can cut your loan costs by comparing interest rates and negotiating lender fees. Lenders charge more than interest for lending you money. They'll charge fees for their services, too. Many of these fees are negotiable. Understanding them and shopping around for the best prices can knock hundreds or even thousands of dollars off your loan. If you don't shop around for a lender, you will almost certainly NOT get the best deal you could have gotten.

Minnesota has hundreds of lenders to choose from. Your lender will help you apply for a loan and get it approved through credit checks, property appraisals, inspections and the many other nagging details.

Where Do You Find a Lender?

How do you find the best lender for you? First get to know the basic types. All lenders originate loans and others service them, too. If you're not sure what they do, simply ask them. Lenders include: banks, savings & loans, credit unions, mortgage companies and public agencies (including cities).

Terms to Know

Mortgage discount points: A "point" equals one percent of the amount of your loan. Points are prepaid interest on a loan and you'll pay them to your lender when you close on a home. A loan with points has a lower interest rate than one without points.

Loan origination fees: These are the fees a lender charges for doing the paperwork involved in getting you a loan. See a full explanation of fees in Appendix D.

Escrow: Lenders often ask homeowners to keep future tax and insurance payments in an escrow account. The lender may administer these payments, asking you to "escrow" money. This means putting money in an escrow account to make sure funds are readily available to pay for your insurance and taxes. (See more about escrow payments on page 37.)

There is no "ideal" loan for everyone. Perhaps that's why there are so many options. Much depends on your financial history, your situation today and your future.

If you have a solid credit history, a good, steady income, and the prospect for reliable income in the future, you should have no trouble qualifying for a loan.

The amount of the loan will depend on the size of your down payment and your income minus fixed expenses. Chances are you'll choose from one of these types of loans: a conventional loan, a Federal Housing Administration ("FHA") loan or a Veterans Administration ("VA") loan (if you're a U.S. veteran). Any of these loans can be either a **fixed rate loan** or an **adjustable rate mortgage ("ARM")** loan and can range in time from 10 to 30 years.

If you don't have a large nest egg for a down payment, or you haven't always paid your bills on time, don't panic. Talk to several lenders about your financial situation. There are some options for people who have so-so credit records.

Fixed Rate Mortgage vs. Adjustable Rate Mortgage

A fixed rate loan offers an unchanging rate of interest over the life of the loan. So, if the loan starts at 7½ percent, it will always be 7½ percent. An adjustable rate mortgage goes up and down according to an index, often one-, three- or five-year securities of the U.S. Treasury. Many people may be lured into an ARM by a low introductory or "teaser" rate, but these rates can jump significantly in a short period of time. Many homeowners have faced default or foreclosure because they could no longer afford their monthly payment after a rate reset.

Advantages of Fixed Rate Loans

- Certainty is one. You know how much you'll pay for principal and interest each month throughout the term of the loan. (If you escrow for property taxes and homeowner's insurance, your monthly payment may vary according to increases in property taxes and insurance. Both tend to rise annually.)
- When interest rates are low, a fixed rate loan can lock you into a good deal.

Disadvantage of Fixed Rate Loans

- If interest rates are high when you take out your loan, they'll remain high for the term of the loan. (Keep in mind that you may be able to refinance your loan to a lower interest rate if market rates go down, but you will likely have to pay for an appraisal and closing costs again.)

Advantage of Adjustable Rate Mortgages ("ARMs")

- ARMs have starting interest rates lower than fixed rate mortgages.

Disadvantages of ARMs

- If your ARM's interest rate goes up quickly, you could be paying more than the current fixed mortgage rate within just a few years.
- Most ARMs are not convertible, meaning you won't be able to switch to a fixed rate mortgage to protect yourself from rising interest rates. You could, of course, refinance, but you'll have to requalify and pay closing costs.

Federal Housing Administration ("FHA") Loans

The U.S. Department of Housing and Urban Development ("HUD") guarantees loans especially designed for low- to moderate-income home buyers. They are called FHA loans because they are insured by the Federal Housing Administration.

These are the most popular loans for first-time home buyers in Minnesota, but they have these specifications:

- Maximum loan amounts vary from county to county. (Check with your local HUD/FHA office for your county's limit.) Generally, these loans are used for low to moderate priced homes.
- You must pay for an FHA appraiser to determine the value of the home.
- You have to pay for mortgage insurance (see page 28).

Advantages of FHA Loans

- You can often make a down payment as low as 3.5 percent.
- You may qualify even if you carry substantial long-term debt. The FHA will allow you to pay 43 percent of your income toward long-term debt. This includes your home payment. (You may not be comfortable with such a large debt load, however.)
- FHA ARMs only move one or two points per year, depending on the product.

Disadvantage of FHA Loans

- You must pay a special fee (called a mortgage insurance premium or MIP) to the FHA in order to receive a loan. The MIP consists of an up-front and annual fee. These fees vary and you should check with you lender to obtain the current fees. You cannot cancel your MIP. Talk to your loan officer for more information.

Veterans Administration ("VA") Loans

These loans are available to those who have served in the military. Eligibility is based on length of service. To check on your eligibility, in Minnesota call the Veterans Linkage Line 888-546-5838 or 651-296 2562. Surviving spouses also are eligible for VA loans.

Advantage of VA Loans

- You don't need a down payment. You can borrow the entire purchase price of a home.

Disadvantages of VA Loans

- You can only finance one property at a time with VA loans. (You are, however, able to take out another VA loan after a previous VA loan has been paid off.)
- You must pay a funding fee similar to mortgage insurance for other loans. The fee is generally lower if you make a down payment of five percent or more. Check with your lender about the funding fee. It may change at any time. You can pay the funding fee as part of your monthly loan payment.

Assumable Mortgages

FHA, VA and a few conventional loans are assumable. This means a buyer can take over the seller's loan and make the payments that were negotiated by the seller years ago. You might not have to go through the qualification process to assume some conventional loans. But the FHA and VA may make you meet their qualification standards.

Aside from the possibility of easy qualification, the advantages of assuming a loan are all but dried up in a time of low interest rates. Assumable mortgages may carry higher interest rates than those currently available, although they will generally have lower closing costs.

Resources for Low-Income Buyers

Home ownership may seem like it's only for the rich, but it isn't. Many financial institutions offer mortgage programs especially for people with low incomes.

Unfortunately, studies show that traditional lending practices have sometimes resulted in unfair treatment of low-income borrowers. For example, they may be turned down for loans because credit scrutiny is more strict for them than for middle- or high-income borrowers. Sometimes the scrutiny has less to do with any real credit problems than with where people shop. Stores catering to low-income individuals typically report customers' late payments to credit bureaus more quickly and regularly than stores that cater to middle- and high-income individuals.

The good news is that help for low-income home buyers is on the upswing. The following resources are now available:

Minnesota Housing Finance Agency
Offers below-market loans for buyers with low or moderate incomes and for first-time buyers. MFHA has statewide reach. Call 651-296-7608 or 800-657-3769.
www.mnhousing.gov

Home Ownership Center
Refers low-income residents to trained home ownership counselors in nonprofit agencies in Minneapolis and St. Paul. Call 651-659-9336 or 866-462-6466.
www.hocmn.org

Minneapolis Public Housing Authority
Provides information, referrals and assistance to people seeking low-income and Section 8 housing. Minneapolis residents call 612-342-1400
TTY: 612-342-1415.
www.mphaonline.org

USDA Rural Development
375 Jackson Street, Suite 410
St. Paul, MN 55101
651-602-7800
www.rurdev.usda.gov/mn

Minneapolis Community Planning and Economic Development ("CPED") Department
Information about housing and low-interest mortgages for people in Minneapolis is available by calling 612-673-5095.
www.ci.minneapolis.mn.us/cped

City of Saint Paul's Information and Complaints Office
Housing information, low-interest mortgages, education, counseling and advocacy for people in the St. Paul area. Call 651-266-6712
TTY: 651-266-6378.
www.stpaul.gov

St. Paul Public Housing Agency
Provides information, referrals and assistance to people seeking low-income and Section 8 housing. St. Paul residents call 651-298-5664.
www.stpaulpha.org

Also contact the city or county where you would like to live.
They may offer incentive programs for locating in the area.

Will You Need Mortgage Insurance?

Mortgage lenders require you to purchase insurance that protects them in case you default on your loan. Even though the insurance isn't for your benefit, you must pay for it unless you make a down payment of 20 percent or more on a conventional loan. The insurance you need depends on your type of loan.

Private Mortgage Insurance

If you have a conventional loan and make less than a 20 percent down payment, you must buy **private mortgage insurance ("PMI")**. This is usually paid monthly. The servicer of the loan must notify you annually, beginning 24 months after your loan was completed, to tell you under what conditions you will be released from PMI. You cannot cancel PMI during the first two years of the loan and you cannot have a history of late payments. Contact your mortgage lender for details. You may be released when you gain 20 percent equity in your home.

But there is a big difference in how equity is calculated under federal and state law. Because federally chartered lenders do not have to abide by state law, you must first determine whether your lender is state or federally chartered. Under the federal law, your home's value is based on the original value of your home when you bought it. Market appreciation is not considered. Because the first years of a mortgage payment are mostly interest, a homeowner would have to wait years, often a decade or more, before reaching the required 20 percent in equity as determined by federal law.

Fortunately, Minnesota has one of the best laws in the country for early cancellation of PMI. Under Minnesota law, the value of your home is based on what it would be worth if you sold it today. This amount includes appreciation in home value. For instance, if you bought your home for $100,000 with five percent down, and your house is now worth $130,000, you probably are eligible to cancel PMI under Minnesota law. Remember you cannot cancel PMI during the first two years of the loan and you cannot have a history of late payments. Contact your mortgage lender for details.

Mortgage Insurance Premium

FHA loans include a **mortgage insurance premium ("MIP")**. The lower the down payment, the longer you will have to pay this fee. You cannot cancel your MIP under Minnesota's private mortgage insurance cancellation law.

How Can You Get the Lowest Loan Rate Possible?

You don't have to be a genius to get good interest rates and reasonable fees for your loan. You must shop around. Some solid research will do the trick. Here are four steps to take in comparing loan interest rates and fees.

Step 1: Get a Good Faith Estimate

Lenders charge all kinds of fees, called closing costs, for loans. The long list may overwhelm you at first. Hang on to your hat — and your wallet. You may not have to pay all these fees. Many are negotiable (if not with the lender, then with the title company or closer). We'll discuss some of the fees here. For specific definitions of all the fees, see Appendix D. Ask your lender for the HUD booklet, *Shopping for Your Home Loan: HUD's Settlement Cost Booklet*, which explains the fees further.

Within three days of applying for a loan, your lender must give you a disclosure form called a **good faith estimate**. Expect closing costs to run two to four percent of the total amount of your loan. A good faith estimate will list the fees you will be asked to pay to close on a house. Remember that many fees are negotiable and that you should inquire about such fees. Some are interest and points, some are passed on to a third party (such as a title company or an appraiser), and others may be well-padded to ensure a profit for the lender. A sample Good Faith Estimate form is available from the U.S. Department of Housing and Urban Development at *http://www.hud.gov/content/releases/goodfaithestimate.pdf.* Remember, however, the interest rate you are being quoted is just that - a quote - it could change the next day. See Step 4 in this section for information on how to lock in an interest rate.

Step 2: Compare Fees

Use the worksheet on pages 32-33 to compare closing costs. When you walk into a lender's office with this worksheet, the loan officer will take you seriously! When negotiating your mortgage, understand the following fees:

Lender/broker fees. These fees, such as a document preparation fee or processing fee are paid to the lender/broker and are generally negotiable. Make sure to ask questions about such fees before you agree to pay them as part of your closing costs. It doesn't matter what the lender calls the fees - they are just fees. You may want to add all of these fees together and negotiate by using that one number.

Third-party fees. These fees, such as title insurance are paid to a third-party outside the lender or broker. Often, these fees are negotiable. Be sure to ask questions about the affiliation of third-parties and the possibility of reducing such fees. You should shop around to various title companies and request quotes.

Government taxes. This includes taxes payable to the city, county and state. These fees are not negotiable, but it is important to have your lender or broker explain such costs to you. Be sure to ask questions. For purposes of comparing good faith estimates by different lenders, you generally do not need to consider differences in estimated government fees because these charges should be the same regardless of who you select - the government charges them, not the lender.

Step 3: Find the Annual Percentage Rate ("APR")

The annual percentage rate ("APR") is an interest rate that reflects the total of all the fees a lender charges you to make a loan, including your ongoing interest rate, points paid up front and fees for processing the loan. With all these variables, it can be hard to tell exactly what you're paying for a loan. While your loan may have a stated rate, for example, of six percent, by the time you take all the other fees into account, you may be paying the equivalent of a considerably higher rate. That's what APR measures. By asking lenders for the APR on the loans you're considering, you can compare them far more easily.

Step 4: Get a Lock-In Agreement

You applied for your loan in September and you're not going to close on the home until November. How can you guarantee that the low interest rates your lender quoted will be available in November? The answer: Get a **Lock-In Agreement**. This contract states the interest rate and points you agreed to when you applied for the loan. But the agreement comes with this warning: *Once you've signed it, the lender will expect you to accept the loan at the stated rate, if it's approved, even if you find a better deal somewhere else.*

Lock-In Strategies

Signing Lock-In Agreements can guarantee you current rates until the agreement expires. But if rates are going down, you might want to wait to lock in your interest rate, or float. On many lock-in forms you can check one of two boxes. You can either agree to float your interest rate or lock it in at the current rate. Which should you do?

- If interest rates are going down, consider "floating" with the interest rates. You can lock in when you think rates are as low as they'll go before your closing.
- If you think interest rates will go up, lock in as soon as possible.

Beware of Abusive and Predatory Lending

Buying a home can be a very exciting time but remember that buying or refinancing a home may be one of the most important and complex financial decisions you will ever make. Misinformed consumers are the best targets for predatory lenders so it is important that you understand the process of securing a financial loan. Offers coming from abusive lenders and brokers may seem like good deals initially, but beware of financial pitfalls that may cause you financial hardship in the future.

Predatory and abusive lending can take many forms. **Be cautious and be wary of offers with:**

- **High Interest Rates and Fees**
  Don't be afraid to ask the lender or broker questions about something you don't understand in your loan document. Don't let someone pressure you to sign. Take time to review your loan thoroughly as it may contain high closing costs and hidden fees. You may find loan origination fees, underwriting fees, broker fees, as well as closing costs. It is important to know that these fees are negotiable and you should ask the lender or broker to explain the basis for the fee.

- **Small Monthly Payments With a Large Balloon Payment at the End of the Loan Period**
  Make sure you review and understand the full payment arrangement on your loan before you sign. Sometimes lenders will stretch out the payments so that your initial loan payments are small enough to afford. However, stretching out the payments on your loan may result in large unaffordable payments later on which can force you into obtaining another high interest loan to make final payment, or selling your home. It is important to know what your payments will be over the life of the loan.

- **Inflated Appraisals**
  Remember that appraisals are only estimates of the property's worth. For instance, suppose you get a $200,000 loan based on an inflated appraisal. You will be held responsible to pay the $200,000 back in full even if your home only sells for $160,000. Whether you are a first-time home buyer or looking to refinance, be careful of appraisals that overstate the value of your property.

- **High Loan-To-Value**
  Be extremely cautious of lenders or brokers who encourage you to borrow more than 80 percent of your home's value. A high loan-to-value ratio puts both your home and your financial record at great risk.

- **Adjustable Rate Mortgages ("ARM")**
  As opposed to a fixed rate loan, the interest rate on ARMs fluctuates according to the market. Watch out for ARMs with tempting low introductory rates. Just because you can afford mortgage payments at the present interest rate doesn't mean that you will be able to do so if the interest rate rises.

LOOK OUT FOR PREPAYMENT PENALTIES

These are fees designed to penalize consumers from paying off some or all of their loan early. Facing prepayment penalties, consumers may stay locked in high interest rate loans because it would be too expensive to pay the penalty.

Under Minnesota law, the terms of the penalty must be fully disclosed to the borrower at the time of application. The penalty can only be up to two percent of the unpaid principal or 60 days interest on the unpaid principal, whichever is less. A penalty cannot be imposed beyond 42 months of the loan, or upon the payoff of the loan as a result of the sale of the property. Minnesota law on pre-payment penalties does not apply to all loans made in this state. Some loans may be subject to stiffer penalties as stipulated in the loan agreement.

To ensure that you get the rate you want, sign your Lock-In Agreement and mail or fax it to your loan officer as soon as interest rates are where you want them. Simply phoning in a lock-in request isn't safe. You must sign the agreement to make it valid.

What if the Agreement Expires?

Lock-In Agreements typically expire after 60 days. If you are applying for a loan during a busy time, your paperwork may be delayed. You could risk losing the attractive interest rate you were locked in to.

Minnesota law says that lenders cannot offer you a Lock-In Agreement unless they believe, in good faith, that they can close on the loan during the lock-in period. Ask lenders how many days they think it will take to close on your loan. If a lender won't put this information in writing, then make your own written record of what the lender tells you.

Contact your loan officer periodically to check the progress of your loan application and to see if any more information is needed. Keep a written record of these contacts for your files. You may be able to pay an extra fee to extend your agreement to 90 or 120 days. This may be worthwhile if there are unavoidable delays in closing on your home.

The Property Appraisal

To approve your loan, your lender will require you to pay for a property appraisal. This estimates the value of the home. A lender requires a buyer to have a home appraised to make sure its value supports the loan amount. The value may not be the same as the price you agreed upon with the seller. Ask your lender for a copy of the appraisal. By law, you have a right to obtain one.

What if the Appraisal is Less Than the Price You Offered?

Your lender will lend you only enough money to cover a home's value (minus the amount you'll be paying for a down payment and up-front costs). What if the appraisal is lower than the amount you offered to pay for the home? You either can ask the seller to drop the price or you can try to provide a larger down payment. In addition, you should consult with the lender about other possible options. Buyers commonly add a contingency to the purchase agreement permitting the buyer to cancel the agreement if the home's appraised value is lower than the price offered. FHA and VA financing **addenda** have pre-printed contingencies for this purpose.

Understanding Your Loan Payment

Once you buy a house, you'll pay your mortgage payment each month either to your lender or the company that services your loan. Your check then is divided up to pay for your loan (principal and interest), taxes and insurance. You might be surprised to know how much of your loan is interest.

For a small fee, many lenders can supply you with an **amortization chart**, showing the principal and interest payments on a loan over its term. For example, if you have a 30-year $80,000 mortgage at 7½ percent, even after paying on the loan for 21 years, more than half of each monthly payment would still be going toward interest! By the time the loan is fully paid off, you will pay $123,210 in interest!

If you were able to make higher monthly payments, you could pay less in interest by choosing a 15-year loan instead. With the shorter loan, more than half of each monthly payment would be going toward principal after only seven years, and you would pay only $55,944 in total interest over the life of the loan. As this example shows, you can save a lot of money by paying off a loan in a shorter span of time.

Closing Cost Comparison Worksheet

Name of Lender:				
Name of Contact:				
Date of Contact:				
Mortgage Amount:				
	mortgage 1	mortgage 2	mortgage 1	mortgage 2
Basic Information on the Loans				
Type of Mortgage: fixed rate, adjustable rate, conventional, FHA, other? If adjustable, see below				
Minimum down payment required				
Loan term (length of loan)				
Contract interest rate				
Annual percentage rate (APR)				
Points (may be called loan discount points)				
Monthly Private Mortgage Insurance (PMI) premiums				
How long must you keep PMI?				
Estimated monthly **escrow** for taxes and hazard insurance				
Estimated monthly payment (Principal, Interest, Taxes, Insurance, PMI)				
Fees **Different institutions may have different names for some fees and may charge different fees. We have listed some typical fees you may see on loan documents.**				
Application fee or Loan processing fee				
Origination fee or Underwriting fee				
Lender fee or Funding fee				
Appraisal fee				
Attorney fees				
Document preparation and recording fees				
Broker fees (may be quoted as points, origination fees, or interest rate add-on)				
Credit report fee				
Other fees				
Other Costs at Closing/Settlement				
Title search/Title insurance				
For lender				
For you				
Estimated prepaid amounts for interest, taxes, hazard insurance, payments to escrow				
State and local taxes, stamp taxes, transfer taxes				
Flood determination				
Prepaid Private Mortgage Insurance (PMI)				
Surveys and home inspections				
Total Fees and Other Closing/Settlement Cost Estimates				

Closing Cost Comparison Worksheet—continued

Name of Lender:				
	mortgage 1	mortgage 2	mortgage 1	mortgage 2
Other Questions and Considerations about the Loan				
Are any of the fees or costs waivable?				
Prepayment penalties				
Is there a prepayment penalty?				
If so, how much is it?				
How long does the penalty period last? (for example, 3 years? 5 years?)				
Are extra principal payments allowed?				
Lock-ins				
Is the lock-in agreement in writing?				
Is there a fee to lock-in?				
When does the lock-in occur—at application, approval, or another time?				
How long will the lock-in last?				
If the rate drops before closing, can you lock-in at a lower rate?				
If the loan is an adjustable rate mortgage:				
What is the initial rate?				
What is the maximum the rate could be next year?				
What are the rate and payment caps each year and over the life of the loan?				
What is the frequency of rate change and of any changes to the monthly payment?				
What is the index that the lender will use?				
What margin will the lender add to the index?				
Credit life insurance				
Does the monthly amount quoted to you include a charge for credit life insurance?				
If so, does the lender require credit life insurance as a condition of the loan?				
How much does the credit life insurance cost?				
How much lower would your monthly payment be without the credit life insurance?				
If the lender does not require credit life insurance, and you still want to buy it, what rates can you get from other insurance providers?				

What is “Equity” in a Home?

Equity is the value of your ownership interest in the home, or the amount of the home’s value that you own, free and clear of any mortgage or lien. Until you pay off the loan, the lender has a lien on your home. The more principal you pay, the more equity you have in your home.

Who is Servicing Your Loan Now?

At some point after you take out a loan, you may find that the address where you send your payment has changed. The company that gave you the loan no longer “services” it. Like a stock or a bond, your loan has value and your lender can sell it. In fact, your loan might be bought and sold to several lenders throughout its term. Each lender must service the loan according to the agreement you made with your original lender. Like with any business, however, some servicers are better than others.

By law, your original lender must tell you at the time of the loan application whether your loan might be serviced by another lender. If your lender tends to assign or transfer its loans, ask about what companies it tends to transfer its loans to, and do some research into that lender and its reputation for customer service.

Please see page 39-40 for an explanation of your legal rights.

Seller Financing

Some sellers may offer to provide financing for your purchase through a contract for deed. In a contract for deed, the seller acts as the lender and you make your payments to the seller. The seller then gives you a deed when the contract has been paid off.

You should exercise caution in entering into a contract for deed. Though a mortgage lender generally must give you 6 months to redeem the property after a foreclosure sale, a contract for deed can be cancelled within sixty days. If the contract for deed is cancelled, you lose all of the money you have paid for the property, even if the contract is nearly paid off.

SECTION SEVEN: Closing on Your Home

We've warned you to stay calm throughout this process. But now it's panic time! The closing on your home is a deadline you don't want to miss. If you do, your purchase agreement could be canceled. Or your move could be delayed. And, worse yet, you could be living at your in-laws for weeks until you find a place to buy or rent.

There is a lot to get done before you close. The property title has to be examined. Your contingencies must be met. And, most importantly, your loan must be approved. Once you get to the closing, your closing agent will ask you to sign the biggest stack of papers you've ever seen. But don't worry. This section is a quick guide to closing that will help you every step of the way.

How to Avoid the Closing Blues

Minnesotans are especially likely to panic about closings because most of our homes close during the last week of the month. That's because buyers want to avoid paying interest on a monthly loan payment. If they closed at the beginning or middle of the month they'd owe at least part of the interest for the month. Underwriters, appraisers and title companies are frantically trying to meet a zillion (that's a slight exaggeration) deadlines at once. So give them time. Set your closing date at least six weeks from the date you and your seller sign the purchase agreement. Much of the closing process is out of your hands. You have to wait to see if your loan is approved, if the appraisal is high enough and if the home passes inspection.

What to Do While You Wait

Here are a few things you can do to help ensure that the closing will go smoothly. First, keep in contact with your lender to see if the lender needs any more information. If you are approved for a loan you'll either get a commitment letter or a phone call from your lender explaining the terms of the loan.

Second, schedule a closing agent (or closer). The real estate agent or lender may suggest a closer. You are free to choose your own, however. (Some closings have both a seller's and a buyer's closing agent.)

Third, get a copy of the completed Settlement Statement (the **HUD-1** form is available from the U.S. Department of Housing and Urban Development at *www.hud.gov/offices/adm/hudclips/forms/files/1.pdf*). Ask your closer for a copy. You have the right to see this form one business day before the closing. The HUD-1 form contains a list of all your closing costs. Compare it to the good faith estimate of closing costs your loan officer gave you when you applied for the loan.

Which Costs May Vary from the Good Faith Estimate?

Your closing costs should not vary much from the estimate. Question any that do. You may not have to pay the difference. But understand that some minor differences will appear. That's because certain fees are based on the amount of the loan and the value of the property you end up with. They can only be nailed down when your loan is approved. These include:

- Title insurance premiums
- Loan origination fee
- Homeowner's insurance premiums
- Mortgage insurance premiums
- Property taxes
- Mortgage registration tax

Federal law states that, upon request, you must be able to see the closing documents 24 hours before your closing is scheduled, but closing companies frequently may not provide them to you in advance unless you ask.

What is Homesteading?

Homesteading your property results in a tax credit to your property taxes each year. In other words, Homestead Taxes are lower than Non-homestead Taxes. Generally, if you are a Minnesota resident, own the home, and occupy the home as your primary residence, then you are eligible to homestead the property. The amount of the tax credit depends on the assessed value of the home. You should check with your agent or the closer to verify the process of homesteading in the county in which the home is located.

What Insurance Do You Need to Buy?

Once your loan is approved, a lender will require you to buy insurance to protect the investment -- your home. You'll have to purchase a homeowner's insurance policy to protect your investment in the house, its contents and unattached buildings such as a garage or shed. You'll also want to protect yourself in case of liability. Policies vary, so check restrictions and exclusions carefully to make sure you are fully covered. Ask for replacement coverage, so you will receive the actual cost to replace items rather than the cost you paid for them five or ten years ago. A basic homeowner's policy includes:

- **Liability Insurance.** This protects you against liability that may occur if someone is injured on your property. Liability insurance pays a designated amount for injuries you or a family member may have caused or for accidents on your property.
- **Property Protection.** Your personal belongings – stereo, TV, cameras, clothing – should be insured against damage or loss, along with the structure of your house. Basic policies may not reimburse you for loss of items that are expensive to replace such as antiques; jewelry; baseball card, coin or stamp collections; and other valuables. If you have items like these, you may need to pay extra to include them in your policy. This is called an inclusion or rider.
- **Living Expense Coverage.** If your house is damaged by lightning or fire, or uninhabitable for another reason, this insurance will help cover your living expenses while repairs are being made.

Other Insurance

You may also need the following:

- **Mortgage Insurance.** As you learned in Section Six, many lenders and the FHA require you to pay for this insurance to cover them if you default on your loan.
- **Title Insurance.** The title insurance policy you will be required to pay for at closing protects the lender in case the legal title to the property isn't clear. It doesn't protect you; therefore, you may want to buy an owner's title insurance policy, too. These policies insure you against title problems from situations like these:
    - The seller who covered up unpaid construction debts.
    - A spouse who wasn't living in the home when it was sold, but later decides to claim ownership.
    - A contested will that left your property to a relative of the previous owner.

These and other circumstances can affect your ownership rights. It is also important to keep in mind that the cost of title insurance, and the coverage provided, can vary greatly.

Asking Can Save You $$$

Be sure to ask for a re-issue credit on your title insurance. Re-issue credit is a savings on the cost of the title insurance when the title company's issuance is based on a previous policy. Because the company is "re-issuing" the insurance, it can offer a lower cost. This can save you a lot of money!

How Much Does Insurance Cost?

Check with several insurance agents about premiums. Premiums are based on the property value and the contents of the property, type of construction, location and even how close the nearest fire hydrant is. Homeowner's insurance usually can be paid monthly, quarterly or yearly. You'll pay more, however, if you don't pay one lump sum up front.

How Can You Avoid Overpaying for Insurance?

Shop around and compare insurance costs. The same policies can vary widely in price from company to company.

After you compare different companies' prices, keep these hints in mind:

- Don't take out a policy with a deductible under $500. Low deductibles raise your rates.
- Don't buy earthquake insurance or other coverage unless you need it. One lender sold life insurance to borrowers who had no idea they were buying it, and the Attorney General made them reimburse the borrowers.
- Subtract the value of the land from the value of the home and buy property insurance just for the value of the home itself. A lender requires you to carry insurance on your home but not your land. After all, the house could burn down, but the land will survive.

What is Escrow?

Your lender may require you to escrow monthly payments for homeowner's insurance, mortgage insurance and property taxes. That means the cost of these items will be rolled into your monthly payments. The lender will hold these sums in a separate escrow account and will pay the insurance premiums and taxes out of the escrow account as they become due. You may not have the option of paying these items separately yourself. But check with your lender to determine if you can or can't. Sometimes you even have to pay a fee to your lender for not escrowing!

A lender may ask you to keep up to an extra two months' worth of payments in your escrow account at all times for future payments, if your mortgage contract allows this. Some mortgage contracts don't, only allowing the lender to keep enough money in the escrow account to pay the insurance and taxes when due. Federal law limits the amount of any escrow "cushion" allowed by the mortgage contract to no more than two months' worth of escrow bills.

State law passed in 1996 gives homeowners the right to stop putting money in escrow after their conventional loan is seven years old or older. Your lender must notify you about this right.

Closing Checklist

Are you ready to close on your home? Bring your calculator to the closing and make sure there are no mathematical errors. Use this checklist to make sure you have all your "docs" in a row.

- Purchase agreement signed and accepted by seller.
- All contingencies met.
- Mortgage loan approved.
- Home appraisal completed.
- Title search done.

What Should You Bring to the Closing?

- Your homeowner's insurance binder and a receipt showing this has been paid.
- A photo ID.
- Your addresses for the last 10 years.

What Will You Sign?

- A promissory note that states you'll make monthly mortgage payments on a loan amount at a certain interest rate for a specified time period.
- The mortgage that says the bank can take the property if you do not make payments as agreed.
- And so many other papers it will make your head swim!

What Will You Pay?

You will need a cashier's check to pay:

- The balance of your down payment. (Subtract the earnest money you paid in "good faith" when you made your offer on the home.)
- Unpaid closing costs. While you will have paid for an appraisal and credit report before closing, other fees will be due on the date you close. Refer to your HUD-1 Settlement Statement to see what you still owe.
- Escrow funds.

What Does the Seller Give You?

- A signed deed transferring ownership to you.
- Bill of sale for personal property.
- Other documents specified by your purchase agreement.

SECTION EIGHT: Know Your Rights

Federal and state laws protect you from unfair treatment and misleading information when you apply for a loan.

Equal Credit Opportunity Act

This federal law prohibits lenders from discriminating against any person because of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), or status with regard to public assistance.

If you feel a lender may have discriminated against you in violation of this federal law, you should contact the appropriate federal agency, depending on the type of lender involved.

<u>If the lender is a</u>:	<u>Contact</u>:
National Bank or Federally Chartered Savings Association 3450	Office of the Comptroller of the Currency, Customer Assistance Group 1301 McKinney St., Suite. Houston, TX 77010 800-613-6743
Federal Credit Union	National Credit Union Administration Office of Public Affairs 1775 Duke Street Alexandria, VA 22314-3428 800-755-1030
Non-Federal Reserve State-Chartered Bank or State-Chartered Savings Association	Federal Deposit Insurance Corporation Division of Supervision and Consumer Protection 550 17th Street, NW Washington, DC 20429 877-275-3342

Minnesota Human Rights Acts

The Minnesota Human Rights Act prohibits discrimination by sellers, real estate agents or lenders in the sale or financing of real property due to race, color, creed, religion, national origin, sex, marital status, status with regard to public assistance, disability, sexual orientation or familial status. The Minnesota Human Rights Act is enforced by the Minnesota Department of Human Rights, which you can reach as follows:

Kevin Lindsey, Commissioner
Minnesota Department of Human Rights
Freeman Building
625 Robert Street North
St. Paul, MN 55155
651-539-1122 or 800-657-3704

Real Estate Settlement Procedures Act ("RESPA")

RESPA is a federal law regulating a lender's closing or settlement practices. It requires that lenders make disclosures and treat you fairly by:

- Giving you a copy of HUD's booklet, *Shopping for Your Home Loan: HUD's Settlement Cost Booklet,* within three days after you apply for a loan.
- Giving you a Good Faith Estimate of the closing (or "settlement") costs within three days after you apply for a loan.
- Itemizing all loan closing charges on a "Uniform Settlement Statement," also known as the HUD-1 form. This law also gives you the right to inspect the HUD-1 form at least 24 hours before the closing on your home. To exercise this important, but often overlooked right, ask your closing agent or lender for a copy of the HUD-1 form sooner, if it's prepared.
- Prohibiting lenders and agents from receiving hidden kickbacks or referral fees for referring customers to anyone for any transaction involving a federally-insured loan.
- Restricting the amount of money a lender can ask you to put in escrow.

For more information about RESPA, contact the Minnesota Office of the U.S. Department of Housing and Urban Development (HUD) at 612-370-3000.

Loan Transfers

Like a stock or a bond, a home loan has value and your lender can sell it. In fact, your loan might be bought and sold to various lenders throughout its term. Under RESPA, your original lender must tell you when you make your loan application whether your loan might be serviced by another lender.

If your lender transfers the servicing of your loan to another lender, he or she must give you no less than a 15-day notice before the transfer. This notice must include: the date of the transfer; the name, address and toll-free or collect call telephone number of the new servicer; and the name of an individual or department of the new servicer whom you can call. If you send timely payments to the lender who transferred your loan, rather than to the new lender servicing your loan, you may not be charged a late fee during a 60-day period after the date of the transfer.

Truth-in-Lending

Your lender is required to give you a **Truth-in-Lending Disclosure Statement** that ensures that you are informed of all the fees and costs of the loan. The statement is an estimate of the total financing charges you'll pay over the life of the loan, including the APR, the amount of interest you will pay and how much your total payments will be for the term of the loan.

Fair Credit Reporting Act

Three large national credit bureaus keep credit reports on you. These reports include financial data about you (such as whether you pay your bills, whether you pay on time, whether you have been sued and whether you have filed for bankruptcy). The **Fair Credit Reporting Act** gives you the right to challenge the accuracy of any information in your credit report. Because these reports are so important in getting a loan — and because many consumers have found errors in their credit reports — it is a good idea to check your reports at least once per year.

Every year consumers can get a free credit report from each of the credit agencies — Equifax, TransUnion and Experian. The credit bureaus have created a centralized website, toll-free telephone number and mailing address for Minnesota consumers to order their reports. Annual reports may be requested the following way:

1. Logging on to: *www.AnnualCreditReport.com*
2. Calling: 877-322-8228
3. Writing: Annual Credit Report Request Service
   P.O. Box 105281, Atlanta, GA. 30348 5281

Although consumers can only receive their credit reports for free once per year, consumers may still request additional reports from the three credit bureaus.

National Credit Bureaus

Equifax
P.O. Box 740241
Atlanta, GA 30374
Telephone: 800-685-1111
www.equifax.com

TransUnion
P.O. Box 1000
Chester, PA 19022
Telephone: 800-888-4213
www.transunion.com

Experian
P.O. Box 949
Allen, TX 75013
Telephone: 888-397-3742
www.experian.com

For more information about your rights concerning your credit report, contact the Federal Trade Commission at 877-FTC HELP (877-382-4357), or check out the Federal Trade Commission's website at *www.ftc.gov*.

APPENDIX A: Real Estate Agency Disclosures

If you work with a real estate agent, you will be asked to sign several contracts to clarify your relationship with the agent. Don't sign the forms until you understand them. Make the agent keep explaining until you do. These forms are signed when you have your first significant contact with the agent (for instance, when you contact the agent about representing you), or when you are ready to sign a purchase agreement.

Most of these disclosures relate to something called "dual agency." The term refers to an agent representing both the buyer and seller of a house. An agent in this situation has dual loyalties. This situation arises when your agent finds you a house listed for sale by his or her agency. In some areas there are thousands of homes for sale and just a few big real estate agencies, so there is a good chance your agent will show you homes listed by his or her agency.

Some people say it is nearly impossible for an agent to represent the buyer and seller equally because the seller is trying to get the highest price possible for a home, while the buyer is trying to get the lowest price. State law requires agents to clarify their role and the information they will share before an offer is made.

You may refuse to agree to dual agency if you are worried about the agent also representing the seller. Unfortunately, not agreeing to dual agency may prevent you from buying a home listed by your agent's company.

Agency Relationships in Real Estate Transactions

This is a disclosure that is generally given at the first significant contact with an agency. This disclosure explains the difference between a "customer" and a "client." The difference between the two is important. A customer of the real estate agency is shown houses and is given help with the mechanics of the transaction. Customers elect not to have an agent help with price and terms of the sale. The agent is a messenger, merely delivering the customer's offer to the seller.

A client of the real estate agency does have an agent assist them with price and terms of the sale. If you decide to become a client, you sign one of two agreements:

- **Contract for Exclusive Right to Represent Buyer.** You agree to work only with that agent for a specific period and to pay the agent either a commission or flat fee. The drawback is that if you later decide you want to work with someone else or go it alone, you may still owe the agent a commission. These contracts have expiration dates, so you can always change agents later. On the positive side, an agent with an exclusive agreement may be more inspired to work hard on your behalf because he or she is assured of being paid when you buy a home. If you decide on an exclusive contract, put in a clause stating that your agent may contact sellers who are not using an agent to negotiate a commission. That way you're not limited to just purchasing homes listed by an agency.

- **Contract for Nonexclusive Right to Represent Buyer.** Signing a nonexclusive agreement will allow you to switch agents if you're not happy. Of course, under this agreement, your agent may give priority to other clients with whom they are assured of making a commission.

Clients may also be asked to sign the following:

- **Addendum to Buyer's Representation Agreement.** Some agencies ask you to sign this dual agency disclosure if your agent is not an exclusive buyer broker and finds you a home listed by his or her agency that you want to make an offer on. The disclosure form specifies that the agent will keep information about the price or terms you'll accept confidential. When agents work for the seller, their commissions rise with the price of the home. It's wise to keep quiet about the price you're willing to pay for a house in a dual agency situation.

- **Affiliated Business Arrangement Disclosure Statement.** This form is signed when you are ready to sign the purchase agreement. Whether you are a client or a customer, you'll receive this disclosure if you are working with a real estate agency that is affiliated with another company that provides real estate services. For example, several Minnesota agencies own title and mortgage companies.

  It's important for you to know that an agent could refer you to one of these "inside" companies. The costs associated with using the company could be higher than those of competitors. The best advice is to research lenders and title companies. You may end up using your agent's company, but if you do, you'll know it's truly the best deal for you.

- **Agency Disclosure to Buyer and Seller at Time of Offer to Purchase.** This dual agency representation also is signed at the time you're ready to sign the purchase agreement and is often included as part of the purchase agreement. Once again, agencies and their regulators want to make sure you know if you are in a dual agency relationship. With this form, you will acknowledge your understanding before you sign a purchase agreement.

Problem With an Agent? The Real Estate Recovery Fund Can Help

The Real Estate Education, Research and Recovery Fund is run by the Minnesota Department of Commerce. The fund is used for educational purposes, and also to pay uncollected claims against licensed real estate agents. If you bring a lawsuit and succeed in obtaining a court judgment against a licensed agent for fraudulent, deceptive or dishonest practices, and cannot collect from the agent, call the Department of Commerce at 651-539-1500. Contact the department within a year after obtaining a judgment to see if you can collect from this fund.

APPENDIX B: Inspection Checklist

Exterior

- ☐ Driveway
- ☐ Walks
- ☐ Fences/gates
- ☐ Siding
- ☐ Trim
- ☐ Gutters/downspouts
- ☐ Sprinklers
- ☐ Housebibs
- ☐ Exterior doors
- ☐ Bell/chime
- ☐ Chimney
- ☐ Lot grade drainage
- ☐ Gas meter
- ☐ Foundation
- ☐ Roof

All Rooms

- ☐ Floor
- ☐ Walls
- ☐ Ceiling
- ☐ Windows/screens
- ☐ Electrical
- ☐ Closets
- ☐ Heat supply/fireplaces

Basement

- ☐ Access
- ☐ Stairs
- ☐ Joists
- ☐ Water drains
- ☐ Rodents
- ☐ Foundation/slab
- ☐ Support posts
- ☐ Ventilation
- ☐ Water pipes/meter
- ☐ Gas pipes

Laundry Area

- ☐ Cabinets
- ☐ Exhaust fan
- ☐ Laundry tub
- ☐ Washer hookup
- ☐ Dryer hookup
- ☐ Water pressure
- ☐ Gas piping
- ☐ Electrical

Garage

- ☐ Exterior
- ☐ Roof
- ☐ Slab
- ☐ Garage door
- ☐ Garage door hardware
- ☐ Door opener
- ☐ Windows/screens
- ☐ Access door
- ☐ Fire door
- ☐ Fire wall
- ☐ Walls

Bathroom(s)

- ☐ Exhaust fan
- ☐ Heating
- ☐ Tub and enclosure
- ☐ Water pressure
- ☐ Electrical
- ☐ Tub faucet
- ☐ Shower and surround
- ☐ Shower door
- ☐ Shower faucet
- ☐ Sink and faucet
- ☐ Traps/drains
- ☐ Toilet
- ☐ Counter/cabinets

Major Systems

- ☐ Heating
- ☐ Air conditioning
- ☐ Electrical service
- ☐ Ducting
- ☐ Plumbing
- ☐ Drain/waste vent
- ☐ Sump pit
- ☐ Water heater
- ☐ Venting
- ☐ Fireplace

Patio

- ☐ Cover
- ☐ Enclosure
- ☐ Deck/slab
- ☐ Stairs
- ☐ Railing

Kitchen

- ☐ Cabinets
- ☐ Countertops
- ☐ Sinks/faucets
- ☐ Traps/drains
- ☐ Disposal
- ☐ Dishwasher
- ☐ Stove/cooktop
- ☐ Oven hood/fan
- ☐ Microwave
- ☐ Water pressure
- ☐ Electrical

Attic

- ☐ Insulation
- ☐ Ventilation
- ☐ Roof boards
- ☐ Rafters or trusses
- ☐ Rodents

Some large inspection companies also offer environmental inspections. They can check for radon, asbestos, formaldehyde, lead paint, lead plumbing, underground storage tanks and energy efficiency. These inspections are costly; however, it could keep you from buying a house that will cost you far more in repairs or health concerns down the road.

APPENDIX C: Sample Buyer's Contingency

The obligation of the Buyer to complete this transaction shall be contingent upon:

(a) the receipt by Buyer's lending institution before closing of a satisfactory appraisal valuing the property at an amount not less than the purchase price.

(b) the receipt by Buyer on or before ________, ______ of a home inspection report, to be
(date) (year)

obtained at Buyer's expense, stating that the house and all other structures and improvements on the property are structurally sound and in good repair and that all mechanical, electrical, heating, air conditioning, drainage, sewer, water and plumbing systems on or serving the property are in proper working order; and

(c)____
____
____

If any of the foregoing contingencies are not satisfied within the time provided, this purchase agreement shall become null and void at the option of and upon written notice by Buyer, in which case the earnest money shall be refunded to Buyer, and both parties agree to sign a Cancellation of Purchase Agreement.

APPENDIX D: Explanation of Closing Costs

The following fees can vary, depending on the provider and the market. It is recommended that you shop around and compare fees prior to choosing a provider.

Application Fee

There may be a separate "application fee." This is broker-driven fee. Some lenders won't refund this fee if your application is turned down. Before filing an application, ask the lender under what circumstances, and to what extent, this fee is refundable. Get the lender's answer in writing. This fee should always be negotiable.

Underwriting Fee

Most lenders charge you to process your application. This is often known as an "underwriting fee."

Processing/Commitment/ Administration Fee

These are actually three different fees that may be grouped together or listed separately, however, the combined total of these three fees should not exceed .5 percent of the loan value. These are negotiable broker- and lender- driven fees.

Origination Fee

Origination fee is the term lenders use for the fee they charge you for extending a loan, above and beyond the interest they charge. Be sure to consider the origination fee along with points and all other fees in deciding which lender offers the best deal. Some lenders may charge more if they consider you a credit risk. This fee is negotiable.

Points or Discount Points

Points may or may not be added, depending on the loan interest rate you apply for. If you are willing to pay more points (also called "up-front interest"), you should be able to get a lower interest rate on your loan. Paying points can be a good investment if you plan to live in your home for a fairly long time — about 10 years if you have a 30-year mortgage, or seven if you have a 15-year mortgage. Points are tax deductible in the first year of most loans.

Attorney's Fees

In unusual cases, you may be required to pay for the services of the lender's attorney in connection with the closing. This would not cover your attorney's fees.

Appraisal Fee

This is a fee for the appraisal of your property's value. An appraisal is required for most loans.

Plat Drawing/Survey

The lender or the title insurance company may require a plat drawing showing the location of the home and the lot line, as well as any easements and rights of way. But plat drawings often are inaccurate depictions that won't show you the exact property you own. For a precise drawing of your property lines, have the land surveyed.

The survey will keep you from accidentally putting up a fence on your neighbor's property, chopping down a tree that doesn't belong to you or other actions that can result in lawsuits between neighbors.

Private Mortgage Insurance (“PMI”)

This is the insurance required on some conventional loans. Typically, the larger the down payment, the lower the PMI costs.

Mortgage Insurance Premium (“MIP”)

This is also called FHA Mortgage Insurance because it is the insurance required for an FHA loan. For additional information on MIP, including how the monthly premium is calculated, go to the HUD website at *www.hud.gov*. You never need both private mortgage insurance and FHA mortgage insurance.

Mortgage Registration Tax

This is a tax from your state and county that most Minnesota mortgage borrowers must pay.

Settlement or Closing Fee

This fee is paid to the "settlement agent," "closing agent" or "closer" for conducting the closing.

Credit Report

The lender will order credit reports on you (and your spouse or other co-signer) to evaluate your credit history. Most lenders are rolling this fee into their administration fee.

Recording Fees

These fees are passed on to the county by the lender or closing company to record the documents. But sometimes closers tack on their own charge for having the documents filed. Your county recorder can verify the actual cost of the county’s recording fees. Any fee charged to you beyond the amount quoted by the county recorder should be negotiable.

Tax Service Fees

Some lenders charge to verify that you pay your taxes with the county. The county does not charge for the service, so consider this fee negotiable.

GLOSSARY OF TERMS

Addenda (addendum, singular)
Supplemental documents added on to the purchase agreement that become part of the legally binding document.

Adjustable Rate Mortgage (“ARM”)
A loan in which the interest rate fluctuates during the term, based on an index to which the interest rate is tied.

Amortization Chart
A chart that breaks out the principal and interest you pay on a loan each year, over the term of the loan.

Annual Percentage Rate (“APR”)
Expressed as an annual rate, this is really the cost of the loan. It includes the interest rate, points on a loan, the loan origination fee, and all other charges made by the lender.

Arbitration Agreement
When a seller and buyer agree to settle all disputes about the property out of court. If both parties sign, they agree to have an independent arbitrator decide disputes.

Assessments
City taxes homeowners must pay periodically when the city decides to make improvements to city property.

Association Dues
The monthly payment condominium and townhouse owners must make for upkeep and management of shared property. The association is made up of condominium or townhouse owners.

Assumable
Describes a loan that a buyer can arrange to take over from the seller.

Buyer’s Broker
An agent who works on behalf of a buyer.

Closing Costs
Costs involved in transferring ownership of a home. (See Explanation of Closing Costs in Appendix D.)

Commitment Letter
The letter your lender may send you stating that your loan is approved and describing the terms of the loan.

Contingency
A clause that is added to a purchase agreement stating that certain conditions must be met within a specified time period for the purchase agreement to be valid.

Contract for Deed
Some sellers may choose to offer you financing; consequently you make your monthly payments to the seller.

Conventional Loans
Home loans not backed by the government.

Credit Score
The rating a credit reporting agency gives you based on your credit report.

Default
Failure to comply with the terms of the loan documents.

Down Payment
The amount of the purchase price you pay up front to the seller when you buy a home. The amount depends on the loan you are taking out, but is usually a minimum of 3.5 percent of the total loan amount.

Earnest Money
"Good faith" money usually given to the agent when you make a bid on a home.

Equity
The portion of the home's value that you own, free and clear of any mortgage or lien.

Escrow
Lenders often ask homeowners to keep future tax and insurance payments in a bank account called an escrow account.

FHA Loans
A home loan made by the Federal Housing Administration that has a low down payment and offers more relaxed guidelines than a conventional loan.

Fair Credit Reporting Act
A federal law that gives citizens the right to challenge the accuracy of incorrect information in their credit reports.

Fixed Rate Loan
A loan with a constant interest rate over the term of the loan.

For Sale By Owner ("FSBO")
FSBO, pronounced "fisbo" is a home that is offered for sale by the owner without the benefit of a real estate professional.

Good Faith Estimate
The disclosure form on which your lender estimates all closing costs. A lender must give you this form within three days after you apply for a loan.

Gross Income
Your income before you pay taxes.

HUD-1
A settlement statement listing all the closing costs. The U.S. Department of Housing and Urban Development requires that a closer make this statement available to a buyer one business day before the closing.

Homeowner's Insurance
Also called hazard insurance. This is insurance home buyers must purchase to protect the investment they and their lender have in the home.

Homestead Taxes
Property taxes paid by live-in property owners.

Interest
A lender's charge for the loan.

Loan Origination Fee
This is a fee you pay a lender for handling your loan application.

Loan Processing
A lender's analysis of your ability to qualify for a loan. The analysis involves weighing your income, credit report and financial records against the value of the home you want to buy.

Lock-In Agreement
An agreement you can make with your lender to guarantee you the interest rate your lender quotes for your loan. You can lock in a rate when you apply for a loan or at any time before the closing.

Long-term debt
Any debt you will continue to owe for six months or more.

Mortgage Discount Points
Prepaid interest on a loan. One point equals one percent of your total loan.

Mortgage Insurance Premium (“MIP”)

An insurance premium the buyer is required to pay for an FHA loan. This can be paid as part of monthly loan payments.

Multiple Listing Service (“MLS”)

A service that real estate agents subscribe to that lists homes for sale and homes that have sold by neighborhood, price and features.

Non-homestead Taxes

Taxes paid by landlords who rent their property, or by owners who do not use the property as their primary residence.

PITI

The monthly loan payment which includes “principal, interest, taxes and insurance.”

Prepayment Penalty

The payment of a penalty due to the early payoff of the mortgage. Terms of prepayment penalties may vary.

Prime Mortgage

A prime mortgage is the highest grade of mortgage for which you can qualify.

Principal

The total amount you are borrowing to pay for a home. This is usually the purchase price minus the down payment.

Private Mortgage Insurance (“PMI”)

Insurance you pay when you take out a conventional loan. Most lenders charge this if you make less than a 20 percent down payment on a home. It protects the lender from losing money owed on a loan if a buyer defaults on the loan, and is cancelable under Minnesota state law after two years if certain requirements are met.

Purchase Agreement

The legally-binding document that lists all the terms of a home sale including contingencies.

Real Estate Settlement Procedures Act (“RESPA”)

The federal law that regulates lenders’ closing or settlement practices.

Re-issue Credit

A savings on the cost of title insurance, when the title company’s issuance is based on a previous policy. Because the company is “re-issuing” the insurance, it can offer a lower rate.

Subprime Mortgage

A subprime mortgage is a lower grade and has a higher rate of interest than a prime mortgage.

Subagent

A seller’s agent who may bring a potential buyer to a home, but owes his or her loyalty to the seller.

Title Insurance

The insurance you pay to protect your lender against claims on the title to your property. As a buyer, you also can take out title insurance to protect yourself against claims.

Truth-in-Housing Report

A report the seller completes that discloses the conditions relating to the house.

Truth-in-Lending Disclosure Statement

A statement your lender must give you informing you of all the fees and costs of a loan using the annual percentage rate (“APR”).

Underwriting

Risk analysis conducted by a lender to decide whether or not to approve you for a loan.

Veterans Administration Loan ("VA Loan")

Low interest, no down payment loans available to those who have served in the U.S. military.

A HOME BUYER'S SCHEDULE

The main steps in home buying are covered here. After you have studied the home-buying process, use this checklist to make sure you have done everything needed to buy the home of your dreams.

Step 1: Before You Make an Offer

- Get your credit reports from all three national credit bureaus, and clear them up, if necessary.
- Pre-qualify for a loan with one or more mortgage loan officers.
- List the characteristics you want in a neighborhood and home.
- Ask friends and family to recommend real estate agents and mortgage loan companies they've liked.

Step 2: Make an Offer They Can't Refuse

- Look at homes to familiarize yourself with home values and neighborhood characteristics.
- Shop for loans by talking with several loan officers.
- Get a good faith estimate from each loan officer you interview.
- Gather your financial records so a lender can start the loan approval process.
- Interview several real estate agents before you contract to work with one (if you plan to do so).
- Zero in on the type of home you want (rambler, split level, Tudor, newly built).
- Check the value of homes like the one you want to bid on.
- Fill out a purchase agreement, and possibly hire an attorney to look it over. Remember, this is a legally binding document! Add contingencies, if necessary.
- Pay earnest money (part of your down payment).

Step 3: Your Offer is Accepted

- Apply for a loan. Get a disclosure form. If your loan is approved, a lender will send you a commitment letter explaining the terms of the loan or contact you by phone.
- If you have an inspection contingency, hire an inspector or contractor to examine the condition of the home you want to buy. Do it yourself, if you know a lot about construction.
- If repairs are necessary, negotiate with the seller about who will pay for them, or cancel the purchase agreement, if you've reserved the right to do so.
- Stay in touch with your loan officer while waiting for your loan approval. Have your records handy during this time.
- Give your landlord notice if you currently rent.

Step 4: The Closing

- Choose and pay for homeowner's insurance for one year.
- Make sure you have a closing agent or real estate attorney lined up to help with the closing.
- Request to view closing documents one business day before closing (sooner if they are available).
- Get a copy of the HUD-1 Settlement Statement from the closer one business day before closing. The HUD-1 lists all closing costs.
- Contact the closing agent with questions or problems concerning fees listed. (Ask about any fees that don't match those listed on your good faith estimate.)
- Inspect the property just prior to closing.
- Get the deed to transfer ownership of the home from the seller.
- Sign a promissory note stating that you'll pay back the mortgage loan with monthly payments at a certain interest rate.
- Pay the balance of your down payment and closing fees.
- Pre-pay taxes and insurance to your escrow account if the terms of your loan require this.

Step 5: You're a Homeowner!

- Take your deed and Social Security number to the courthouse to file for homestead tax status.
- Finish packing.
- Move into your new home at the time you and the seller agreed upon and noted in the purchase agreement.
- Put the utilities in your name.
- Homestead the property, if applicable.

CONSUMER INFORMATION

Consumer Questions or Complaints

The Attorney General's Office answers questions regarding numerous consumer issues. The Attorney General's Office also provides mediation to resolve disputes between Minnesota consumers and businesses and uses information from consumers to enforce the state's civil laws.

If you have a consumer complaint, please contact the Attorney General's Office in writing:

Minnesota Attorney General's Office
445 Minnesota Street, Suite 1400
St. Paul, MN 55101

Citizens can also receive direct assistance from a consumer specialist by calling:
651-296-3353 or 800-657-3787
TTY: 651-297-7206 or TTY: 800-366-4812
(TTY numbers are for callers using teletypewriter devices.)

Additional consumer publications are available from the Attorney General's Office. Contact us to receive copies or preview the publications on our website: *www.ag.state.mn.us*.

- The Car Handbook
- Citizen's Guide to Home Building and Remodeling
- Conciliation Court: A User's Guide to Small Claims Court
- The Credit Handbook
- Credit Reports
- Guarding Your Privacy: Tips to Prevent Identity Theft
- Landlords and Tenants: Rights and Responsibilities
- Private Mortgage Insurance Fact Sheet
- The Phone Handbook
- Probate and Planning: A Guide to Planning for the Future
- Reducing Unwanted Calls and Junk Mail
- Seniors' Legal Rights
- Veterans and Service Members
- The Home Seller's Handbook
- Managing Your Health Care
- The Manufactured Home Parks Handbook
- Other Consumer Publications

From the Office of
Minnesota Attorney General
Lori Swanson

Consumer Protection
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St. Paul, MN 55101