Homebuyers' Information Guidebook

Comparing Buying and Renting ● Getting Your Financial Picture In Focus ● Developing a Budget ● Determining Your Housing Needs and Wants ● Finding and Choosing a Real Estate Agent ● Finding the Right Home ● Moving Plans and Costs ● Comparing Housing Types

Steps to Follow in Purchasing Your New Home

1. Decide if buying a home is right for you

- Meeting your housing needs
- Pride & independence
- A place to settle down
- A good investment

2. Get your financial picture in focus

- Credit worthiness
- How much can you afford?
- Strengthen your bid
- Contact a lender to pre-qualify

3. What kind of home do you want?

- Single Family
- Town home
- Condo
- Location

4. Signing the Agreement of Sale

- Negotiate the sale price
- Negotiate settlement costs
- Negotiate home warranty
- Inclusions & exclusions

5. Completing the Mortgage Documents

- Budgeting closing costs
- Submitting loan documents
- Home inspection
- Home appraisal

6. Loan Closing… Almost home!

- Select an attorney
- Verify assets

7. Moving in!

- Contact all utility companies
- Change addresses

CONGRATULATIONS!

You're a homeowner!

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This guidebook is provided for informational purposes only. Although the overall process is typical, individual experiences may vary. Delaware State Housing Authority encourages homebuyers to attend home ownership education workshops or counseling to learn more about purchasing their own home.

Step One: Why Should You Consider Buying a Home?

Owning may be better than renting for……

MEETING YOUR HOUSING NEEDS

- You need more space now
- You want space to grow in the future
- Apartments may not be available in the area where you want to live

PRIDE AND INDEPENDENCE

- You can improve the house the way you want
- You do not have to depend on the landlord for maintenance
- You have a place of your own
- You have more privacy

A PLACE TO SETTLE DOWN

- You are part of your community
- You want a place of your own to raise your children/family
- You do not have to worry about moving (if you make you mortgage payments on time)

HISTORICALLY A GOOD INVESTMENT

- Many homes increase in value
- Your home has more equity as you pay off your mortgage
- Owning a house is one way to beat inflation (house & land can increase in value faster than the cost of living)

TAX BENEFITS FOR HOMEOWNERS

- Mortgage interest and real estate taxes are deductible from your income for tax purposes so you may not have to pay as much federal income taxes

GOOD FINANCIAL CREDIT

- Making your mortgage payments on time builds good credit
- With good credit, it is easier to get a loan if you need one

IS NOW A GOOD TIME TO BUY?

- The first thing to do when preparing to buy a home is to make sure you are financially prepared, so that when you choose a home you will face as few obstacles as possible.

DO YOU HAVE ENOUGH CASH?

- Money for the downpayment
- Money for the closing costs
- Money for move-in costs
- Money for emergencies

ABILITY TO MAKE PAYMENTS

The originating lender will evaluate your financial resources and responsibilities in determining whether the proposed mortgage loan obligation will be a reasonable additional monthly payment for you. A good credit reputation is essential. Remember, the final decision on affordability is yours.

ARE THERE SPECIAL OPPORTUNITIES FOR FIRST-TIME HOMEBUYERS?

Yes. DSHA offers a Single Family Mortgage Revenue Bond (SFMRB) program, commonly referred to as the First Time Homebuyers Program. Please contact DSHA for a list of terms and qualifications for this program as well as a list of lenders.

Step Two: Get Your Financial Picture in Focus

Before you look for a house, it is a good idea to determine the amount you can afford by contacting a lender for a Pre-Qualification.

Do an analysis of your current financial situation:

- What is the amount of cash you are earning, and where are you spending it?
- Develop a household budget for your current situation.
- If you need assistance, check with a housing counseling agency in your state.
-     (contact DSHA for a list of HUD-approved housing counselors)
- Run a credit report to make certain that there are no discrepancies or problems in your credit history.
-     (you can obtain a copy from your lender or from an on-line agency)
- Do an analysis of how a home purchase will affect your budget. Be sure to factor in not only the mortgage payments (including insurance and taxes), but also repairs and maintenance.
- Determine the amount of cash you have available.
    (for the downpayment, closing costs, and moving in)

POINTS

- Points are prepaid interest paid up front to lower your interest rate. The cost is 1% of the loan amount per point. For example, one point on a $150,000 mortgage equals $1,500. It is common for a lender to offer a choice between a mortgage with a low interest and a higher number of points, or a mortgage with one or no points, but a higher interest rate. The lower interest rate would result in a lower monthly payment, but lower points would lower your downpayment and settlement costs.

DOWNPAYMENT & CLOSING COSTS

- Additionally, when someone is beginning the process of buying a home, it is a very good idea to begin setting money aside for a downpayment, closing costs and any other expenses that can be incurred when purchasing a home.

A LARGE DOWNPAYMENT HAS ADVANTAGES

- The larger the downpayment on the house, the less you have to borrow from a lender.
- The less you have to borrow to pay for the house, the smaller the monthly mortgage payments will be.
- The larger the downpayment, the easier it is to get a mortgage loan on favorable terms. For some people, however, a smaller downpayment is better.

    You may want to keep a cash reserve for unexpected expenses and for other purchases (or investments).

    A mortgage is one of the least expensive kind of loan you can get. Therefore, if you have limited cash for a downpayment, you should take full advantage of the mortgage loan available.

If you are a Qualified Veteran, you can get a mortgage guarantee from the Veterans' Administration (VA). Such "GI Loans" require very low downpayments.

DOES DELAWARE STATE HOUSING AUTHORITY (DSHA) OFFER ANY PROGRAMS THAT WILL ASSIST WITH DOWNPAYMENT AND SETTLEMENT COSTS?

Yes. DSHA provides a low-interest second mortgage loan program to assist eligible homebuyers with downpayment and closing costs. DSHA also provides a closing cost grant in connection with our First Time Homebuyers Program. Contact DSHA for more information on these programs.

<u>Step Three</u>: What Kind of House Do You Want?

DO YOU WANT TO LIVE IN THE...

<u>CITY</u>

<u>Possible Advantages</u>	<u>Possible Disadvantages</u>
Convenience	Higher Taxes
Lower priced homes	Less yard space
Public transportation	More noise/litter

<u>SUBURBS</u>

More yard space	Commute to work
Less pollution	Fewer public services
Peace and quiet	Higher priced homes

HOW MUCH ROOM DO YOU NEED?
- Number of bedrooms and bathrooms
- Size of kitchen (large or small)
- Size of living room
- Other rooms you need (dining room, laundry, den, workshop, etc.)
- Amount of storage space, closets, etc.
- Play areas for children, yard space
- Garage and parking space (off-street parking)

DO YOU WANT A NEW HOME?
- More efficient use of space
- Updated amenities
- Less space for the money
- Higher taxes

OR A CONDOMINIUM? (You own one apartment in a building complex and share common areas with other owners)
- Less maintenance to worry about
- Convenience of location
- Use of common facilities (pool, parking, etc.)
- Better security
- Less privacy
- No private yard space

OR A TOWNHOUSE?
- Less maintenance of exterior
- Cheaper to heat and cool
- Great starter home
- Less space

DO YOU WANT A SINGLE-FAMILY HOME?
- More privacy
- More space
- More maintenance

IN EACH CASE, YOU MUST DECIDE WHETHER THE ADVANTAGES OUTWEIGH THE DISADVANTAGES.

YOU AND YOUR FAMILY MUST BE THE JUDGE AS TO WHAT IS BEST FOR YOU.

<u>Step Four</u>: Signing an Agreement of Sale

Sit down with your real estate agent and discuss desired terms of contract, such as:

- What will be included in the house (appliances, etc.)
- Settlement assistance from the seller

The seller will usually respond to your offer with a counter-offer.

NOTE: Your first offer may be turned down, but you may still end up purchasing the house after negotiating.

Make sure your contract is dependent on a satisfactory home inspection and mortgage approval.

You may find it helpful to make notes regarding offers and counter-offers in the space below.

<u>Step Five</u>: “One-Time” Costs of Buying a Home

CLOSING COSTS CAN RUN FROM 2% TO 10% OF THE MORTGAGE LOAN AMOUNT

- Payment to the lender for processing your application, getting credit checks, appraising the house, etc.
- Payment to the lender or a lawyer for legal fees (for searching title, recording documents, etc.)
- Prepayment expenses (for example: three months real estate taxes in advance, hazard insurance premiums, mortgage insurance premiums, etc.)

THE LENDER MUST INFORM YOU OF THE CLOSING COSTS

- A federal law known as the Real Estate Settlement Procedures Act (RESPA) requires most lenders to give you an estimate of the closing costs you will have to pay.
- But this estimate does not cover all the items you may have to pay at the closing (for instance, pre-payable expenses).
- You will receive a final HUD statement for review prior to closing.

<u>MAKE SURE YOU HAVE ADDITIONAL FUNDS AVAILABLE.</u>

EXAMPLE OF SETTLEMENT COSTS:

SALE PRICE	$150,000
Mortgage Amount	$145,000
Good Faith Deposit	1,000
Downpayment	4,000
CLOSING COSTS	
1.5% Transfer Tax	$2,250.00
3 months tax & insurance escrow	350.00
Appraisal	300.00
Title Insurance	635.00
Recording Fees	300.00
Survey	400.00
Cash From Buyer (Good Faith Deposit & Downpayment)	<u>5,000.00</u>
TOTAL COSTS TO BORROWER AT SETTLEMENT	**$9,235.00**

PREVENTING PROBLEMS WITH A HOME INSPECTION

Home inspections are designed to disclose defects in the property that could materially effect its safety, livability or resale value. Home inspections are encouraged by most lenders and required by others. A home inspection can also be an escape hatch from a contract on a defective house.

REMEMBER, THE “APPRAISAL” BY THE LENDER, BY THE FHA (OR BY THE TITLE COMPANY) DOES NOT MEAN THAT THE HOUSE IS WARRANTIED AGAINST ANY DEFECTS. YOU ARE THE ONLY ONE RESPONSIBLE. DON’T LET ANYONE TELL YOU DIFFERENTLY.

Step Six: Loan Closing (Settlement).....Almost Home!

- Your real estate agent or lender can suggest a real estate attorney for your home purchase (closing).
  Contact the attorney at least one (1) month prior to settlement, in order to schedule an appointment for any last minute items. Notify the lender with the attorney's name, address and phone number.
- In addition to acquiring an attorney, you will need to obtain homeowners insurance.
  You may want to start with the agent who insures your car and shop for the best deal.
  You will be asked to provide proof of homeowners insurance to your lender prior to closing or to the attorney at the time of closing.
- Your lender will provide you with a good faith estimate of the total funds needed to close.
  Remember, it is just an estimate; your attorney will have the exact dollar amount 1-2 days prior to closing.
  Contact your attorney 1-2 days prior to closing and make arrangements with your bank to bring a certified check to the closing.

A simple tip that will help you on SETTLEMENT DAY: Write directions to the place of settlement, and all phone numbers of the involved parties here.

Step Seven: Moving In! Welcome Home, You've Done It!

CONGRATULATIONS!

You are a Homeowner!

Some things to keep in mind <u>after</u> you move in:

DEFAULT AND FORECLOSURE

When you signed the mortgage or promissory note at the closing, you agreed to pay back the loan in regular monthly payments, to maintain the home, pay property taxes, insure the home for a certain amount, etc. Anytime you do not live up to the terms of this agreement you are "in default" on the loan.

DEFAULT ON THE MORTGAGE LOAN

Usually, default refers to a situation where you are seriously delinquent in your payments to the lender (that is, more than three months behind or frequently late making your payment). Under the terms of the mortgage note, the lender is entitled to take action against you to protect the money lent to you. The acceleration clause in the mortgage note means that if you are in default, the lender may demand that the entire loan (not just your overdue payments) must be paid in full, all at once.

FOREBEARANCE AGREEMENTS

IF YOU ARE FACING DEFAULT ON YOUR MORTGAGE, THERE ARE A NUMBER OF STEPS YOU SHOULD TAKE:

LET THE LENDER KNOW as soon as possible when you run into serious difficulty in making your payments.

GET HELP. Various counseling agencies, legal service groups and the local office of HUD/FHA can help you. With their help, try to work out an agreement with your lender to make up your overdue payments. If the lender agrees to the plan, then the lender may hold off ("forbear") from taking legal action to get back the money.

FORECLOSURE: If satisfactory arrangements cannot be worked out, foreclosure is the legal process by which the lender takes the house from you and sells it to pay off the money you owe on the mortgage.
FORECLOSURE MEANS:

- YOU LOSE THE HOUSE
- YOU LOSE THE MONEY YOU PUT INTO IT
- YOU HURT YOUR CREDIT RATING

KEEPING GOOD RECORDS It is very important that you keep good records on your house…
RECORDS OF YOUR PURCHASE AND OWNERSHIP OF THE HOUSE

- Receipts for money paid on or before the closing (lien disclosure statement)
- Your copy of the mortgage note or deed of trust
- Your copy of the deed
- Your warranties on the house (if any)
- FHA– or VA-related documents
- HUD-1 settlement & statement

REMEMBER: IN MANY CASES YOUR CANCELED CHECKS ARE YOUR RECEIPTS.

INSURANCE RECORDS

- Copy of hazard or homeowners' insurance policy
- Mortgage, life or flood insurance policies
- A list of your personal property in the home and its value (photographs of each room are helpful to have)

MAINTENANCE, REPAIRS AND HOME IMPROVEMENT RECORDS

- Utility bills and receipts
- Receipts for any repairs (including labor and materials)
- Warranties on any items in the house (equipment and appliances)
- Description of any improvements you have made to the house and their costs

TAX AND MORTGAGE PAYMENT RECORDS

- Receipts of all payments made to your mortgage lender (real estate taxes and mortgage interest payments are deductible from your income for federal income tax purposes)
- Other receipts for local taxes or assessments you have paid

OTHER RECORDS

- Homeowners' association dues paid (if applicable)
- Other payments you have made for your home, such as condominium or cooperative association dues and maintenance expenses

The mission of the Delaware State Housing Authority is to efficiently provide, and assist others to provide, quality, affordable housing opportunities and appropriate supportive services to responsible low– and moderate-income Delawareans.

Delaware State Housing Authority
DSHA

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