



# **A Guide to Buying a Home**

Latino Community Credit Union & Latino Community Development Center

# A Guide to Buying a Home

Angelica's Dreams:  
An Immigrant Family's Path to  
Homeownership

Latino Community Credit Union

[www.latinoccu.org](http://www.latinoccu.org)  
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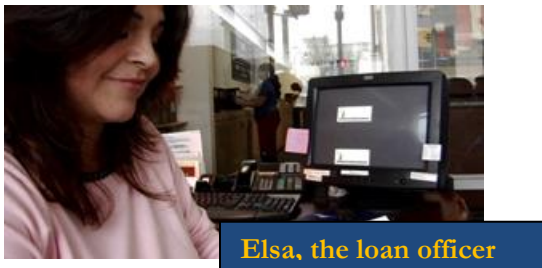
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## Introduction

This is the story of Angélica and Roberto, an immigrant couple torn between staying in the United States and returning to their native country. When Angélica becomes pregnant, she and Roberto decide to stay in the U.S. and buy a home where they can raise their family. Through Angélica and Roberto's story, you will learn the process of buying a home in the United States. They prove that you can dream big; it is possible to own your own home.

### Watch *Angélica's Dreams* or *Reymundo's World*: Homebuyer Episode



## Chapter 1: Preparing to Buy a Home

Angélica's dream is to buy a home in the United States, but Roberto is content to stay in their rented house until they return to their native country. When Angélica finds out she is pregnant, she wants to stay and buy a home in the U.S. She wants to invest in a house that she will be able to pass onto her children. Buying a home is a good investment because Angélica is putting money into something that will last a long time and may grow in value. When Angélica sells her home in the future, she may get more money than what she paid if the property value goes up. When Angélica makes a down payment and her regular monthly payments, she is building equity. Equity is the part of the house that is hers completely. Angélica even read that children who grow up in their own home have a higher chance of going to college. Angélica knows it is a big step to buy a home and wants to learn about the process.



Angélica attends a workshop to learn about the home-buying process

Think about your own situation and answer the questions that apply:

- Yes  No Do you want to buy a house?
- Yes  No Do you have a stable job and income?
- Yes  No Do you plan to stay in the same area for at least a few years?
- Yes  No Do you follow a budget? Do you know how much money you have saved (or can save) for the down-payment and closing costs?
- Yes  No Do you have a good formal credit history? If not, do you have electricity, telephone and rent bills in your name that you pay on time?
- Yes  No Have you filed your taxes for at least the past two years?
- Yes  No Have you learned about the process of buying a home?

### Buying versus Renting



**DISCUSSION TOPIC:** What might be the advantages and disadvantages of buying a home?

Here are some advantages and disadvantages of buying versus renting your home:

	Renting	Buying
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Rent may increase</li> <li>• May need to move out at any time</li> <li>• Cannot decorate as you like</li> <li>• No tax deduction</li> <li>• Depend on landlord to make repairs</li> </ul>	<ul style="list-style-type: none"> <li>• More difficult to move</li> <li>• Extra costs (property taxes, repairs and maintenance, down-payment, insurance)</li> </ul>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Often a lower monthly payment</li> <li>• Can move at the end of lease</li> <li>• Less worries and expenses related to maintenance and repairs</li> </ul>	<ul style="list-style-type: none"> <li>• Stability for your family</li> <li>• Good investment- you will own your house</li> <li>• You pay less taxes and save money</li> <li>• Realize your dreams</li> </ul>

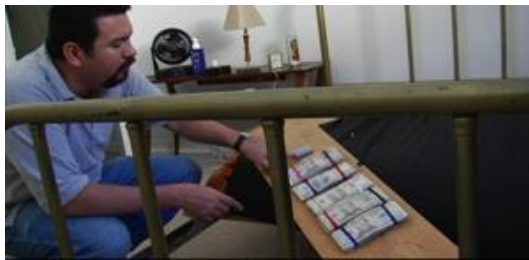
Buying a home is a big decision for your family. Look at the next sections on saving and budgeting to begin your path to owning a home.

## ***Saving and Budgeting***

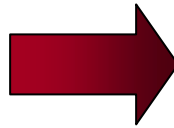
Before owning a home, you should save money and develop a budget. Here's how to start:

### **1. Open a savings account**

Roberto did not want to open a savings account because he did not trust financial institutions. He thought his money would be lost or he would not be able to access it easily. But, when his money was almost stolen from under his bed, he and Angélica went to their credit union to deposit their money. There, the federal government insures their money up to \$100,000. Their money is safe and they can easily get their money at the branch, using the ATM or with their debit card or checks.



Roberto went from saving his money under his bed...



...to saving money in his credit union.

**With a valid Social Security Number (SSN) or Individual Tax Identification Number (ITIN), you can:**

- Earn interest on your savings
- File your taxes
- Start a credit history
- Apply for loans with financial institutions
- Buy a house

### **2. Make a list of your savings goals.**

Think about your family's goals and how much money you will need to accomplish them.

You might want to save money for some goals in a short period of time. Here are two examples of important **short-term savings goals**:



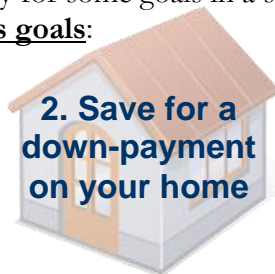
**1. Save for emergencies**

Save **3 – 6 months** of your total monthly expenses in an emergency account



Angélica and Roberto's expenses: \$1,000/month

**SAVINGS GOAL is \$3,000 - \$6,000**



**2. Save for a down-payment on your home**

A **down-payment** is money you contribute when you buy a home (usually 5-20% of the cost of the home).

You also have to save for **closing costs** (3-6% of the cost of the home).



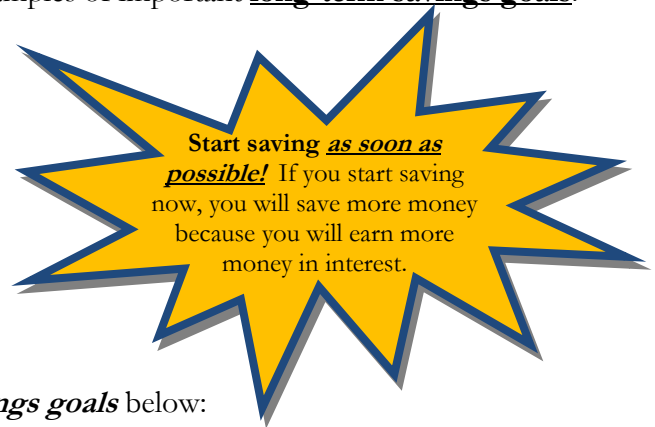
Angélica & Roberto want to buy a home for \$120,000

5% down-payment:  $\$120,000 \times .05 = \$6,000$

3% closing costs:  $\$120,000 \times .03 = \$3,600$

**SAVINGS GOAL is \$9,600**

Other goals might be long-term. Here are two examples of important **long-term savings goals**:



Write your own *short-term* and *long-term savings goals* below:

Short-Term Goals	Amount	# Months	Amount per month
<i>Example: save for a down-payment</i>	\$9,600	24	\$400

Long-Term Goals	Amount	# Months	Amount per Month
<i>Example: save for retirement</i>	\$1,500/year	12	\$125

**3. Organize your information.** Select a day each week to (1) calculate the balance on your accounts, (2) organize your finances, and (3) pay your bills.

Organize your documents in a filing cabinet with your important papers such as:

- birth certificate
- passport
- photocopy of your driver's license
- insurance policies
- bills from the last three months
- account statements



**Tips:** (1) *Don't use utility payment companies* that charge you lots of money to pay your utility bills. (2) *Put bills for services like the rent, electricity and telephone in your name.* If you are married or live with family members, decide what bills can be under each person's name. If you apply for a loan, this is a good way to show financial institutions that you pay bills on time.



#### 4. Develop your budget.

A **budget** is a financial plan based on your **income**, or the money you earn, **expenses**, your regular monthly payments, and **debts**, the money you pay for your loans. Angelica develops a strict budget so she can save money to buy a home.



#### MONTHLY BUDGET WORKSHEET

(1) AVAILABLE BALANCE	+\$
<b>INCOME</b>	
Salary (after taxes)	
Independent Projects	
Child support/alimony	
Other	
(2) TOTAL INCOME	+\$
<b>INCOME AND AVAILABLE BALANCE</b>	
ADD (1) + (2)	+\$

<b>EXPENSES</b>	
Electricity/Gas	
Phone/Cell Phone/Internet	
Supermarket/Restaurants	
Gas/Public Transportation	
Car and Property Taxes*	
Car Insurance*	
Health Insurance	
Child Care/School	
Cable Television/Satellite	
Water/Sewage	
Clothing/Shoes*	
Vacations*	
Entertainment/Movies	
Medical/legal expenses	
Items for the house*	
Spending money	
Money sent to your family*	
Other	
(3) TOTAL EXPENSES	-\$

MONTH & YEAR: \_\_\_\_\_

<b>SAVINGS GOALS</b>	
Emergency Account	
Higher Education	
Savings for other goals	
Retirement Account	
Other	
(4) TOTAL SAVINGS	-\$

<b>DEBTS</b>	
Credit Cards	
Rent or Mortgage	
Car payment	
Other	
(5) TOTAL DEBT	

<b>TOTAL FOR EXPENSES, SAVINGS, AND DEBT</b>	-\$
ADD (3) + (4) + (5)	

**How does your income compare to your expenses?**

Total Income (1+2) = \$ \_\_\_\_\_

Total Expenses, Savings & Debt (3+4+5) = \$ \_\_\_\_\_

\* You may not spend money on these items every month, but you should calculate how much you should save each month to pay them. For example, if you pay \$240 each year for your car insurance, you should save \$20 a month to pay for it each year.

## 5. Look at how you can reduce your expenses.

Here are a few tips to get you thinking about how to reduce your expenses:

1. Always **pay your bills on time** to avoid fees.
2. **Pay more than the minimum payment on your loans** to save money in interest.
3. **Don't buy your lunch.** Prepare your lunch and bring it to work.
4. **Use discount coupons** from the Sunday newspaper.
5. **Write a shopping list.** Wait two days to buy something that is not on your list. Maybe you don't need what you wanted to buy.
6. If you send money to your family, **find the service with the lowest fee.**
7. If you think you are paying too much in interest on a loan, **ask your financial institution about refinancing.** This means they might be able to offer you a better interest rate to save you money.
8. **Don't use cash checking stores,** pawn shops, or stores that let you rent furniture while you buy them. This can cost a lot of money.



**DISCUSSION TOPIC:** What are some other ways that you reduce expenses?

### **Credit History**



**Credit** lets you buy things now and pay for them later. You have to pay to borrow money. This is called **interest**. If you have credit, you are in **debt**. This means that you owe money to the financial institution(s) that gave you the credit. Credit can be useful, but you should use credit very carefully.

In the United States, having credit is important for many reasons. For example, it can help you buy a car, pay for educational expenses, buy a home, or even to reserve or rent things like hotel rooms and cars when you travel. Common types of credit are credit cards or a loan for a car or a house.

A loan for a house is called a **mortgage**.

A **credit history** is a record of all the loans that you have had. It tells if you pay your loans on time.



If you have credit history, you can get a free copy of your credit report once a year.



[www.freecreditreport.com](http://www.freecreditreport.com)  
1-877-481-6826

#### **No credit history? Start NOW.**

Apply for a small loan or a credit card with the lowest interest rate available. At first, you can apply for a small secured loan or credit card. This means that you put a certain amount in your savings account and get a loan or credit card for the same amount.

## Credit History and Buying a Home

After you begin to build credit, **it is important to maintain a good credit history**. Here's how:

1. Always pay your loans on time.
2. Do not keep large balances on your credit card.
3. You can refinance or transfer your credit card debt to another company for a better interest rate, but don't do it often. This can negatively affect your credit.
4. Do not apply for too many loans.
5. Limit your number of loans and credit cards.



## Chapter 2: Pre-qualification Process

Angélica and Roberto started looking for a house before knowing how much they could afford. They found a house for \$175,000 that they loved. But, when they went to their credit union to find out how much money they could borrow, they realized the house was too expensive. It is best to find out how much you can afford before you start looking for a house. This is called the *pre-qualification* process.



A **mortgage loan** is money you borrow to buy your house, townhouse or apartment. Your home is **collateral**. This means that if you don't pay your mortgage loan, your home can be taken away. Credit unions, banks and mortgage companies offer mortgage loans. You should visit two or three financial institutions to find the best option for you. **Financial institutions will want to know:**

- **Your ability to pay back a loan** (What is your income, job stability, expenses and debt?)
- **Your credit history** (How much do you owe? Do you pay on time? Do you apply for a lot of loans?). If you don't have credit history, they might ask about the bills in your name (Do you pay your electricity, phone and other utility bills on time?)
- **The value of the house you want to buy** (Is it enough to guarantee the loan?)

Most financial institutions do not charge for the pre-qualification process. You are not obligated to any specific financial institution in this process. You should ***find out what is the best offer for you.***

The pre-qualification process is not a guarantee you will receive a loan. You will need to provide more detailed information to your financial institution to be ***pre-approved*** for a loan. (See Chapter 4: The Mortgage Loan)

***Important: Meet with several financial institutions to compare interest rates. But, do not apply with more than 2 or 3 of them. Applying for too many loans at one time can negatively affect your credit history.***

### How Much Can You Afford to Spend on Your New House?



**You might have to adjust your idea of the “perfect house.” It could be too expensive.**



Most financial institutions prefer that the monthly payment for your house is less than 33% of your total (or “gross”) monthly income. Also, your total monthly debt, including your mortgage, should not exceed 40% of your income. See Angélica and Roberto’s example below:

**\$3,000 = their total income per month      \$150 = car payment (debt) per month**

**33% of \$3,000 = \$1,000  
40% of \$3,000 = \$1,200 per month  
\$1,200 - \$150 = \$1,050 per month**

So, their total monthly mortgage payment (including interest, taxes and insurance) should be **\$1,050 per month** or less. The interest rate, down-payment and type of mortgage you receive also impact how much you can spend on a house. This will be discussed further in Chapter 4 (The Mortgage Loan).

## Chapter 3: Find the Right House for You

Ask yourself these questions:	Your answers:
Do you want a new home or an older home?	
<p><b>What size house do you need?</b></p> <p>How many bedrooms? How many bathrooms?</p> 	
<p><b>Children and Schools</b></p> <p>Are there children in the area?</p> <p>Can children play outside?</p> <p>Are there good schools?</p>	
<p><b>Community, Maintenance of Homes, Security</b></p> <p>How do people maintain their homes?</p> <p>What religious and recreational opportunities are there?</p> <p>Is the neighborhood safe?</p> <p>What activities take place in the community?</p>	
<p><b>Transportation and stores</b></p> <p>Can you access stores and public transportation?</p> <p>How far away are work, school, family/friends?</p> 	

### Working with a Realtor

Angélica and Roberto heard about Casas de Oro Realty from a friend. They spoke with Daniel, a real estate agent from Casas de Oro, who showed them a house that was not in good condition. So, they began to look for another real estate agent.



A **real estate agent** is a person who helps you find your home. Angélica took classes on the home-buying process, so she knew what questions to ask and saw the signs of a bad real estate agent. Daniel was showing them houses that were not in good condition, so she asked her credit union for help. The credit union gave them a list of certified real estate agents. Angélica and

Roberto used this list to find Jorge, a real estate agent with a professional license and good reputation, to help them find their house.

## Responsibilities of a Real Estate Agent



Angélica and Roberto told Jorge, their real estate agent, what they wanted. Jorge showed them several houses until they found the right one.

### A real estate agent helps you:

- Decide what you want in a house
- Figure out how much you can afford
- Find the house that is right for you
- Negotiate the best price for your house
- Find financial institutions where you can apply for a loan
- Understand the process of qualifying for a loan
- Understand the financial and legal aspects of closing

### A real estate agent must:

- Have a professional license
- Not give your personal information to anyone without your permission
- Treat you with fairness and honesty
- Give you information that could affect the value of the property. For example, if the real estate agent knows about a problem with the house, they must notify you.

### REPORT DISCRIMINATION



In the United States, it is illegal to discriminate against a person who is buying or selling a house because of their race, ethnicity, color, religion, sex, national origin, disability, or marriage status. It is illegal to say the home is not available or scare people away. If you think you were treated unfairly, report it to the Housing and Urban Development (HUD) office. Visit the website, [www.hud.gov](http://www.hud.gov), or call 1 (800) 669-9777.

**Note:** Some real estate agents represent both you (the **buyer**) and the person selling the house (the **seller**). This is called a **dual agent**. In this case, the real estate agent should never give confidential information about one client to the other client.

**How are Real Estate Agents Paid?** Usually, the buyer and seller both have separate real estate agents to represent them. Each real estate agent earns about 3% of the total cost of the house (this is called a **commission**). This commission is usually a total of 6% for both agents and is paid out of the money the seller earns from the sale of the home. This is usually included in the cost of your home.

**3% + 3% = 6%  
Commission**



**Total cost of  
your home**

**Be careful!** Sometimes a real estate agent will ask you to sign a 6-month agreement to work exclusively with him or her. This means that the real estate agent will work with you to find a house and, in return, he or she will receive a commission. If you are unhappy with your real estate agent, you will need to cancel, or void, the contract before working with another agent. Otherwise, you could end up paying twice for both real estate agents.

## ***Thinking About Buying a House Without a Real Estate Agent?***

Depending on your situation, this might be a good option because the seller might decrease the total price of the house if you do not have a real estate agent. But, in most cases, it is best to hire a real estate agent. Remember, if you buy a house on your own, here are just a few things you will need to do:

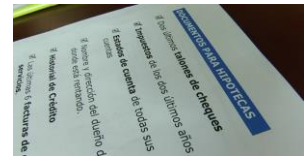
- Search for a house on your own without access to a real estate agent's list of available houses
- Negotiate the sale price, repairs and any other issues
- Find a trusted person to review any contracts before you sign them





## Chapter 4: Obtaining your Mortgage Loan

Now it is time to visit your financial institution to get **pre-approved**. Your financial institution will ask you questions and request documents to verify information, such as your credit history, income, expenses, savings, and debt. If your mortgage loan is “pre-approved”, this means that your financial institution is committed to give you a mortgage loan for a specific amount. Their commitment usually lasts for up to 90 days, as long as your finances do not change.



### You will need to have the following information:

- Social Security Number or Tax Identification Number for you (and co-applicant)
- Completed tax returns (2 years) with W-2 and 1099 forms
- Employer contact information
- Recent paycheck stubs
- Bank statements
- Recent landlords (contact information)
- Leases (copies of most recent)
- Utility bills (i.e., telephone and electricity)

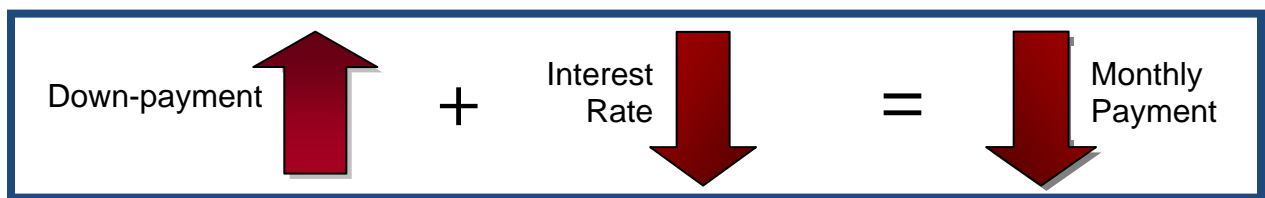


### *What is Included in your Mortgage Loan?*

There are some important parts to your mortgage loan that affect how much you will pay each month: (1) interest rate, (2) down-payment, (3) type of loan, (4) taxes, (5) insurance and (6) other expenses.

1. **Interest Rate:** This is the percentage of the total amount loaned that you have to pay to your financial institution for giving you a mortgage. The lower the interest rate, the less you will have to pay per month for your loan.
2. **Down-payment:** The more you are able to put toward a down-payment, the less you will have to pay each month.

**What is the APR?** When you are shopping around for the best mortgage loan for you, be sure to ask for the “Annual Percentage Rate” (APR). This rate includes the interest rate, points, and other fees you are being charged. When you are comparing loans, it is also important to compare the same loan type and amount of loan.



**3. Type of Loan:** Two main types of loans are **fixed rate** and **adjustable rate** mortgage loans.

Type of Loan	Advantages
<p><b>Fixed-Rate Mortgage</b> – The interest rate does not change for the period of time you have the loan. It is usually a period of 15 to 30 years. This period of time is called the <b>term</b>.</p> <p><i>Who should get a fixed interest rate?</i> If you plan to stay in one place for an extended period of time, this is a good option.</p>	<ul style="list-style-type: none"> <li>✓ The monthly payments don't change.</li> <li>✓ You don't have to worry if interest rates go up.</li> </ul>
<p><b>Adjustable-Rate Mortgage</b> - Your monthly payments can change during the period of time you have the loan. You may pay more or less, depending on the economy.</p> <p><i>Who should get a variable interest rate?</i> If you think you will live in the house a shorter period of time, an adjustable rate mortgage could be a good option. You can get a lower initial interest rate than you could with a fixed interest rate.</p>	<ul style="list-style-type: none"> <li>✓ May be able to get a lower interest rate.</li> <li>✓ Most rates do not increase significantly.</li> </ul> <p>For example, there might be a 1% maximum increase from after 2 years with an 8% maximum increase over the whole period of time you have the loan.</p> <p>Carefully verify the terms of your adjustable rate loan.</p>

**4. Taxes** – You will need to pay property taxes on your home. This is usually included in your monthly mortgage payments.

**5. Insurance** – You will need to get homeowner's insurance. The insurance company will pay if certain things happen to your home (for more information on insurance, see Chapter 6).

**6. Other Fees** – Pay special attention to the fees that each company requires.

- **Private Mortgage Insurance (PMI)** – Protects the financial institution or company giving you the loan. If you buy a home with less than 20% down-payment, you might be required to pay PMI. Ask how much the payments will be per month and how long you will have to continue paying them.
- **Points** – Some financial institutions allow you to pay extra money, or “points,” up front to reduce your interest rate, which will reduce your monthly payments. Each point costs you 1% of the loan amount. But, if you think you might stay in your house for a short time, you might pay more in points than you will save in interest.
- **Closing Costs** – These are the costs you pay when you sign the final papers for your home. These costs are usually about 3% of the price of your home (See Chapter 7: The Closing).

Angélica and Roberto's Mortgage Loan: At first, Angélica and Roberto did not want to put a down-payment on the home. This means they would borrow the full cost of the home from their credit union. But, Elsa, their Loan Officer, told them that if they put a 5% down-payment on their home, their monthly payments would decrease, and they would pay less interest!



## Homebuyer Assistance Programs

There are some special loan programs to assist first-time homebuyers. These programs allow you to buy your home with a lower down-payment and sometimes with a better interest rate. Ask your financial institution about homebuyer assistance programs that might be available to you.

If you do not have a valid Social Security Number, you cannot apply for government homebuyer assistance programs, but you can ask your financial institution if they have any programs that would work for you.



## Avoiding Bad Loans

Daniel, the real estate agent, told Angélica and Roberto about a company that will give them a loan with a low interest rate. Angélica asked Daniel more questions about the loan and found out that the company would charge them a much higher interest rate after a few months. Angélica knew the signs of a bad loan and looked for other options.



**Predatory mortgage loans** are more expensive mortgage loans targeting people with a damaged or limited credit history. Subprime lenders have fewer requirements, but offer dangerous types of loans that could cause you to lose your home.

According to the Center for Responsible Lending, **2.2 million families with a dangerous subprime loan made from 1998 through 2006 have lost or will lose their homes to foreclosure.**



A family moving out after losing their home because of a subprime mortgage loan.



### **Common Signs of Predatory Mortgage Loans are:**

- **High interest rates**
- **Low rates that later change to high rates**
- **Loan is for more than the house is worth, so you borrow more than you need.**
- **Pre-payment penalties** – fees for paying off a loan early
- **Interest-only loans** - you pay interest only and do not build any “equity,” the part of the house that is yours completely
- **Balloon Loans** - long-term loans with one large payment after a certain period of time
- **Ask you to lie or falsify documents** for your application
- **Unusually high closing costs**
- **Points and fees** - often included in your monthly payments, so they are easy to hide (they should not be any more than about 1% of the total loan)
- **Mobile Homes** - not usually considered a good investment since they lose value quickly

**Note: Latino borrowers buying homes were 29 to 142 % more likely to receive a higher-rate loan than White borrowers (Center for Responsible Lending). So, shop and compare!**

Source: Center for Responsible Lending

## ***Important Tips to Avoid Predatory Mortgage Loans:***

- Shop around and compare with 2-3 financial institutions.
- Ask questions.
- If you don't understand the contract, ask someone you trust.
- Don't trust ads promising "No Credit? No problem!"
- Ask about additional points and fees.
- Ignore high-pressure sales tactics.
- Don't take the first loan you are offered.
- Remember that a low monthly payment is not always a good "deal." Look at the total cost of the loan with fees.
- Be wary of promises to refinance the loan to a better rate in the future.
- Never sign a blank document or anything the lender promises to fill out later.

**Source: Center for Responsible Lending**



## Chapter 5: Making an Offer

Angélica and Roberto found a house that was advertised for \$125,000. This was just outside of their price range. So, with the help of their real estate agent, they negotiated the price down to \$120,000, including closing costs. This means that the seller will pay the closing costs for them. This way, they were able to afford the house they wanted.



**STEP 1:** Now that you have found the house that is right for you, it is time to make an offer. An **offer** is the amount of money that you propose to pay for a home you want to buy. It will depend on your budget, how much the house is worth and the condition of the house. You can offer the price that is listed or make an offer to buy the home for less money. Be careful not to offer too little money because you could lose the home to someone else who can pay more. But, you usually do not want to pay more than what the home costs in the market.



**STEP 2:** It is a good idea to **negotiate** the price of the house if you can. This means that you try to get a good price for the home you want to buy by asking for a lower price. Sometimes a seller will come back with a **counter offer**. This is the amount of money that the seller wants you to pay for the home if he/she did not accept your offer.



**STEP 3:** Sign a **contract** and make a **deposit** (or “earnest money”). This is money that you give to the real estate agent who represents the seller to show that you are serious about buying the home. If you buy the home, this will become part of your down-payment. If you decide you do not want to buy the home, you will lose this money.



**BE CAREFUL!** Remember your contract should state that you can cancel the contract and get your deposit back if there are major issues with the inspection.



## Chapter 6: The Inspection

Jorge, Angélica and Roberto's real estate agent, recommended an inspector. Angélica and Roberto met the inspector at the house to observe the inspection. Roberto and Angélica asked questions and got a lot of useful information about their house during the process. Fortunately, there were no major problems with the house.



A **home inspection** helps you identify problems with the house before you buy it. You want to buy a home that will be a long-term investment for you and your family. You will have to pay for the inspection yourself, but it is well worth your money. If you buy a house with major problems, you could end up in more debt, spending money to fix the house and it could be difficult to sell in the future. So, find a trained, qualified inspector to be sure there are no major problems.



You can ask your realtor or financial institution for a referral for a home inspector. Inspectors should allow you to attend the inspection. It is a good way to get to know the house.

### ***Your inspector will look to see:***

1. If there are major structural or mechanical problems with the house
2. How old are the most expensive parts and systems in the house (such as the roof, plumbing, heating, electrical system)
3. If any other items in the house need to be fixed or replaced (such as the flooring, paint)

### **PROBLEMS?**

***If there are serious problems with the house, you should be able to cancel the contract. This should always be written into the contract that you sign.***

***If there are minor problems with the house, you can negotiate the price or ask the seller to pay for the repairs if you still want to buy the house.***



### **CHECK FOR DANGEROUS SUBSTANCES**

- **Radon Gas:** This is a cancer-causing natural gas that you can't see, smell or taste. It can be dangerous to your family's health. Contact the National Radon Information Line at 1(800) SOS-Radon or 1(800) 767-7236 for more information.
- **Lead Paint:** Many homes built before 1978 could have lead in the paint or water pipes. Lead can cause health problems, especially in children. Call the National Lead Information Clearinghouse at 1(800) 424-LEAD for more information.
- **Asbestos:** These are toxic fibers sometimes found in older homes that can cause long-term health risks. Call (202) 554-1404 for more information.



## Chapter 7: The Closing

Your closing is an exciting event! This is the last step before officially owning your home.

### **BEFORE YOU CLOSE!**

Do a final review (or “walk through”) of the house to be sure that all of the changes or repairs agreed upon after the inspection are complete.



At the end of the closing, Angélica and Roberto receive the keys to their new home!

Your real estate agent or financial institution can help you find a real estate lawyer to help with the closing process. You will have an appointment with the real estate lawyer and the real estate agent.

### **What Happens at the Closing?**

1. You will pay your down-payment (bring a certified check to your appointment).
2. You will sign many papers, including the sales contract.
3. You will pay closing costs. They usually include:
  - *Loan origination fee* (fee to process the loan application and obtain a credit report)
  - *Mortgage Insurance*, if applicable
  - *Fees to investigate the title* (to make sure no one else owns the home)
  - *Fees to register and transfer the property*
  - *Lawyer's fees*
  - *Inspection fees*
  - *Homeowner's insurance and property tax payments* (This is usually paid with an escrow account. Your financial institution will use this account in your name to pay your taxes and insurance.)
4. Your lawyer will make sure there are no problems with the insurance and the loan.
5. You will receive the keys to your new home!

The total closing costs are usually about **3% of the price you pay for your home.**

#### Example:

Cost of home: \$120,000  
Closing Costs: \$3,600



## Chapter 8: Caring for your New Home

### Homeowner's Insurance

Homeowner's insurance is required for anyone who buys a home. The insurance company will pay if something happens to the home, the property inside the home, or if someone has an accident on your property. You will want to contact several insurance companies to get the best price and the best policy.

You may need extra insurance if:

- your home is in an area that could flood or if earthquakes are common.
- you want to cover valuable personal belongings, such as cameras, computers or jewelry.

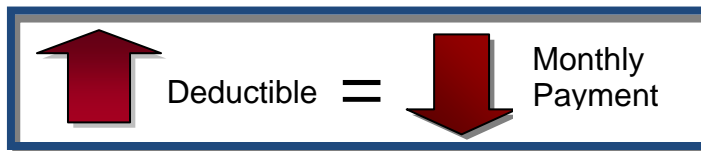
Remember, if the value of your home increases, you need to make sure the insurance increases the value of your policy.

**BE CAREFUL!** It is important to make sure that the insurance policy you get will pay enough to replace the home. This is called **“replacement” coverage**. It is more expensive, but is the best coverage. The coverage called **“Actual Cash Value”** is cheaper, but will only pay you what your home is worth when something happens to your home, minus depreciation (wear and tear).



The Consumer Action Website recommends tips for saving money on your insurance:

1. A **higher deductible** can decrease the monthly cost of your insurance. A deductible is the amount you owe before the insurance company starts to pay if something happens to your house. But, be sure that you will be able to cover the deductible if something happens.



2. If you have **special safety features** on your house (such as an alarm or storm shutters on the windows), you might be able to get a discount from the insurance company.
3. Insure your house only, not your land. It is unlikely that something will happen to your land.
4. If you have your **car and homeowner's insurance with the same company**, it could save you money.



For more information, visit the Consumer Action Website at [www.consumeraction.gov](http://www.consumeraction.gov).

**To find a good insurance company**, ask your realtor for references. You can also check the A.M. Best Company ratings online at [www.ambest.com](http://www.ambest.com), or look at their book at the library. This is an independent rating system that tells you if the insurer is financially stable and able to pay its claims.





## Home Maintenance

After Angélica and Roberto moved into their new home, Angélica began to think about the new furniture she wanted to buy. But, they both remembered that there will be costs to maintain and repair their new home. Unlike their rented house, they would have to pay for any leaks in the roof, plumbing problems, and more. They decided to wait to buy new furniture. Instead, they started saving to care for their new home.



Start saving now  
for regular  
maintenance and  
repairs. You  
probably need to  
save about 1% of  
the value of the  
house per year.

When you buy your home, you are responsible for the maintenance and repairs. When something breaks, you need to repair it or pay someone to fix it. Regular maintenance can help you avoid repairs in the future. It's better to repair something immediately to avoid expensive disasters. Keeping your house and yard in good condition can help increase the value of your home and your neighborhood.

### You must regularly maintain:

1. **Roof** – check for leaks and fix them if necessary
2. **Gutters** – clean them to prevent clogging
3. **Filters** – clean or replace the air filters regularly
4. **Safety equipment** – check the smoke detectors, carbon monoxide detectors and fire extinguishers regularly and replace batteries at least twice a year
5. **Heating and air conditioning system** – change filter and have a technician inspect your system every year
6. **Hot water heater** – drain and clean the tank once a year



## Safety and Security Issues

It is important to think about safety and security issues when you buy your new home.

### To protect yourself and your family, you should:

1. **Inspect all doors, windows and locks.**
2. **Change all locks** and add deadbolt locks.
3. Install **outdoor lights** where needed.
4. **Participate in the community** to protect your home (such as Neighborhood Watch).
5. Install **smoke detectors** on each level of the house (and change batteries once a year).
6. Consider getting a monitored **security alarm**.
7. Have **fire extinguishers** in several places around the house.
8. Do not keep trash, things you do not use, or dangerous materials outside your home.
9. Install a **carbon monoxide detector**. Carbon monoxide is a deadly gas that is difficult to detect because it is odorless and invisible.



## How to Manage your Mortgage Loan

Now that you are a homeowner, you must be especially careful to manage your finances. If you do not make your mortgage payments, you could lose your home. And, if you do not pay on time, you could negatively affect your credit.

### Take these three steps to protect yourself, your family and your new home:



**Step 1:** Make sure you and your family members stick to your **family budget**.



**Step 2:** Put money aside in a **savings account** for emergencies and maintenance and repairs for your home.



**Step 3: Get insurance.** When something unexpected happens, such as losing your job or becoming ill or injured, it can be more difficult to make your mortgage payments. Health, life and disability insurance can protect your family in these situations. *Health insurance* helps you pay for your health care expenses. *Disability insurance* protects you and your family from the financial impact of a serious illness or injury. *Life insurance* protects the people who depend on your paycheck. If you die prematurely, your dependents will be paid a certain amount of money (usually 60-75% of your most recent salary).

### What to do if you have difficulty making mortgage payments?

If you are still having difficulty making your mortgage payments, it is best to act quickly and talk to your financial institution as soon as possible. Many borrowers do not return the calls from their financial institution. This is not a good solution. The longer you wait, the more likely you are to lose your home. Your financial institution wants to help make sure you are able to continue making payments. They probably have several ways to help you get back on track.

It is best to contact your financial institution or a credit counseling agency to help you organize your budget and find solutions to your problems. You can find a local credit counseling agency in your phone book or through the Department of Housing and Urban Development (HUD) at 1(800) 569-4287 or [www.hud.gov](http://www.hud.gov).

**BE CAREFUL!** Beware of companies that say they will buy your home for cash or offer quick financial fixes. They are often predatory lenders that will give you a loan that costs even more and make your financial situation worse. **Never pay for help** from a company that says they help get you out of financial problems.

## Glossary

**Actual Cash Value:** A type of insurance policy that will only pay what your house is worth when something happens to your home, minus depreciation (wear and tear).

**Adjustable-Rate Mortgage:** A loan with an interest rate that can change during the period of time you have the loan.

**Budget:** A financial plan based on your *income*, or the money you earn, *expenses*, your regular monthly payments, and *debts*, the money you pay for your loans.

**Closing:** The process of signing final papers to buy your new home.

**Collateral:** A good, in this case your house, you offer to the financial institution to guarantee that you will repay your loan.

**Commission (for real estate agents):** The money that a real estate agent earns.

**Credit:** Allows you to buy things now and pay for them later. You pay money (interest) to borrow money.

**Credit History:** A record of all the loans that you have had. It tells if you pay your loans on time.

**Debt:** The money you owe to the financial institution(s) that gave you credit (money to borrow).

**Deductible:** The amount you owe before the insurance company starts to pay if something happens to your house.

**Deposit (or “earnest money”):** A certain amount of money that you give to the real estate agent who represents the seller to show that you are serious about buying the home.

**Down-Payment:** The money you pay when you buy a home, usually a certain percentage of the cost of the home.

**Dual Agent:** A real estate agent that represents both you (the buyer) and the person selling the house (the seller).

**Equity (of your home):** The part of the house that is yours completely.

**Fixed-Rate Mortgage:** A loan with an interest rate that remains the same for the period of time you have the loan.

**Homebuyer Assistance Programs:** Special loan programs to assist first-time homebuyers that allow participants to buy a home with a lower down-payment and sometimes with a better interest rate.

**Home Inspection:** An inspection that helps you identify possible problems with the house.

**Interest:** The cost of borrowing money, or what you earn when you deposit money into a financial institution.

**Interest Rate:** The percentage of the total amount loaned that you have to pay to your financial institution for your mortgage.

**Invest:** When you put your money into something that will last for a long time and may grow in value.

**Mortgage:** A loan to buy a house.

**Negotiate:** When the buyer offers a lower price for the home he or she wants to buy.

**Offer:** The amount of money that you propose to pay for a home you want to buy.

**Points:** Extra money that some financial institutions allow you to pay up front to reduce your interest rate.

**Pre-Approval:** When a financial institution commits to give you a mortgage loan for a specific amount.

**Predatory Mortgage Loans:** More expensive mortgage loans targeting people with a damaged or limited credit history.

**Pre-Qualification:** The process of finding out how much of a mortgage loan you can afford before you start looking for houses.

**Private Mortgage Insurance (PMI):** An insurance policy that protects the financial institution or company giving you the loan.

**Real Estate Agent:** A person who helps you search for a home.

**Replacement Coverage:** An insurance policy that will pay you enough money to replace the home if something happens to your home.

**Property Taxes:** The taxes you need to pay for the home you own.

## Resources

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